Annual Report 2008

UNITED BULGARIAN BANK

A Member of NBG Group

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UNITED BULGARIAN BANK
A Member of NBG Group

Statement Of The Chairman Of The Board Of Directors

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Dear shareholders,

2008 marked the beginning of an unprecedented financial and economic crisis worldwide. The magnitude of this crisis inevitably impacted the Bulgarian economy after several consecutive years of healthy growth. Despite our prompt adjustment to the very rapid pace of economic deterioration, UBB couldn't altogether avoid the negative consequences of the financial crisis. Nevertheless, the Bank's adequate prudent policies, together with the immediate and robust support extended by National Bank of Greece, allowed UBB to offset to a maximum possible extent the unfavorable effects of the downturn.

In spite of these negative market conditions, UBB reported for 2008 profit before tax of BGN 217.1 M or 13% higher compared to 2007. The key profitability ratios ROAE and ROAA reached 23.2% and 2.8% respectively. Our consistent and tight cost management policy led to an impressive cost/income ratio of 37.9 %, without disrupting the planned branch network expansion.

UBB, with total assets amounting to BGN 7,732 M, (+ 26% versus 2007), maintained its third position in the Bulgarian market. The corporate loans of the Bank grew by 43% y/y, corresponding to a 12.2% market share. Retail loans grew by 31% y/y, thanks to an increase of 47% in credit cards, 30% in mortgage loans and 29% in consumer loans. As a result, UBB kept its second position in the retail market with a total 17.9% market share.

The Bank closed the year with an efficiently operating branch network comprising of 279 units. Fifty new branches were established over the year in the largest Bulgarian cities such as Sofia, Plovdiv, Varna, Bourgas, V. Tarnovo, Pleven, Rousse, as well as in 18 other locations in important business areas of the country. It has also opened 2 new business centers in Sofia and Rousse enhancing its capacity for expansion of the corporate business in these regions. UBB continued the development of its card business and commercial network, ending the year with nearly 800 ATMs and more than 8,500 POS terminals.

UBB maintained its leading position in the card business with 60% market share in credit cards and 15% in debit cards. At the end of the year, the total number of debit and credit cards issued by the Bank was 1,257,490 and this undoubtedly marks UBB as the major player in the Bulgarian market.

In 2009, UBB continues to focus on efficient loan portfolio management, optimum liquidity and strong capital adequacy ratios. The Bank will keep supporting its clients in overcoming the challenges they might face in the currently difficult economic environment. At the same time, UBB prudently explores new business niches and opportunities in order to be better positioned in the market when the present crisis subsides.

The Management and the staff of the Bank will carry on putting every effort needed to prove UBB as the most successful banking institution in Bulgaria, maximizing benefits to our clients, shareholders and personnel.

Ioannis Georgios Pehlivanidis
Chairman of the Board of Directors

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General Information

GENERAL INFORMATION

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

• **Privatized** in 1997, the first privatization of a large state-owned Bulgarian bank.

• **Registered Share Capital: BGN 75,964,082**
The share capital of the Bank is allocated into 75,964,082 registered, ordinary voting shares, at BGN 1 par value each.

• Main Shareholders:	**Shares**
National Bank of Greece - NBG (99.9%)	75,893,450
Other shareholders (0.1%)	70,632
Total	75,964,082

• **Banking License:**
Full banking license for domestic and overseas banking and financial operations.

• **Ratings:**
FITCH
BBB+ Long Term Foreign Currency
F2 Short Term Foreign Currency
Outlook Stable
Individual C/D
Support – 2
Outlook Stable
Standard & Poor's
BBB Long Term Foreign Currency
A-2 Short Term Foreign Currency
Outlook Stable

• **Over 750 Correspondent Relations**
• **Branch Network: 279** units countrywide

• **Banking Services:**
– BGN and FX loans
– BGN and FX deposits
– FX transactions
– Prompt and express intra-bank transfers
– Electronic banking
– Cash management
– BGN and FX accounts and traveller's cheques
– Debit and credit card payments
– Cash collection operations and depositories
– Bank guarantees and letters of credit
– Securities' trading
– Depository / fiduciary services
– Investment banking services
– Western Union transfers

• **Market Position**
– Third largest Bulgarian bank by assets
– Second in corporate lending
– Second in domestic retail lending
– Leader in the card services market and in domestic BGN payments

• **Market share** (as of 31 December 2008 calculated as a percentage of the entire banking sector, according to BNB statistical data)**:**

8%	Corporate deposits
12%	Corporate loans
11%	Deposits to individuals
19%	Consumer Loans
16%	Mortgage loans
15%	Debit Cards
60%	Credit cards
17%	ATMs
18%	POS terminals
10%	Inter-bank transactions

• **Memberships and Others:**
– Association of Commercial Banks in Bulgaria
– Bulgarian Stock Exchange
– Central Securities Depository
– MasterCard International
– VISA International
– JCB
– S.W.I.F.T.
– IIF – Institute of International Finance - The Global Association of Financial Institutions
– BIBA – Bulgarian Industrial and Business Association
– BBLF – Bulgarian Business Leaders' Forum
– Licensed primary dealer of government securities
– Licensed investment intermediary for corporate securities trading
– Western Union Agent

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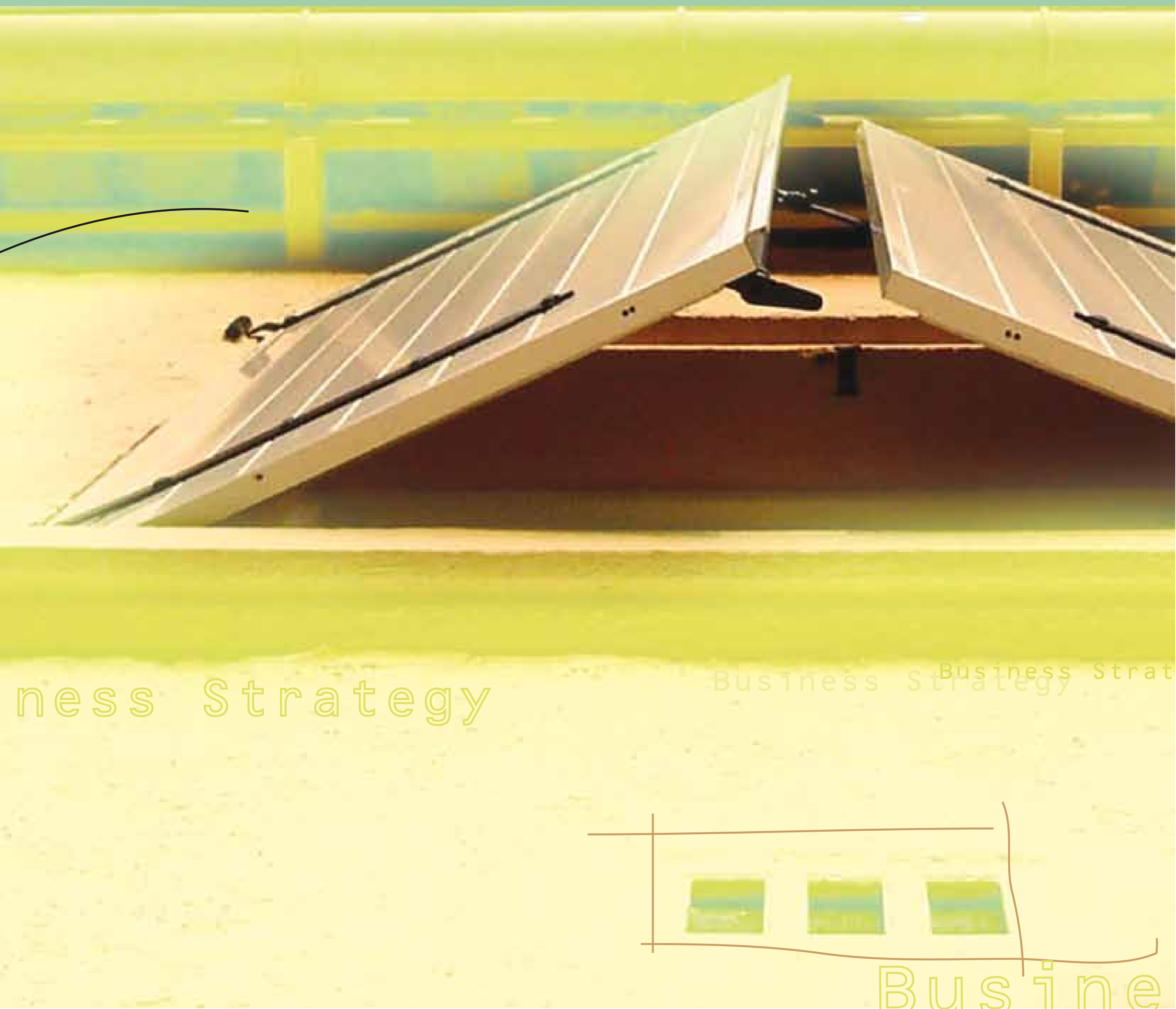
Business Strategy



BUSINESS STRATEGY

The mission of the NBG Group, as set out in its three-year Business Plan 2007-2009, is:
• To be the leading and most reputable financial institution in Bulgaria, offering a superior service to its customers,
• To become the employer of choice to the benefit of its employees, and
• To deliver superior returns to its shareholders, within an environment of modern and effective corporate governance and a carefully monitored risk management framework.
To achieve these goals in the current environment influenced by the global financial crises, the Bank has set specific strategic priorities and actions to:

Maintain the asset quality at present good level
• Selective and low risk lending
• Better risk management.
• Improve the collection mechanism

Maintain good liquidity to ensure self financed growth
• Accelerated Deposits growth (improve LTD ratio)
• Aggressive growth both in retail and corporate deposits (attract new customers, offer better service quality)
• Expand innovative products and cross-selling to credit and non-credit customers
• Improved product offering for attracting new customers

Protect Bank's efficiency
• Implement effective operational model
• Reduce non-productive expenses
• Reallocate the costs to facilitate the business targets
• Accelerate electronic payments for both Retail and Corporate customers
• Continue with the Anti cash program

Increase market share
• Conquest new market niches and exploit the market potential
• Support existing customers and attract their partners
• Gradually shifting the consumer loans portfolio to revolving products (LOC, Credit cards)

Aggressively expand deposit base to ensure the desired growth in lending activities
• Attract new customers trough direct marketing and new service model (retail affluent and corporate with available liquidity)
• Aggressive growth in retail deposits
• Accelerate payroll services program
• Maximizing the sales of bank assurance products
• Introduce new insurance products with saving component
• Introduce Loyalty Credit Cards and VISA cash back program
• Actively expand the Cash-Management program with enlarged scope of customers
• Accelerate electronic banking channel for both
• Retail and Corporate customers.
• Provide additional services for the existing UBB`s credit & non-credit clients

Improve collection of delinquent loan exposures as this contributes directly to the Profit
• Expand and Improve Retail collection function and transfer it to Risk Division
• Strengthen early collection through branch network campaigns (involve branches staff in early collections)
• Improve efficiency of third party collectors
• Establish early warnings and restructuring programs for customers with temporary difficulties. Be proactive.

Maintain Asset's quality and Protect Efficiency
• Revise and tighten Retail scoring for new sales
• Reduce/Cease sells through channels with higher risk
• Stop offers of high risk Retail products
• Reallocate Risk limits (new loans respectively) to lower risk and with better prospective economic sectors
• Develop and implement stress-tests for the largest exposures and gradually expand the implementation scope.
• Effective relationship management through economic sector specialization leading to better risk management and client advisory services
• Immediate reprising of existing (EURO floating) corporate loans to protect NIM
• Adequate reprising of Retail portfolio (especially new production)
• Exploit favorable competitive environment (in lending activities) and do not participate in deposits interests war

New Service model
• Review the organization and bank business model (Retail and Corporate) and introduce changes where it is necessary focused on improved productivity and efficiency
• Move Retail collections in Risk function
• Customers segments definition – affluent, Micro, SMB, Corporate
• Branch Review and classification between groups
• Create single Loan Administration in operations
• Reorganise Operations Unit – ATM network management, Cards operations, cash centre
• Reorganize Payment Unit

Branch Network Redesign
• Finalize the conceptual design
• Two pilot branches – full renovation and Kit of Parts
• Develop a program for followers in next years

Cost Containment program
• Review unproductive expenses and reduce accordingly to lower business volumes (marketing, sales bonuses, third parties services, etc.)
• Cease Branch Network expansion
• Review staff number in relation to business objectives and productivity.
• Reallocate staff according to main business objectives (loans collection, risk management, etc.)
• Review premises rentals and renegotiate to the possible extend
• Review ATM&POS network efficiency

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Selected Highlights

SELECTED HIGHLIGHTS

	2006	2007	2008
	BGN'000	BGN'000	BGN'000
Performance			
Operating Income	287,437	377,579	460,608
Net Interest Income	205,448	276,524	348,245
Net Profit	135,127	185,381	195,343
Balance Sheet			
Total Assets	3,960,706	6,129,856	7,732,488
Capital	563,777	749,741	937,659
Deposits from companies and Individuals	2,797,909	3,421,651	4,009,921
Loans to Companies and Individuals, net	2,708,918	4,916,408	6,731,279
Capital Adequacy (%)			
General Capital Adequacy (BIS Tier 1 + Tier 2)	13.4	14.82	12.90
Primary Capital Adequacy	13	9.92	9.63
Capital / Total Assets	14.23	12.23	12.13
Liquidity (%)			
Total Liquidity	25.93	22.88	13.68
Total Loans / Total Deposits	90.50	104.30	105.26
Staff Number as of the end of the period	2.237	2,635	3,252
Inflation[1] (%)	6.5	12.5	7.8
Exchange Rate USD/BGN (31 December)	1,4851	1,3312	1,38731

[1] *Source – National Institute of Statistics.*

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Board of Directors

BOARD OF DIRECTORS

Ioannis Georgios Pechlivanidis
Deputy Governor of National Bank of Greece
Chairman of the Board of Directors

Anthimos Konstantinos Thomopoulos
Chief Financial and Operating Officer of National Bank of Greece
Board Member

Agis Ioannis Leopoulos
General Manager International Activities of NBG
Board Member

Alexandros Georgios Tourkolias
General Manager Shipping Finance of NBG
Board Member

Konstantinos Adamantios Othoneos
Manager International Network B of NBG
Board Member

Christos Aleksandros Katsanis ***(Resign UBB since February 2008)***
Executive Director
Board Member

Radka Ivanova Toncheva
Executive Director
Board Member

Stilian Petkov Vatev
Chief Executive Officer
Board Member

Economic Environment

ECONOMIC ENVIRONMENT

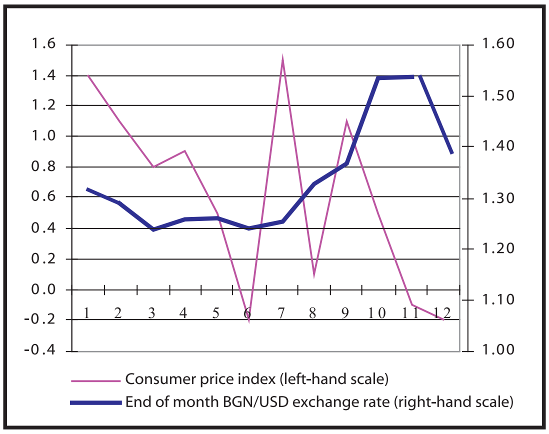
In Bulgaria the *GDP growth* slowed to 3.6% y/y in Q4 from 6.8% y/y in Q3 and the seasonally adjusted figures show the first quarter-on-quarter contraction over the past 10 years. The full-year growth for last year is estimated at 6%. The draft budget of the government forecasts a GDP growth of 4.7% this year but the latest projections of international institutions point to a growth rate of about 2% with significant downside risks. On the supply side of the economy, *the added value* in the industry contracted by 0.1% y/y in Q4 and slowed significantly to 3.9% for the whole year from 14% in 2007. The crisis in the industrial sector is driven by external factors only, as exports fell by 6.8% y/y in Q4 after a very long period of improvement. One-off base effects kept the agricultural sector at a very fast growth track while the service sector retained relatively good growth rates despite the shocks coming through external demand factors. On the demand side, the growth rate continues to be fuelled by investments and domestic consumption while exports fell faster than imports. Domestic consumption is expected to decelerate further on wage and employment cuts while public investments are to compensate partially private capital expenditures.

The budget surplus has reached BGN 2bn (EUR 1.02bn) or 3% of the estimated GDP last year as compared to BGN 1.96mn (3.8% of GDP) in 2007. This implies that the BGN 441mn budget deficit from November has expanded to BGN 2.6bn or 3.9% of GDP in December, up by some 30% y/y. Thus the government has failed to meet its updated fiscal target for a budget surplus of 3.5% of GDP but is still in line with the initial plan. The annual growth of expenditures slowed to 8.3% y/y in December and reached BGN 25.3bn last year or 38% of GDP as compared to 39.1% of GDP in 2007. Total revenues were BGN 27.4bn, 0.5% above the full-year projection. Tax receipts grew by 15.7% to BGN 22.7bn last year. The surplus target of the government stands at 2-3% this year.

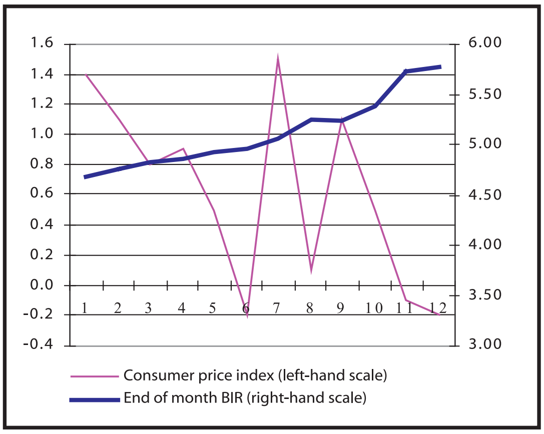
The unemployment rate measured declined by 0.64pps in a year to 6.27% at the end of December. However, the annual margin of improvement contracted steeply from more than 2pps in the beginning of last year. The annual average unemployment rate reached 6.3% last year, down from 7.7% in 2007. The number of unemployed fell by 18.6% to 233,719 due to rapid economic growth in January-September. The unemployment rate is expected to increase significantly in 2009 due to a large number of layoffs triggered by adverse external shocks that put extreme pressure on local exporters and construction firms.

Consumer price inflation slowed to 7.8% y/y. The index marked significant deceleration from 12.5% at end-2007. In annual average terms, the CPI dynamics indicates acceleration to 12.3% in 2008 from 8.4% in 2007 and is even above the post-crisis peak of 10.3% reached in 2000. The government projected the end-year and year-average rates at 4.5% y/y and 6.9% y/y in the budget law for last year respectively. Services turned out to be the major inflationary driver last year while food and non-food products moved to a steep disinflation path in the second half of the year helped by sizable price corrections on the international commodity markets. The *EU harmonized inflation index (HICP)* slowed to 7.2% y/y. The disinflation sentiments are likely to remain in place over a period of 6 to 12 months reflecting lagged effects from agricultural and commodity prices as well as global demand contraction in a large number of industries. *The PPI inflation* covering industrial goods traded on the domestic market slowed for a fifth month in a row to 1.9% y/y in December. Energy and water distribution utilities were the only main group in the sample that enjoyed better sales terms while prices in manufacturing and extracting industries declined by 0.7% y/y and 12.5% y/y respectively. The contraction came from the downward correction of the world prices of oil and metals as well as falling demand in a number of other export-oriented industries.

Exchange Rate and Inflation



Base Interest Rate and Inflation



The currency board arrangement is expected to remain in place with the BGN fixed to the Euro at the current rate of BGN 1.95583/EUR 1. The exchange rate risk is low in a short term, but could rise in a long term if the current-account deficit continues to increase.

The gross external debt increased by 27% y/y to EUR 36.6bn as of end-December or 108.4% of GDP. The liabilities in the private sector accounted for 90% of the total external debt. The short-term debt, covering liabilities with original maturity of one and less than one year, widened to 36.4% of the total as compared to 33.7% at the end of 2007. In December the share of short-term debt shrank by 1pps due to withdrawal of deposits from local commercial banks. However, the ratio of foreign reserves to short-term debt deteriorated to 95.3% as of end-December. The indicator deteriorated further in view of the steep fall in the stock of international reserves. The share of inter-company loans, which are not included in the short-term debt statistics, accounted for 35.6% of the total external debt as compared to 35.2% a year earlier.

The CA deficit widened by 31.3% to EUR 8.3bn last year. The gap accounted for 24.4% of the full-year GDP estimate as compared to 21.8% of GDP a year earlier and 24% in the government projections. The trade and the income balances contributed negatively while the positive stance of net services and net transfers expanded. For the whole year, the financial account remained on a positive figure but narrowed by 4.2% as compared to 2007. In line with earlier released data on foreign reserves, the overall balance of payments posted a huge deficit of EUR 1.56bn in December. The overall surplus decreased by 78.7% during the whole year to EUR 674mn and the prospects for this year remain rather bleak as FDI inflows are declining at very fast rates and foreign creditors will be much more cautious in regard to local entities, as the CA gap and country's external indebtedness remain very high in relation to GDP and foreign reserves.

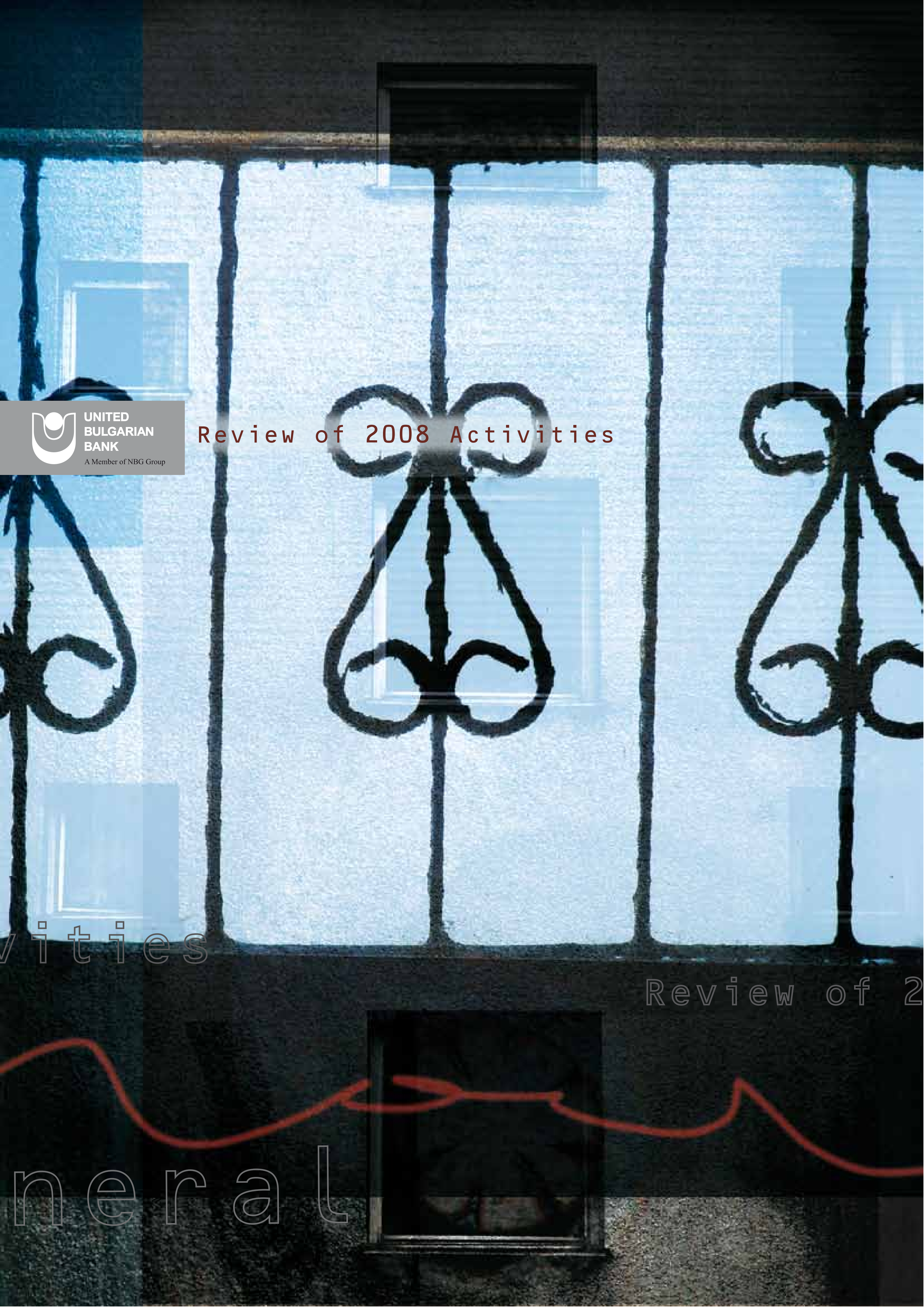
The aggregated net profit of the Bulgarian commercial banks increased by 21.3% to BGN 1.39bn (EUR 709mn) last year. The margin narrowed from 41.6% in 2007. The asset value in the sector rose 17.7% through the year to BGN 69.6bn at the end of December accounting for 104.8% of the estimated full-year GDP. Bank credits grew by 24.1% last year. The stock of consumer and corporate loans declined as both demand and supply weakened. The capital adequacy ratio of the banking system improved to 14.9% from 13.8% in 2007, as local lenders were following the global efforts of deleveraging in order to offset potential liquidity problems. The central bank cut the minimal reserve ratio on all deposits to 10% from 12% as of December 1 and reduced further the ratios on foreign and state deposits to 5% and 0% respectively as of the beginning of this year. In addition BNB loosened the reserve requirements by recognising 50% of the commercial banks' cash holdings as reserves as of October. Before that, the reserve threshold has referred only to funds deposited at the central bank. The measures have transferred BGN 3bn (EUR 1.5bn) to the commercial banks and explains that the loosening was aimed at raising the liquidity but not to boost the credit activity of the lenders. As a result of the measures, the international reserves fell in October, December and January and the country's external position weakened. The deposit of the commercial banks fell by 20.9% in October, 9.8% in December and 21.3% in January or by total of BGN 2.35bn for the period October 1 – January 31. They were last reported at EUR 12.1bn at the end of January.

The stock of financing disbursed by leasing firms surged by 59% y/y to BGN 5.8bn (EUR 3bn) as of end-December or 8.8% of GDP. The growth rate slowed from 83.1% at the end of 2007 but still remains far above the corresponding rates for bank loans. However, the share of non-serviced contracts rose to 1.6%. The assets of the 66 leasing companies active in the country rose by 52.5% y/y to BGN 7bn as of end-December.

The value of savings managed by local and foreign investment funds active in the country plunged by 62.3% y/y to BGN 451.9mn (EUR 231mn) or 0.68% of the annual GDP. The value dropped for a second consecutive quarter after its growth decelerated to 17.9% y/y at end-June from 62.9% as of the end of March. The savings allocated to foreign funds fell by 44.8% y/y as of end-2008 while those of local investment funds declined by 68.1% y/y mostly due to the downward correction of the local stock exchange. As a result, the savings allocated at local funds accounted for 63.3% of the total as compared to 75% as of end-2007. A total of 206 funds are monitored by the central bank, of which 83 have only domestic company registrations.

The assets of the insurance companies active in the country rose by 16.8% y/y and 4.1% in Q4 to BGN 2.6bn (EUR 1.3bn) as of end-December. They accounted for 3.9% of GDP last year, roughly unchanged as compared to one year earlier. A total of 59 companies were registered as of end-December, 23 of which general insurers accounting for 63.2% of total assets, 18 life insurers (34.6%) and 18 health insurance companies (2.2%). Deposits were 27.8% of all assets as of end-2008, rising 1.3pps y/y. Nearly 80% of all holdings are denominated in local currency but the ratio has contracted by about 1pps over the past year. Households accounted for 25.7% of all liabilities.

The indexes on BSE outran the benchmarks in Western Europe. The greatest loser is the blue-chip Sofix that dropped by 79.71% in 2008 and closed the year at 358.66 points. The broad BG40 of the most traded stocks closely followed Sofix with a loss of 79.19% to 107.81 basis points (bp) on the last session of 2008. BGTR30 of the best performers in total return dipped by 75.14% and BGREIT of real estate investment trusts fell the least, by only 53% to 48.53 bp. The turnover has also dropped – BGN 2.91 bn, as it was BGN 9.95 bn in 2007. The market capitalization of the companies on BSE has dropped from BGN 28.986 bn to BGN 12.292 bn.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Review of 2008 Activities
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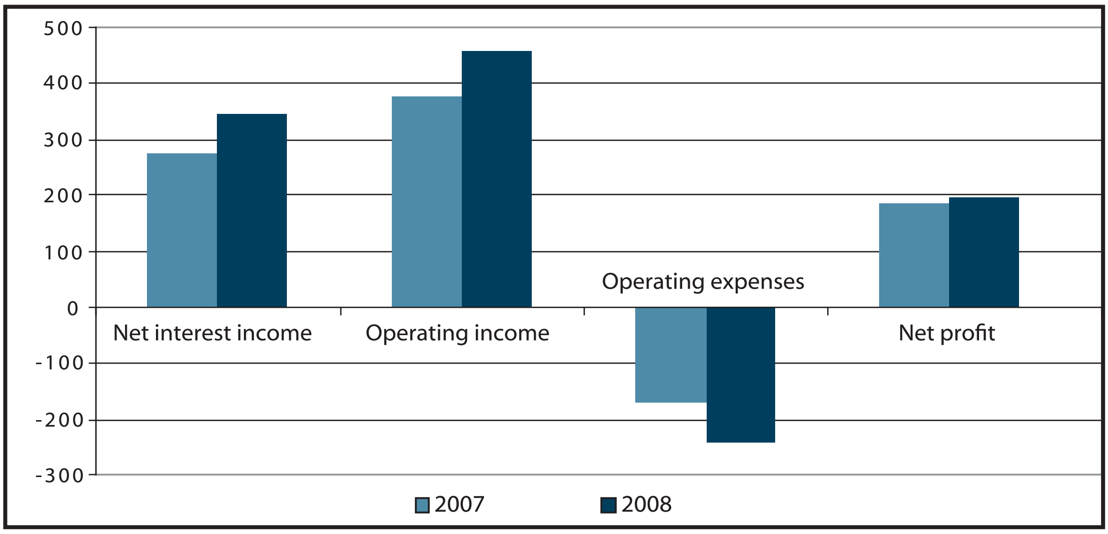
I. REVIEW OF 2008 ACTIVITIES

1.1. FINANCIAL PERFORMANCE

Despite the rapid deterioration as a result from the unprecedented global crisis, particularly hard in the last quarter of the year, UBB's results for 2008 as a whole demonstrate the soundness of the Bank's position and the successful business model. During the year the Bank finalized a number of structural and organizational changes, as well as the 3 years project for the expansion of the branch network. The Bank's strong earnings before provisions, based on recurring sources of income and strict cost controls, enabled us at this time of unremitting turbulence in the global markets to pursue a prudent provisioning policy without detriment to the performance of the Bank relative to 2007.

Net Operating Income and Net Profit (BGN Mio)



The Bank's business strategy was focused simultaneously on the growth in retail and corporate banking. At the end of 2008 UBB financial result before taxes is profit of BGN 217,1 mn The return on equity (ROAE) reports a very high level and reaches 23.2%. The reported return on assets (ROAA) is also rather high 2.8% and ranks the Bank among the best financial institutions according to international standards. UBB efficiency ratio maintains a good trend and towards the end of 2008 was 37.9%.

As recognition of the constant good performance, the respectable management, good reputation of shareholders and strong market positions is the long-term credit rating of the Bank, awarded by Fitch Ratings. The international credit rating agency Fitch confirmed the long-term issuer default rating of UBB at BBB+ with stable outlook, its short-term rating at F2, the individual at C/D and the support at 2. The ratings reflect the high potential support the Bank can receive from its majority holder if needed and also good domestic franchise, reasonable profitability, satisfactory asset quality and capital ratios, limited market risk, the recent rapid loan growth, some exposure to real estate sector and the need to access funding from its parent to finance its loans.

Net interest income

For 2008 the Bank has generated net interest income of BGN 348,2 mn (BGN 276,5 mn for 2007) and thus achieves a growth of 25.9% y/y mainly

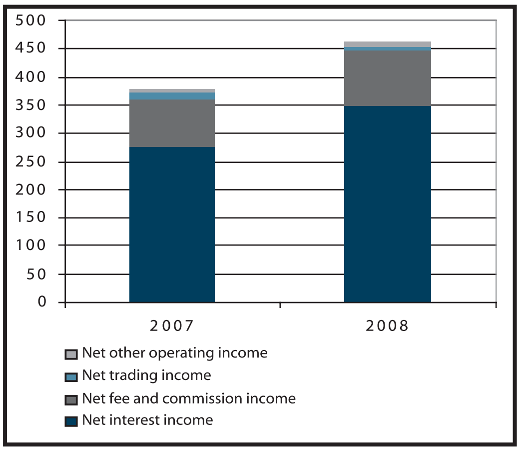
Net interest margin	2007 BGN '000	2008 BGN '000	Change (%, y/y)
Interest income	381,644	592,826	55.33
Interest expense	(105,120)	(244,581)	132.67
Net interest income	***276,524***	***348,245***	***25.94***

as a result of the lending activity, good portfolio quality and the optimum management of deposits, the bond issues as well as the Bank's subordinated debt.

Interest income from loans to individuals increased by 48.7% y/y and reaches BGN 288.2 mn Interest income from loans to companies amounts to BGN 290.2 mn and increased by 69.06% y/y. Thus, the total interest income from loans grows significantly by 58.24% y/y. Interest income from placements on the money market decline by 63.74% y/y as towards the end of 2008 reached BGN 1,3 mn due to the changes in the policy for attracting funds. The total amount of net trading income amounts to BGN 9 mn and decreased by 26.38% y/y.

Interest expense grows by 132.67% y/y as towards the end of 2008 their amount totalled to BGN 244,6 mn against BGN 105,1 mn for 2007 as a result of the development of the Bank's market positions, deposits increases and related with this deposits promotions. The increase of the interest rates on the global markets resulted as a larger expenses in servicing the NBG credit line, subordinated debt as well as the bond issues which as a whole support the UBB's attracted resources. The interest expense of the attracted resources amount to BGN 119,2 mn against BGN 24,7 mn They represented 48.73% of the total amount of the interest expenses and increased near 4 times y/y. The interst expenses on the deposits for customers amount to BGN 103 mn against BGN 66.2 mn for the previous year. They represent a total of 42.11% of all interest expense and grow by 55.6% y/y. Expenses on long-term resources relate to the servicing of the Bank's

Operating Income (BGN Mio)



bond issues amounted to BGN 8.5 mn and take 3.5% of the total amount of interest expense and as of end of the year they declined 25.9% y/y. The expenses located for subordinated debt amounted to BGN 13,9 mn and increased near 4 times y/y. Their relative part of the total amount of expenses represented 5.7%.

Non-interest income

The net fees' and commissions' income amounts to BGN 98,9 mn against BGN 84,8 mn at the end of 2007. In structural aspect of decisive importance is the income from debit and credit cards, which represented 31.1% of the total income from fees and commissions and increased by 42.3% y/y. The bank transfers accounted for 23.22% and their growth on annual base was 13.85%. The fees for servicing deposits' accounted for 20.3% and increased by 7% y/y. The relative share of charges on consumer loans accounted to 9.73% and reported the sharpest growth in non-interest income group -118.7%. The fees and commissions in the corporate segment amounted to 5.48%, and decreased by 37.8% y/y as in accordance with the policy towards Bulgarian business support in extremely worsen environment due to the global financial crises. The fees and commission collected from the *third parties* (in relation with the securities collecting) represented 4.38% and increased by 137.31% y/y.

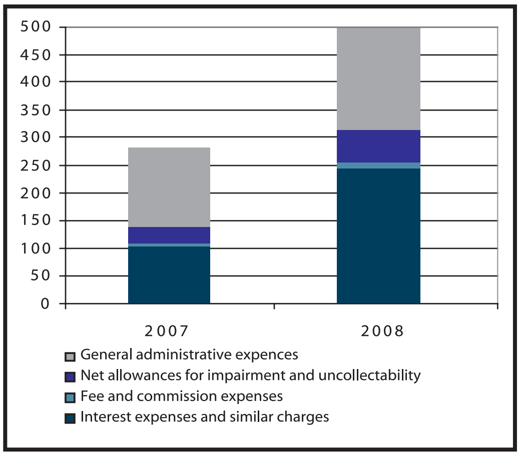
Operating expense

On the cost side the operating expense grew by 28.47% y/y. against 2007. The staff costs grew by BGN 39.05% y/y, while expenses for outsourced services (marketing, advertising, consultancies, operating lease rentals - buildings) grew by 44.09% y/y. Expenses for communication and IT services increased respectively by 27.76% y/y. This reflects mainly from the Bank's branch network organic growth in the course of the year.

Provision expense

Irrespective of the intensive development of the lending activity by 36.91% y/y the Bank continue to maintain good quality of its loan portfolio. At the end of 2008 the total amount of the provisions reached BGN 60.4 mn, including provisions for loans BGN 74.9 mn and BGN 14.4 mn write back.

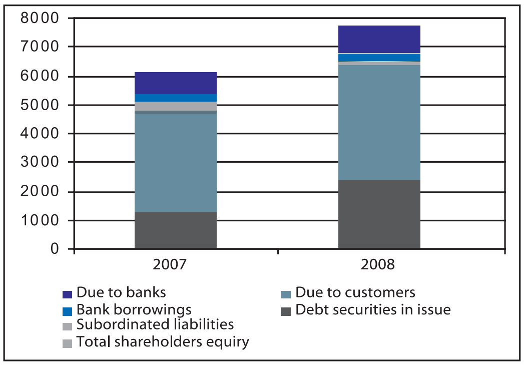
Operating Expenses (BGN Mio)



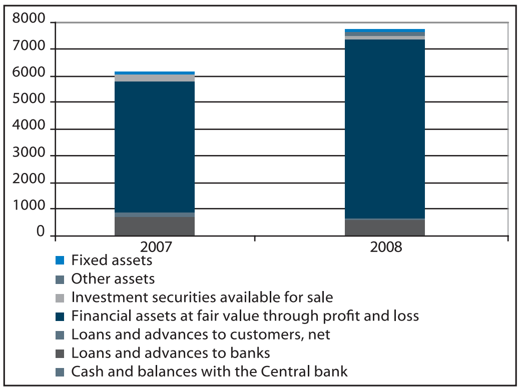
ASSETS AND LIABILITIES

The Bank's total assets grew by 26.15% y/y to BGN 7,732 mn compared with BGN 6,129 mn, in 2007. In structural aspect the main balance sheet positions of the Bank report the following dynamics:

Liabilities and Capital (BGN Mio)



Assets (BGN Mio)



Cash and cash equivalents

At the end of 2008 the cash and balances with the Central bank amounted to BGN 612,6 mn, including minimum statutory reserves. The maintaining of the required minimum statutory reserves with the BNB in percentages was at an optimum level during the year, as follows:

	Dec-07	Mar-08	Jun-08	Sep-08	Nov-08	Dec-08
MRR (mil. BGN)	**498.1**	**604.4**	**674.7**	**621.5**	**329.1**	**382.0**
Limit Utilization	1 00.01 %	1 00.06%	1 00.07%	1 00.01 %	92.28%	92.88%

Due from financial institutions

At the end of 2008 net amounts due to financial institutions accounted to BGN 23.9 mn and play a regulating role in the operations on the money market and the Bank's actions for achieving optimum liquidity. The structure of amounts due to financial institutions is covered 48.11% by inter-bank placements, 18.86% by blocked accounts and 33.04% from other attracted sources.

Financial assets fair value trough profit and loss

At the end of 2008 the Bank's trading debt securities amounted to BGN 106,5 mn distributed as follows: Bulgarian government securities – 92.12% of the portfolio, and foreign government and corporate securities – 7.88%.

Loans

At the end of 2008 the total value of the net loans and advances to customers was BGN 6,731 mn (against BGN 4,916 mn as of end 2007) and represented 87.05% of the total Bank's assets. Thus the Bank increased it's loan portfolio by 36.91% y/y despite the wide dispread impact from the global crises on Bulgarian economy and households. For one year period the loans for individuals increased by 31.0% and in corporate segment by 43.13%. The growth of lending operations has led to an increase in loans provisions to BGN 122,6mn and mark 75.16% y/y growth. Loans classified as standard represent 94.05% of the portfolio. Out of the total loan portfolio volume loans, classified as watch are 2.52%, substandard – 0.94%, non-performing – 2.50%. The branch structure of the UBB's credit portfolio covers the following main branches:

Loan exposure by industries (BGN'000)

	As of 31.12.2007		As of 31.12.2008	
Industry & mining	370,605	7%	549,344	8%
Small scale industry	496,684	10%	612,570	9%
Trade and services (excl. tourism)	688,877	13%	917,691	13%
Construction and real estate development	551,747	11%	912,323	13%
Energy	31,668	1%	57,157	1%
Tourism	169,875	3%	183,033	3%
Transportation and telecommunications	176,287	4%	162,300	2%
Professionals	27,780	1%	38,129	1%
Government	728	0%	384	0%
Property Brokerage	97,707	2%	7,049	0%
Leasing companies	27,749	1%	209,497	3%
Financial institutions	6,337	0%	25,634	0%
Other	16,224	0%	132,463	2%
To individuals	2,324,417	47%	3,046,288	44%
Total loans and advances, gross	***4,986,385***	***100%***	***6,853,863***	***100%***
Less: allowance for impairment	*(69,977)*		*(122,584)*	
Loans and advances to customers, net	***4,916,408***		***6,731,279***	

The loan portfolio continued to diversify across all industries with emphasis on retail banking, small and medium-sized businesses, as well as the dynamically developing sectors of the economy.

Deposits and equity

At the end of 2008 the total amount of liabilities reached BGN 6,794 mn against BGN 5,380 mn at the end of 2007. Their nominal growth y/y is 26.29%, which is entirely due to the increase from the deposits from financial institutions, the development of client deposit base, as well as the debt securities in issues and subordinated debt.

Deposits from financial institutions

Funds deposited by financial institutions grew by 84.6% y/y. At the end of 2008 those amounted to BGN 2,385 mn against BGN 1,292 mn at the end of 2007. At 2008 end their total amount represents 35.1% of the total amounts of liabilities. Current accounts in this segment take 0.27%, time deposits – 99.69% and other attracted sources -0.02%.

Deposits from customers

At the end of 2000 client deposits reached BGN 4,009mn against BGN 3,421mn at the end of 2007. The offering of new products and targeted advertising campaigns brought about a 17.2% y/y growth. For one year period the deposits from non-banking institutions increased by 34.83%, deposits of individuals report a growth of 19.93%, while those of corporate clients – 11.47% and of budget entities – 4.24%.

Deposits (BGN 000)

The dynamics of sight and time deposits has an upward and stable trend. The deposits of individuals are of dominating importance, which take 58.8% of the deposits portfolio. The dynamics of corporate deposits follows the growth in the economy and the interest of the business towards term deposit instruments.

UBB has key market positions by holding 10.65% of retail deposits and 8.30% of the corporate deposits on the local market.

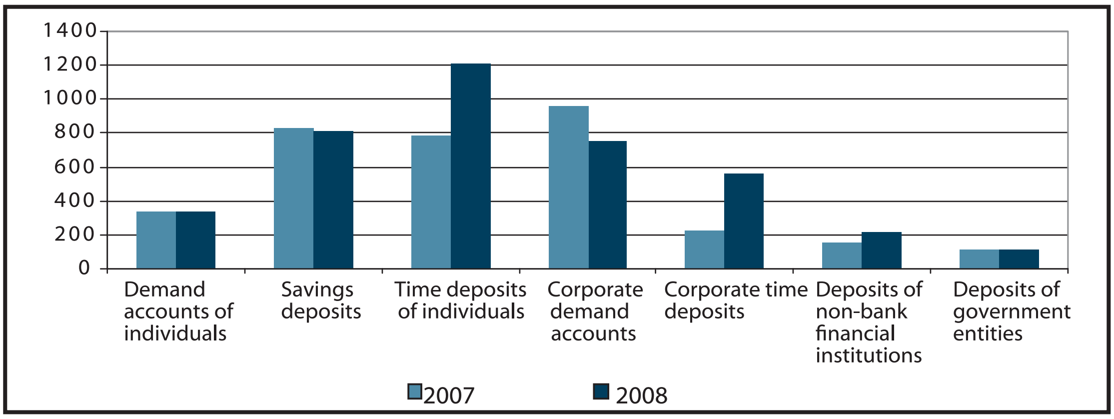
Debt securities in issue and long-term borrowings

At the end of 2008 the long-term borrowings on the Bank's balance sheet amounted to BGN 41,2 mn against BGN 319,2 mn for 2007. The debt securities in issue include mortgage issue in BGN for total value of BGN 40,000 th. –traded on the Bulgarian Stock Exchange Sofia. The long-term borrowings include credit lines from the EBRD amounting to BGN 78,9 mn.

Deposits (BGN 000)

	2007	2008	Change
	BGN'000	BGN'000	(%, y/y)
Financial institutions			
Demand deposits	50 379	84 886	68.49
Time	108 372	129 644	19.63
	159 111	***214 530***	***34.83***
Retail customers			
Demand	355 451	336 478	5.34
Savings	825 690	815 099	-1.28
Time	786 816	1 208 624	53.61
	1 967 957	***2 360 201***	***19.93***
Corporate entities			
Demand	958 890	755 627	-21.20
Time	226 392	565 631	149.85
	1 185 282	***1 321 258***	***11.47***
Goverment entities			
Demand accounts	46 041	52 624	14.30
Time	63 260	61 308	-3.09
	109 301	***113 932***	***4.24***
TOTAL	***3 421 651***	***4 009 921***	***17.19***

Demand and Term Deposits (BGN Mio)



Subordinated liabilities

UBB has two Subordinated Loan Agreements signed in October and November 2007 with its parent National Bank of Greece for a total amount of EUR 130 mn The subordinated debt is used as a additional instrument to capital reserves in accordance with the requirements of BNB. The repayment of subordinated debt is not guaranteed in any form. The original maturity of the subordinated loans is 10 years and is fully absorbed.

Capital and capital adequacy

At the end of 2008 the UBB equity was substantially higher than the previous year (2008: 925,95 mn, 2007: BGN 799,9 mn) and ensures a level of capital adequacy above the requirements and regulators of the Central Bank. The total capital adequacy of the Bank is 12.90%, while tier-one capital adequacy – 9.63%.

BUSINESS DEVELOPMENT

RETAIL BANKING

In 2008 United Bulgarian Bank had a dominant and sustainable position in the banking segment for retail loans and deposits. In the situation of overall re-shift of the market focus on deposits, UBB increased its retail deposits base by 19.93% up to BGN 2 360 mn and maintained its leading position in the consumer and mortgage lending. The annual growth rate of UBB's retail loans for 2008 was 30%, where the mortgage loans portfolio of the bank almost reached a volume of BGN 1 342 mn and the portfolio of the consumer loans grew up to BGN 1 321 mn UBB retained its leading position as the bank with the biggest number of issued international credit cards under the logo of Master Card, VISA and VISA Electron. In terms of absolute figures the total number of credit cards in circulation issued by UBB went close to 400 000 and the total portfolio of UBB's cards in circulation exceeded 1 250 000. The number of transactions with these cards increased by 22% on an annual basis, whereas in terms of volumes the increase was by 41% reaching a total volume of BGN 1 915 mn

During 2008 the bancassurance business initiated by the bank during Q4 2006 through its Life and General insurance companies, continued to grow at a fast pace. The major driving forces for this rapid growth were:

The significant growth in retail lending as well as the respectful number of credit cards in circulation, which strongly supported the sales of insurance packages.

In Q2 new insurance package "Cardholder protection" was introduced, specially designed for debit cards Maestro and Visa Electron. The package is comprised of full Life and Total Permanent Disability (TPD) coverage against accident as well as card and personal documents protection against being lost or stolen. By the end of 2008 more than 52 000 debit cardholders have taken advantage of the insurance package.

In Q3 UBB supported by its Life insurance company launched its first stand-alone insurance product, "For our future". The program combines elements of long-term saving product and Life and TPD insurance. The premium is paid automatically on a monthly basis without any hassle for the customer.

In 2009 the Bank plans to continue the process of gradual release of new bancassurance and insurance products as well as to introduce new sales channels for this type of products. Expected to be soon on market are investment micro loan protection, enhancement of the existing bancassurance products, stand-alone insurance products etc.

The alternative sales channels provide new opportunities for the realization of supplementary sales and add new services to the ones provided by the bank's branch network. As of the end of the year UBB has over 8 500 POS terminal and 800 ATMs located in key position all across the country. In addition to that the bank has long-term relationships with merchants who are actively participating in the distribution of retail banking products. Despite the intense competition UBB achieved 33% growth in its sales through alternative channels on yearly basis due to effective collaboration with its partners, staff efforts, continuous training and attractive promotions.

CORPORATE BANKING

In 2008 UBB kept its leader's position in the corporate banking loans. Since the beginning of the year the Bank's corporate portfolio reported a 44.02% growth. The total volume of the credits placed to big corporate clients increased with 30.8% at the end of 2008 and reached the total amount of BGN 1 923.4 mn The credits disposed for the small and middle enterprises increased with 60.53% at the end of 2008 and reached to BGN 1 889.3 mn During the year, 8 116 new corporate enterprises were drawn in. 8 008 of them were from micro, small and middle enterprises. The UBB takes the second position for corporate credits disposal. As a result of that the market share of the bank increased from 10.9% in 2007 to 11.9% in 2008.

For a second serial year the credit growth is determined by the successful cross sales. In the past year serial successful initiative for increasing the corporate client's were undertaken, such as: promoting the bank's services and products, mainly in the area of the insurance sector and banking cards, paying the firm's employees monthly wages, the e-banking, settling an accounts and cash services, offering different financial instruments for the treasury and investment banking.

Credit portfolio	**2007 BGN '000**	**2008 BGN '000**	**Change (%, y/y)**
Large corporate clients	1 470,5	1923,4	30.80
Medium and small corporate clients	1 159,7	1849,1	57.11
Total	***2 630,2***	***3772,5***	***42.49***

Offering different integrated packages of services and products, not only serviced the client's needs, but as well contributed for creating added value to their business and optimal managing of their finances.

In the second half of 2008 a new product, designed mainly for the small and middle business has been developed – the package "Business Partnership". The product represents a package of prepaid monthly bank services, replying to the respective sub-segment, to which it responds. Those packages are targeting the micro and small bank's clients and aims their rouse and increasing the volume of the cross sales. The package "Business Partnership" is the most popular corporate product and had realized 11 500 sales only for the second half of 2008.

At the end of 2008, an agreement for assigning BGN 20mn with the Bulgarian Development Bank was signed. These resources are purposive and will be spend for assigning a middle and long term investment financing for small and middle enterprises in an optimum conditions. The resources are purposive and they are determined for technical improvement, introduction of new technologies, and increasing the competitiveness and export potential of the small and middle enterprises in the whole country.

In 2008 the Bank was focused in the bridge credit, financed with EU funds, and precisely to the open measures of the Operational Program *Competitiveness* and *Rural Development Program 2007-2013*. Additionally to that the bank finalized a successful campaign for bridge financing the farmers under the schemes *Direct payments of areas* of the State Agriculture Fund.

TREASURY ACTIVITIES

During the year, the UBB's Treasury was focused on the Bank's liquidity and maintaining the optimal liquidity ratios by acting on government bond market, FX trading and inter-bank operations. The global liquidity crises focused the Bank's Treasury, as well as our large corporate clients surged in attracting additional resources with optimal maturities and good investment returns. The Treasury also provided to the institutions, corporations and big private-sector investors with value added deposit products and investment options. In 2008 UBB placed on the market structured deposit, with annual yield peg to fluctuations of SOFIX.

INVESTMENT BANKING

During 2008 all main trends in the investment banking activity reported good results, despite the serious impact of the global economic and financial crisis on the financial markets and the investment activity. UBB employed efforts to satisfy the needs of its existing and potential clients and to provide alternative forms of financing, investment intermediation and consultancy services in line with the restructuring, mergers and acquisitions of companies. UBB, being a lead manager, executed the only one for 2008 initial public offering of the shares of Railway Infrastructure AD to the amount of BGN 12.6 m.The Bank continued its active participation on the market of corporate and mortgage bonds through rendering of services, related to structuring, issuing, placing and subscribing of issues, as well as services related to the fulfillment of the function of a trustee bank for bond-holders as well as a servicing bank. In 2008, in its capacity of a co-manager, UBB participated in the structuring, issuing and placing of 3 corporate bond issues of total value BGN 26 mn and in the subscribing of a mortgage bond issue to the amount of EUR 1 mn In 2008 UBB performed the function of a trustee bank for bond-holders under 36 bond issues with a total nominal value of BGN 351 mn, by signing 7 new agreements for fulfillment of this function. The Bank holds a serious share of this market, approximating 30% as of the end of 2008. In 2008, under the circumstances of a tremendous drop and crisis in the activity and price levels on the capital markets, Brokerage Services section managed to realize 2 520 deals with securities to the total amount of BGN 5.8, ranking respectively 17th and 23rd by these indicators among a total of 75 investment intermediaries, thus achieving to retain its client base and to attract new clients. In the field of depository services the Bank's market share exceeded 35 % in terms of assets as UBB services: 15 managing companies, investment companies and mutual funds; 24 REITs; 19 licensed investment intermediaries and has signed long-term agreements for maintaining registers of government securities and foreign securities' issues with 54 professional investors, including financial institutions and corporate clients. UBB AD is a trustee-bank of the funds for additional pension insurance, administered by Doverie Pension Assurance Company AD, which hold a leading market position in terms of total assets in the competitive environment of 10 licensed pension insurance companies in Bulgaria. The total volume of the assets of the three pension funds under UBB trust as of the end of 2008 amounts to BGN 769 mn

COMPLIANCE

The intensive process of harmonization of the Bulgarian legislation with the legal framework of the European Union continued in 2008 as well. Major acts in the sphere of commercial law were adopted and amended. During the year Commercial Register start to function effectively. The process of regulation of the banking and non-banking financial sector, protection of consumers, tax laws and the laws against money laundering and financing of terrorism continued to modify. UBB AD took best efforts for complying its internal policies and procedures with the dynamic and complex legislation related to the activity of banks. The Bank treats compliance as the fundamental rule for managing the business, defines it in correspondence with the applicable laws and good banking practices, aiming at fair and honest activity, which does not contradict the generally accepted social standards. The Bank adheres to the principle for maintaining and management of an efficient compliance program, aiming at the timely detection and prevention of breaches in the regulatory framework. There is an efficient procedure functioning in the Bank for considering clients' complaints, which main purpose is the fair and timely satisfaction of the client's claim and elimination of the reasons, relating to the complaint. The major concern of the Bank's management relates to the strict application of the measures against money laundering and the financing of terrorism. Considerable efforts were made for cooperation with the supervisory, the other administrative and court authorities while implementing their powers.

INFORMATION TECHNOLOGY

UBB continued to successfully develop and improve its information system, ensuring modern channels for client servicing. Over the year 50 new locations of the Bank were opened. Acceptance of bank smart cards has been implemented under the EMV card terminal requirements (EMV Acquiring) for all the ATM and POS of the Bank. Functionality has been added for payment of services through ATM to three new companies (CEZ Electro, Vivatel, Sofiyska voda). In 2008 UBB successfully finalized the upgrade process of the Bank's telecommunication lines to the so called Intercity MAN, as almost all full functionality branches (excluding 6) are at 2Mb/s to Sofia, as in 19 of those a second (backup) operator has been ensured. All the Sofia branches are also at 2Mb/s. Centralized Internet access has been provided to all branches with high-speed telecommunication lines. The process of expanding the utilization range of the VoIP technology in the Bank continued. In 2008 over 700 IP telephones were installed, as of the end of the year their total number exceeded 2500. The process of consolidation and full centralization of Microsoft Active Directory and the email services in the bank has been successfully finalized. As a result 83% reduction of the servers, forming the Microsoft infrastructure, has been achieved. Over the past 2008 the new internal portal of the bank was developed and the service "voice recording" became operative for six departments of the Bank.
In 2008 the E-banking serviced 38.5% of the ordered BGN and FX transfers in the Bank, as the respective share of the outgoing BGN transfers was 39%, of the outgoing FX transfers was 23%, while that of the intrabank transfers in BGN and FX was 44%. For a period of one year the transfers ordered through the E-banking increased with 16%, while the number of clients with 30.50%. In 2008 the offering of two new products was launched through the E-banking channel – registration and payment of utility bills and opening of an Open deposit.

BRANCH NETWORK

During 2008, UBB AD branch network continued its dynamic development. At the end of the year the total number of the bank's structures was 279. In 2008 the Bank increased its presence on the banking market with 50 new points of sales both in Bulgaria's largest cities - Sofia, Plovdiv, Bourgas, Varna, Rousse and Stara Zagora, and also in small towns of huge business potential, such as Hissarya and Radomir. UBB continued to successfully co-operate with some of the largest commercial chains, in which the Bank opens its banking outlets. 4 UBB branches were re-positioned to more convenient and closer-to-clients locations. With the construction of another 2 Business centers in the city of Sofia and in Rousse town, all larger towns of this country have been covered and the highest level of rendering competent services to corporate clients has been ensured. All clients of the Bank, in all branches are offered the full range of products and services, alongside with individual treatment, high quality and competent service, rendered by young and motivated employees. Clients are able to manage their funds on-line, both through the traditional channel – the branch network, as well as through a wide range of alternative channels – call centre, e-banking, ATM network and others. In 2008 the contribution of each employee in the branch network also increased, compared to the total contribution of the Bank-EUR 54,5 thousand.

HUMAN RESOURCES MANAGEMENT

During 2008 work on the SocHRrat project, related to transformation in the management and development of human resources in UBB, continued. It was developed and initiated in cooperation with Deloitte Bulgaria. The year began with the practical implementation of the new Remuneration Policy, the System for Performance Appraisal and the Model of Competences. A new scale for defining employees' salaries, bound by the assessment of the held positions, was introduced since the beginning of 2008, as an implementation stage of the Remuneration Policy. This resulted in updating to market levels the remuneration of 2121 employees or of 82% of UBB personnel. The remuneration of 93% of the Branch Network employees and of 58% of the Head Office personnel was updated. The project on developing a Methodology for Identification of Critical Positions and a Methodology for Management and Development of Talents was finalized during the year. The Bank's dynamic expansion during the year necessitated the opening of 50 new structures in the Branch Network – new branches, business centers, offices in shops and other office buildings. As a result 506 new employees were recruited, of which 279 in the branches and 227 in the Head Office. Over a less than a year since its establishment, the Bank's Training Center managed to create its own modernly equipped base and to begin working at its full capacity. The main objectives of the delivered trainings were targeted to acquiring and developing of competences in compliance with the requirements of the business and the market development. A priority in the Training Center's program is given to inception training of newly recruited staff, which has been attended by 720 employees (155 from the HO and 565 from the Branch Network). In total, 4527 participants, or 64% of UBB personnel, have gone through different forms of training. Trainings under internal bank programs have the largest number of participants - 3227. Together with Consul Team (a leading company for human resources management) training for the Bank's managers was organized, directed to expanding their leadership abilities and skills. It was attended by 214 managers - 185 from the Branch Network and 29 from the HO. An evidence of UBB's positive image and high prestige as an employer and a banking institution is the expressed desire of 274 candidates for participation in the annual Internship Program of the Bank, as a result of which 10 candidates have been permanently recruited to the Bank.

SPONSORSHIP ACTIVITIES

United Bulgarian Bank developed a large scale sponsorship program, which successfully associated the bank with the 2008 Beijing Olympics and the Olympic values and spirit. UBB sponsored the Bulgarian Rowing Team and the Bulgarian Rowing Federation for the Olympic Games. In February 2008, Mrs. Roumiana Neikova, Bulgaria's leading female rowing athlete was announced an Athlete of the Bank. In August 2008 she became the only Bulgarian Olympian to win a gold medal, winning the single sculls race in Beijing. The UBB association with the Olympics was widely covered by Bulgarian news media and the bank was acknowledged as one of the few corporations supporting sports in the country.

Social responsibility projects and a number of cultural events were in the focus of the sponsorship and public relations activities of the Bank in 2008. The total value of grants for sponsorship activities amounted to more than EUR 360 thousand. Donations for charity organizations and causes reached EUR 45 thousand. In the sphere of cultural events the bank traditionally supported Apolonia Cultural Festival, Varna Summer, Ruse Musical Days, and the theatrical fest Crossroad Stage in Plovdiv. The Bank supported a number of youngsters' sports clubs during the year, promoting the sports as an alternative of violence and drugs. UBB donated funds to the renovation of a number of religious sites in the country. The community program of the Bank offered support to a large number of local events in many Bulgarian towns and cities. The bank continued its program of donating computer equipment to schools, NGOs, municipal and local community organizations. In 2008 the UBB employees' charity association United for Charity, continued its efforts in providing help and medical care for children. Business forums sponsored by the Bank included the 2008 South East European Forum and a number of smaller events throughout Bulgaria.

UNITED BULGARIAN BANK
A Member of NBG Group

Information Required Pursuant to Art.187"d" and Art. 247 of The Code of Commerce


to Art.187"d"
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INFORMATION REQUIRED PURSUANT TO ART. 187"d" and ART. 247 of THE CODE ON COMMERCE

Information under Art. 187 "d"

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. 2008, there is no ordinary registered voting shares had been transferred with 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.
UBB does not possess own shares.

As of 31.12. 2008, the Bank's share capital is allocated into 75,964,082 ordinary registered voting shares, with nominal value of BGN 1 each.

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

Information under Art. 247

1. Total remunerations received by the Board members during the year:
The remuneration of the 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 and bonuses. The total amount of remuneration for 2007 is BGN 1,097,000.

Shares BGN 1 (one) each (nominal value)

Names of the Directors	31.12.2007	31.12.2008
Stilian Petkov Vatev	10 shares	10 shares
Total	***10 shares***	***10 shares***

2. The acquired, possessed and transferred by the members of the Board of Directors shares and bonds of the company;
No shares were acquired or transferred by the members of the Board of Directors during the year.

The rights of the Board members to acquire shares and bonds of the company;
Board members have no rights related to acquisition of shares and bonds of the company.

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

Stilian Petkov Vatev
Bankservice AD Board of Directors' member
Central depository AD Board of Directors' member
Interlease Board of Directors' member
Interlease Auto AD Board of Directors' member
UBB – AIG Life Insurance Company AD Chairman of the Board of Directors
UBB – AIG Insurance and Reinsurance Company AD Chairman of the Board of Directors

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 didivends for the last three years. The annual net profit and the retained profit from revaluation reserve are entirely allocated, by decision of the General Shareholders Meeting, to the general reserves.


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UNITED BULGARIAN BANK
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Finance Instruments and Risk Management
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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) The targets and policy of the Bank related to financial risk management, including hedging policy

UBB actively manages the risks, inherent to its activity, in order to achieve optimal ratio between profitability from operations and the risk that goes along with them.The Bank has developed and applies Risk Management Policy. The Policy is prepared in compliance with the requirements of all effective laws and bylaws, BNB regulations and the directives of the Basel Standards.Being a part of NBG Group, UBB also adheres to the risk management standards, adopted within the Group.

The risk management policy defines the establishment of an organizational structure and internal system of principles, rules, procedures and limits for identification, measuring, assessment and control of the main risk types. All structural units in the Bank work in a strictly regulated environment, not allowing unsubstantiated risk undertaking in the everyday banking operations.

The risk management in United Bulgarian Bank covers the following main areas:

• Credit risk – the probability a counterparty or a borrower to fail in the fulfillment of the undertaken commitments, under contracts with the Bank, with the terms and conditions specified therein;

• Liquidity risk - the probability of difficulties in payment due to time discrepancy of the incoming and outgoing cash flows;

• Market risk – the probability the Bank to sustain losses as a result of unfavorable changes of exchange rates, market prices and interest rates;

• Operational risk – the probability of direct or indirect losses, resulting from inadequate functioning or disruptions in the performance of internal to the
• Bank processes, systems or personnel.

Risk management in UBB is based on the principle of centralization and is structured according to the levels of authorities as follows:
• Board of Directors – determines the level of risk undertaking within the framework of the adopted development strategy;
• Specialized collective bodies, approving the framework and the parameters of the Bank's risk management activity:
• Risk Management Committee;
• Assets and Liabilities Management
• Committee:
• Credit Committee;
• New Products Committee.
• Executive Directors – control the process of approval and application of adequate policies and procedures within the framework of the adopted
• Bank's risk management strategy;
• Risk Management Department – performs the operating activity on measuring, monitoring and control of risk exposures.

UBB has an established system of standards, rules and procedures, regulating the activity of all Bank units. The above regulations enable the effective preliminary, current and subsequent control on the operations and the internal processes. The employees are aware of their direct responsibilities and they have the necessary qualification for the performed activity.

b) The Bank's exposure with regard to price, credit, liquidity and cash flow risk

The exposures of United Bulgarian Bank related to price, credit, liquidity and cash flow risks are stated below. The influence of risk factors is indicated in a sequence according to their significance for the Bank's activity.

Credit risk

Credit risk is expressed in the possibility the Bank not to receive back funds or income from extended loans and deposits and from the investments made in debt securities and other assets, as it is provisioned in the respective agreements. The main source of credit risk for the Bank is the loans extended to clients, which, as of 31.12.2008 amounted to BGN 6853,8 mn As of the same date, the total value of depreciation was122,6 mn or 1.8% of the loans' amount. The specific provisions amounted to BGN 31.9mn

UBB credit risk management aims at maximizing assets' profitability, while maintaining risk exposure within acceptable parameters. A factor, leading to reduction of credit risk, related to the entire lending activity of the Bank, is the loan portfolio diversification.

Credit risk management decisions are made in compliance with the strategy and policy in this area, which is regularly reconsidered and defined by the Bank's Board of Directors.

United Bulgarian Bank has adopted and follows a Credit Policy, which regulates:
• Development and implementation of strict procedures for lending;

• Maintaining adequate credit administration;
• Permanent process of credit risk monitoring, measuring and control.

Detailed procedures are applied in the process of lending, concerning analysis of the economic justifiability of each project, types of collateral acceptable to the Bank, control over the use of extended funds and the administering related to that activity. Depending on their amount, the loans are approved by the credit centers, the Credit Committee, the Executive Credit Committee or the Board of Directors, according their levels of authority. The Bank has adopted limits for credit exposure by sectors of economy and follows their observance. The above limits aim at restricting loan portfolio concentration in one or a group of economic sectors.

The Bank has accepted and followed limits for loan exposure by industries. These limits aimed to decrease the credit portfolio concentration by separate industry or in a group of industries.

As of 31.12.2008 the Bank does not have large exposures, which shows a low level of credit risk concentration by types of borrowers.

In view of achieving early warning for credit risk increase a limit has been adopted for the maximum total amount of loans in the last two classification groups.

The requirements of Basel II for the credit institutions pointed a central place for the internal bank credit rating evaluating systems. During 2008 a specialized group from "Risk management" department created internal- bank model for corporate loans, which is real used from the beginning of 2009.

Liquidity risk

Liquidity risk is the risk the Bank not to have sufficient funds to meet deposits' withdrawal or to pay other maturing obligations. The Bank manages its assets and liabilities in a manner, guaranteeing that it can fulfil its day-to-day obligations regularly and without delay, both in a normal banking environment, and under conditions of a crisis.

The UBB's system for liquidity risk management include the following elements:

Risk Management Committee;
Specialized collective body for liquidity management – Asset and Liability Management Committee (ALCO);

	2004	2005	2006	2007	2008
Capital base	237,144	308,438	399,516	791,165	925,950
Large exposures	103,821	48,120	94,998	97,485	105,767
Ratio	**43,78%**	**15,60%**	**23,78%**	**12,32%**	**11,42%**

On a monthly basis the Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in it in compliance with the requirements of BNB Regulation No. 9.

Liquidity risk policy and internal rules, including a Contingency Funding Plan;
Management information system;

UBB loan portfolio quality

Exposure	2004	2005	2006	2007	2008
Standart	96,52%	94,13%	96,56%	96.93%	94.05%
Watch	1,40%	2,26%	0,99%	1,08%	2,52%
Substandart	0.45%	0.93%	0,42%	0,34%	0,94%
Nonperforming	1,63%	2,68%	2,03%	1,64%	2,50%

The liquidity management is centralized and is measured through evaluation of the mismatching between cash flows of assets, liabilities and off-balance sheet positions. The liquidity is being evaluated for all major currencies, in which the Bank actively effects operations.

While determining acceptable parameters for the liquidity risk value, the Bank reports the volume and nature of operations to date and their projected development; the access to money markets; diversification of liabilities and their volatility, as well as the maturity profile and assets' quality.

In view of precisely measuring liquidity, the Asset and Liability Management Committee (ALCO) has approved and controls internal liquidity ratios as *Loans/Deposits ratio, Quick Liquidity Ration and Internal Liquidity* by different currencies.

Liquidity ratios

	2004	2005	2006	2007	2008
BGN and EUR	16,85%	23,68%	18,80%	19,15%	10,18%
USD	80,43%	83,52%	83,51%	87,28%	78,66%
Total liquidity	26,39%	31,97%	25,93%	22,88%	13,68%

The liquidity ratios showed worsening, but in conditions of extremely changed situation affected by the global financial crises and common difficulties on the market. As apart of NBG, UBB received full and long-term financial support for mother-company, which is the most liquid bank institution in Greece.

UBB approved a procedure and realized regular stress-tests on liquidly risk with aim to evaluate the liquidity risk for the bank in unfavorable economic and market scenario. The stress-tests are based on assumptions with different parameters of shock and their impact on in-flow and out- flow funds flows

The bank has also agreed long-term credit lines with the following financial institutions:

EBRD/EU for financing small and medium enterprises – credit line to the amount of EUR 10 mn and BGN 20 mn, with expiry date January 2009 and October 2010.
EBRD – energy efficiency and renewable energy sources – credit line to the amount of EUR 15 mn and EUR 10 mn, with expiry date July 2009 and July 2011 respectively.
EBRD – for financing rural regions – credit line to the amount of EUR 10 mn, with expiry date January 2011.
EBRD/EU Energy Efficiency Facility – credit line to the amount of EUR 5mn, with expiry date January 2013.
EIB – 10-years global loan to the amount of EUR 15mn, with expiry date December 31, 2018

UBB signed a 10-years subordinated loan agreement with NBG for EUR130 mn.

Interest rate risk

This risk is related to possible unfavourable impact that changes in the market interest rates can have on the profit and capitalization of the bank. UBB manages the interest rate risk and maintains it within acceptable parameters, seeking to maintain adequate structure of its interest-sensitive assets and liabilities and minimize the mismatching between them. The interest rate risk is measured separately for each of the major currencies, in which the bank has active operations and also as total exposure. The measuring is based on an analysis of the mismatching between the interest-sensitive assets and liabilities by standardized time intervals, considering historical trends and stress-test scenarios. A limit is adopted for the maximum amount of the bank's total exposure under this type of risk.

Currency risk

This is the risk, the bank to sustain losses due to fluctuations of market prices of different currencies, which it works with. UBB balance sheet structure includes assets and liabilities, denominated in different currencies. The assets and liabilities of the bank are mainly in BGN and EUR. Upon the currently effective currency board in this country, upon the fixed exchange rate of BGN to EUR at a rate of 1.95583, the currency risk, undertaken by the bank mainly evolves from changes in the EUR/USD exchange rate and to a smaller extent from the exchange rates of other currencies to the Euro. The bank manages the risk of the open FX positions with the aim to minimize the possibility of loss in case of unfavourable exchange rates' fluctuations.

The maximum amount of the open positions as percentage of the capital base is regulated by Regulation 8 of BNB. UBB additionally limits the FX risk, by approving maximum exposure limits, both with regard to balance sheet positions, expressed as mismatching between balance sheet assets, liabilities and off-balance sheet elements denominated in foreign currency, and with regard to daily operations on the financial markets. For defining the above limits, the"Value at Risk".

UBB actively operates on the international financial markets. In order to reduce the risk of default on the obligations on the part of counter party banks and the risk of operations in unstable countries in economic and political aspect, the bank has approved and monitors the observation of limits for this type of exposures. Limits include 98 banks and 29 countries, as their minimum rating according to Moody's is Baa3. In Bulgaria UBB maintains active business relations only with first-class banks, according to this country's criteria. The above restrictions for selection of counter parties presuppose undertaking of medium credit risk.

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Annual Report

ANNUAL REPORT OF UBB'S DAUGHTER COMPANIES

Review of the activity of the companies included in the consolidated report of UBB and main risks for the activity

Transactions between UBB, and UBB Asset Management and UBB Insurance Broker, UBB AIG Insurance and Reinsurance Company and UBB AIG Life Insurance Company and mutual funds managed by UBB Asset Management (UBB Balanced Fund, UBB Premium Fund and UBB Platinium Fund) are related to maintaining Deposits and Current accounts. The Bank has a stake of shares in Mutual funds managed by its subsidiary UBB Assets management.

Attracted Funds From Clients	As of **31.12.2008**
UBB Assets Management	639
UBB Insurance Broker	215
UBB AIG Insurance and Reinsurance company	5,757
UBB AIG Life Insurance Company	7,587
UBB Balanced Fund	630
UBB Premium Fund	1,600
UBB Platinium Fund	490

Important events, occurred after the date of the consolidated financial statement:
There are no reported important events, which have occurred after the date the annual report of the Bank.

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

Name: UBB ASSET MANAGEMENT EAD
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 636 000 shares, each of par value - BGN 1.

Name: UBB BALANCED FUND AD
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Number and batch of entry into the commercial register: No 87998, v. 1108, reg. I, p. 62, under company file No 11245 of Sofia City Court according to the inventory of 2004.
Capital: BGN 4 055 200.
Participation in the company: BGN 1 460 200

Name: UBB Platinum Fund
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Capital: BGN 4269172.10
Participation in the company: 107 508.2971
Capital: 489 538.7900
Participation in the company: 40.854

Name: UBB Premium Fund
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Capital: BGN 204237.4486
Participation in the company: 1393635.25

Name: UBB AIG LIFE Insurance Company AD
Location: Sofia
Head Office address: Bulgaria, Sofia, Triaditza region, postal code 1404, 75 Bulgaria blvd.
Number and batch of entry in the commercial register: 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 6 000 000.
Participation in the company: BGN 1 800 000

Name: UBB – AIG Insurance and Reinsurance Company AD
Location: Sofia
Head Office address: Sofia 1000, Oborishte region, 4, Iskar Str.
Number and batch of entry in the commercial register: No 108888, v. 1469, reg. I, p. 179, under company file No 10676 of Sofia City Court according to the inventory of 2006.
Capital: 5 400 000
Participation in the company: BGN 1 620 000.

Name: UBB Insurance Broker
Location: Sofia
Head Office address: Bulgaria, Sofia 1000, region Vazrajdane, 9"T. Aleksandroiv" bulv.
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: BGN 400 000 , 80%

Used financial instruments

à) the aims and policy of the company on financial risk management, incl. hedging policy.
In 2008 UBB Asset Management and UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund and the associated with UBB- UBB AIG Insurance and Reinsurance Company, UBB AIG Life Insurance Company, maintaining current accounts and deposits, used no derivatives for hedging purposes.

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

The capital exposures of the subsidiary UBB Insurance Broker, UBB Asset Management, UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund, UBB AIG Insurance and Reinsurance Company, UBB AIG Life – Insurance company, maintaining current accounts and deposits, are reported in compliance with regulations, evolving from the requirements of Regulation N 8 on capital adequacy.

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Corporate Governance

CORPORATE GOVERNANCE

As a part of its long-term objectives the Bank is committed to the principles and implementation of good corporate governance. The Bank recognizes the valuable contribution that strong corporate governance makes to business prosperity and to ensuring accountability to its shareholders, especially in view with the events on the international financial markets.

The Board ensures, that the Bank is managed in a way, that maximizes long-term shareholders' value and that also takes into account the interests of all its shareholders, bondholders and the other stakeholders.

In accordance with the Corporate Governance Programme the Bank has been established an active and transparent process of strategic decision making.

The Code of UBB officers' Ethics and special internal rules clearly define and handle the prevention of conflicts of interest and the bank secrecy security.

In 2007 was established an Audit Committee, which members are independent experts in finance, banking, tax low and practice. In accordance with the requirements of the Independent Finance Audit Law, which for the first time since July 2008 start to regulate the activities of Audit Committees in Bulgaria. UBB accepted the appropriate changes and acted under the requirements of Independent Finance Audit Law.

The Board of Directors

The Bank places considerable emphasis on the appointments of Directors, and the essential role in adding value to the Bank's strategic decision making, as well as in monitoring the Bank's progress.

Communication with Shareholders

The Bank is committed to the equitable treatment of all its shareholders. In so far as practicable, the Bank ensures equality of access to information for all shareholders. Shareholders are provided with full year accounts to help them keep up to date on the performance and progress of the Bank. The General Meeting of Shareholders provides an opportunity for shareholders to ask questions to the Directors.

The Bank believes, that full disclosure and transparency in its operations are in the interests not only of its own good governance, but also in the interests of a sound and stable banking sector. The Bank's communication policy reflects this belief.

Performance Reporting and Internal Financial Control

The Board's report on the performance and prospects of the Bank is included in this annual report. The Board acknowledges, that it has ultimate responsibility for ensuring that the Bank has appropriate financial control systems. The objectives of these systems are to provide reasonable assurance of:

• identification and management of key business risks,
• the safeguarding of assets against unauthorized use,
• the maintenance of proper accounting records and reliability of financial information used for publication, and
• 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

Financial and other authorization limits have been set and procedures for approving capital expenditure have been established. The Board approves strategic plans and detailed annual budgets and reviews monthly performance against these budgets.

The internal audit specialized service monitors the internal financial control system across all branches and departments of the Bank and reports directly to the Board of Directors.

A functioning procedure, through which all UBB employees can inform about issues concerning incorrect representation of accounting information or information on the basis of which the independent financial audit takes place or reports to the supervisory bodies are established.

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

The Bulgarian National Bank encourages the management to prepare financial statements in accordance with International Accounting Standards.

In preparing these financial statements the management should ensure that:

• accounting policies have been suitably selected and applied consistently,
• judgments and estimates are reasonable and prudent, and
• International Accounting Standards have been followed, subject to any material items disclosed and explained in the financial statements.

Management confirms that they have complied with the above requirements in preparing the financial statements.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Bank. It is also responsible for safeguarding the assets of the bank and, hence, for taking reasonable steps for the preparation and detection of fraud and other irregularities.

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Independent Auditors' Report

Deloitte.

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ЕИК 121145199

This document is a translation of the original text in Bulgarian, in case of divergence the Bulgarian original is prevailing.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
United Bulgarian Bank AD

Report on the Financial Statements

We have audited the accompanying financial statements of United Bulgarian Bank AD ("the Bank"), which comprise the balance sheet as of December 31, 2008, and the income statement, statement of changes of equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (the EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (the EU).

Other reports on regulatory requirements – Annual report of the activities of the Bank according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we have read the accompanying Annual report of the activities of the Bank, prepared by the Bank's management. The Annual report of the activities of the Bank is not a part of the financial statements. The historical financial information, presented in the Annual report of the activities of the Bank, prepared by management, is consistent, in all material respects, with the annual financial information, disclosed in the financial statements of the Bank as of December 31, 2008, prepared in accordance with the International Financial Reporting Standards. Management is responsible for the preparation of the Annual report of the activities of the Bank, dated March 30, 2009.

Deloitte Audit
Deloitte Audit OOD

Sylvia Peneva
Managing Director
Registered Auditor

March 30, 2009
Sofia

UNITED BULGARIAN BANK AD, SOFIA

BALANCE-SHEET
For the year ended December 31, 2008
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	As of 31.12.2008	As of 31.12.2007 (restated)
ASSETS			
Cash and balances with the Central Bank	4	612,603	695,488
Loans and advances to banks	5	23,964	176,364
Loans and advances to customers, net	6	6,731,279	4,916,408
Financial assets at fair value through profit or loss	7	106,477	228,141
Derivative financial instruments	8	5,475	613
Financial assets available for sale	9	112,829	2,552
Investments in subsidiaries and associates	10	7,719	7,599
Intangible assets	11	16,877	8,745
Fixed assets	11	95,914	86,499
Deferred income tax assets	17	458	500
Other assets	12	18,893	6,677
TOTAL ASSETS		7,732,488	6,129,586
LIABILITIES			
Due to banks	13	2,385,430	1,292,027
Due to customers	14	4,009,921	3,421,651
Derivative financial instruments	8	9,402	2,539
Bank borrowings	15	78,954	75,753
Debt securities in issue	16	41,215	319,194
Subordinated liabilities	18	257,118	256,984
Current income tax liabilities		-	3,773
Deferred income tax liabilities	17	2,959	2,404
Retirement benefit obligations	19	3,958	3,434
Other liabilities	20	5,872	2,356
TOTAL LIABILITIES		6,794,829	5,380,115
NET ASSETS		937,659	749,471
SHAREHOLDERS' EQUITY			
Share capital	21	75,964	75,964
Retained earnings	23	867,485	672,142
Revaluation reserves	24	(5,790)	1,365
TOTAL SHAREHOLDERS EQUITY		937,659	749,471
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		7,732,488	6,129,586
Contingent liabilities and commitments	25	633,364	716,649

These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:

Stilian Vatev, CEO Radka Toncheva, Executive Director

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД * гр. СОФИЯ *

March 30, 2009
The accompanying notes are an integral part of these financial statements.

Sylvia Peneva
Registered Auditor: Date: March 30 , 2009

UNITED BULGARIAN BANK AD, SOFIA

INCOME STATEMENT
For the year ended December 31, 2008
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2008	Year ended 31.12.2007
Interest and similar income		592,826	381,644
Interest expenses and similar charges		(244,581)	(105,120)
Net interest income	27	348,245	276,524
Fee and commission income		107,943	89,420
Fee and commission expenses		(9,029)	(4,660)
Net fee and commission income	28	98,914	84,760
Dividend income		2,028	13
Net trading income	29	5,966	10,387
Net other operating income	30	5,455	5,895
		460,608	377,579
Net allowances for impairment and uncollectability	31	(60 430)	(29,340)
General administrative expenses	32	(183 063)	(142,490)
		(243,493)	(171,830)
Profit before taxation		217,115	205,749
Income tax expenses	33	(21,772)	(20,638)
PROFIT FOR THE YEAR		195,343	185,111

These financial statements have been approved for issue by the Board of Directors and signed by:

Stilian Vatev, CEO

Radka Toncheva, Executive Director

March 30, 2009

The accompanying notes are an integral part of these financial statements.

Sylvia Peneva
Registered Auditor
Date: March 30, 2009

General Information

Annual Report 2008

UNITED BULGARIAN BANK AD, SOFIA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2008
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share Capital	Retained Earnings	Revaluation reserve	Total
Balance as of January 1, 2007	75,964	471,895	15,918	563,777
Changes in accounting polices	-	15,136	(15,136)	-
Balance as of January 1, 2007 (restated)	75,964	487,031	782	563,777
Unrealised gains/losses on available for sale securities (AFS) - net of tax	-	-	583	583
Effect from reduction in tax rates on deferred taxes regarding prior years' revaluations	-	-	583	583
Profit for the year	-	185,111	-	185,111
Total recognised income and expense	-	185,111	583	185,694
Balance as of December 31, 2007	75,964	672,142	1,365	749,471
Unrealised gains/losses on available for sale securities (AFS) - net of tax			(7,020)	(7,020)
Available-for-Sale Reserve Transferred to Income - net of tax	-	-	(135)	(135)
Net income recognised directly in equity	-	-	(7,155)	(7,155)
Profit for the year	-	195,343	-	195,343
Total recognised income and expense	-	195,343	(7,155)	188,188
Balance as of December 31, 2008	75,964	867,485	(5,790)	937,659

Retained earnings as of December 31, 2008 include an undistributable part amounting to BGN 672,142 thousand and a distributable part amounting to BGN 195,343 thousand.

These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:

Stilian Vatev, CEO

Radka Toncheva, Executive Director

March 30, 2009

The accompanying notes are an integral part of these financial statement.

Sylvia Peneva
Registered Auditor:
Date: March 30 , 2009

UNITED BULGARIAN BANK AD, SOFIA

STATEMENT OF CASH FLOWS
For the year ended December 31, 2008
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2008	Year ended 31.12.2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		217,115	205,749
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Allowances for impairment and uncollectability charge		60,430	29,340
Allowances for staff obligations		419	806
Depreciation		19,453	18,569
Income from investments		(927)	-
Accrued interest		-	(4,694)
Income taxes paid		(21,773)	(16,864)
Change in deferred taxes		597	(202)
		275,314	232,704
Change in operating assets:			
(Increase)/decrease in placements with other banks		-	9,678
(Increase) in loans and advances to customers		(1,875,301)	(2,221,400)
(Increase)/decrease in assets at fair value through profit and loss		4,991	(17,681)
(Increase)/decrease in other assets		(17,078)	1,355
Change in operating liabilities:			
Increase in amounts deposits from banks		1,096,604	1,095,333
Increase in amounts due to other depositors		588,270	615,906
Increase/(Decrease) in other liabilities		4,546	(9,899)
Increase in Subordinated liabilities		134	254,258
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		77,480	(39,746)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(34,834)	(29,155)
Increase of securities available for sale		48	(3,537)
NET CASH USED IN INVESTING ACTIVITIES		(34,786)	(32,692)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease)/Increase in long term debt		(277,979)	5,971
NET CASH PROVIDED BY FINANCING ACTIVITIES		(277,979)	5,971
NET INCREASE IN CASH AND CASH EQUIVALENTS		(235,285)	(66,467)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		871,852	938,319
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	636,567	871,852

These financial statements have been approved for issue by the Board of Directors and signed by:

Stilian Vatev, CEO Radka Toncheva, Executive Director

March 30 , 2009

The accompanying notes are an integral part of these financial statements.

Sylvia Peneva
RegisteredAuditor:
Date: March 30, 2009

1. GENERAL

United Bulgarian Bank AD, Sofia ("UBB" or the "Bank") is a joint stock company registered in Bulgaria in September 1992. In July 2000 National Bank of Greece S.A. ("NBG") acquired 89.9% of the Bank's capital and on July 20, 2004 it acquired another 10%.

The Bank has a license granted by the Bulgarian National Bank (the "Central Bank" or "BNB") to take deposits in local and foreign currency, trade with foreign currencies, trade with and invest in treasury bonds and other securities and perform other banking operations. The Bank is allowed to maintain its activities both locally and internationally. International activities of the Bank are related to nostro accounts transactions, placements with foreign contracting parties, dealing securities portfolio and foreign exchange contracts.

During the period, the Bank's operations were conducted through a head office located in Sofia and 242 branches and 16 offices throughout Bulgaria.

Full-time equivalent of employees as of December 2008 was 3,253 (2007: 2,635).

These financial statements have been approved for issue by the Board of Directors on March 30, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of presentation

These financial statements have been prepared, in all material aspects, in accordance with the International Financial Reporting Standards (IFRS) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Union Commission and applicable in the Republic of Bulgaria.

The Bank applies all new and revised IFRS, issued by the International Accounting Standards Board (IASB) and the interpretations, issued by IFRIC, approved by the European Commission and effective for 2008. IFRS as adopted by the European Union Commission do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2008, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The Bank's management believes that if the hedge requirements has been approved by the Commission it would have no effect on these financial statements.

The Bank has chosen not to prepare consolidated Financial Statements as it is practically a wholly-owned subsidiary of NBG which owns 99.9% of the shares and the parent produces consolidated financial statements available for public use that comply with IFRS.

The financial statements are stated in Bulgarian Lev (rounded to the nearest thousand), the currency of the country in which the Bank is incorporated. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale securities, financial assets and liabilities held for trading, all derivative contracts measured at fair value and the revaluation of land and buildings, as discussed further below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of presentation (continued)

The presentation of financial statements in conformity with IFRS requires management to make the best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Use of available information application of judgement are inherent in the formation of estimates in following areas: valuation of OTC derivatives, unlisted securities, retirement benefit obligation, impairment of loans and receivables, impairment of investment securities open tax years and litigation. These estimates and assumptions are based on the information available as of the date of the financial statements and the future actual results could differ from those estimates and the differences may be material to the financial statements.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.20.

Where necessary, corresponding figures have been reclassified to conform to changes in the presentation of the current year.

2.2. Changes in accounting policy

Change in accounting policies disclosed in official financial statements for previous years

In the financial statements for 2003, 2004, 2005, 2006 and 2007 prepared in accordance with IFRS/IAS, the Bank has disclosed that it has chosen to apply the revaluation model in accordance with IAS 16 with regard to property – land and buildings. The property, owned by the Bank, includes mainly buildings, with the adjacent terrains, of unique architecture and location, which do not have or have a limited number of analogues and no active markets exist thereof. In relation to the expiring of the first five-year period for revaluation a review was performed regarding these properties, as well as market research on the real estate market, by independent certified appraisaers. As a result of the review of these properties and the performed market research, the management is of the opinion that it is unable to determine their fair value with sufficient assurance as of the date of each future periodic revaluation. Consequently, the management has taken a decision to use the cost model for subsequent measurement of property considering that in this way the financial position of the Bank will be more reliably presented. As a result of the change in the applied so far accounting policy, the revalued amount determined by certified appraisers as at 31 December 2003 has been accepted as deemed cost for this group of assets resultant from the first-time application of IFRS for official purposes. The revaluation reserve set aside (net of taxes) at this date is treated as retained earnings.

Changes of accounting policies arising from the implementation of new IFRS and revised IAS effective from January 1, 2008

The Bank has undertaken a detailed analysis of the revised standards in order to identify and implement the relevant changes. The new IFRS and revisions of the existent IAS applicable to the Bank's operations have been implemented with effect from January 1, 2008 are as follow:

- IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (Amendments October and November 2008). These amendments allow reclassifications of certain financial instruments:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Changes in accounting policy (continued)

- out of the held for trading or available for sale into the loans and receivables category, provided they meet the definition of this category and the entity has the intention and ability to hold for the foreseeable future,
- out of the held for trading category, but only in rare circumstances and provided they are no longer held for the purpose of selling in the near term.

Reclassifications made up to 31 October 2008 may be applied as of 1 July 2008. Reclassifications made on after 31 October 2008 are applied as of the date of the reclassification.
The Bank made use of these amendments as described in note 9.

- **IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions"** This IFRIC requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or the shareholder(s) of the entity provide the equity instruments required.
The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent..
Adoption of this interpretation had no effect on the Bank financial statements.

- **IFRIC 12, "Service Concession Arrangements"**. This IFRIC did not have an impact on the Bank financial statements.

-IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction". This interpretation addresses three issues:

- when refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of IAS 19 Employee Benefits;
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

This IFRIC did not have an impact on the Bank financial statements.

2.3. Interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial instruments on a time proportion basis, taking into account of the principal outstanding and using effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

For loans originated by the Bank and liabilities to depositors, where the interest is calculated on a daily basis by applying contracted interest rate to the outstanding balance, the effective interest rate is considered to be approximately equal to the contracted interest rate because of the nature of the contracts' terms. Loan origination fees are deferred as part of the effective interest.

Interest earned whilst holding trading securities and available for sale securities is reported as interest income. Interest income includes the amount of amortization of any discount, premium or other difference between the initial carrying amount of debt securities and their amount at maturity.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Fee and commission income and expenses

Fees and commissions consist mainly of fees received, respectively paid, for cash and money transactions, loans, guarantees and letters of credit. Fees and commissions are generally recognised on an accrual basis over the period the service is provided. Fees and commissions receivables and liabilities are accrued when earned or become due. Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as acquisition of loans, equity shares or other securities or the purchase or sale of businesses, are recognised upon completion of the underlying transaction. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan.

2.5. Foreign currency translation

Transactions denominated in foreign currencies have been translated into BGN at the exchange rates set by the Bulgarian National Bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date using the closing rates of exchange of the Bulgarian National Bank.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the period they are incurred. Translation differences on debt securities and other monetary financial assets re-measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary financial assets are a component of the change in their fair value.

Significant exchange rates are as follows:

Currency	31.12.2008	31.12.2007
EUR	1.95583	1.95583
USD	1.38731	1.33122

Effectively from January 1, 1999 the Bulgarian Lev was tied to the Euro, the European Union currency, at the rate of Euro 1 to BGN 1.95583. All other foreign currency exchange rates movements against the Bulgarian Lev reflect their movements against the Euro on the international markets.

2.6. Financial instruments

(a) Financial assets
The Bank classifies its financial assets in the following categories: 'financal assets at fair value through profit or loss', 'loans and advances' and 'financial assets available for sale'. The classification depends on nature and purpose of the financial assets at the time of their acquisition. The management determines the classification of the financial assets of the Bank at the time on their initial recognition on the balance sheet.

(b) Financial liabilities and equity instruments
The Bank classifies its liabilities, debt and equity instruments either as financial assets or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Bank classifies its financial liabilities in following categories: 'financial liabilities at fair value through profit or loss' or 'other financial liabilities' carried at amortized cost. The classification depends on nature of the financial liabilities and purpose set by the Bank at the time of their origination.
The management determines the classification of the financial liabilities of the Bank at the time on their initial recognition on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

(c) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased) and other. Derivative financial instruments are initially recognised in the balance sheet at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Bank and in liabilities when unfavorable to the Bank. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models, as appropriate. Where the Bank enters into derivative instruments used for trading purposes, realised and unrealised gains and losses are recognised in the income statement as 'net trading income'.

A derivative may be embedded in another financial instrument, known as "host contract". In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract.

Certain derivative instruments transacted as effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes, i.e. fair value gains and losses are recognised in net trading income.

When the Bank uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions, applies either fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment. The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- at inception of the hedge, there is formal designation and documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging period. A hedge is considered to be highly effective when the Bank achieves offsetting changes in fair value between 80 percent and 125 percent for the risk being hedged; and
- the hedge is highly effective on an ongoing basis.

(d) Recognition of financial instruments

The Bank recognizes financial instruments in balance sheet when and only when, its becomes a party to the contractual provision of the instrument.

(e) Regular way purchases and sales

"Regular way" purchase and sale of financial assets or liabilities based on contract are those that require delivery within the time frame established by regulation or market convention. Financial instruments that arise by such contracts are recognised on the settlement date apart from trading and available for sale securities and derivative financial instruments, which are recognised on the trade date. All other purchases and sales of securities held for trading are treated as derivatives until settlement occurs.

(f) Derecognition of financial instruments

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

(g) Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price ('Repos') are retained on the balance sheet and the counterparty liability is included in amounts due to banks, due to customers or other deposits, as appropriate. Securities purchased under agreement to resell ('Reversed Repos') are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of Repos (or Reverse Repos) agreement using the effective interest rate method.

(h) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Financial assets and liabilities at fair value through profit or loss

This category has the following two sub-categories:

Trading securities

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Trading securities held are not reclassified out of the respective category, only in rare circumstances and provided they are no longer held for the purpose of selling in the near term (see Note 9). Respectively, investment securities are not reclassified into the trading securities category while they are held.

Trading securities may also include securities sold under sale and repurchase agreements.

Financial assets and liabilities designated at fair value through profit or loss

The Bank designates at initial recognition financial assets or liabilities as at fair value through profit or loss, with the exception of investments in equity instruments, which have no market price on an active price and the fair value of which cannot be reliably measured, when:

- Doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise at asset and liability measurement or profit and loss recognition on different basis; or;
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the board of directors and chief executive officer.
- The financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments and would have to be separated if not in this category.

The fair value designation, once made, is irrevocable.

Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognised at fair value and subsequently re-measured at fair value. The determination of fair values is based on quoted market prices, dealer price quotation and pricing models, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

(i) Financial assets and liabilities at fair value through profit or loss (continued)

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities and are separately reported and included in dividend income.

Interest income on interest bearing financial assets and interest expense on interest bearing financial liabilities at fair value through profit or loss (both trading and designated) is reported as interest income and interest expense respectively.

The amount of change during the period, and cumulatively, in the fair values of designated financial liabilities and loans and advances that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. This group of financial assets include: loans and advances to banks and other customers. Loans and advances that are individually originated in the Bank are recognized when cash is actually advanced to the borrowers or another financial or non-financial asset is provided to the borrower.

Acquired loans and advances are recognized when a significant part of benefits and risks incidental to ownership are received by the Bank.

Measurement

Loans and advances are initially recorded at net amounts paid or at fair value of the transferred asset, including any direct transaction costs.

They are subsequently measured at amortized cost using the effective interest method less any allowances for impairment.

Interest on loans and advances is included in interest income and is recognized on an accrual basis. Fees and direct cost related to loan origination, financing or restructuring and to loan commitments are treated as part of the cost of transaction and are deferred and amortized to interest income over the life of the loan by using the effective interest rate..

(k) Financial assets available for sale

Financial assets available for sale are those non-derivative assets that are not designated as financial assets at fair value through fair value through profit or loss, loans and advances or investments held to maturity..

The Bank classfies as available-for-sale financial assets debt securities and investments in equity shares intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or material changes in their yields or prices.

Measurement

Financial assets available for sale are initially recognised at fair value (including transaction costs) and subsequently re-measured at fair value based on quoted bid prices in active markets, dealer price quotations or discounted expected cash flows. Fair values for unquoted equity investments are determined by applying recognised valuation techniques such as price/earnings or price/cash flow ratios, refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in shareholders' equity, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

(k) Financial assets available for sale (continued)

When an available for sale financial instrument is disposed of or impaired, the accumulated unrealised gain or loss included in shareholders' equity is transferred to the income statement for the period and reported as net trading income/expense. Gains and losses on disposal are determined using the moving average cost method.

During the period of holding debt instruments, classified as 'available for sale' the Bank recognises interest income by applying the effective interest method.

Dividents on shares, classified as 'available for sale' financial assets, are recognised and carried to the income statement as 'Other operating income' when the Bank's entitlement to these dividends is estabilished.

(l) Allowances for impairment and uncollectability

All financial assets classified as 'loans and advances', 'held-to-maturity' and 'available for sale' are subject to review for impairment. The Bank assesses at each balance sheet date whether there is objective evidence that a financial assets or group of financial assets is impaired.

Loans and advances

A credit risk allowances for loan impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due on a claim according to the original contractual terms. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to extend credit.

An allowance for loan impairment is reported as a reduction of the carrying amount of a claim on the balance sheet, whereas for an off-balance sheet item such as a commitment, an allowance for impairment loss is reported in other liabilities. Additions to allowances for loans impairment are made through impairment losses on loans and advances in the income statement.

The Bank assesses whether objective evidence of impairment exists for loans that are considered individually significant and collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Corporate loans are grouped based on days in arrears, product type, economic sector, size of business, collateral type and other relevant credit risk characteristics. Mortgages and retail loans are also grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not exist currently.

All impaired loans are reviewed and analysed at least annually and any subsequent changes to the amounts and timing of the expected future cash flows compared with the prior estimates result in a change in the provision for loans impairment and are charged or credited to impairment losses on loans and advances. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

(l) Allowances for impairment and uncollectability(continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement as net allowances for impairment and uncollectability..

Financial assets available for sale

Available for sale financial assets are impaired if there is objective evidence that show a significant an prolonged decline in the fair value of the respective assets or group of assets or with regard to financial assets (equity instruments) measured at acquisition cost – when there is evidence that the carring amount is higher than the espected recoverable amount

If any such evidence, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Impaiment losses recognised in income statement for an investment in an equity instrument classified as available for sale are not reversed in income statement.

2.7. Investments in subsidiaries and associates

Subsidiaries are those entities in which the Bank directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over their financial and operating policies

Associates are entities over which the Bank has between 20% and 50% of the voting rights, and over which the Bank exercises significant influence, but which it does not control.

Initially in the separate financial ststements the Bank recognised its investment in subsidiaries and associates at cost. Subsequently all investments are reviewed for impairment.Impairment is recognized in the income statement as impairment losses in investments in subsidiaries and associated companies.

Dividends from investment in subsidiaries and associates are recognised and carried to the income statement only for those part related to the profits after their accuisition or in the decrease of the carrying amount of the investment which refer to profit distribution before their acquisition.

2.8. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank for use in the supply of services or for administrative purposes.

Property and equipment are presented in the financial statements at historical cost of acquisition except those acquired before December 31, 2003, which are presented at deemed cost for purpose of first time adoption of IFRS, less accumulated depreciation.

Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into working condition.

Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Repairs and maintenance are charged to the income statement when the expenditure is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Property and equipment (continued)

Depreciation of an item of property and equipment is calculated on a straight-line basis over their estimated useful lives. Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognised. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated.

The useful life adopted by the Bank for main group of assets is as follows:

Group of assets	*Years*
Land	unlimited
Buildings	Not exceeding 25
Security facilities	Not exceeding 10
POS Terminals	Not exceeding 4
Equipment	Not exceeding 5
Servers and personal computers	Not exceeding 5
Furniture and related equipment	Not exceeding 7
Cars	Not exceeding 7
Leasehold improvements	Residual lease term

The Bank periodically reviews its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Foreclosed assets, which consist of properties acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at cost, which includes transaction costs, and reported under other assets. After initial recognition foreclosed assets are re-measured at the lower of their carrying amount and fair value less estimated costs to sell. Any gains or losses on liquidation of foreclosed assets are included in other operating income.

2.9. Intangible assets

Intangible assets include computer software and other intangible assets that comprise of separately identifiable intangible items.
Intangible assets are presented in financial statement at cost of acquisition less accumulated amortisation and accumulated impairment losses.

Computer software includes costs that are directly associated with identifiable and unique software products that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of software beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Intangible assets (continued)

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Expenditures on starting up an operation or branch, training personnel, advertising and promotion and relocating or reorganizing part or the entire Bank is recognised as an expense when it is incurred.

The Bank calculated amortisation for the intangible assets on a straight-line basis over their estimated useful lives.
The useful life adopted by the Bank for main group of intangible assets is as follows: Software – not exceeding a period of 5 years; rights for use of property - residual term of use; other - not exceeding a period of 7 years.
The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are included in the income statement.

2.10. Operating lease

Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
Assets leased out by the Bank under operating leases are included in the balance sheet based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income is recognised on a straight-line basis over the lease term and are presented as 'other operating income'.

2.11. Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement include cash and nostro accounts and loans and advances to other banks with a maturity of less than 90 days, including balances with the Bulgarian National Bank.

2.12. Provisions

Provisions are recognised as a expense in income statement and liability in a balance sheet when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Fiduciary and trust activities

The bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2.14. Employee benefits

The employment and social security relation with the employees of the Bank are based on the provision of the Labor Code (LC) and the effective social security legislation in Bulgaria.

Short-term employee benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognized as an expense in the income statement in the period when the service thereon has been rendered or requirements for their receipt have been met and as current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Bank's payables for social security and health insurance are recognized as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accruals.
At each balance sheet date the Bank measures the expected costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the undiscounted estimate of the expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long- term employee benefits

Defined benefit plans
A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. For defined benefit plans, the pension liability is the present value of the defined benefit obligation at the balance sheet date minus the fair value of the plan assets, including any adjustments for unrecognised actuarial gains/losses and past service costs. The Bank follows the "corridor" approach of IAS 19 "Employee Benefits" according to which a certain amount of actuarial gains and losses remains unrecognised and is amortised over the average remaining service lives of the employees participating in the plan.

The defined benefit obligation is calculated by independent actuaries on an annual basis, using the projected unit credit method. The present value of the defined obligation is determined by the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. Pension costs are charged or credited to the income statement over the service lives of the related employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Employee benefits (continued)

Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are charged to the income statement in the year to which they relate and are included in staff costs.

2.15. Income taxes

Taxes currently due are calculated in accordance with the Bulgarian legislation. Income tax was computed on the basis of taxable profit, calculated by adjusting the statutory financial result for certain income and expenditure items as required under Bulgarian law.

Deferred income taxes are provided using the balance sheet liability method of accounting, under which deferred tax consequences are recognised for differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the income statement are also recognized in the income statement and tax effects related to transactions and events recognized directly in equity are also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available, against which the deductible temporary difference can be utilized.

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event that is recognized in the same or different period, directly in equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted at the balance sheet date.
The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary difference will occur in the same period, from which they can be deducted.

2.16. Related party transactions

Related parties include enterprises which may exercise significant influence on financial and operating decisions and which the Bank may influence in the same way. Related parties also include key management personnel and their relatives/partners, controlled enterprises or enterprises in which they can exercise significant influence. All related party transactions should be disclosed by type, effect in the income statement and the balance sheet and the terms under which they have been concluded.

2.17. Earnings per share

A basic earnings per share (EPS) ratio is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Capital management

The Bank defines its risk-bearing capacity as the amount of financial resources that are available for absorbing losses, which may be incurred due to the risk profile of the Bank. Financial resources are classified into Tiers of risk capital according to their ability to absorb losses, ability to waive or defer payments, and permanence. The Bank has raised a certain amount of subordinated debt to help maintain a sufficient level of risk capital.

The Bank calculates, monitors and reports its risk capital for all major risk categories – credit, market and operational risk. In managing its risk capital, the Bank follows regulator-mandated, as well as its own, guidelines and targets. Bulgarian banks must maintain Core Tier I Capital Adequacy Ratio of at least 6%, and Total Risk Capital Adequacy Ratio of at least 12%. The Bank targets a Core Tier I Capital Adequacy Ratio of at least 7%. In addition, the risk-return profile of the Bank is managed in a way that the Core Tier I ratio does not fall below 7% under a severe stress scenario (once in one hundred years, or 1% probability). The Bank also targets a credit risk capital of no more than two-thirds, and market risk capital of no more than 5%, of its total risk capital. For 2008 and 2007 the Bank is in compliance with the regulatory requirements for minimum capital adequacy.

Over the long run, the Bank plans to establish an Internal Capital Adequacy Assessment Process (ICAAP), which shall be subsequently supported and enhanced via an economic capital management framework. The risk capital derived will be the key for developing a risk-adjusted performance measurement framework, as well as risk-adjusted pricing and customer profitability.

2.19. Fair Value Disclosure

Fair value is defined as the amount, for which an asset can be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction. It is the policy of the Bank to disclose fair value information on those assets or liabilities, for which published market information is readily available and where the fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not currently exist for loans and advances to customers and certain other financial assets or liabilities, for which published market information is not readily available. Accordingly, fair value cannot be reliably determined. In the opinion of management, the reported carrying amounts are the most valid and useful reporting value in the circumstances.

2.20. Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. The Bank believes that the judgments, estimates and assumptions used in the preparation of the Consolidated and Bank financial statements are appropriate given the factual circumstances as of 31 December 2008.

At the end of 2008 and the beginning of 2009 as a result of the global economic crisis different industries and sectors in the Bulgarian economy have marked a decline which causes a material uncertainty and risks for their development in the foreseeable future. The declining rates of economic development increase the risks for the economic environment in which the Bank operates. Therefore, the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ substantially from those measured and reported in these financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, depends on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. Bank's management applies the necessary procedures to manage these risks, as disclosed in note 34.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Critical judgments and estimates (continued)

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods, models based on observable input parameters. Valuation models are used primarily to value derivatives transacted in the over–the-counter market. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate its models. A variety of factors are incorporated into the Bank's models, including actual or estimated market prices and rates, such as time value and volatility, and market depth and liquidity.

The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risks associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes the fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

Allowance for loan losses

The amount of the allowance set aside for loan losses is based upon management's ongoing assessments of the probable estimated losses inherent in the loan portfolio. Assessments are conducted by members of management responsible for various types of loans employing a methodology and guidelines, which are continually monitored and improved.

This methodology has two primary components: specific allowances and collective allowances and is described in note 2.9 (l).

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favour of the Bank. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

Net periodic benefit cost

The net periodic benefit cost is actuarially determined using assumed discount rates, assumed rates of compensation increase. These assumptions are ultimately determined by reviewing the Bank's salary increases each year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Critical judgments and estimates (continued)

Useful lives of depreciable assets

The Bank's management determines the estimated useful lives and related depreciation charges for its property and other equipment. The Bank's estimate is based on the projected operating life cycle of its buildings and the other depreciable assets such as furniture, motor vehicles, hardware and other equipment. Such estimates are not expected to change significantly, however, management modifies depreciation charge rates wherever useful lives turn out to be different than previously estimated and it writes down or writes off technically obsolete assets.

Impairment of available-for-sale financial assets

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in operational and financing cash flow.

Income taxes

The Bank is subject to income taxes in Bulgaria. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS

- **IAS 23, "Borrowing costs" (Amendment)** (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank will apply IAS 23 (Amended) from 1 January 2009, however management does not expect a significant impact on the Bank financial statements.

- **IFRS 8, "Operating Segments"** (effective from 1 January 2009). This standard changes the way the segment information is measured and disclosed and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segments and to assess performance. The Bank will apply this standard for the annual period beginning on 1 January 2009 however management does not expect a significant impact on the Bank financial statements.

- **IAS 1 "Presentation of Financial Statements"** (Amendment) (effective from 1 January 2009). It requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The Bank will apply this amendment for the annual period beginning on 1 January 2009.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS (continued)

- IFRS 2 "Share-based Payment" (Amendment) (effective from 1 January 2009). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank will apply this amendment for the annual period beginning on 1 January 2009, and is currently evaluating its impact on the Bank financial statements.

- IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" (Amendment) (effective from 1 January 2009). This amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- puttable financial instruments (for example, some shares issued by co-operative entities)
- instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

The Bank will apply this amendment for the annual period beginning on 1 January 2009, and is currently evaluating its impact on the Bank financial statements.

- IFRIC 13, "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 addresses the accounting treatment by the entity that grants award credits to its customers as part of a sale transaction(s). The Bank will apply this IFRIC from 1 January 2009. Management is currently evaluating its impact on the Bank financial statements.

- IFRIC 15, "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009). The Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and when revenue from the construction should be recognised. IFRIC 15 applies to the accounting for revenue and related expenses by entities that undertake the construction of real estate directly or through subcontractors.

The Bank will apply this Interpretation for the annual period beginning on 1 January 2009, and does not expect that it will have a significant impact on the Bank financial statements.

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies that:

- the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation,
- the hedging instrument(s) may be held by any entity or entities within the group (except the foreign operation that itself is being hedged),
- while IAS 39 "Financial Instruments: Recognition and Measurement" must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 "The Effects of Changes in Foreign Exchange Rates" must be applied in respect of the hedged item.

The Bank will apply this Interpretation for the annual period beginning on 1 January 2009, and does not expect that it will have any impact on the Bank financial statements.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS (continued)

- **Improvements to IFRSs** (effective for annual periods beginning on or after January 1, 2009, except amendments to IFRS 5 that are effective for periods beginning on or after July 1, 2009). These improvements include amendments considered to be necessary, but non-urgent, and that will not be included as part of another major project.

The Bank will apply these amendments for the annual period beginning on January 1, 2009 (2010 for IFRS 5), and is currently evaluating its impact on Bank financial statements.

- **IFRS 3 "Business Combinations"** and **IAS 27 "Consolidated and Separate Financial Statements"** (Amendment) (effective from July 1, 2009). The amendments include:
a greater emphasis on the use of fair value;

- focus on changes in control as a significant economic event;
- introduce requirements to remeasure interests to fair value at the time when control is achieved or lost, and recognising directly in equity the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control; and
- focus on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

The Bank does not expect that it will have any impact on the Bank financial statements.

- **IFRS 1 "First-time Adoption of International Financial Reporting Standards"** and **IAS 27 "Consolidated and Separate Financial Statements"** (Amendment) (effective from July 1, 2009). The amendments:

- allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and
- remove the definition of the cost method from IAS 27 and replace it with a requirement to present dividends as income in the separate financial statements of the investor.

Regarding the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation, the amendments to IAS 27 also require the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

The Bank will apply this amendment for the annual period beginning on 1 January 2010, and is currently evaluating its impact on the Bank financial statements.

- **IAS 39 "Financial Instruments: Recognition and Measurement"** (Amendment "Eligible Hedged Items") (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of:

- a one-sided risk in a hedged item, and
- inflation in a financial hedged item.

The Bank will apply this Interpretation for the annual period beginning on 1 January 2010, does not expect that it will have any impact on the Bank financial statements.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS (continued)

- **Improvements to IFRSs** (effective for annual periods beginning on or after January 1, 2009, except amendments to IFRS 5 that are effective for periods beginning on or after July 1, 2009). These improvements include amendments considered to be necessary, but non-urgent, and that will not be included as part of another major project.

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All amounts are in thousand Bulgarian Levs, except otherwise stated

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS (continued)

- **IFRIC 17, "Distributions of Non-cash Assets to Owners"** (effective for annual periods beginning on or after 1 July 2009). The Interpretation clarifies that:
    - a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity,
    - an entity should measure the dividend payable at the fair value of the net assets to be distributed,
    - an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.

The Bank will apply this Interpretation for the annual period beginning on 1 January 2010, and does not expect that it will have any impact on the Bank financial statements.

4. CASH AND BALANCES WITH THE CENTRAL BANK

	As of 31.12.2008	As of 31.12.2007
Cash in hand	230,553	197,400
Mandatory reserve with the Central Bank	293,375	479,178
Current account with the Central Bank	88,675	18,910
TOTAL	612,603	695,488

The current account with the Central Bank in BGN is used for direct participation in the money and treasury bills markets and for settlement purposes.

Mandatory reserve is a part of required reserves in Central Bank, which also includes current account with BNB. Cash in hand is not included in minimum reserve for regulatory purposes. Required reserves are not interest bearing and their use is unrestricted. Such reserves are regulated on a monthly basis and their insufficiency carries penalty interest. Daily fluctuations within a month period are allowed.

5. LOANS AND ADVANCES TO BANKS

	As of 31.12.2008	As of 31.12.2007
Nostro accounts	11,528	124,768
Interbank placements	4,519	46,948
Pledged amounts	-	13
Other loans and advances to banks	7,917	4,635
TOTAL	23,964	176,364
Included in cash equivalents (note 26)	23,964	176,364

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE IN FUTURE PERIODS (continued)

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LOANS AND ADVANCES TO CUSTOMERS, NET

(a) Analysis by type of customer

	As of 31.12.2008	As of 31.12.2007
Individuals (retail)		
Overdrafts	34,884	24,247
Credit cards	278,349	189,221
Mortgages	1,351,230	1,039,775
Consumer loans	1,381,825	1,071,174
	3,046,288	2,324,417
Corporate entities		
Non-bank financial institutions	7,049	6,337
Corporate customers	3,800,142	2,654,903
Government and agencies	384	728
	3,807,575	2,661,968
Total loans and advances, gross	6,853,863	4,986,385
Less: allowance for impairment	(122,584)	(69,977)
Loans and advances to customers, net	6,731,279	4,916,408
Pledged loans under mortgage bonds issued (note 16)	47,644	49,733

(b) Analysis by loan product

	As of 31.12.2008	As of 31.12.2007
Overdrafts		
performing	32,373	22,601
non-performing	2,511	1,646
Less: allowance for impairment	(1,714)	(1,705)
	33,170	22,542
Credit cards	253,312	189,221
non-performing	25,037	-
Less: allowance for impairment	(21,060)	(6,152)
	257,289	183,069
Mortgages		
performing	1,313,965	1,027,484
non-performing	37,265	12,291
Less: allowance for impairment	(9,123)	(7,279)
	1,342,107	1,032,496
Consumer loans		
performing	1,317,760	1,041,434
non-performing	64,065	29,672
Less:allowance for impairment	(60,507)	(35,816)
	1,321,318	1,035,290
Corporate loans		
performing	3,760,841	2,621,377
non-performing	41,858	27,841
Less: allowance for impairment	(30,180)	(19,025)
	3,772,519	2,630,193
Securities purchased under agreements to resell	-	857
Other loans and advances	4,876	11,961
Loans and advances to customers, net	6,731,279	4,916,408

6. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

(c) Movement of allowances for impairment and uncollectability

	BGN'000
BALANCE AS OF JANUARY 1, 2007	(41,665)
Allowances for impairment and uncollectability charge, net	(44,916)
Loans and advances written off as unrecoverable	16,604
BALANCE AS OF DECEMBER 31, 2007	(69,977)
Allowances for impairment and uncollectability charge, net	(74,896)
Unwind of the discount	1,944
Loans and advances written off as unrecoverable	20,345
BALANCE AS OF DECEMBER 31, 2008	(122,584)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of 31.12.2008	As of 31.12.2007
Bulgarian government securities	98,089	146,454
Foreign government and corporate securities		
Listed	8,388	5,098
Unlisted	-	1,123
	8,388	6,221
Local corporate securities		
Listed	-	44,823
Unlisted	-	24,671
	-	69,494
Shares in Mutual Funds		
Listed	-	5,972
	-	5,972
TOTAL FINANCIAL ASSETS AT FAIR VALUE	106,477	228,141

Total financial assets at fair value by type of currency is as follows:

	As of 31.12.2008	As of 31.12.2007
In Bulgarian Levs	71,928	84,014
In foreign currencies	34,549	144,127
	106,477	228,141

As of December 31, 2008 and 2007 the Bank has pledged assets as collateral placement in Central Bank for state funds at the amount of BGN 46,036 thousand and BGN 72,966 thousand, respectively.

Nearly all securities in the trading portfolio are debt instruments denominated in BGN, EUR and USD. Nearly all of the trading securities denominated in BGN carry fixed interest coupons and those that carry variable interest are linked to the respective levels of SOFIBOR. Securities denominated in EUR predominantly carry fixed interest coupons. Trading securities denominated in USD are predominantly with variable interest linked to the USD LIBOR. Trading securities include short-term, medium-term and long-term securities without any significant concentrations in terms of maturity and securities issues.

Securities amounting to BGN 46,036 thousand (2007: BGN 72,966 thousand) were pledged with the Central Bank for the purpose of serving as a collateral against the state funds deposited at the Bank, which are at approximately the same carrying amount.

All amounts are in thousand Bulgarian Levs, except otherwise stated

8. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2008			31.12.2007		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives	362,622	5,420	9,391	379,708	219	2,407
Currency forward agreements	140,181	4,111	4,029	153,464	117	2,248
Currency swaps	222,441	1,309	5,362	217,982	56	-
Currency options bought	-	-	-	4,140	46	-
Currency options embedded	-	-	-	4,122	-	159
Index options, incl.	15,117	55	11	12,976	394	132
Index options bought	10,882	55	-	8,842	394	-
Index options embedded	4,235	-	11	4,134	-	132
	377,739	5,475	9,402	392,684	613	2,539

The derivative financial instruments used include short-term currency forwards, currency swaps and currency options and index options. Embedded derivatives are stripped from structured deposits based on EUR/USD currency rate movements or based on movements of stock exchange indices. The embedded derivatives do not significantly modify the cash flows that otherwise would be required by contract. The Bank acts as an intermediary provider of these instruments to certain clients. During 2008 and 2007 the Bank has not used derivatives for hedging purposes.

9. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	As of 31.12.2007	As of 31.12.2007
Debt securities available for sale -at fair value		
Bulgarian government securities	41,340	-
Corporate bonds		
Listed	56,854	-
Unlisted	7,633	-
	64,487	-
Equity securities available for sale - at fair value		
Equity securities in local entities		
Listed	-	168
Unlisted	970	971
	970	1,139
Equity securities in foreign entities		
Listed	1,687	1,285
Unlisted	128	128
	1,815	1,413
Equity shares in mutual funds	4,217	-
TOTAL	112,829	2,552

All amounts are in thousand Bulgarian Levs, except otherwise stated

9. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

Movements in financial assets available-for-sale

Movement in AFS investments	As of 31.12.2008
BALANCE AS OF JANUARY 1, 2007	1,970
Exchange differences on monetary assets	19
- Additions within the period	38
- Disposals within the period	(58)
- Gains from changes in fair value	583
BALANCE AS OF DECEMBER 31, 2007	2,552
- Exchange differences on monetary assets	1,503
- Additions within the period	776
- Disposals within the period	(167)
-Reclassified from traiding portfolio, based on ammendments of IAS 39	112,641
-Accrued interest	2,639
- Loss from changes in fair value	(7,115)
BALANCE AS OF DECEMBER 31, 2008	112,829

RECLASSIFICATION OF FINANACIAL INSTRUMENTS FROM TRADING PORTFOLIO TO AVAILABLE- FOR-SALE

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at reporting date December 31,2008	Fair value at reporting date December,31 2008	Fair value gain/ (loss) recognised in 2008 in P&L until the date of reclassification	Fair value gain/(loss) that would have been recognised in P&L in 2008 if not reclassified	Interest income/dividents recognised in P&L in 2008
Debt securities issued by Bulgarian government	41,978	41,340	41,340	(1,014)	(3,856)	3,025
Corporate bonds	63,999	64,487	64,487	(46)	(702)	4,991
Equity shares in mutual funds	6,664	4,217	4 ,217	(1,309)	(2,447)	
	112,641	110,044	110,044	(2, 369)	(7,005)	8,016

10. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Fair value	Carrying amount
UBB Asset Management	Bulgaria	90%	636	BGN	636	636	636
UBB AIG Insurance and Reinsurance Company	Bulgaria	30%	1,740	BGN	2,022	2,022	2,022
UBB AIG Life Insurance Company	Bulgaria	30%	1,980	BGN	2,160	2,160	2,160
UBB Insurance Broker	Bulgaria	80%	400,000	BGN	400	400	400
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	2,500	BGN	2,501	2,501	2,501
Total investments in subsidiaries and associates					7,719	7,719	7,719

All amounts are in thousand Bulgarian Levs, except otherwise stated

10. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

Movement in investment in subsidiaries and associates	As of 31.12.2008
BALANCE AS OF JANUARY 1, 2007	4,062
-Additions within the period	3,537
-Disposals	-
BALANCE AS OF DECEMBER 31, 2007	7,599
-Additions within the period	120
BALANCE AS OF DECEMBER 31, 2008	7,719

11. INTANGIBLE AND FIXED ASSETS

Intangible and fixed assets as of December 31, 2008 are as follows:

COST	Land and Buildings	Equipment and other FA	Total fixed assets	Intangible assets	Total
As of January, 1 2008	49,050	129,338	178,388	41,007	219,395
Additions	421	26,098	26,519	11,462	37,981
Disposals	(1,725)	(2,423)	(4,148)	(24)	(4,172)
Tranfser	-	(642)	(642)	642	-
FA with low cost	-	2,406	2,406	-	2,406
As of December, 31 2008	47,746	154,777	202,523	53,087	255,610
DEPRECIATION					
As of January, 1 2008	19,368	72,521	91,889	32,262	124,151
Charge for 2008	2,467	13,245	15,712	3,741	19,453
Depreciation charged on disposals	(969)	(2,205)	(3,174)	(17)	(3,191)
Tranfser	-	(224)	(224)	224	-
FA with low cost	-	2,406	2,406	-	2,406
As of December, 31 2008	20,866	85,743	106,609	36,210	142,819
NET BOOK VALUE	26,880	69,034	95,914	16,877	112,791

Intangible and fixed assets as of December 31, 2007 are as follows:

COST	Land and Buildings	Equipment and other FA	Total fixed assets	Intangible assets	Total
As of January, 1 2007	50,610	104,057	154,667	45,053	199,720
Additions	1,010	56,549	57,559	4,123	61,682
Disposals	(2,570)	(31,268)	(33,838)	(8,169)	(42,007)
As of December, 31 2007	49,050	129,338	178,388	41,007	219,395
DEPRECIATION					
As of January, 1 2007	18,288	63,329	81,617	33,222	114,839
Charge for 2007	2,200	10,948	13,148	5,420	18,568
Depreciation charged on disposals	(1,120)	(1,756)	(2,876)	(6,380)	(9,256)
As of December, 31 2007	19,368	72,521	91,889	32,262	124,151
NET BOOK VALUE	29,682	56,817	86,499	8,745	95,244

All amounts are in thousand Bulgarian Levs, except otherwise stated

12. OTHER ASSETS

	As of 31.12.2008	As of 31.12.2007
Prepaid expenses	6,437	3,347
Assets acquired through foreclosure proceedings	3,131	1,136
Claims against the state	904	904
Income tax to be recovered	1,764	-
Other items	6,657	1,290
TOTAL	18,893	6,677

13. DUE TO BANKS

	As of 31.12.2008	As of 31.12.2007
Sight deposits	6,657	137,336
Time deposits	2,378,225	1,084,642
REPOs with banks	-	69,806
Other due to banks	548	243
TOTAL	2,385,430	1,292,027
*Money Market deposits of the Parent Company (NBG S.A.)	2,179,096	733,533

14. DUE TO CUSTOMERS

Analysis by customers

	As of 31.12.2008	As of 31.12.2007
Retail customers		
Current/demand accounts	336,478	355,451
Saving accounts	815,099	825,690
Time deposits	1,208,624	786,816
	2,360,201	1,967,957
Non-bank financial institutions		
Current/demand accounts	84,886	50,379
Time deposits	129,644	108,732
	214,530	159,111
Corporate entities		
Current/demand accounts	755,627	958,890
Time deposits	565,631	226,392
	1,321,258	1,185,282
Government entities		
Current/demand accounts	52,624	46,041
Time deposits	61,308	63,260
	113,932	109,301
TOTAL	4,009,921	3,421,651

15. BANK BORROWINGS

UBB has signed five long term credit facilities with EBRD for total amount of EUR 65 mln.- SME Finance Facility (EUR 20 mln), Energy Efficiency and Renewable Energy Facility (EUR 25 mln), Rural Facility (EUR 10 mln), Energy Efficiency Facility (EUR 5 mln) and Residential Energy Efficiency Credit Line (EUR 5 mln.). All facilities are bound with EC Grant schemes for the Bank and its clients.

In 2007 UBB signed a Global Loan agreement with the European Investment Bank for EUR 15 mln for lending to companies in the private and municipal sector.

In 2008 UBB signed an agreement with the Bulgarian Bank for Development BGN 20 mln for lending to companies in the private and municipal sector and preexported lending. As of December 31, 2008 the loan has not been utilized.

	As of 31.12.2008	As of 31.12.2007
Credit lines from banks		
In Bulgarian Levs	18,550	20,298
In EURO	60,404	55,455
TOTAL	78,954	75,753

Analysis by utilization

Facilities	Currency	As of 31.12.2008	As of 31.12.2007
Energy efficiency			
Retail (Residential energy efficiency)	BGN	7,020	2,186
Corporate/municipalities	EUR	32,228	28,528
		39,248	30,714
Rural Finance	EUR	16,660	9,779
SME finance	BGN	11,530	18,112
	EUR	11,516	17,148
		23,046	35,260
TOTAL		78,954	75,753

16. DEBT SECURITIES IN ISSUE

	Currency	Date of issue	Date of maturity	Face value in thousands original currency	Interest type	Annual interest rate	Reported value at December 31, 2008
Mortgage bond	BGN	12.07.04	12.07.09	40,000	Fixed	6.62%	41,215
TOTAL							41,215

Mortgage bonds are collateralized with loans amounting to BGN 47,644 thousand and BGN 49,733 thousand as of December 31, 2008 and 2007, respectively (see note 6).

The one issue denominated in Bulgarian levs is traded on the Bulgarian Stock Exchange Sofia.

All amounts are in thousand Bulgarian Levs, except otherwise stated

17. DEFERRED INCOME TAX ASSETS AND LIABILITIES

The amounts of deferred tax assets and liabilities in the balance sheet in respect of each type of temporary differences are as follows:

	As of 31.12.2008	As of 31.12.2007
Deferred tax assets:		
Other liabilities – unused paid leave	62	34
Investment securities - available for sale	-	58
Retirement benefit obligations	396	343
Fixed assets – tax depreciation until 2000	-	65
Total deferred tax assets	458	500
Deferred tax liabilities:		
Investment securities - available for sale	716	87
Fixed assets depreciation	2,243	2,317
Total deferred tax liabilities	2,959	2,404
NET DEFERRED TAX LIABILITY	2,501	1,904
Aggregate deferred tax liability relating to items credited to revaluation reserves in equity:		
Opening	29	87
Change in the fair value of available for sale investments	702	(58)
Transfer to the income statement	(15)	-
Closing	716	29

18. SUBORDINATED LIABILITIES

Subordinated loans	Carrying amount 2008	Carrying amount 2007	Fair value 2008	Fair value 2007
In EUR	257,118	256,984	257,118	256,984
TOTAL	257,118	256,984	257,118	256,984

In October and November 2007 UBB signed two Subordinated Loan Agreements with its parent National Bank of Greece S.A. amounting to a total of EUR 130 million. The subordinated debt is used as supplementary capital reserves to meet the requirements of the Bulgarian National Bank regulations on capital adequacy. The repayment of the subordinated loans is not guaranteed by the Bank in any form. The original maturity of the subordinated loans is 10 years. As of December 31, 2008 the loans have been fully disbursed.

All amounts are in thousand Bulgarian Levs, except otherwise stated

19. RETIREMENT BENEFIT OBLIGATIONS

	As of 31.12.2008	As of 31.12.07
Present value of unfunded obligations	5,737	5,045
Unrecognized actuarial gains / (losses)	(1,779)	(1,611)
Pension schemes	3,958	3,434

COMPONENT OF PROFIT AND LOSS CHARGE	As of 31.12.2008	As of 31.12.2007
Current service cost	(242)	(198)
Interest cost on obligation	(277)	(190)
Amortization of unrecognized net gain/(loss)	(101)	(65)
Gains/(losses) on curtailments / settlements	(21)	-
Pension costs - defined benefit plans	(641)	(453)

The principal actuarial assumptions used were as follows:

	As of 31.12.2008	As of 31.12.2007
Discount rate	6.50%	5.50%
Rate of compensation increase	5.50%	5.50%
Average future working life	10.52	10.94

Movements in net Liability in Balance Sheet is as follows:

	As of 31.12.2008	As of 31.12.07
At beginning of period	3,434	3,043
Benefits paid directly	(117)	(62)
Total expenses recognised in the Income Statement	641	453
Net Liability in the Balance Sheet	3,958	3,434

The defined benefit obligations above are linked only to obligation of the Bank to provide one-off lump sum payment at retirement, determined as a certain number of gross salaries, based on criteria for the duration of the employment contract of respective employees, as per local legislation.

20. OTHER LIABILITIES

	As of 31.12.2008	As of 31.12.2007
Creditors and suppliers	2,346	1,679
Payroll related accruals	975	318
Taxes payable - other than income taxes	1,304	244
Dividend payable	15	37
Amounts due to government agencies	1,216	71
Other	16	7
TOTAL	5,872	2,356

All amounts are in thousand Bulgarian Levs, except otherwise stated

21. SHARE CAPITAL

The total authorized number of ordinary shares at December 31, 2008 and 2007 was 75,964,082 shares with a par value of BGN 1 per share. All issued shares are fully paid, ranked equally and have one voting right each.

22. EARNINGS PER SHARE

	As of 31.12.2008	As of 31.12.2007
Net profit for the year	195,343	185,111
Weighted average number of ordinary shares outstanding	75,964,082	75,964,082
EARNINGS PER SHARE	2,57	2,44

23. RETAINED EARNINGS

	As of 31.12.2008	As of 31.12.2007
Accummulated prior years' earnings at beginning of period	672,142	487,031
Net profit for the period	195,343	185,111
TOTAL	867,485	672,142

Components of retained earnings are:

	As of 31.12.2008	As of 31.12.2007
General reserves	658,102	471,895
Net profit for the period	195,343	185,111
Other/Undistributed earnings	14,040	15,136
TOTAL	867,485	672,142

24. REVALUATION RESERVE

	As of 31.12.2008	As of 31.12.2007
Revaluation reserve - AFS investments	(5,790)	1,365
TOTAL	(5,790)	1,365

The movements in revaluation reserves are as follows:

	As of 31.12.2008	As of 31.12.2007
Revaluation reserve - AFS investments		
At the beginning of the period	1,365	782
Net gains/(losses) transferred to net profit	(150)	
Changes in fair value of AFS investmets	(7,020)	583
Defferred tax	15	-
At December, 31	(5,790)	1,365

All amounts are in thousand Bulgarian Levs, except otherwise stated

25. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As of December 31, 2008 there were several outstanding legal proceedings against the Bank. Management believes that no provision should be made as professional advice indicates that it is unlikely that any material loss will eventuate.

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

	As of 31.12.2008	As of 31.12.2007
Undrawn credit commitments	323,940	429,138
Guarantees, documentary and commercial letters of credit	309,424	287,511
TOTAL	633,364	716,649

Operating lease commitments. Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases of buildings are as follows:

	As of 31.12.2008	As of 31.12.2007
Up to 1 year	19,465	1,619
More than 1 year and less than 5 years	66,832	26,928
More than 5 years	16,857	10,544
TOTAL	103,154	39,091

26. CASH AND CASH EQUIVALENTS

	Year ended 31.12.2008	Year ended 31.12.2007
Cash and money in transfer	230,553	197,400
Current account with the Central Bank	88,675	18,910
Mandatory reserve with the Central Bank	293,375	479,178
Loans and advances to banks	23,964	176,364
	636,567	871,852

27. NET INTEREST INCOME

	Year ended 31.12.2008	Year ended 31.12.2007
Interest and similar income		
Loans and advances to banks	1,388	3,828
Loans and advances to customers		
Loans and advances to financial institutions	1,264	751
Loans and advances to individuals	288,251	193,848
Loans and advances to enterprises	289,026	171,021
Financial assets at fair value through profit or loss	8,979	12,196
Investment securities - available for sale	3,918	-
	592,826	381,644
Interest expenses and similar charges		
Due to banks	(114,787)	(21,056)
Deposits of customers		
Deposits of financial institutions	(8,742)	(6,708)
Deposits of individuals	(61,310)	(40,093)
Deposits of enterprises	(32,939)	(19,416)
Long term borrowings	(4,391)	(3,687)
Debt securities in issue	(8,473)	(11,434)
Subordinated liabilities	(13,939)	(2,726)
	(244,581)	(105,120)
NET INTEREST MARGIN	348,245	276,524

All amounts are in thousand Bulgarian Levs, except otherwise stated

28. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2008	Year ended 31.12.2007
A. Fee and commission income		
Transfer of funds and cash transactions	25,067	22,017
Deposits accounts fees and commissions	22,347	20,892
Credit and debit cards related fees and commissions	33,611	23,619
Loans and advances to customers	16,506	14,418
Guarantees and letters of credit	3,070	2,747
Other fees and commissions	7,342	5,727
	107,943	89,420
B. Fee and commission expenses		
Credit and debit cards related fees and commissions	(4,941)	(2,343)
Transfer of funds	(3,294)	(1,603)
Other fees and commissions	(794)	(714)
	(9,029)	(4,660)
FEE AND COMMISSION INCOME, NET	98,914	84,760

29. NET TRADING INCOME

	Year ended 31.12.2008	Year ended 31.12.2007
Gains/(losses) on Foreign exchange		
- Foreign exchange contracts	13,378	16,208
- Options	-	(59)
- Position in foreign assets/liabilities	(5,734)	(5,294)
	7,644	10,855
Gains/(losses) on Interest rate instruments		
- Government securities	(21)	(494)
- Corporate debt securities	(196)	116
-Mutual Funds	(1,313)	
	(1,530)	(378)
(Losses) on Index options	(299)	(240)
Gains on Equities	151	150
NET TRADING INCOME	5,966	10,387

30. NET OTHER OPERATING INCOME

	Year ended 31.12.2008	Year ended 31.12.2007
Gains on disposal of fixed assets, net	4,278	4,412
Rental income	319	175
Other	858	1,308
	5,455	5,895

All amounts are in thousand Bulgarian Levs, except otherwise stated

31. NET ALLOWANCES FOR IMPAIRMENT AND UNCOLLECTABILITY

The net charge of allowances for the year ended December 31, 2008 and 2007 is as follows:

	Year ended 31.12.2008	Year ended 31.12.2007
Loans and advances to customers	(74,896)	(44,916)
Recoveries of written off debts	14,466	15,576
TOTAL	(60,430)	(29,340)

32. GENERAL ADMINISTRATIVE EXPENSES

	Year ended 31.12.2008	Year ended 31.12.2007
Personnel costs	58,713	42,210
Duties and Taxes	13,940	10,068
Telecommunications	5,049	3,952
Rentals	16,036	9,312
Insurance costs	5,484	4,720
Occupancy expenses	15,329	11,093
Third party remuneration and fees	17,491	8,533
Traveling expenses	1,626	1,349
Promotion and advertisement	9,669	10,685
Subscriptions - Contributions	164	116
Stationary - other consumables	4,265	3,695
Other (Audit, consulting, legal fees etc.)*	2,132	7,077
Depreciation/Amortization expenses	19,453	18,569
Deposit Insurance Premium	13,712	11,111
TOTAL	183,063	142,490

Personnel costs consists of:	Year ended 31.12.2008	Year ended 31.12.2007
Wages and Salaries	41,474	28,246
Social security costs	8,011	5,856
Bonuses and other compensation expenses	6,847	5,847
Other staff costs	983	1,308
Pension costs - defined contribution plans	757	500
Pension costs - defined benefit plans	641	453
-Current service cost	242	198
-Interest cost	277	190
-Net actuarial (gains) losses recognized in period	101	65
-Losses (gains) on curtailment	21	-
TOTAL	58,713	42,210

In 2008 expense concerning audit services provided bythe Auditors are as follows: audit of annual financial statement with amount of 246 thousand BGN, other services, concerning the audit with amount of 84 thousand BGN and other services not concerning the audit with amount 9 thousand BGN.

All amounts are in thousand Bulgarian Levs, except otherwise stated

33. TAXATION

	Year ended 31.12.08	Year ended 31.12.07
Current tax expense	21,160	20,840
Deferred tax expense related to origination and reversal of temporary differences	612	(202)
TOTAL TAX EXPENSE	21,772	20,638

The relationship between tax expense and accounting profit is as follows:

	Year ended 31.12.08	Year ended 31.12.07
Profit before tax	217,115	205,749
Prima facie tax calculated at an applicable tax rate (10% for 2007 and 2008)	21,712	20,575
Tax effect of expenses that are not deductible in determining the taxable profit	60	50
Transfer from temporary differencies to permanent	-	13
TOTAL TAX EXPENSE	21,772	20,638

Current income tax expense represents the amount of tax to be paid under Bulgarian law at statutory tax rates. Deferred tax income or expense result from the change of carrying amounts of deferred tax assets and deferred tax liabilities. Deferred tax assets and liabilities as of December 31, 2008 and as of December 31, 2007 are calculated using the tax rate of 10%, enacted as of that date to be effective for 2009 and 2008.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at fixed rates and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins through lending to commercial and retail borrowers. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

Financial instruments may result in certain risks to the Bank. The most significant risks facing the Bank include:

Credit risk

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The Bank quantifies counterpart risk using internal ratings on the basis of set of qualitative and quantitive criteria. The internal rating of the borrower serves as a basis for calculating anticipated risk. Effective from 2005, the Bank has also used the information supplied by the Central Loan Register operated by the Central Bank and for which banks are required to provide relevant information. In arriving at the scoring of retail clients, the Bank generally uses quantitative criteria as well as information supplied by the Central Loan Register.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

A major innovation of Basel II is that it allows banks to calculate their regulatory capital requirements using the output of their internal rating systems, subject to supervisory approval. In view of the latter, a working group has been put together within the Risk Management Department, which will be charged with the development of internal rating and other models under Basel II. The Bank projects the new models to be introduced in 2008 and 2009, and – validated by Central Bank later on.

Detailed procedures are applied in the process of lending, concerning analysis of the economic justifiability of each project, types of collateral acceptable to the Bank, control over the use of extended funds and the administering related to that activity. Depending on their amount, the loans are approved by the credit centers, the Credit Committee, the Executive Credit Committee or the Board of Directors, according to their levels of authority.

The Bank monitors credit risk concentration on an aggregate basis (i.e., in respect of all on and off balance sheet positions). The Bank specifically monitors credit risk concentrations by industry sectors and by groups of related entities. With regard to groups of related entities, the Bank monitors the proportion of credit exposures of the groups to the Bank's capital.

The Bank performs classification for risk purposes of loan receivables and other receivables arising from its financial activities according to local banking regulations. This classification is reviewed and updated on a monthly basis.

Exposure to credit risk is also managed partly by obtaining collateral and corporate and personal guarantees. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

The exposure to RISK is restricted by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, as well as country limits. The exposure is further restricted by sub-limits covering money market and foreign currency exposures. Actual exposures against limits are monitored on a monthly basis.

Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest and currency rates, all of which are exposed to general and specific market movements. The Bank applies the 'value at risk' methodology ('VaR') to estimate the risk of open currency positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. VaR is a statistically based estimate of the potential loss on the current exposures from adverse market movements. It expresses the "maximum" amount the bank might lose, but only to a certain level of confidence (99%). There is therefore a specific statistical probability (1%) that the actual loss could be greater than the VaR estimates. The VaR model assumes a certain "holding" period until a position can be closed. As the positions of the Bank are small enough in order to be closed within the day, the Bank calculates daily VaR. It also assumes that market movements occurring over this holding period will follow a similar pattern to those that have occurred in the last 75 days. The validity of these assumptions is monitored by comparing daily VaR estimates to the synthetic profit and loss.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Market risk (continued)

The use of VaR estimates does not prevent losses outside these limits in the event of significant market movements.

The Bank manages interest rate risk of all traded debt securities by assessing the effect of a parallel shift of the yield curves by 150 b.p. on the economic value of the securities portfolio. The method assumes the nearest reprising date as proxy for the modified duration of each security.

The Asset and Liabilities Committee (ALCO) establishes limits as the Bank's maximum exposure to any component of market risk that may be accepted.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions. In addition to monitoring limits, the Bank uses the 'value at risk' concept for measuring its open positions taken in respect of all currency instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages its interest rate risk through monitoring the repricing dates of the Bank's assets and liabilities and developing models showing the potential impact that changes in interest rates may have on the Bank's net interest income. The Bank manages the interest rate risk and limits it within acceptable levels by maintaining adequate structure of interest sensitive assets and liabilities and minimizing the gaps between them. Interest risk is also monitored separately for any of the main currencies in which the Bank operates. Interest rate risk measurement is based on gap analysis defined by standard time intervals, taking into account the history trends and stress-tests. The Bank sets a limit for the maximum amount of total exposure to this kind of risk.

Liquidity risk

Liquidity risk means a risk of possible loss of the Bank's ability to fulfil its liabilities when they become due.

The Bank maintains its solvency, i.e. the ability to meet its financial liabilities in a proper manner and in time and manages its assets and liabilities so as to ensure continuous liquidity. Liquidity management is the responsibility of ALCO and is based on Liquidity risk management policy and procedures.. Regular meetings of ALCO are held on a monthly basis, during which Bank's liquidity is evaluated and, subsequently, decisions are taken based on the current state of affairs.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and in the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

All amounts are in thousand Bulgarian Levs, except otherwise stated

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Banks's liquidity position is monitored and managed based on expected cash inflows and outflows and adjusting interbank deposits and placements accordingly.

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS

Loans and advances are summarised as follows:

	As of 31.12.2008		As of 31.12.2007	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	5,744,301	23,964	4,411,890	176,364
Past due but not impaired	938,826	-	492,831	-
Past due up to 30 days	740,443	-	407,860	-
Past due 30-60 days	122,232	-	71,190	-
Past due 60-90 days	76,151	-	13,781	-
Impaired	170,736	-	81,664	-
GROSS LOANS	6,853,863	23,964	4,986,385	176,364
Less: allowance for impairement	(122,584)	-	(69,977)	-
NET LOANS	6,731,279	23,644	4,916,408	176,364

Loans past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that are past due but not impaired were as follows:

	As of 31.12.2008			As of 31.12.2007		
	Past due up 30 days	Past due 30-60 days	Past due 60-90 days	Past due up 30 days	Past due 30-60 days	Past due 60-90 days
Individuals (retail customers)						
Overdrafts	621	73	197	531	129	69
Credit cards	20,193	4,471	3,925	9,087	4,577	1,885
Consumer loans	133,119	38,847	15,569	22,496	6,031	1,897
Mortgages	119,156	37,785	16,535	93,350	17,407	3,772
	273,089	81,176	36,226	125,464	28,144	7,623
Corporate loans						
Large customers	209,611	13,362	32,675	119,066	21,716	5,744
SMEs	250,367	26,262	6,332	154,181	20,548	170
Micro	7,376	1,432	918	9,149	781	244
	467,354	41,056	39,925	282,396	43,045	6,158
TOTAL	740,443	122,232	76,151	407,860	71,190	13,781

All amounts are in thousand Bulgarian Levs, except otherwise stated

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS (CONTINUED)

Loans and advances to customers that are neither past due nor impaired - past due loans include all balances to payments overdue by one day or more as of December 31, 2008 and 2007:

As of 31.12.2008	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	247,529	1,162,422	1,139,291	1,538,660	1,671,423	5,759,325	23,964
Past due but not impaired	30,820	254,287	174,674	312,904	263,028	1,035,713	-
Individually impaired	-	-	37,265	20,169	1,391	58,825	-
TOTAL Gross	278,349	1,416,709	1,351,230	1,871,733	1,935,842	6,853,863	23,964
Less: allowance for individually impaired loans	-	-	(4,625)	(11,156)	(2,283)	(18,064)	-
Less: allowance for collectively impaired loans	(21,060)	(62,221)	(4,498)	(13,698)	(3,043)	(104,520)	-
TOTAL Allowance for impairment	(21,060)	(62,221)	(9,123)	(24,854)	(5,326)	(122,584)	-
TOTAL NET LOANS	257,289	1,354,488	1,342,107	1,846,879	1,930,516	6,731,279	23,964

As of 31.12.2007	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	172,934	929,470	912,867	980,725	1,315,781	4,311,777	176,364
Past due but not impaired	16,287	134,633	114,617	186,015	151,603	603,155	-
Individually impaired	-	31,319	12,291	22,515	5,327	71,452	-
TOTAL Gross	189,221	1, 095 ,422	1, 039,775	1,189,255	1,472,711	4,986,384	176,364
Less: allowance for individually impaired loans	-	(30,979)	(3,621)	(2,433)	(240)	(37,273)	-
Less: allowance for collectively impaired loans	(6,152)	(6,542)	(3,658)	(15,366)	(985)	(32,703)	-
TOTAL Allowance for impairment	(6,152)	(37,521)	(7,279)	(17,799)	(1,225)	(69,976)	-
TOTAL NET LOANS	183,069	1,057,901	1,032,496	1,171, 456	1,471,486	4,916,408	176,364

Loans neither past due nor individually impaired according to their credit quality as of December 31, 2008 and 2007:

Rating As of 31.12.2008	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Satisfactory risk	222,492	1,160,518	1,137,251	1,532,802	1,631,991	5,685,054	23,964
Watch list	25,037	1,571	1,747	4,245	39,432	72,032	-
Substandard	-	333	293	1,613	-	2,239	-
TOTAL	247,529	1,162,422	1,139,291	1,538,660	1,671,423	5,759,325	23,964

All amounts are in thousand Bulgarian Levs, except otherwise stated

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS (CONTINUED)

Rating As of 31.12.2007	Loans and advances to customers Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Satisfactory risk	162,723	928,734	911,916	978,159	1,314,181	4,295,713	176,364
Watch list	10,211	550	843	2,393	1,600	15,597	-
Substandard	-	186	108	173	-	467	-
TOTAL	172,934	929,470	912,867	980,725	1,315,781	4,311,777	176,364

Ageing analysis of loans past due but not individually impaired as of December 31, 2008 and 2007:

Time band As of 31.12.2008	Loans and advances to customers Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	22,122	137,038	125,157	264,452	184,571	733,340
Past due 31-60 days	4,608	36,198	34,352	21,772	38,061	134,991
Past due 61-90 days	4,090	13,938	14,408	7,116	16,578	56,130
Past due 91-180 days	-	525	757	1,982	21,102	24,366
Past due 180 days- 365 days	-	4		17,582	2,716	20,302
Past due 1-2 years	-	3				3
Past due over 2 years	-	66,581				66,581
TOTAL	30,820	254,287	174,674	312,904	263,028	1,035,713

Time band As of 31.12.2007	Loans and advances to customers Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	9,255	103,869	96,117	164,008	129,660	502,909
Past due 31-60 days	4,694	21,998	14,996	21,494	21,943	85,125
Past due 61-90 days	2,338	8,766	3,504	513	-	15,121
TOTAL	16,287	134,633	114,617	186,015	151,603	603,155

Loans and advances to customers that are neither past due nor impaired - past due loans include all balances relating to overdue payments excluding those that satisfy the following conditions:

- payments are overdue by less than 30 days;
- and the amount that is overdue is less than BGN 100 for Credit Cards and Consumer loans, BGN 200 for Mortgages and BGN 1,000 for Corporate loans.

All amounts are in thousand Bulgarian Levs, except otherwise stated

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS (CONTINUED)

As of 31.12.2008	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	247,529	1,227,516	1,174,838	1,539,672	1,672,828	5,862,383	23,964
Past due but not impaired	30,820	189,193	139,127	311,892	261,623	932,655	-
Individually impaired	-		37,265	20,169	1,391	58,825	-
TOTAL Gross	278,349	1,416,709	1,351,230	1,871,733	1,935,842	6,853,863	23,964
Less: allowance for individually impaired loans	-	-	(4,625)	(11,156)	(2,283)	(18,064)	-
Less: allowance for collectively impaired loans	(21,060)	(62,221)	(4,498)	(13,698)	(3,043)	(104,520)	-
TOTAL Allowance for impairment	(21,060)	(62,221)	(9,123)	(24,854)	(5,326)	(122,584)	-
TOTAL NET LOANS	257,289	1,354,488	1,342,107	1,846,879	1,930,516	6,731,279	23,964

As of 31.12.2007	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	172,934	985,544	948,734	981,285	1,315,781	4,404,278	176,364
Past due but not impaired	16,287	78,559	78,750	185,455	151,603	510,654	-
Individually impaired	-	31,319	12,291	22,515	5,327	71,452	-
TOTAL Gross	189,221	1,095,422	1,039,775	1,189,255	1,472,711	4,986,384	176,364
Less: allowance for individually impaired loans	-	(30,979)	(3,621)	(2,433)	(240)	(37,273)	-
Less: allowance for collectively impaired loans	(6,152)	(6,542)	(3,658)	(15,366)	(985)	(32,703)	-
TOTAL Allowance for impairment	(6,152)	(37,521)	(7,279)	(17,799)	(1,225)	(69,976)	-
TOTAL NET LOANS	183,069	1,057,901	1,032,496	1,171,456	1,471,486	4,916,408	176,364

Loans neither past due nor individually impaired disclosed according to their credit quality

Rating As of 31.12.2008	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Satisfactory risk	222,492	1,224,518	1,172,046	1,533,078	1,633,396	5,785,530	23,964
Watch list	25,037	2,465	2,321	4,750	39,432	74,005	
Substandard	-	533	471	1,844		2,848	
TOTAL	247,529	1,227,516	1,174,838	1,539,672	1,672,828	5,862,383	23,964

All amounts are in thousand Bulgarian Levs, except otherwise stated

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS (CONTINUED)

Rating As of 31.12.2007	Loans and advances to customers						Due from banks
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	
Satisfactory risk	162,723	984,440	947,504	978,289	1,314,181	4,387,137	176,364
Watch list	10,211	785	1,031	2,640	1,600	16,267	-
Substandard	-	319	199	356	-	874	-
TOTAL	172,934	985,544	948,734	981,285	1,315,781	4,404,278	176,364

Ageing analysis of loans past due but not individually impaired

Time band As of 31.12.2008	Loans and advances to customers						Due from banks
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	
Past due up to 30 days	22,122	71,944	89,610	264,452	184,571	632,699	-
Past due 31-60 days	4,608	36,198	34,352	21,015	38,061	134,234	-
Past due 61-90 days	4,090	13,938	14,408	6,898	15,172	54,506	-
Past due 91-180 days	-	525	757	1,946	21,102	24,330	-
Past due 180 days- 365 days	-	4	-	17,582	2,716	20,302	-
Past due 1-2 years	-	3	-	-	-	3	-
Past due over 2 years	-	66,581	-	-	-	66,581	-
TOTAL	30,820	189,193	139,127	311,893	261,622	932,655	-

Time band As of 31.12.2007	Loans and advances to customers						Due from banks
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	
Past due up to 30 days	9,255	47,795	60,250	164,008	129,660	410,968	-
Past due 31-60 days	4,694	21,998	14,996	21,088	21,943	84,719	-
Past due 61-90 days	1,086	8,346	3,504	101	-	13,037	-
Past due 91-180 days	1,252	387	-	258	-	1,897	-
Past due 180 days- 365 days	-	6	-	-	-	6	-
Past due 1-2 years	-	27	-	-	-	27	-
TOTAL	16,287	78,559	78,750	185,455	151,603	510,654	-

Maximum exposures to credit risk before collateral and other credit enhancements

	31.12.2008	31.12.2007
Assets	Total	Total
Loans and advances to banks	23,964	176,364
Financial assets at fair through P/L	106,473	222,162
Derivative financial instruments	5,475	613
Loans and advances to customers, net	6,731,279	4,916,408
Investment securities available for sale	105,827	-
Other assets	904	904
Financial guarantees	270,438	171,591
Standby letters of credit	31,949	39,169
Commitments to extend credit	323,940	429,137
Maximum exposures to credit risk	7,600,249	5,956,348

35. LOANS AND ADVANCES – CREDIT RISK ANALYSIS (CONTINUED)

Collateral held against loans and advances not impaired

In thousands of BGN	As of 31.12.2008	As of 31.12.2007
Loans and advances not past due		
Mortgage	6,894,433	5,567,350
Cash collateral	72,476	21,345
Securities	33	17,198
Other types of collateral	2,961,918	2,891,341
	9,928,860	8,497,234
Loans and advances past due		
Mortgage	1,600,601	660,742
Cash collateral	6,132	1,998
Securities	-	8,042
Other types of collateral	713,455	560,781
	2,320,188	1,231,563
Total	12,249,048	9,728,797

Collateral held against impaired loans and advances:

In thousands of BGN	As of 31.12.2008	As of 31.12.2007
Mortgage	75,189	90,055
Cash collateral	850	660
Other types of collateral	94,300	61,363
Total	170,339	152,078

36. LOANS AND ADVANCES – INDUSTRY ANALYSIS

Industry Concentration risk- Loans and advances to customers

	As of 31.12.2008		As of 31.12.2007	
Industry and mining	549,344	8%	370,605	7%
Small scale industry	612,570	9%	496,684	10%
Trade and services (excl. tourism)	917,691	13%	688,877	13%
Construction and real estate development	912,323	13%	551,747	11%
Energy	57,157	1%	31,668	1%
Tourism	183,033	3%	169,875	3%
Transportation and telecommunications	162,300	2%	176,287	4%
Professionals	38,129	1%	27,780	1%
Government	384	0%	728	0%
Property brokerage	7,049	0%	97,707	2%
Leasing companies	209,497	3%	27,749	1%
Financial institutions	25,635	0%	6,337	0%
Other	132,463	2%	15,924	0%
To individuals	3,046,288	45%	2,324,417	47%
Total loans and advances, gross	6,853,863	100%	4,986,385	100%
Less: allowance for impairment	(122,584)		(69,977)	
Loans and advances to customers, net	6,731,279		4,916,408	

37. CURRENCY ANALYSIS

The table below summarizes the exposure to foreign currency exchange rate risk as of December 31, 2008 and 2007. Included in the table are the Bank's assets and liabilities at carrying amounts in thousand Bulgarian Levs, categorized by currency.

As of December 31, 2008	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	353,528	13,239	239,013	6,823	612,603
Loans and advances to banks	10,026	3,207	8,640	2,091	23,964
Loans and advances to customers, net	3,230,744	50,819	3,449,715	1	6,731,279
Financial assets at fair through profit or loss	16,292	18,892	71,293	-	106,477
Derivative financial instruments	34	21	5,420	-	5,475
Investment securities available for sale	59,857	38,859	14,113	-	112,829
Investments in subsidiaries and associates	-	-	7,719	-	7,719
Intangible assets	-	-	16,877	-	16,877
Fixed assets	-	-	95,914	-	95,914
Current income tax refundable	-	-	1,764	-	1,764
Deferred income tax assets	-	-	458	-	458
Other assets	-	-	17,129	-	17,129
TOTAL ASSETS	3,670,481	125,037	3,928,055	8,915	7,732,488
LIABILITIES					
Due to banks	2,201,541	13,814	169,964	111	2,385,430
Due to customers	1,700,639	303,026	1,973,191	33,065	4,009,921
Derivative financial instruments	11	-	-	9,391	9,402
Long term borrowings	60,404	-	18,550	-	78,954
Debt securities in issue	-	-	41,215	-	41,215
Subordinated liabilities	257,118	-	-	-	257,118
Current income tax liabilities	-	-	-	-	-
Deferred income tax liabilities	-	-	2,959	-	2,959
Retirement benefit obligations	-	-	3,958	-	3,958
Other liabilities		-	5,872	-	5,872
TOTAL LIABILITIES	4,219,713	316,840	2,215,709	42,567	6,794,829
TOTAL EQUITY	-	-	937,659	-	937,659
NET BALANCE SHEET POSITION	(549,232)	(191,803)	774,687	(33,652)	-
NET OFF-BALANCE SHEET POSITION	(222,434)	(194,000)	(54)	(24,568)	(3,920)
CONTINGENT LIABILITIES AND COMMITMENTS	314,744	11,646	306,974	-	633,364

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. CURRENCY ANALYSIS (CONTINUED)

As of December 31, 2007	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	514,977	10,082	164,094	6,335	695,488
Loans and advances to banks	121,892	7,627	37,668	9,177	176,364
Loans and advances to customers, net	2,195,623	12,665	2,708,119	1	4,916,408
Financial assets at fair through profit or loss	82,858	61,269	84,014	-	228,141
Derivative financial instruments	285	155	173	-	613
Investment securities available for sale	129	1,285	1,138	-	2,552
Investments in subsidiaries and associates	-	-	7,599	-	7,599
Intangible assets	-	-	8,745	-	8,745
Fixed assets	-	-	86,499	-	86,499
Deferred income tax assets	-	-	500	-	500
Other assets	45	10	6,622	-	6,677
TOTAL ASSETS	2,915,809	93,093	3,105,171	15,513	6,129,586
LIABILITIES					
Due to banks	1,005,836	21,336	264,568	287	1,292,027
Due to customers	1,355,107	261,867	1,766,702	37,975	3,421,651
Derivative financial instruments	100	192	2,247	-	2,539
Long term borrowings	55,455	-	20,298	-	75,753
Debt securities in issue	196,735	-	122,459	-	319,194
Subordinated liabilities	256,984	-	-	-	256,984
Current income tax liabilities			3,773		3,773
Deferred income tax liabilities	-	-	2,404	-	2,404
Retirement benefit obligations	-	-	3,434	-	3,434
Other liabilities	-	44	2,312	-	2,356
TOTAL LIABILITIES	2,870,217	283,439	2,188,197	38,262	5,380,115
TOTAL EQUITY	-	-	749,471	-	749,471
NET BALANCE SHEET POSITION	45,592	(190,346)	167,503	(22,749)	
NET OFF-BALANCE SHEET POSITION	(72,162)	190,210	(143,796)	(22,749)	(48,497)
CONTINGENT LIABILITIES AND COMMITMENTS	159,885	2,910	553,871		716,666

38. MATURITY ANALYSIS

a) Liquidity analysis

The table below analyzes assets and liabilities of the Bank into relevant maturity groupings, based on the remaining period as of the balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. MATURITY ANALYSIS (CONTINUED)

	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
As of December 31, 2008						
ASSETS						
Cash and balances with Central Bank	612,603	-	-	-	-	612,603
Loans and advances to banks	23,964	-	-	-	-	23,964
Loans and advances to customers, net	1,630,481	547,580	1,057,199	1,914,286	1,581,733	6,731,279
Financial assets at fair through profit or loss	4	-	5,594	35,231	65,648	106,477
Derivative financial instruments	5,475	-	-	-	-	5,475
Investment securities available for sale	-	-	-	-	112,829	112,829
Investments in subsidiaries and associates	-	-	-	-	7,719	7,719
Intangible assets	-	-	-	-	16,877	16,877
Fixed assets	-	-	-	-	95,914	95,914
Deferred income tax assets	-	-	-	-	458	458
Other assets	-	-	-	-	18,893	18,893
TOTAL ASSETS	2,272,527	547,580	1,062,793	1,949,517	1,898,307	7,730,724
LIABILITIES						
Due to banks	2,385,430	--	--	--	--	2,385,430
Due to customers	2,167,796	631,392	915,919	294,814	--	4,009,921
Derivative financial instruments	9,402	--	--	--	--	9,402
Bank borrowings	14,229	-3,809	15,043	45,873	--	78,954
Debt securities in issue	-	--	41,215	-	--	41,215
Subordinated liabilities	-	--	--	--	257,118	257,118
Current income tax liabilities	--	--	--	--	-	-
Deferred income tax liabilities	--	--	--	--	2,959	2,959
Retirement benefit obligations	--	--	--	--	3,958	3,958
Other liabilities	--	--	--	--	5,872	5,872
TOTAL LIABILITIES	4,576,857	635,201	972,177	340,687	269,907	6,794,829
NET LIQUIDITY GAP	(2,304,330)	(87,621)	90,616	1,608,830	1,628,400	935,895
CUMULATIVE	(2,304,330)	(2,391,951)	(2,301,335)	(692,505)	935,895	--

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. MATURITY ANALYSIS (CONTINUED)

	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
As of December 31, 2007						
ASSETS						
Cash and balances with Central Bank	695,488	-	-	-	-	695,488
Loans and advances to banks	176,364	-	-	-	-	176,364
Loans and advances to customers, net	937,414	215,524	630,937	2,154,281	978,252	4,916,408
Financial assets at fair through profit or loss	9,880	3,611	15,994	115,031	83,625	228,141
Derivative financial instruments	613	-	-	-	-	613
Investment securities available for sale	-	-	-	-	2,552	2,552
Investments in subsidiaries and associates	-	-	-	-	7,599	7,599
Intangible assets	-	-	-	-	8,745	8,745
Fixed assets	-	-	-	-	86,499	86,499
Deferred income tax assets	-	-	-	-	500	500
Other assets	-	-	-	-	6,677	6,677
TOTAL ASSETS	1,819,759	219,135	646,931	2,269,312	1,174,449	6,129,586
LIABILITIES						
Due to banks	1,292,027	-	-	-	-	1,292,027
Due to customers	2,847,954	252,452	248,518	72,727	-	3,421,651
Derivative financial instruments	2,539	-	-	-	-	2,539
Bank borrowings	484	-	43,405	31,864	-	75,753
Debt securities in issue	2,554	-	276,640	40,000	-	319,194
Subordinated liabilities	2,726	-	-	-	254,258	256,984
Current income tax liabilities	-	-	-	-	3,773	3,773
Deferred income tax liabilities	-	-	-	-	2,404	2,404
Retirement benefit obligations	-	-	-	-	3,434	3,434
Other liabilities	-	-	-	-	2,356	2,356
TOTAL LIABILITIES	4,148,284	252,452	568,563	144,591	266,225	5,380,115
NET LIQUIDITY GAP	(2,328,525)	(33,317)	78,368	2,124,721	908,224	749,471
CUMULATIVE	(2,328,525)	(2,361,842)	(2,283,474)	(158,753)	749,471	-

Management believes that the diversification of deposits by number and type of depositors, and the past experience of the Bank give a basis to believe that deposits provide a long-term and stable source of funding for the Bank.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. MATURITY ANALYSIS (continued)

A maturity analysis for financial liabilities that shows the contractual maturities including into amounts the interest due to the end of the contracts.

As of 31 December 2008	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
Due to banks	2,651,255	-	-	-	-	2,651,255
Due to customers	3,057,291	510,035	556,189	10,163	-	4,133,678
Long term borrowings	-	-	77,776	-	-	77,776
Debt securities in issue	-	-	41,370	-	-	41,370
Subordinated liabilities	3,880	1,245	5,803	30,812	294,374	336,114
Current income tax liabilities	-	-	-	-	7,599	7,599
Deferred income tax liabilities	-	-	-	-	8,745	8,745
Retirement benefit obligations	-	-	-	-	86,499	86,499
Other liabilities	-	-	-	-	500	500
TOTAL LIABILITIES (contructual maturity dates)	5,712,426	511,280	681,138	40,975	397,717	7,343,536

As of 31 December 2007	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years and non-stated maturity	Total
Due to banks	1,291,208	-	1, 113	-	-	1,292,321
Due to customers	1,999,338	321,233	484, 713	629,441	-	3,434,725
Long term borrowings	484	-	43, 405	31,864	-	75,753
Debt securities in issue	6,605	2,478	286, 941	41,546	-	337,750
Subordinated liabilities	2,726	2,242	23, 538	53,800	254,258	336,564
Current income tax liabilities	-	-	-	-	3,773	3,773
Deferred income tax liabilities	-	-	-	-	2,404	2,404
Retirement benefit obligations	-	-	-	-	3,434	3,434
Other liabilities	-	-	-	-	2,356	2,356
TOTAL LIABILITIES (contructual maturity dates)	3,300,361	325,953	839,710	756,651	266,225	5,488,900

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. MATURITY ANALYSIS (continued)

b) Interest rate risk analysis

As of December 31, 2008	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and balances with Central Bank	-	-	-	-	-	612,603	612,603
Loans and advances to banks	16,047	-	-	-	-	7,917	23,964
Loans and advances to customers, net	6,201,605	87,156	334,733	19,997	17,077	70,711	6,731,279
Financial assets at fair through profit or loss	26,393	44	5,390	35,231	39,415	4	106,477
Investments in subsidiaries and associates	-	-	-	-	-	7,719	7,719
Investment securities available for sale	597	30,011	16,347	30,182	28,689	7,003	112,829
Other assets	-	-	-	-	-	135,853	135,853
TOTAL FINANCIAL ASSETS	6,244,642	117,211	356,470	85,410	85,181	841,810	7,730,724
LIABILITIES							
Due to banks	2,384,882	-	-	-	-	548	2,385,430
Due to customers	2,167,796	631,392	915,919	294,814	-	-	4,009,921
Bank borrowings	14,229	3,809	15,043	45,873	-	-	78,954
Debt securities in issue	-	-	-	41,215	-	-	41,215
Subordinated liabilities	-	2,860	254,258		-	-	257,118
Other liabilities	-	-	-	-	-	22,191	22,191
TOTAL FINANCIAL LIABILITIES	4,566,907	638,061	1,185,220	381,902	-	22,739	6,794,829
NET INTEREST RATE GAP	1,677,735	(520,850)	(828,750)	(296,492)	85,181	819,071	935,895

As of December 31, 2007	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and balances with Central Bank	-	-	-	-	-	695,488	695,488
Loans and advances to banks	176,364	-	-	-	-	-	176,364
Loans and advances to customers, net	4,315,557	61,535	463,291	25,475	20,178	30,372	4,916,408
Financial assets at fair through profit or loss	5,186	30,347	63,784	64,765	58,081	5,978	228,141
Investments in subsidiaries and associates	-	-	-	-	-	2,552	2,552
Investment securities available for sale	-	-	-	-	-	7,599	7,599
Other assets	-	-	-	-	-	6,677	6,677
TOTAL FINANCIAL ASSETS	4,497,107	91,882	527,075	90,240	78,259	748,666	6,033,229
LIABILITIES							
Due to banks	1,292,027	-	-	-	-	-	1,292,027
Due to customers	2,544,049	316,834	474,218	86,550	-	-	3,421,651
Bank borrowings	14,445	-	43,405	17,903	-	-	75,753
Debt securities in issue	-	-	278,045	41,149	-	-	319,194
Subordinated liabilities	118,608	138,376	-	-	-	-	256,984
Other liabilities	-	-	-	-	-	2,356	2,355
TOTAL FINANCIAL LIABILITIES	3,969,129	455,210	795,668	145,602	-	2,356	5,367,964
NET INTEREST RATE GAP	527,978	(363,328)	(268,593)	(55,362)	78,259	746,310	665,264

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. MATURITY ANALYSIS (CONTINUED)

The Bank's interest rate exposures are, amongst other methods monitored and managed using interest rate sensitivity reports, however the monetary assets and liabilities are able to be repriced at relatively short notice and any interest rate sensitivity gaps are considered immaterial.

c) Effective average interest rate by major currency

The table below summarizes the effective interest rates by major currencies for monetary financial instruments.

As of December 31, 2008	EUR %	USD %	BGN %	Other %
ASSETS				
Due from banks	1.35	0.03	3.64	-
Loans and advances to customers	6.23	4.29	10.43	-
Financial assets at fair value through profit and loss	5.48	3.67	5.05	-
LIABILITIES				
Due to banks	6.67	0.66	4.71	-
Due to customers	3.64	2.50	3.59	1.16
Bonds issue	-	-	6.63	-
Subordinated liabilities	5.58	-	-	-

As of December 31, 2007	EUR %	USD %	BGN %	Other %
ASSETS				
Due from banks	-	3.67	2.99	4.01
Loans and advances to customers	7.64	7.26	9.99	-
Financial assets at fair value through profit and loss	7.00	5.84	5.03	-
LIABILITIES				
Due to banks	4.71	3.79	4.81	5.41
Due to customers	2.09	2.41	2.32	1.09
Bonds issue	2.86	-	4.60	-
Subordinated liabilities	5.29	-	-	-

39. RELATED PARTY TRANSACTIONS

The Bank is controlled by National Bank of Greece S.A. which owns 99.99% of the ordinary shares.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by a Board of Directors, representing the major shareholder of the Bank. A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

All amounts are in thousand Bulgarian Levs, except otherwise stated

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Amounts due to and from the NBG Group entities and related income and expenses are as follows:

NATIONAL BANK OF GREECE	As of 31.12.2008	As of 31.12.2007
NOSTRO ACCOUNTS AND LOANS AND ADVANCES TO BANKS	817	572
Interest income earned	-	8
Loans sold	44,463	44,593
LORRO ACCOUNTS AND DEPOSITS FROM BANKS	2,945	5,549
Time deposit with banks	2,179,096	733,553
Subordinated liabilities	257,118	256,984
Interest expense on accounts and deposits	98,938	9,641
Interest expense on Subordinated debt	13,939	2,726

INTERLEASE AD	As of 31.12.2008	As of 31.12.2007
LOANS AND ADVANCES TO CUSTOMERS	3,796	4,107
Interest income earned	237	43
Commission income earned	323	230
DUE TO CUSTOMERS	18,909	2,591
Interest expense on deposits	307	142

ALL OTHERS NBG GROUP ENTITIES	As of 31.12.08	As of 31.12.07
NOSTRO ACCOUNTS AND LOANS AND ADVANCES TO BANKS	134	134
LORRO ACCOUNTS AND DEPOSITS FROM BANKS	178	211
OTHER LIABILITIES	489	911

All amounts are in thousand Bulgarian Levs, except otherwise stated

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Remuneration to Members of Board of Directors during the year consists of short-term employee benefits such as salaries and social security and health security contributions, paid annual leave and paid sick leave and bonuses.

The total amount of remuneration for 2008 is BGN 806 thousand. (2007: BGN 1,097 thousand).

Total amount of deposits and current accounts of members of Board of Directors and their close members of family (domestic partner, children and dependants),is BGN 6,302 thousand and the amount of loans is BGN 238 thousand.

The positions in Income Statement are as follows: Interest and commission incomes – BGN 11 thousand, Interest and commission expenses – BGN 206 thousand.

Subsidiary and associated companies. Transactions between UBB, its subsidiaries (UBB Asset Management, and UBB Insurance Broker), associated companies (AIG Insurance and Reinsurance Company, UBB AIG Life Insurance Company) and Drujestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management (UBB Balanced Fund, UBB Premium Fund and UBB Platinium Fund) are related to maintaining Deposits and Current accounts. The Bank has shares in Mutual funds managed by its subsidiary UBB Asset Management.

Due to customers	As of 31.12.2008
UBB Asset Management	639
UBB Insurance Broker	215
UBB AIG Insurance and Reinsurance Company	5,757
UBB AIG Life Insurance Company	7,566
UBB Balanced Fund	630
UBB Premium Fund	1,600
UBB Platinium Fund	490

Shares in mutual funds managed by the subsidiary UBB Asset Management as of December 31, 2008	As of 31.12.2008
UBB Balanced Fund	2,493
UBB Premium Fund	1,183
UBB Platinium Fund	**2,987**

ADDITIONAL INFORMATION

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