UBB
NBG Group

UNITED BULGARIAN BANK AD

SEPARATE AND CONSOLIDATED
REPORT ON THE ACTIVITIES,
CORPORATE GOVERNANCE STATEMENT,
INDEPENDENT AUDITOR'S REPORT
AND SEPARATE AND CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2016

Unofficial translation from Bulgarian

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SEPARATE AND CONSOLIDATED REPORT ON THE ACTIVITIES

FOR 2016

ANNUAL REPORT ON ACTIVITIES
OF
UNITED BULGARIAN BANK AD (UBB)
ON INDIVIDUAL AND CONSOLIDATED BASIS
AS OF DECEMBER 31, 2016
(In accordance with Law of Accountancy)

I. REVIEW OF 2016 UBB's ACTIVITIES

1.1. FINANCIAL PERFORMANCE

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

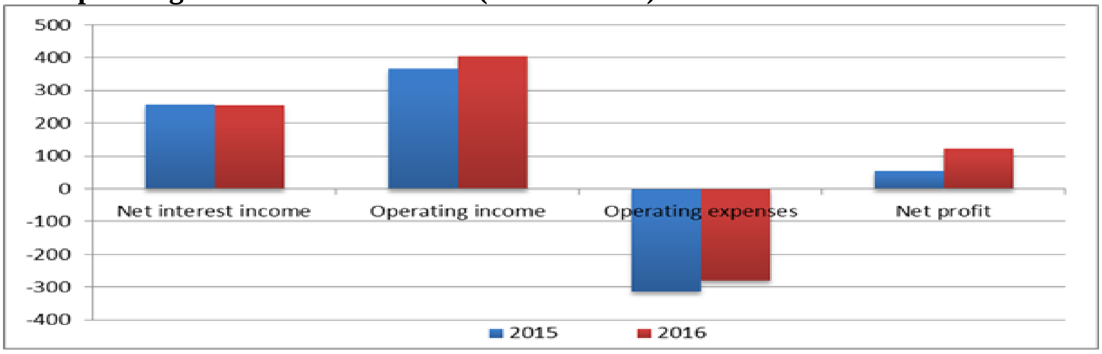
Following the outcome of the Comprehensive Assessment of the Banking Sector the credibility of the credit institutions was re-confirmed. According to the results of the AQR, the average common equity Tier 1 ratio for the sector stood at 18.9%, well above the regulatory minimum. The banking system in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

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

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

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

Net Operating Income and Net Profit (BGN million)



Net interest income

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

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

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

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

Net fee and Commission income

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

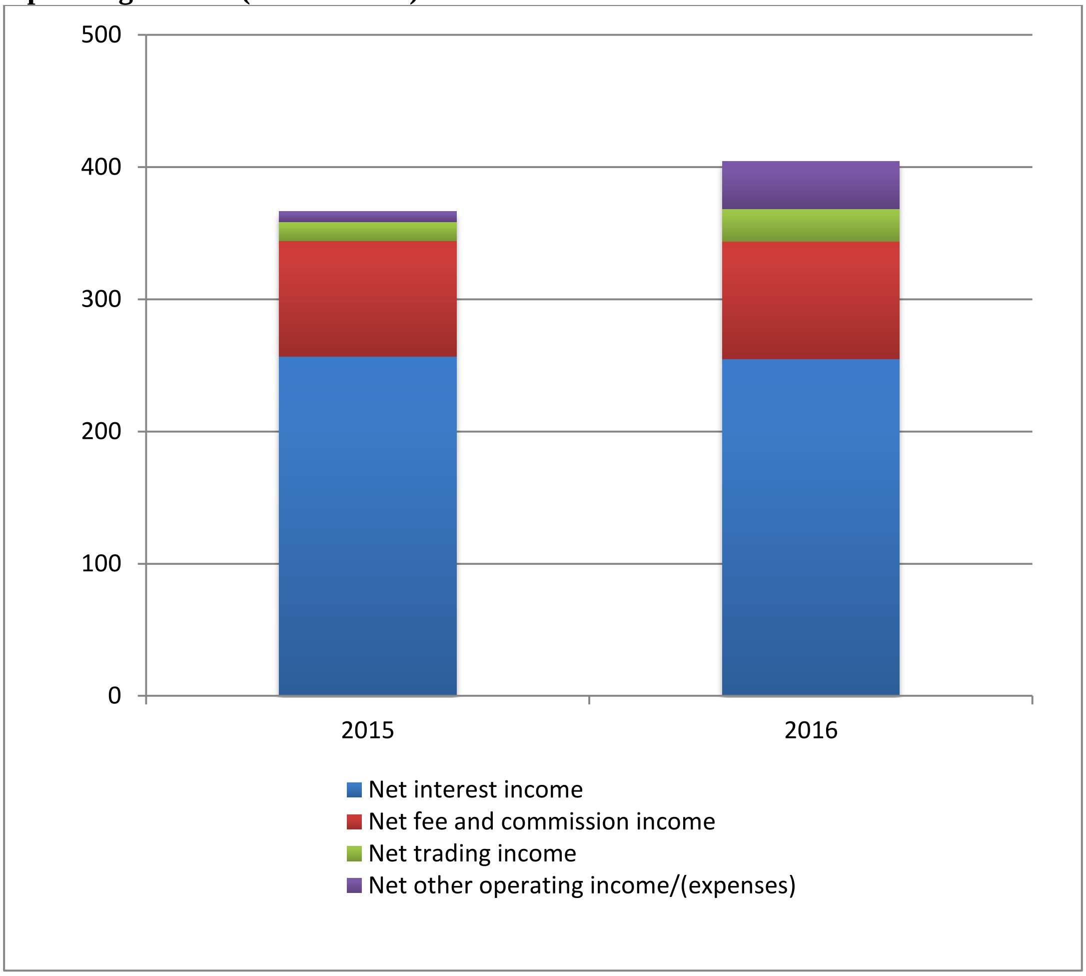
In 2016, revenue from fees for operating the transfers and cash transactions amounted to BGN 17.9 million and declined by 0.9% yoy. Income from fees for servicing deposit accounts amounted to BGN 31.6 million and increased by 3% yoy. Income from fees on debit and credit cards amounted to BGN 22.6 million,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

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

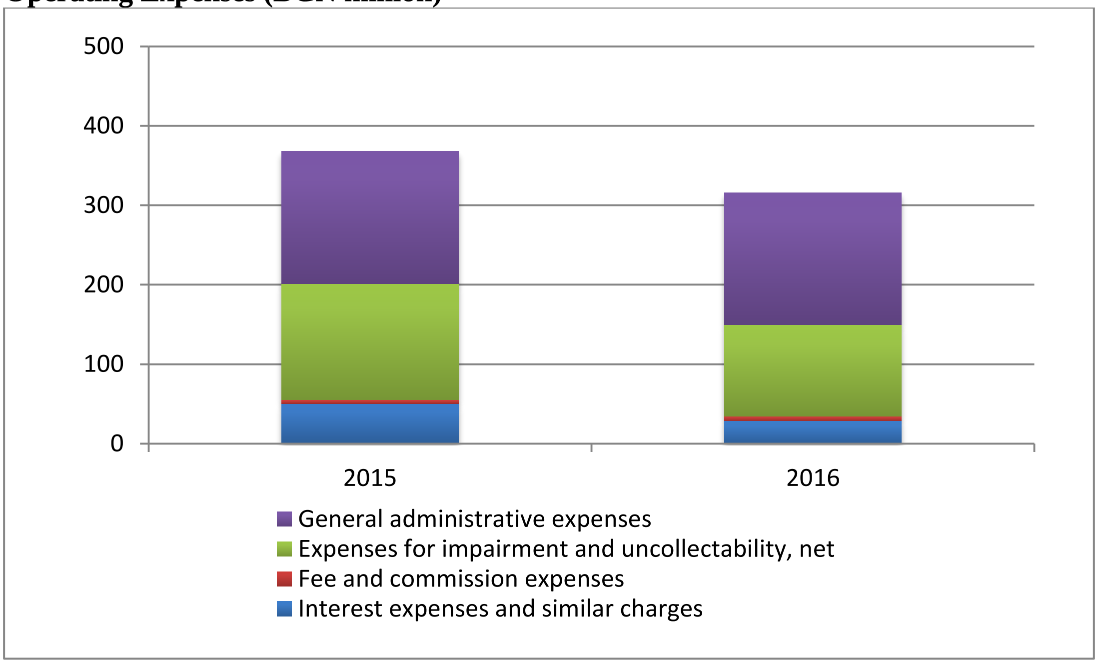
Net trading income

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

Operating Income (BGN million)



Operating Expenses (BGN million)



General and administrative expenses

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

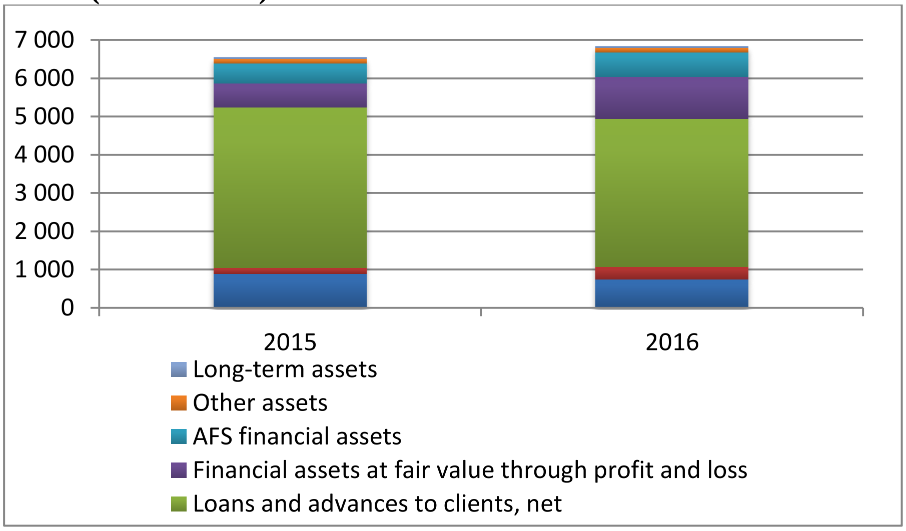
Net charge for impairment

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

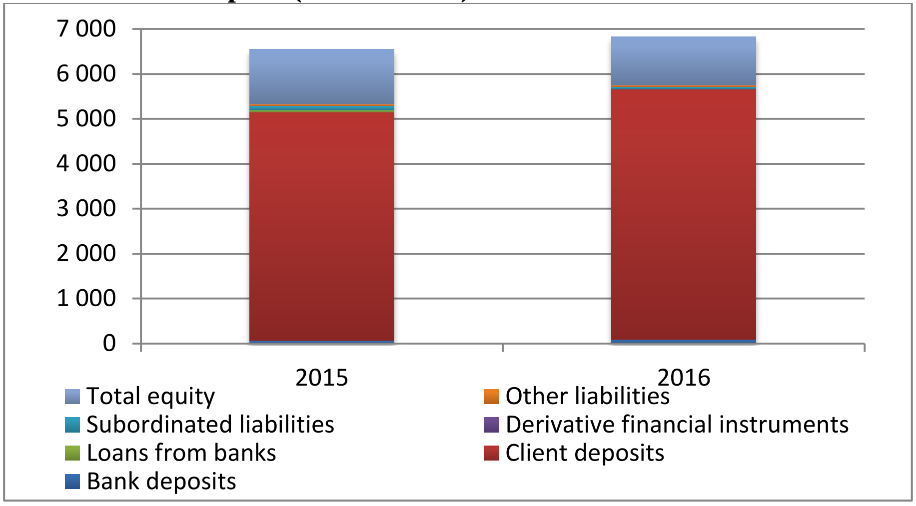
ASSETS AND LIABILITIES

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

Assets (BGN million)



Liabilities and Capital (BGN million)



Cash and cash equivalents

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

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

Due from banks

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

Loans and advances to customers

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

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

Financial assets designated at fair value through profit or loss

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

Financial assets available for sale

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

Attracted resources and equity

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

Deposits from banks

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

Deposits from customers

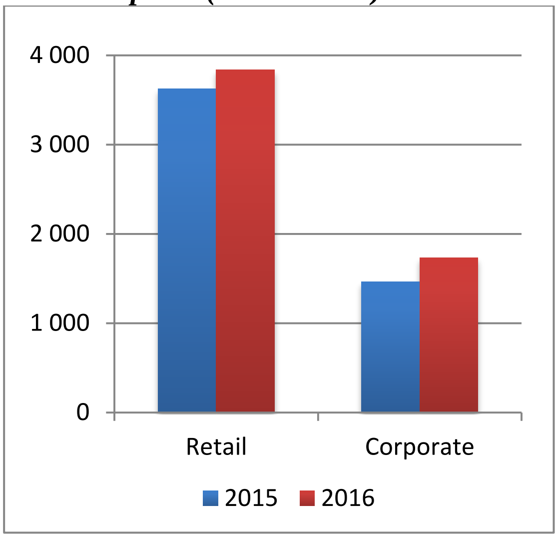
At the end of 2016 customer deposits reached BGN 5,571 million, compared to BGN 5,089 million at the end of 2015 and registered 9.5% yoy increase. During the year, the deposits of individuals increased by 5.8%. Deposits from non-bank financial institutions increased by 30.5% yoy. Corporate deposits grew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

Deposits' Structure

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

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

Clients Deposits (BGN million)



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

Bank Borrowings

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

Subordinated debt

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

Shareholders Equity and capital adequacy

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

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

Off balance sheet items

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

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

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

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

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

1.2. BUSINESS DEVELOPMENT

RETAIL BANKING

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

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

In 2016, UBB's Retail banking continued the sustainable development of innovative products and promotional campaigns in all retail product categories in a highly competitive market environment characterized by aggressive pricing, personalized discretional offers and massive ATL presence. Digital sales channels were opened to complement the existing sales network, in line with the recent market developments. As a leader on the Bulgarian retail market, UBB has always been dedicated to implementing competitive products and providing high quality service to its customers. In order to keep pace with the developing fin-tech environment, UBB started offering to its customer's on-line opening of deposit products via E-banking – current, saving and time deposits. As a part of the Bank's strategy to strengthen the segmented approach to its retail customers, the Bank has launched new package programs which include basic products and services, addressing the different needs of the segments – Mass, Payroll, Pensioners and Affluent. The Bank continues to provide professional and inclusive banking services to its affluent customers. The access to premium banking products and services increased the number of customers altogether with growth in the deposit base of the segment.

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

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

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

PAYMENT PRODUCTS AND SERVICES

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

CORPORATE BANKING

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

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

TREASURY ACTIVITIES

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

INVESTMENT BANKING

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

INFORMATION TECHNOLOGIES

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

HUMAN RESOURCES MANAGEMENT

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

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

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

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

To increase the competence in the corporate business and in relation to the micro business segment a two-month distance course "Financial analysis" was organized by the International Banking Institute for Branch Managers type 1. In line with the Bank's strategy for business development and service quality improvement specialized trainings for employees from SME, Retail and Micro business segments, for reappointed Branch Managers and Retail Team Managers as well as specialized seminars and trainings for different teams and employees from the HO were organized. As a main channel for self-education and testing their knowledge the employees in the Bank use more and more actively the e-learning platform.

In 2016, 2 858 participations in different types of trainings were organized (incl. induction trainings, internal trainings, external advanced trainings) and 2 445 participations in tests took place to check their knowledge in different areas. The practice of attracting young unexperienced professionals in positions in the Bank that provide opportunity for on-the-job training and high standard of attitude towards the work and responsibilities continued.

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

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

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

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

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

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

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

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

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

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

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

Priority was also given to the activity on prevention of money laundering and financing of terrorism. The monitoring of suspicious operations and clients is an ongoing process, allowing for timely reaction on the part of the Bank upon occurrence of suspicious transactions and individuals.

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

SPONSORSHIP AND CORPORATE SOCIAL RESPONSIBILITY

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

- **Cultural Projects**

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

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

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

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

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

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

NIGHT/ Plovdiv - in 2016, UBB supported for the first time a symbolic event not only for Plovdiv, but for the Bulgarian art as a whole –Night of Museums and Galleries in Plovdiv

(*NIGHT/ Plovdiv*). The *Night of Museums and Galleries* in Plovdiv was firstly organized in 2005 and soon became one of the most recognizable cultural events, anticipated and visited by spectators from all-around the country. This year's twelfth *NIGHT* in Plovdiv and first for UBB as its partner welcomed over 40 000 people during the two festival nights (September 23 and 24) under the town's hills.

The *NIGHT's* highlight was the first public display of the **UN/NOTED exhibition - part of UBB's Gold Fund collection - in Plovdiv's Art Gallery,** which was seen by more than 7 000 people in just the first festival night and was the *NIGHT* event's venue No1.

- **Sports**

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

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

- **Support for Science**

National Museum of Natural History – in 2016, the National Museum of Natural History realized three projects with the financial support of UBB – continuation of the excavation works at Azmaka archaeological site in search of the last pre-human hominids in Europe; excavation works and research in the Mishin Kamak cave, and update of the paleontological exposition through display of dinosaur finds and a newly gathered collection of leaves and fossils of ancient fauna, dating back 15 million years ago. With the aim to promote both the effort and success of the research teams, UBB signed a sponsorship project with *Eight Magazine*, where 8 articles on the museum's activity were published.

- **Regional Sponsorships**

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

II. IMPORTANT EVENTS DURING THE PERIOD BETWEEN THE DATES OF THE FINAL BALANCE SHEET AND THE ANNUAL REPORT APROVAL

On December 30, 2016, National Bank of Greece S.A. entered into an agreement with KBC Group for the disposal of its 99.91% stake in the share capital of UBB. Closing of the transaction is subject to regulatory approvals from Bulgarian and European authorities. As at this date, the transfer of the ownership of the shares of UBB has not been finalized.
There are no other significant events after the end of the reporting period which require additional adjustments and/or disclosures in the financial statements of the Bank on separate or on consolidate basis.

III. PLAN FOR 2017

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

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

Key Business Objectives:

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

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

Information under Art. 187 "d"

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

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

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

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

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

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

Information under Art. 247

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

2. The acquired, possessed and transferred by the members of the Board of Directors shares and bonds of the company:
Owned by the members of the Board of Directors shares BGN 1 (one) each (nominal value)

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

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

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

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

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

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

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

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

Payment of dividends and interest

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

V. BRANCH NETWORK

In 2016 the total number of UBB structural units is 190, including:

- 120 units type 1, focused on servicing retail customers and micro business enterprises
- 27 structural units type 2, specialized in establishing relations with retail, micro and small business clients
- 17 structures type 3, servicing retail, micro customers and SME business
- 8 Business centers, specialized structural units, profiled in servicing SME business customers
- 18 representative offices

Customers of all UBB units are treated with individual care, professionalism andcompetence , and are offred a wide range and variety of products and services, matching their needs.

VI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Risk management principles and policies of the Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken. The Risk Management Division has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making, as well as the assessment of the risk that may arise in cases of important changes (mergers, acquisitions etc.), with a view to adopt the proper risk management and control mechanisms.

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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk Models

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

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

Liquidity risk

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

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

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

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

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

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

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

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

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

Market risk

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

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

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

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

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

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

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

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

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

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

Currency risk

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

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

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

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

Interest rate risk in the banking book (IRRBB)

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

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

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

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

As of December 31, 2016
Separate/Consolidated

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

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

As of December 31, 2015
Separate/Consolidated

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

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

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

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

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

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

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

Operational risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VII. ACTIVITY OF UBB's SUBSIDIARIES AND ASSOCIATE COMPANIES AS OF 31.12.2016

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

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

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

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

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

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

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

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

Name: UBB Asset Management AD
Location: Sofia
Head Office address: Sofia, 5 "*St. Sofia*" Str., "*Vazrazhdane*" municipality
Number and batch of entry in the commercial register: № 83704, v. 1021, reg. I, p. 44, under company file № 4098 of Sofia City Court according to the inventory of 2004
Capital: BGN 700,000, including:
UBB participation in the company: 90.86%, or BGN 636,000 nominal value of participation.

Name: UBB - Metlaife Life Insurance Company AD
Location: Sofia
Head Office address: Bulgaria, Sofia, "*Triaditza*" region, postal code 1404, 75 *"Bulgaria*" blvd.
Number and batch of entry in the commercial register: № 108941 v. 1469, reg. I, p.143, under company file № 10677 of Sofia City Court according to the inventory dated 29.09.2006.
Capital: BGN 12,400,000
Participation in the company: 30% or BGN 3,720,000 nominal value of participation

Name: UBB Insurance Broker AD
Location: Sofia
Head Office address: Bulgaria, Sofia 1000, region "*Vazrajdane*", 9 "*T. Aleksandrov*" blvd.
Number and batch of entry in the commercial register: company file № 5346 of Sofia City Court according to the inventory of 03.05.2007, reg.16-29, page 212.
Capital: BGN 500,000
Participation in the company: 80% or BGN 400,000 nominal value of participation

Name: Druzhestvo za Kasovi Uslugi AD
Location: Bulgaria, area Sofia (capital), municipality Sofia,
1632 Sofia, region „*Ovcha kupel*", kv. "*Ovcha Kupel*" 2, 16 "*Ivan Hadjiiski*" Str. tel: 02/ 9560419, fax: 02/ 9560419 e-mail office@dku.bg, www.dku.bg
Number and batch of entry in the commercial register:
№1 from 10.07.2007 Sofia City Court under №122002, regulation 1680, page 104, company file № 9568/2007 EIC 175327305
Capital: BGN 12,500,000
Participation in the company: 20% or BGN 2,500,523 nominal value of participation.

Name: UBB Factoring EOOD
Location: Bulgaria, area Sofia (capital), municipality Sofia,
Sofia 1040, 5 "*Sveta Sofia*" str.
Number and batch of entry in the commercial register:
№ 20091016151609/16.10.2009
Capital: BGN 1,000,000
Participation in the company: 100% or BGN 1,000,000 nominal value of participation.

Used financial instruments

a) The aims and policy of the company on financial risk management, incl. hedging policy.
In 2016 the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates - UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD, used no derivatives for hedging purposes.

b) Exposure of the company with regard to price, credit, liquidity and cash flow risks
The capital exposures of the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates - UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD are reported in compliance with regulations, evolving from the requirements of the capital adequacy.

Stilian Vatev
Chief Executive Officer

UNITED BULGARIAN BANK AD * SOFIA *

Radka Toncheva
Executive Director

06.03.2017

CORPORATE GOVERNANCE STATEMENT

FOR 2016

CORPORATE GOVERNANCE STATEMENT

OF UNITED BULGARIAN BANK AD

For the period ending on 31.12.2016
In accordance with Accountancy act

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1. CORPORATE GOVERNANCE OVERVIEW

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

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

Management Structure

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

Board of Directors (BoD)

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

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

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

Committees to the Board of Directors

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

- The Risk Management Committee advises the Board of Directors as to the overall current and future strategy regarding risk and the Bank's risk appetite. It submits the Bank's Risk Management Principles and Policy, Risk Appetite Statement and Metrics and risk management policies to the BoD for approval and exerts supervision on their application by the Bank's senior management. The Risk Management Committee comprises non-executive BoD members, elected by the Board of Directors. Meetings are held once per quarter.

- The Remuneration Committee is responsible for drafting and proposing decisions, related to staff remuneration practices and policies, impacting the assumed risks and their management at the Bank. The Committee assists the Board of Directors in the preparation, review and control with regard to the observance of the Bank's Remuneration Policy. The Remuneration Committee comprises non-executive BoD members, elected by the BoD. The Committee holds its meetings at least once a year.

- The Audit Committee ensures the effective functioning of the internal control systems, financial reporting, internal audit, compliance and risk management with regard to the application of the principles of stable corporate governance and the Bank's strategic objectives. Its members are independent experts in the sphere of finance, banking and law, elected by the General Meeting of Shareholders in accordance with the procedure of the Independent Financial Audit Act. The committee holds its meetings at least once every two months.

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

Communication with shareholders

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

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

Shareholding structure

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

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

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

2. Board of Directors

2.1 Members of the Board of Directors

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

2.2 Elections and term of office

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

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

The Board is responsible for making of decisions on:

- adopting Working Rules of the Board of Directors;
- electing from among its members Chairman, Deputy Chairman of the Board of Directors and Executive Directors;
- adopting the strategy, the plans on the activity and the budget of the Bank;
- approving the Bank's organizational structure, considerable organizational changes and any material change in the Bank's activity;
- opening and closing of branches (of a merchant within the meaning of the Commerce Act), of representative offices of the Bank abroad and of subsidiaries;
- equity participations in companies in this country and abroad and termination of such participations;
- establishing long-term cooperation of substantial importance to the Bank or termination of such cooperation;
- adopting the risk management and control policy, the internal rules and procedures for risk monitoring and control systems' efficiency and operating control organization;
- establishing committees and ancillary bodies for risk management and control, for operating control, the Bank's Credit Committee. Defining their members and authorities. The rules, procedures on credit activity and the loans' decision-making procedure are adopted by the Bank's Credit Committee.
- approving the annual financial statements, a report on the activity and a proposal for the allocation of profit and proposing it for approval to the General Meeting of Shareholders;
- acquiring of fixed assets, when costs exceed EUR 100 000 (one hundred thousand) euro per annum, except for costs, approved by the Board of Directors in the annual budget and

of the costs for acquiring fixed assets for loan repayment purposes in the process of collecting the Bank’s receivables;

- renting of property and movables outside the renting of offices, cars and office equipment for the Bank’s normal course of business;
- undertaking encumbrances on the Bank’s property in amount exceeding EUR 500 000 (five hundred thousand);
- selling or leasing out fixed assets, property of the Bank, with balance sheet value exceeding EUR 250 000 (two hundred and fifty thousand), except for sales of fixed assets, acquired in exchange of loans in the process of collecting the Bank’s receivables;
- granting of loans to one person/entity or to related parties, which amount exceeds 10 % of the Bank’s equity
- defining the remuneration of the Executive Directors.

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

2.3 Professional background and other activities and functions

Mr. Marinis Stratopoulos
General Manager, International Activities, NBG

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

Mr. Stilian Vatev
Member of Board of Directors and CEO,

Mr. Vatev obtained his Master’s degree in Finance and Credit in the University of National and World Economy, Sofia. He is a graduate of Macroeconomics, Money Markets and Monetary Policy course at the National Bank of Switzerland. Mr. Vatev started his career at the Bulgarian National Bank where he worked as Assistant Manager and Manager at Domestic Trade and Tourism Dept., Senior Manager at Private Lending Dept. and Head of the International Relations Division. He then joined United Bulgarian Bank AD as General Manager Investments Division in charge of managing UBB’s institutional strengthening and privatization. In 1997 he was elected Chief Executive Officer. He is a member of MasterCard Europe CEE Regional Advisory Board and a member of the Board of Directors of Borica Bankservice and UBB Insurance Broker. He is Chairman of the Board of Directors of Interlease and Interlease Auto, UBB MetLife Insurance Company and UBB Asset Management.

Mrs. Radka Toncheva
Executive Director

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

Mr. Teodor Marinov
Executive Manager Corporate Banking

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

Mr. Anastasios Lizos
Head of Sector A of International Activities Division, NBG

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

Mr. Konstantinos Bratos
Assistant General Manager, Corporate Workout & Remedial Management, NBG

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

Mr. Alexandros Benos

Assistant General Manager, NBG Group Risk Management, CRO

Mr. Benos obtained his Bachelor's and Master's degrees in Economics at the University of Cambridge, UK and his Ph.D. in Finance at Stanford University, USA. Mr. Benos firstly launched an academic career as an Assistant and Associate Professor, Finance and Economics Dept., HEC School of Management and Finance. Since 2001 he is a Visiting Professor at the same school. From 2001 to 2006 he was an Assistant Professor, Banking and Financial Management Dept. at the University of Piraeus. He joined NBG Group in 2000 as Senior Credit Risk Manager, NBG. From 2010 to 2013 he was Director, Group Risk Control and Architecture Division, NBG. Since 2013 he is Assistant General Manager for Group Risk Management, NBG. Mr. Benos is also a Member of Econometric Society, American Financial Association (AFA), American Institute of Financial Management (AIFM), and the Association Française de Finance (AFFI). He is a Member of UBB Board of Directors.

2.4. Internal organizational structure

Allocation of tasks between the Board of Directors' Members.

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

2.5. Board of Directors' Annual Report

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

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

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

3. Executive Management Committee

3.1. Members of the Executive Management Committee

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

Mr. Stilian Vatev, Executive Management Committee Chairman
Member of Board of Directors and CEO

For further reference, please see a detailed CV in section 2.3.

Members:

Mrs. Radka Toncheva
Executive Director

For further reference, please see a detailed CV in section 2.3.

Mr. Teodor Marinov
Executive Manager Corporate Banking

For further reference, please see a detailed CV in section 2.3.

Mr. Dimitrios Vafeiadis
Country Risk Manager

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

Mr. Alexander Georgiev
General Manager Retail Banking

Mr. Georgiev obtained his Master's degree in Management of commerce at the University of National and World Economy, Sofia. Mr. Georgiev started his career in 1992 as a Foreign Exchange Dealer at Commercial Bank Doverie, later part of UBB. In 1993 he was appointed Deputy Head Strategic Planning Division of UBB and in 1995 - Head of Planning Department. During the period 2001-2009 he held the positions of:
Head of Sales Retail Banking Department, Head of Retail Banking Department, Head of Retail Credit & Risk and Head of Retail Banking & Card Center. Mr. Georgiev is Chairman of the Board of VISA Bulgaria and a member of the Board of Directors of UBB MetLife Insurance Company, UBB Insurance Broker and UBB Asset Management. Currently he is General Manager Retail Banking.

Mr. Christodoulos Christodoulou
Chief Financial Officer

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

Mr. Ivan Koutlov
General Manager, Head of Treasury

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

Mr. Ivaylo Mateev
Chief Operating Officer

Mr. Mateev obtained his Master's degree in Management of Commerce at the University of National and World Economy, Sofia. He started his career in 1992 in the Bank Policy Unit, United Bulgarian Bank. From 1993 to 1995 he worked at Strategic Planning Unit of UBB. In 1996 he was appointed Manager Management Accounting Unit of UBB and in 1998 as Project Manager - EQUATION. During the period 2000-2008 he held the following UBB positions: Project Manager – GLOBUS Implementation project, Director Business Processes and

Organization Department, Director Branch Network Division. In 2008 he had a long-term assignment in Implementation of T24 core banking system, Centralization project management at Vojvodjanska Banka Novi Sad. Since 2009 he has been Chief Operating Officer of UBB.

3.2. Executive Management Committee Report

The Executive Management Committee (EMC) ensures the performance of the Bank's current activity, within the limits of the duties of the Executive Directors according to the Statutes of United Bulgarian Bank, as well as of other authorities given by the Board of Directors, insofar as this does not contradict to imperative provisions of the law and the Statutes. The Committee has at least the following roles and responsibilities: a) analyzes and endorses the Bank's strategy and policies, which are to be submitted for the Board of Directors' approval and ensures their implementation; b) approves and/or endorses the conclusion of all transactions with movable and immovable property, acquired within the limits of the authorities of the Executive Directors; c) approves the policies and codes according to the Bank's internal rules, except for the cases when Board of Directors' or other Bank body's approval is mandatory; d) analyzes the market evolution and the competition within the financial – banking field; e) decides on the Bank's Business Plan and the related Budget before being approved by the competent bodies; monitors and analyzes periodically their implementation and takes the necessary corrective actions if the case. Analyzes the financial performance of the Bank and the related ratios; f) approves and prioritizes the bank's Projects Portfolio together with all subsequent modifications; Analyzes the status of the major projects, performed within the Bank and makes decisions, related to these; g) proposes to the Board of Directors opening and closing of branches; h) proposes to the Board of Directors equity participations in companies in this country and abroad and termination of such participations; i) proposes to the Board of Directors establishing long-term cooperation of substantial importance to the Bank or termination of such cooperation; j) approves the establishment of correspondent counterparty relations with banks in this country and abroad; k) analyzes the main risk issues brought in attention by the Risk Management of the bank, together with the Risk Management Committee; l) periodically assesses the progress of implementing the main recommendations included in the Audit Reports; m) decides on the main plans of the bank such us: Training Plan, Marketing Plan, Branch Network Development Plan, etc. n) analyzes the opportunity for major outsourcing of certain Bank activities; o) makes decisions for purchase-sales of financial instruments, traded on a regulated market, as well as underwriting or subscribing of financial instruments for the purpose the Bank to sell those proprietary or in its capacity as an investment intermediary, within the authorities of the Executive Directors and within a limit, specified by the Board of Directors; p) approves the investment expenses and other expenses within the global value limits, established in the budget and according to the applicable internal regulations; q) approves the investment expenses and operating expenses in excess of the budget and within the limits, established by the Board of Directors; r) establishes the signatures regime, the empowerment regime within the Bank, as well as the authority limits, except for those being under the exclusive competence of the Board of Directors, according to the law and special regulations; s) reviews and decides upon major legal issues (litigations with third parties, in which the bank is involved, litigations with personnel); t) analyses and decides on issues, related to customers in the high-risk category.

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

4. Board Committees

4.1. Audit Committee

4.1.1 Audit Committee Members & professional background

Mr. Dimitar Bazlyankov
UBB Audit Committee Chairman

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

Mr. Dinko Yordanov
UBB Audit Committee Member

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

Mrs. Boyka Brezoeva
UBB Audit Committee Member

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

4.1.2. Audit Committee Report

Audit Committee is an independent body, responsible for oversight over application of corporate governance principles in UBB with respect to financial reporting, internal audit and risk management. Effective since January 1, 2008, UBB Audit Committee consists of three independent members with combined expertise and experience in accounting, external and internal audit and law in the area of financial markets and financial institutions. All members have 3-year mandates, elected by the General Meeting of shareholders. Members of the Audit Committee are Mr. Dimitar Bazlyankov, Chairman and members – Mr. Dinko Yordanov and Mrs. Boika Brezoeva, whereas Mr. Yordanov and Mrs. Brezoeva were re-elected by GMS in 2016 for a 3-year period and Mr. Bazlyankov – in 2014.

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

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

4.2. Risk Management Committee

4.2.1 Risk Management Committee Members

Mr. Alexandros Benos
UBB Risk Management Committee Chairman
Non-executive BoD Member
Mr. Konstantinos Bratos
UBB Risk Management Committee Member
Non-executive BoD Member
Mr. Anastasios Lizos
UBB Risk Management Committee Member
Non-executive BoD Member

4.2.2 Risk Management Committee Report

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

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

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

4.3. Remuneration Committee

4.3.1 Remuneration Committee Members

Mr. Marinis Stratopoulos
UBB Remuneration Committee Chairman
Non-executive BoD Member
Mr. Anastasios Lizos
UBB Remuneration Committee Member
Non-executive BoD Member
Mr. Konstantinos Bratos
UBB Remuneration Committee Member
Non-executive BoD Member

4.3.2 Remuneration Committee Report

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

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

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

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

5. Remuneration of Board Members

5.1. Board Members remuneration for the year 2016

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

5.2. Executive Management and Executive Committee Members contracts

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

* MSA - Management Services Agreement

**LC - Labour contract

6. General Meeting of Shareholders and Shareholders' rights

The General Meeting of Shareholders is UBB's superior management body. It delineates the major trends of the Bank's activities and involves all shareholders, who either personally or through their authorized representatives participate in its sessions.
The members of the Board of Directors attend the General Meeting but are not entitled to vote, unless being shareholders.

6.1 Competencies

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

6.2. Convening a General Meeting of the Shareholders

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

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

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

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

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

6.3. Quorum

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

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

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

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

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

6.4 General Meetings of Shareholders in 2016

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

The GMS also released from responsibility all members of UBB AD Board of Directors as regards their activity for managing the bank over the period 1.I.2015 - 31.XII.2015, pursuant to Art.221, Item 10 of the Commerce Act and Art.29, Para.1, indent ”к” of UBB AD Statutes. One BoD member, namely Mr. Teodor Marinov, was re-elected by the General Meeting for a 3-year mandate pursuant to Art.221, Para.4 of the Commerce Act and Art.37 of UBB AD Statutes.

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

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

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

7. Assessment of Internal controls on financial reporting

7.1. Reporting of operational performance

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

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

7.2. Statement of management responsibilities

The Bulgarian National Bank encourages the management to prepare the financial statements in compliance with the International Financial Reporting Standards.
Upon the financial statements' preparation, the management has to ensure the following:

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

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

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

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

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

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

UBB ensures the performance of independent financial audit of its annual financial statements. Independent financial audit represents an expression of independent auditors' opinion as to the reliable presentation in the financial statements of all stated facts and data, as well as their conformity with the applicable accounting standards and with the *International Financial Reporting Standards*. In order to ensure transparency and opportunity for familiarizing all interested persons/entities with the Bank's results, the audited financial statements are published in Bulgarian and in English language on the Bank's official website: www.ubb.bg.

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

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

Mr. Stilian Vatev
CEO

UNITED BULGARIAN BANK AD * SOFIA *

Mrs. Radka Toncheva
Executive Director

Date: 06.03.2017

INDEPENDENT AUDITOR'S REPORT, SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

Deloitte.

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of United Bulgarian Bank AD

Report on the Audit of the separate and consolidated financial statements

Opinion

We have audited the accompanying separate and consolidated financial statements of United Bulgarian Bank AD ("the Bank") and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at December 31, 2016, and the separate and consolidated income statement, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank/Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the separate and consolidated financial statements section of our report. We are independent of the Bank/Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate and consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the separate and consolidated financial statements and Auditor's Report Thereon

The Executive Directors (the management) are responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy act, but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's/Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and Audit Committee (those charged with governance) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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/Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank/Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the Financial Statements and Auditor's Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria issued on November 29, 2016. These procedures include tests over the form and content of the other information in order to assist us in forming an opinion in relation as to whether the other information includes the disclosures and reporting as required by Chapter 7 of the Accountancy Act and the Public Offering of Securities Act, applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate and consolidated financial statements have been prepared, is consistent with the separate and consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100(m), para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate and consolidated financial statements have been prepared.

Opinion Under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed and as a result of the acquired knowledge and understanding of the Bank/Group and the environment in which it operates, in our opinion, the description of the main features of the Bank's/Group's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10 , paragraph 1, letter "c", "d", "e", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Deloitte Audit

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Sylvia Peneva
Statutory manager
Registered auditor

March 6, 2017
Sofia

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2016
All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
ASSETS					
Cash and balances with the Central Bank	4	750,483	887,716	750,483	887,717
Due from banks	5	327,019	158,233	327,019	158,236
Loans and advances to customers, net	6	3,858,688	4,191,861	3,859,912	4,192,990
Financial assets at fair value through profit or loss	7	1,101,645	628,650	1,101,645	628,650
Derivative financial instruments	8	356	12	356	12
Financial assets available for sale	9	648,223	526,607	648,224	526,608
Investments in subsidiaries and equity method investments	10	6,637	6,637	10,142	9,575
Intangible assets	11	6,685	5,003	6,890	5,220
Property and equipment	11	34,020	38,718	34,155	38,747
Investment Property	12	2,931	3,011	2,931	3,011
Deferred tax assets, net	13	1,465	855	1,455	847
Other assets	14	93,484	95,437	93,928	95,796
Non-current assets held for sale		-	1,487	-	1,868
TOTAL ASSETS		6,831,636	6,544,227	6,837,140	6,549,277
LIABILITIES					
Due to banks	15	87,064	62,792	87,064	62,792
Due to customers	16	5,570,592	5,089,353	5,566,288	5,085,765
Derivative financial instruments	8	1,179	388	1,179	388
Other borrowed funds	17	4,818	39,709	4,818	39,709
Subordinated liabilities	18	50,882	101,814	50,882	101,814
Current income tax liabilities		-	-	13	86
Retirement benefit obligations	19	10,984	9,245	10,984	9,245
Other liabilities	20	23,774	19,382	24,103	19,637
TOTAL LIABILITIES		5,749,293	5,322,683	5,745,331	5,319,436
NET ASSETS		1,082,343	1,221,544	1,091,809	1,229,841
SHAREHOLDERS' EQUITY					
Share capital	21	75,964	75,964	75,964	75,964
Retained earnings	23	977,085	1,125,622	984,557	1,132,523
Revaluation reserve	24	32,411	21,853	33,833	22,742
Defined benefit obligations	19	(3,117)	(1,895)	(3,117)	(1,895)
TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS		1,082,343	1,221,544	1,091,237	1,229,334
Non-controlling interest		-	-	572	507
TOTAL EQUITY		1,082,343	1,221,544	1,091,809	1,229,841
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		6,831,636	6,544,227	6,837,140	6,549,277
Contingent liabilities and commitments	25	808,749	778,459	825,346	797,594

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

Stilian Vatev, CEO

Radka Toncheva, Executive Director

Date 06.03.2017

UNITED BULGARIAN BANK AD SOFIA

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

Sylvia Peneva
Registered Auditor
Date: 06.03.2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

SEPARATE AND CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2016
All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Interest and similar income		283,437	307,046	284,004	307,620
Interest expenses and similar charges		(28,485)	(50,233)	(28,430)	(50,156)
Net interest income	27	254,952	256,813	255,574	257,464
Fee and commission income		95,087	92,174	99,995	97,092
Fee and commission expenses		(6,055)	(4,873)	(6,500)	(5,409)
Net fee and commission income	28	89,032	87,301	93,495	91,683
Dividend income		3,761	2,779	675	452
Net trading income	29	24,319	14,628	24,319	14,628
Net gains from financial instruments available for sale	9	30,141	2,204	30,141	2,204
Other operating income, net	30	2,278	2,953	1,982	2,806
Net allowances for impairment	31	(114,729)	(145,816)	(114,856)	(145,943)
General administrative expenses	32	(166,120)	(166,808)	(168,750)	(169,193)
Share of profit of equity method investments		-	-	2,342	2,744
PROFIT BEFORE TAXATION		123,634	54,054	124,922	56,845
Income taxes	33	(12,373)	(5,147)	(12,830)	(5,691)
PROFIT FOR THE YEAR		111,261	48,907	112,092	51,154
ATTRIBUTABLE TO:					
UBB equity shareholders		111,261	48,907	111,832	50,876
Non-controlling interest		-	-	260	278
Earnings per share – Basic and Diluted (BGN)	22	1.46	0.64	1.47	0.67

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

Stilian Vatev, CEO

Radka Toncheva, Executive Director

Date 06.03.2017

UNITED BULGARIAN BANK AD SOFIA

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

Sylvia Peneva
Registered Auditor
Date: 06.03.2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2016
All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
PROFIT FOR THE YEAR	111,261	48,907	112,092	51,154
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss:				
Revaluation of available for sale financial assets	38,111	665	38,872	427
Impairment of financial assets available for sale	3,761	9,859	3,761	9,859
Net gains from financial assets available for sale transferred to P&L	(30,141)	(2,204)	(30,141)	(2,204)
Income Tax	(1,173)	(268)	(1,401)	(268)
Items that will not be reclassified to profit or loss:				
Gains/ (losses) on defined benefit plans	(1,222)	(293)	(1,222)	(293)
Total other comprehensive income, net of tax	9,336	7,759	9,869	7,521
TOTAL COMPREHENSIVE INCOME, net of tax	120,597	56,666	121,961	58,675
ATTRIBUTABLE TO:				
UBB equity shareholders	120,597	56,666	121,701	58,397
Non-controlling interest	-	-	260	278

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

Stilian Vatev, CEO

Radka Toncheva, Executive Director

Date 06.03.2017

UNITED BULGARIAN BANK AD * SOFIA *

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

Sylvia Peneva
Registered Auditor
Date: 06. 03. 2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2016
All amounts are in thousand Bulgarian Levs, unless otherwise stated

Separate	Share capital	Retained earnings	Defined benefit obligations	Revaluation reserve	Total
BALANCE AS OF JANUARY 1, 2015	75,964	1,076,715	(1,602)	13,801	1,164,878
Profit for the period	-	48,907	-	-	48,907
Other comprehensive income for the period	-	-	(293)	8,052	7,759
BALANCE AS OF DECEMBER 31, 2015	75,964	1,125,622	(1,895)	21,853	1,221,544
Profit for the period	-	111,261	-	-	111,261
Paid dividends	-	(259,798)	-	-	(259,798)
Other comprehensive income for the period	-	-	(1,222)	10,558	9,336
BALANCE AS OF DECEMBER 31, 2016	75,964	977,085	(3,117)	32,411	1,082,343

Consolidated	Share capital	Retained earnings	Defined benefit obligations	Revalua tion reserve	Total	Non-controlling interest	Total equity
BALANCE AS OF JANUARY 1, 2015	75,964	1,081,647	(1,602)	14,928	1,170,937	436	1,171,373
Profit for the period	-	50,876	-	-	50,876	278	51,154
Paid dividends	-	-	-	-	-	(207)	(207)
Other comprehensive income for the period	-	-	(293)	7,814	7,521	-	7,521
BALANCE AS OF DECEMBER 31, 2015	75,964	1,132,523	(1,895)	22,742	1,229,334	507	1,229,841
Profit for the period	-	111,832	-	-	111,832	260	112,092
Paid dividends	-	(259,798)	-	-	(259,798)	(195)	(259,993)
Other comprehensive income for the period	-	-	(1,222)	11,091	9,869	-	9,869
BALANCE AS OF DECEMBER 31, 2016	75,964	984,557	(3,117)	33,833	1,091,237	572	1,091,809

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

Stilian Vatev, CEO

Radka Toncheva, Executive Director

UNITED BULGARIAN BANK AD * SOFIA *

Date 06.03.2017

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

Sylvia Peneva
Registered Auditor
Date: 06.03.2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2016
All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		111,261	48,907	111,832	50,876
Adjustments to reconcile profit after taxation to net cash provided by operating activities:					
Allowances for impairment for the period		114,729	145,816	114,856	145,943
Depreciation of property and equipment and Investment property		9,684	9,817	9,709	9,841
Amortization of intangible assets		1,875	1,982	1,918	2,018
Accruals for staff obligations		517	370	517	370
Net gains on financial assets available for sale		(34,262)	(5,619)	(35 254)	(5,508)
Net gains on disposal of fixed assets		(241)	(469)	(267)	(469)
Interest expense on financing activities		1,229	2,469	1,229	2,469
Accrued income tax expense		10,707	4,044	11,116	4,626
Change in non-controlling interest		-	-	65	71
Income from dividends from subsidiaries and equity method investments		(3,086)	(2,327)	(2,108)	(2,470)
		212,413	204,990	213,613	207,767
Increase / Decrease in operating assets:					
Due from other banks		(88,445)	41,979	(88,446)	41,979
Loans and advances to customers		212,697	(203,046)	212,475	(203,460)
Financial assets at fair value through P/L		(472,995)	(30,877)	(472,995)	(30,877)
Derivative financial instruments assets		(344)	1,877	(344)	1,877
Other assets		15,406	19,434	15,245	19,652
Increase / Decrease in operating liabilities:					
Due to banks		24,272	(20,838)	24,272	(20,838)
Derivative financial instruments liabilities		791	(739)	791	(739)
Due to customers		481,239	(24,692)	480,523	(25,926)
Other liabilities		4,391	4,152	4,467	4,239
Income taxes paid		(13,776)	(7,456)	(13,799)	(7,445)
NET CASH FLOWS USED IN / FROM OPERATING ACTIVITIES		375,649	(15,216)	375,802	(13,771)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(5,095)	(7,672)	(5,147)	(7,569)
Purchases of intangible assets		(3,632)	(2,056)	(3,662)	(2,105)
Purchase of financial assets available for sale		(121,322)	(298,646)	(121,323)	(298,647)
Proceeds from sale fixed assets		505	516	451	396
Decrease in share of equity method investments		-	(1,488)	-	(1,868)
Proceeds from sale and redemption of financial assets available for sale		40,091	51,842	40,852	51,842
Interest received and dividends from financial assets available for sale		675	452	675	452
Dividends received from subsidiaries and equity method investments		3,086	2,327	2,305	1,080
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(85,692)	(254,725)	(85,849)	(256,419)
CASH FLOWS FROM FINANCING ACTIVITIES					
Paid dividends		(259,798)	-	(259,798)	-
Proceeds from other borrowed funds		-	8,119	-	8,119
Repayments of other borrowed funds		(35,770)	-	(35,770)	-
Repayments of subordinated liabilities		(51,282)	(51,832)	(51,282)	(51,832)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(346,850)	(43,713)	(346,850)	(43,713)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(56,893)	(313,654)	(56,897)	(313,903)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,045,656	1,359,310	1,045,660	1,359,563
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	988,763	1,045,656	988,763	1,045,660

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

Stilian Vatev, CEO
Date 06.03.2017

Radka Toncheva, Executive Director

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

Sylvia Peneva
Registered Auditor
Date: 06.03.2017

1. GENERAL INFORMATION

United Bulgarian Bank AD, Company Identification Number: 000694959 (“UBB” or the “Bank”) is a joint stock company registered in Sofia Bulgaria, 5 Sveta Sofia Str. in September 1992, through the merger of 22 commercial banks. 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 consolidated financial statements present the financial position of UBB and its subsidiaries as one reporting unit (“The Group”).
The Bank is managed by Board of Directors which as of December 31, 2016 comprises of the following members:

1) Marinis Spiridonos Stratopoulos, Chairman of the Board of Directors
2) Stilian Petkov Vatev, Board Member and Chief Executive Officer of UBB AD
3) Radka Ivanova Toncheva, Board Member and Executive Director of UBB AD
4) Theodor Valentinov Marinov, Board Member
5) Konstantinos Antonios Bratos, Board Member
6) Anastasios Nikiforos Lizos, Board Member
7) Alexandros Vassiliou Benos, Board Member

The Bank is officially represented by Stilian Petkov Vatev, Chief Executive Officer of UBB AD and Radka Ivanova Toncheva, Executive Director of UBB AD.

The Bank holds 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. The international activities of the Bank are mainly related to nostro accounts transactions, placements with foreign contracting banks, dealing securities portfolio and foreign exchange contracts.

In 2016 the Bank’s operations were conducted through a Head Office located in Sofia and 172 branches and 18 offices throughout Bulgaria.

The number of full-time employees of UBB as of December 31, 2016 was 2,559 (2015: 2,637).

The number of full-time employees of the Group as of December 31, 2016 was 2,620 (2015: 2,692).

These separate and consolidated financial statements have been approved for issue by the Board of Directors on March 6, 2017.

2. BASIS OF PRESENTATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

These separate and consolidated financial statements (“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), as endorsed by the European Union (“EU”) and applicable in the Republic of Bulgaria.

The endorsed by the European Union IFRSs may differ from IFRSs as issued by the International Accounting Standards Board (“IASB”) if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At December 31, 2016, there were no unendorsed standards effective for the year ended December 31, 2016, which might affect these separate and consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Bank/Group.

2. BASIS OF PRESENTATION (CONTINUED)

These financial statements are prepared for general purpose. The financial statements are not specifically intended for use by any party for purposes of decision making concerning any ownership relating to the Bank/Group. Accordingly, users of these financial statements should not rely exclusively on these financial statements for such purposes.

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

The Bank is a part of NBG Group which owns 99.9% of its shares. NBG Group also produces consolidated financial statements available for public use that comply with IFRS, which incorporates the financial performance and position of UBB AD.

The presentation of separate and consolidated 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 and application of judgment are inherent in the formation of estimates in following areas: valuation of OTC derivatives, unlisted securities, retirement benefit obligation, impairment of loans and receivables, 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 separate and consolidated financial statements.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate and consolidated financial statements are disclosed in Note 3.19.

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

Basis of consolidation

The consolidated financial statements of the Bank incorporate the financial statements of UBB AD (the Parent company) and its subsidiaries (including structured entities), which are entities controlled by the Bank. Control is achieved, if and only if, the Bank has a) power over the subsidiaries b) exposure, or rights to variable returns from its involvement with the subsidiaries and c) the ability to use its power over the subsidiaries to affect the amount of the Bank’s returns.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and in the consolidated statement of comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit/ (loss) for the period and total comprehensive income/ (expense) of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation (continued)

Parent company is an entity which directly or indirectly has a power to exercise control over one or more entities (subsidiaries).

Subsidiaries are entities that are controlled by another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date that control ceases.

All acquisitions are accounted for using the purchase method of accounting as set out in IFRS 3 from the date on which the Bank effectively obtains control of the acquire. The Bank has incorporated into its consolidated income statement the results of operations of the acquire and has also recognized in the consolidated statement of financial position the assets and the liabilities assumed and contingent liabilities of the acquire as well as any goodwill arising on the acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

In preparing the consolidated financial statements, the Parent and its subsidiaries' financial statements are combined line by line by adding together like items of assets, liabilities, equity, income and expenses.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income/ (expense) are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Equity Method Investments 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. Investments in associates are accounted for by applying the equity method of accounting. Impairment charges are recognized in the income statement, except when they represent temporary declines in the fair value.

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation (continued)

Under the equity method of accounting, the investment is initially recorded at cost. Goodwill arising on the acquisition of an equity method investment is included in the carrying amount of the investment (net of any accumulated impairment loss). The carrying amount of the investment is increased or decreased by the proportionate share of the entity's post-acquisition profits or losses (recognized in the Group profit or loss) and movements in reserves (recognized in reserves). Dividends received from the equity method investment during the year reduce the carrying value of the investment. Equity method investments for which significant influence is intended to be temporary because such investments are acquired and held exclusively with a view to their subsequent disposal within twelve months from their acquisition are recorded as assets held for sale. Unrealized gains on transactions between the Group and its equity method investment are eliminated to the extent of the Group's interest in the entity. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Where necessary, equity method investment's consolidated financial statements used in applying the equity method are adjusted to ensure consistency with the accounting policies adopted by the Group.

The consolidated entities in the UBB Group consolidated financial statements are as follows:

As of 31.12.2016 and 31.12.2015:

Entity name	Ownership (%)	Method of consolidation
UBB Factoring EOOD	100 %	Fully consolidated
UBB Asset Management AD	90.86 %	Fully consolidated
UBB Insurance Broker AD	80%	Fully consolidated
Druzhestvo za Kasovi Uslugi AD	20%	Equity method of consolidation
UBB Metlife Life Insurance Company AD	30%	Equity method of consolidation

Investments in subsidiaries and equity method investments in separate financial statements

In the Bank's financial statements subsidiaries and equity method investments are measured at cost less impairment.

Impairment assessment of investments in subsidiaries and equity method investments in separate financial statements

At each reporting date the Bank assesses whether there is any indication that an investment in a subsidiary or equity method investments may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the investment. Where the carrying amount of an investment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

2. BASIS OF PRESENTATION (CONTINUED)

Application of IFRS

Initial application of new amendments to the existing standards effective for the current reporting period
The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" -** Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" -** Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements" -** Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective
At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

2. BASIS OF PRESENTATION (CONTINUED)

- **IFRS 9 "Financial Instruments" -** aadopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" **-** adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU
At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of these financial statements (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment" -** Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance Contracts" -** Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers" -** Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows" -** Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes" -** Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property" -** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

2. BASIS OF PRESENTATION (CONTINUED)

The Bank/Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank/Group in the period of initial application, except for IFRS 9 Financial instruments.

IFRS 9 Financial instruments is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains requirements related to the recognition and measurement, impairment, derecognition and hedge accounting. The main changes introduced by IFRS 9 are as follows:

- *Classification and measurement* **-** IFRS 9 introduces a new approach to the classification of financial assets based on the characteristics of the cash flows and business model under which the respective financial asset is held.
- *Impairment* **-** A new impairment model is introduced based on recognition of expected credit losses, which will lead to earlier recognition of credit losses and higher impairment levels.
- *Hedge accounting* – can more closely reflect risk management with more qualifying hedging instruments and hedged items. Retrospective assessment of hedge effectiveness is no longer required and the prospective test is based on the principle of economic relationship. Significantly changed model of hedge accounting is introduced, with expanded information that should be disclosed about the risk management activities.

Due to the expected significant impact on the Bank/Group from the implementation of IFRS 9, in 2016 the Bank/Group has started a project for impact assessment and the need for changes of internal policies and processes. As part of the project, a series of trainings on IFRS 9 requirements were conducted, gap analysis was performed and expected financial impact was estimated. As a result of this preparation activities, the Bank/Group does not expect significant changes in classification of financial instruments and expects increase in impairment provision levels with up to 1%, as well as need for change of impairment models was identified to assess expected credit losses. The exact quantitative effect depends on the defined methodology for assessment of expected credit losses and the related risk parameters. The project for full implementation of IFRS 9 requirements continues in 2017.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Interest income and expense

Interest income and expense is recognized in the separate and consolidated income statement for all interest bearing financial instruments on a time proportionate basis, 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/Group 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.2. Fee and commission income and expenses

Fees and commissions consist mainly of fees received, respectively paid, for cash and non-monetary transactions, loans, guarantees and letters of credit and intermediary commissions. Fees and commission's income and expenses are generally recognized 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 recognized upon completion of the underlying transaction. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan.

3.3. Foreign currency translation

Transactions denominated in foreign currencies are 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 reporting date using the closing rates of exchange of the Bulgarian National Bank.

Foreign exchange rate 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 recognized in the separate and consolidated income statement in the period they incurred. Translation differences on debt securities and other monetary financial assets are re-measured at fair value and included in foreign exchange rate 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:

Foreign Currency	31.12.2016	31.12.2015
EUR	1.95583	1.95583
USD	1.85545	1.79007

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 rate movements against the Bulgarian Lev reflect their movements against the Euro on the international markets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

(a) Financial assets

The Bank/Group classifies its financial assets in the following categories: ‘financial assets at fair value through profit or loss’, ‘loans and receivables’ 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/Group upon their initial recognition in the statement of financial position.

(b) Financial liabilities and equity instruments

The Bank/Group classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Bank/Group classifies its financial liabilities in the following categories: ‘financial liabilities at fair value through profit or loss’ or ‘other financial liabilities’ carried at amortized cost. The classification depends on the nature of the financial liabilities and purpose set by the Bank/Group at the time of their origination.

The Management determines the classification of the financial liabilities of the Bank/Group upon their initial recognition on the separate and consolidated statement of financial position.

(c) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, forward 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 recognized in the separate and consolidated statement of financial position at fair value and subsequently are re-measured also at their fair value. Derivatives are presented in financial assets when favorable to the Bank/Group and in financial liabilities when unfavorable to the Bank/Group. Fair values are obtained depending on the type of instrument from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models, as appropriate. Where the Bank/Group enters into derivative instruments used for trading purposes, realized and unrealized gains and losses are recognized in the separate and consolidated income statement as ‘net trading income’.

A derivative instrument 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/Group’s open 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 recognized in net trading income.

When the Bank/Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

The Bank/Group'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/Group 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/Group recognizes financial instruments in the separate and consolidated statement of financial position when and only when, it becomes a party to the contractual provision of the instrument.

(e) Regular way purchases and sales of financial assets

"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 recognized on the settlement date apart from trading and available for sale securities and derivative financial instruments, which are recognized 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/Group derecognizes 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/Group derecognizes a financial liability from the separate and consolidated statement of financial position, i.e. only when it's contractual obligations are discharged or cancelled or expires.

(g) Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price ('Repos') are retained on the separate and consolidated statement of financial position 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 separate and consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(i) Fair value of financial instruments

The Bank/Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active market An active market, is a market in which transactions for assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis and are characterized with low bid/ask spreads.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain over-the-counter (“OTC”) derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant Management judgment or estimation.

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price times the number of units of the instrument held. Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data.

Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability’s classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions in an instrument are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of a given input is measured in accordance with its effect on the fair value of the respective instrument taking into consideration the specific factors for a given asset or liability. If observable inputs requiring significant adjustments based on unobservable inputs are used when measuring the fair value, they are categorized in level 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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

This category has the following two sub-categories:
- Trading and
- Financial assets and liabilities designated as at fair value through profit or loss.

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 categorized as held for trading unless they are designated as hedging instruments.

Trading securities held are reclassified out of the respective category, only in rare circumstances (see Note 9). Respectively, securities available for sale 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 at initial recognition

Bank/The Group 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 market 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 of 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 recognized at fair value and subsequently re-measured at fair value.

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

Dividend income is recognized when the right to receive the payment is established. This is the ex-dividend date for equity securities and is separately reported and included in "Other net income / (expense)".

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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.

(k) Loans and receivables

Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted on an active market. This group of financial assets includes: loans and advances to banks, loans and advances to customers and other receivables.

Loans and receivables 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/Group.

Measurement

Loans and receivables 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.

Loans and receivables granted by the Bank/Group are presented in the separate and consolidated statement of financial position at amortized cost less impairment and allowances for impairment.

Interest on loans and advances granted by the Group 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 the transaction and are deferred and amortized as interest income over the life of the loan by using the effective interest rate method.

(l) 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 profit or loss, loans and advances or investments held to maturity. The Bank/Group classifies as available-for-sale financial assets debt securities intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or stock prices.

Measurement

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

When an available for sale financial instrument is disposed of or impaired, the accumulated unrealized 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 acquisition cost method. During the period of holding debt instruments, classified as 'available for sale' the Bank/Group recognizes interest income by applying the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

Dividends on equity shares, classified as 'available for sale' financial assets, are recognized and carried to the income statement as 'Dividend income' when the Bank/Group's entitlement to these dividends is established.

(m) Allowances for impairment and write-offs

All financial assets classified as 'loans and advances', 'held-to-maturity' and 'available for sale' are subject to review for impairment.

The Bank/Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Loans and advances

A credit risk allowance for loan impairment is established if there is objective evidence that the Bank/Group 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.

Objective evidence that a claim is impaired includes observable data that comes to the attention of the Bank/Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the Bank/Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider;
(d) it is probable that the borrower will enter bankruptcy;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- Adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
- National or local economic conditions that correlate with defaults on the assets in the group.

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

The Bank/Group 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 amortized 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 collateralized 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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 analyzed at the date of the financial statements 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/Group to reduce any differences between loss estimates and actual loss experience.
A loan, which is deemed to be uncollectible or forgiven, is written off against the related provision for loans impairment. Subsequent recoveries are credited to impairment losses on loans and advances in the consolidated income statement.

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 recognized the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as net allowances for impairment for loans and advances.

Write-offs

The Bank/Group's write-off policy prescribes which loans and receivables fall into its scope and the criteria that must be met for each type of asset in order for each write-off to be approved by the relevant competent body.Loan amounts to be written off for accounting purposes are individually identified and fully provided for. For all loan amounts written-off for accounting purposes, documentation is retained and is available to evidence and support the reasoning for the write-off and that the appropriate actions have been taken.

The following factors are taken into consideration when qualifying a loan for write-off:

i. The past due status of the loan.
ii. The existence of collateral held by the Bank/Group to secure the loan and the ability to liquidate that collateral.
iii. The status of legal actions undertaken by the Bank/Group as well as the results of recent research regarding the borrower's real property. However, completion of such legal actions is not a necessary condition to write-off a loan if the claim against the borrower would remain valid after the loan is written-off.
iv. The existence of other assets held by the borrower identified through available databases.
v. An assessment of the costs expected to be incurred for pursuing recovery compared to the expected recovery.

In particular:

i. Mortgages are written-off for accounting purposes after a maximum period in past-due of at least 10 years and when there is no realistic prospect of recovering those amounts. The competent business units ensure that all appropriate actions have been taken in order to collect and no further recovery action is possible or practicable.
ii. Unsecured consumer, credit card and Small Business Lending ("SBL") exposures may not be written-off for accounting purposes even after a period of at least 60 months after the agreement is terminated.
iii. Corporate and secured SBL exposures are considered for write-off for accounting purposes on a case by case analysis, based on the general requirements (i)-(v) above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

In specific cases corroborated with legal evidence, such as for example fraud or bankruptcy of the borrower, exposures can be written-off for accounting purposes regardless of whether the criteria above are satisfied. Written-off loans, either retail or corporate, are monitored until completion and exhaustion of legal actions having taken into consideration the efforts and cost required. Write-offs are approved by each competent committee in accordance with its authority limits prescribed in its charter.

Financial assets available for sale

Available for sale financial assets are impaired if there is objective evidence that show a significant and 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 carrying amount is higher than the expected recoverable amount. In case such evidence is identified, 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 recognized in profit or loss) is removed from equity and recognized 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 recognized in profit or loss, the impairment loss is reversed in the income statement. Impairment losses recognized in income statement for an investment in an equity instrument classified as available for sale are not recovered in income statement.

3.5. Investments in subsidiaries and equity method investments

Subsidiaries are entities that the Bank controls directly or indirectly. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist if and only if, the Parent has a) power over an entity b) exposure, or rights to variable returns from its involvement with an entity and c) the ability to use its power over an entity to affect the amount of the Bank's returns.

Equity method investments are entities, in which the Bank/Group owns directly or indirectly from 20% to 50% of the voting shares or over which the Bank/Group has significant influence but does not have control.

Shares in subsidiaries and equity method investments are initially recognised in the separate financial statements at cost. Subsequently the Bank carries our periodic reviews for impairment. Impairment is recognised in the income statement as impairment losses of investments in subsidiaries and equity method investments.

In the consolidated financial statements of the Group shares and interest in equity method investments are initially recognized at cost. Subsequently the investments are measured applying the equity method. The Group performs a periodic review for indications of impairment. Impairment is recognized in the consolidated income statement.

Dividends from subsidiaries and equity method investments are recognised in the separate income statement if they refer to distribution of profit from reporting periods after the investment acquisition, or in decrease of the carrying amount of the investment if they refer to distribution of profit from reporting periods before their acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank/Group for providing of services or for administrative purposes. Property and equipment are presented in the separate and consolidated financial statements at historical acquisition cost except those acquired before December 31, 2003, which are presented at deemed cost for purpose of first time adoption of IFRS, less accumulated depreciation and impairment losses. Property and equipment are initially recorded at cost, which includes all expenses 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 capitalized, 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.

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 derecognized. 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/Group for main group of assets is as follows:

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

The Bank/Group periodically reviews its property and equipment for impairment. Where the carrying amount of 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 recognized in the separate and consolidated income statement as other operating income/expenses.

Foreclosed assets, which represent properties and equipment acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at cost, which includes transaction costs, and are reported under other assets in the separate and consolidated statement of financial position. 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/expenses.

3.7. Intangible assets

Intangible assets include computer software and other intangible assets that comprise separately identifiable intangible items. Intangible assets are presented in the separate and consolidated financial statements at cost of acquisition less accumulated amortization and accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Intangible assets (continued)

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 recognized as a capital improvement and is 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 recognized 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;
- 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 recognized 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 recognized, 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/Group is recognized as an expense when it is incurred.

The Group calculates amortization for the intangible assets on a straight-line basis over their estimated useful lives. The useful life adopted by the Bank/Group for 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.

3.8. Investment property

Investment property includes buildings, acquired through foreclosure proceedings and with intention of earning rentals or for capital appreciation, or both.
Investment property is initially recorded at cost, which includes transaction costs.
Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.
Investment property is depreciated on a straight-line basis over its estimated useful life, but not exceeding 50 years. Investment property is reviewed at least annually for impairment based mainly on external appraisals.

3.9. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Leases (continued)

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 payments made under operating leases are charged to the separate and consolidated income statement on a straight-line basis over the period of the lease and are presented as rent expenses. 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 recognized as an expense in the period in which termination takes place. Assets leased out by the Bank/Group under operating leases are included in the separate and consolidated statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income under lease contracts is recognized on a straight-line basis over the lease term and are presented as ‘other operating income/expenses’ in the separate and consolidated income statement.

Finance lease
Leases where the lessee has substantially all the risks and rewards of ownership of the asset are classified as finance leases. When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance lease receivables underfunded participation in finance lease contracts are included in loans and advances to customers.

3.10. Cash and cash equivalents

Cash and cash equivalents for the purposes of the separate and consolidated statement of cash flows 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.

3.11. Provisions

Provisions are recognized as an expense in the separate and consolidated income statement and liability in the separate and consolidated statement of financial position when the Bank/Group has a present legal or constructive obligations 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 resulting losses can be made.

3.12. Fiduciary and trust activities

The Bank/Group provides fiduciary and trust services to individuals and companies, whereby it holds and manages assets or invests funds received in various financial instruments in customer’s favor. The Bank/Group receives fees and commissions for providing these services. Trust assets are not assets of the Bank/Group and are not recognized in the separate and consolidated financial statements. The Bank/Group is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Employee benefits

The employment and social security relations to the employees of the Bank/Group are based on the provisions 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) are recognized as an expense in the separate and consolidated 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/Group’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 reporting date the Bank/Group 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 post-employment benefit plan that defines an amount of benefit to be provided, determined using a number of financial and demographic assumptions. The most significant assumptions include age, years of service, life expectancy, the discount rate, expected salary increases and pension rates. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation and the related costs are calculated by independent actuaries on an annual basis at the end of each annual reporting period, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and, which have terms to maturity approximating the terms of the related liability. Service cost (current service cost, past service cost (including the effect of curtailments) and gains or losses on settlements) and interest on the defined benefit liability are charged to the income statement and are included in staff costs. The defined benefit obligation is recorded on the statement of financial position, with changes resulting from remeasurements (comprising actuarial gains and losses recognized immediately in OCI, with no subsequent recycling to profit or loss), in order to fully reflect the full value of the plan deficit or surplus.

Defined contribution plans

A defined contribution plan is a pension plan under which the Bank/Group 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 related to employee service in the current and prior periods. Contributions to defined contribution plans are charged to the separate and consolidated income statement in the year to which they relate and are included in staff costs.

3.14. Income taxes

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

Deferred income taxes are provided using the liability method of accounting, under which deferred tax consequences are recognized as a difference between the tax base of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the separate and consolidated income statement are also recognized in the separate and consolidated income statement. Tax effects related to transactions and events recognized directly in equity are also recognized directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14. Income taxes (continued)

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 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 realized or the liability is settled, based on the laws that have been enacted at the reporting date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and is 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.

3.15 Assets and liabilities held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets held for sale are measured at their lower of carrying amount and fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the statement of financial position.

Impairment losses on initial classification as held for sale are included in the income statement, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

If the Bank/Group has classified an asset (or disposal group) as held for sale, but the criteria for classification as such are no longer met, the Bank/Group ceases to classify the asset (or disposal group) as held for sale. The Bank/Group measures a non-current asset (or disposal group) that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation or amortization that would have been recognized had the asset (or disposal group) not been classified as held for sale, and

b) its recoverable amount at the date of the subsequent decision not to sell.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Related party transactions

Related parties include enterprises which may exercise significant influence on financial and operating decisions and which the Bank/Group 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 consolidated income statement and the consolidated statement of financial position and if they have been concluded under market terms.

3.17. Earnings per share

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.

Diluted earnings per share are adjusted for the effect of all potentially dilutive ordinary shares. Basic earnings per share and diluted earnings per share for the Bank/Group are the same because there are no potentially dilutive ordinary shares.

3.18. Shareholder’s equity

The Shareholder’s equity of the Bank/Group includes share capital, retained earnings from previous years, other reserves formed from first time adoption of IFRS, revaluation reserve from financial assets available for sale and the profit for the current year.

The Bank/Group manages its shareholders’ equity according to the risk strategy and necessity of sufficient financial resources for providing optimum risk profile and in accordance with the legal frame (Note 39).

3.19. Critical judgments and estimates

The preparation of separate and consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the separate and consolidated financial statements of the Bank/Group. Management believes that the judgments, estimates and assumptions used in the preparation of the separate and consolidated financial statements are appropriate given the factual circumstances as of December 31, 2016.

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 volatility in the global economic increase the risks from the environment in which the Bank/Group 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 depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. Bank/Group’s Management applies the necessary procedures to manage these risks, as disclosed in note 34.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19. Critical judgments and estimates (continued)

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. All valuation models are validated before they are used as a basis for financial reporting, and are periodically reviewed by Risk Management Department thereafter. Wherever possible, the Bank/Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realized, in order to further validate and calibrate its models. A variety of factors are incorporated into the Bank/Group’s models, including actual or estimated market prices and rates, such as time value and volatility, and market depth and liquidity. The Bank/Group 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 separate and consolidated statement of financial position and the changes in fair values recorded in the separate and consolidated income statement are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

Allowance for impairment losses on loans and advances

The amount of the allowance set aside for loan impairment losses is based on 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 applying a methodology and guidelines, which are continually monitored and improved.

This methodology has two primary components: individual allowances and collective allowances and is described in note 3.4. The applying methodology is in accordance of NBG’s Group policy, to which the Group belongs.

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 favor of the Bank/Group. 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 allowances for impairment losses on loans and advances, Management considers factors such as type of loan, 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 calculations and allowances depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, Management believes that the allowances for impairment losses on loans and advances are reasonable and supportable.

Impairment of available-for-sale financial assets

The Bank/Group determines that available-for-sale financial assets 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/Group evaluates among other factors, the normal volatility in share price and the financial health of the issuer and near-term business outlook for the investee, including factors such as industry and sector performance, changes in operational and financing cash flows of the issuer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19. Critical judgments and estimates (continued)

Net current retirement benefit costs

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit obligations include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

The Bank/Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Bank/Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related defined benefit obligations, or estimates of rates which take into account the risk and maturity of the related liabilities where a deep market in such bonds does not exist.

Useful lives of depreciable assets

The Bank/Group’s Management determines the estimated useful lives and related depreciation charges for its property and other equipment. The Bank/Group’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 decreases the net book value or writes off technically obsolete assets.

Income taxes

The Bank/Group is subject to income taxes in Bulgaria. Significant judgment 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/Group recognizes 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. CASH AND BALANCES WITH THE CENTRAL BANK

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Cash in hand	167,411	166,983	167,411	166,984
Mandatory reserve with the Central Bank	406,813	348,138	406,813	348,138
Current account with the Central Bank	176,259	372,595	176,259	372,595
TOTAL	750,483	887,716	750,483	887,717

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 and 50% from cash in hand. 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. DUE FROM BANKS

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Nostro accounts	29,712	25,327	29,712	25,327
Interbank placements	166,762	76,013	166,762	76,016
Securities purchased under agreements to resell	122,585	-	122,585	-
Other loans and advances to banks	7,960	56,893	7,960	56,893
TOTAL	327,019	158,233	327,019	158,236
Included in cash equivalents (note 26)	238,280	157,940	238,280	157,943

Other loans and advances to banks included the trade finance deals with residual maturity below 1 year at the amount of BGN 928 thousand (2015: BGN 44,317 thousand).

6. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Individuals:	Separate	Separate	Consolidated	Consolidated
Overdrafts	16,870	19,029	16,870	19,029
Credit cards	128,518	143,299	128,518	143,299
Mortgages	920,771	981,038	920,771	981,038
Consumer loans	771,679	786,002	771,679	786,002
	1,837,838	1,929,368	1,837,838	1,929,368
Corporate entities:				
Non-bank financial institutions	184,717	246,631	184,717	246,631
Corporate customers	2,499,422	2,743,606	2,501,101	2,745,033
Government and agencies	20,510	22,935	20,510	22,935
	2,704,649	3,013,172	2,706,328	3,014,599
TOTAL LOANS AND ADVANCES, GROSS	4,542,487	4,942,540	4,544,166	4,943,967
Less: allowance for impairment	(683,799)	(750,679)	(684,254)	(750,977)
LOANS AND ADVANCES TO CUSTOMERS, NET	3,858,688	4,191,861	3,859,912	4,192,990
Including loans pledged under Other borrowed funds (note 17 and note 37)	-	5,779	-	5,779

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of receivables under finance leases included in corporate customers

Finance lease receivables are as follows:

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Not later than 1 year	23,461	34,062	23,461	34,062
Later than 1 year but not later than 5 years	22,745	43,668	22,745	43,668
Later than 5 years	32	68	32	68
Gross investment in finance leases, receivable	46,238	77,798	46,238	77,798
Less: Unearned future finance income on finance leases	(1,162)	(4,844)	(1,162)	(4,844)
Net investment in finance leases	45,076	72,954	45,076	72,954

The net investment in finance leases may be analyzed as follows:

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Not later than 1 year	23,461	34,062	23,461	34,062
Later than 1 year but not later than 5 years	21,583	38,824	21,583	38,824
Later than 5 years	32	68	32	68
Finance lease receivables	45,076	72,954	45,076	72,954
Allowance for uncollectible minimum lease payments receivable included in the provision	(1,177)	(191)	(1,177)	(191)

In the period 2013 to 2016 the Bank/Group has entered into several agreements for acquisition of receivables under leasing contracts to third parties, originated by Interlease AD based on Funded participation agreement. The acquired financial lease receivables for 2016 are at the amount of BGN 5,971 thousand (2015: BGN 57,898 thousand) at the date of risk transfer.

(c) Movement of allowances for impairment for loans and advances

	BGN'000 Separate	BGN'000 Consolidated
BALANCE AS OF JANUARY 1, 2015	(876,772)	(876,973)
Allowances for impairment (Note 31)	(135,958)	(136,085)
Effect from expected cash flows from interests on non-performing loans	2,549	2 549
Loans and advances written off as unrecoverable	263,540	263 570
Recoveries	(8,222)	(8,222)
Legal fees	4,400	4,400
Other	(216)	(216)
BALANCE AS OF DECEMBER 31, 2015	(750,679)	(750 977)
Allowances for impairment (Note 31)	(110,968)	(111,095)
Effect from expected cash flows from interests on non-performing loans	1,345	1,345
Loans and advances written off as unrecoverable	177,324	177,324
Recoveries	(4,569)	(4,599)
Legal fees	3,276	3,276
Other	472	472
BALANCE AS OF DECEMBER 31, 2016	(683,799)	(684,254)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Bulgarian government securities	514,879	455,382	514,879	455,382
Foreign government securities				
listed on official stock markets	68,968	12,883	68,968	12,883
Debt securities of foreign issuers	517,795	160,379	517,795	160,379
Including listed on official stock markets	*49,383*	*17,660*	*49,383*	*17,660*
Shares				
listed on official stock markets	3	6	3	6
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	1,101,645	628,650	1,101,645	628,650

Part of the owned Bulgarian government securities are pledged under repo deals, attracted deposits form government institutions and funding agreements (note 37).

Total financial assets at fair value through profit or loss by type of currency and by type of interest rates are as follows:

As of 31.12.2016
Separate

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	346,027	10	3	346,040
USD	240,003	17,048	-	257,051
EUR	443,030	9,864	-	452,894
GBP	45,660	-	-	45,660
TOTAL	1,074,720	26,922	3	1,101,645

As of 31.12.2015

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	305,838	15	6	305,859
EUR	142,605	1,888	-	144,493
GBP	26,489	-	-	26,489
USD	131,413	20,396	-	151,809
TOTAL	606,345	22,299	6	628,650

As of 31.12.2016
Consolidated

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	346,030	10	3	346,040
USD	240,003	17,048	-	257,051
EUR	443,030	9,864	-	452,894
GBP	45,660		-	45,660
TOTAL	1,074,720	26,922	3	1,101,645

As of 31.12.2015

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	305,838	15	6	305,859
EUR	142,605	1,888	-	144,493
GBP	26,489	-	-	26,489
USD	131,413	20,396	-	151,809
TOTAL	606,345	22,299	6	628,650

Trading securities include short, medium and long-term securities without significant concentrations regarding to maturity and securities.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The table below present an analysis of Trading securities by rating agency designation as of December 31, 2016 and 2015, based on the lower rating of Moody's:

Rating	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Aa1 to A3	181,913	8,104	181,913	8,104
Baa1 to Ba3	724,816	554,039	724,816	554,039
Lower than Ba3	-	-	-	-
Unrated	194,916	66,507	194,916	66,507
TOTAL	1,101,645	628,650	1,101,645	628,650

8. DERIVATIVE FINANCIAL INSTRUMENTS

Separate	31.12.2016			31.12.2015		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives, incl.:						
Currency forward agreements	*28,475*	*345*	*360*	*12,291*	*12*	*141*
Currency swaps	*41,260*	*11*	*234*	*20,047*	-	*106*
Interest rate derivatives - OTC	*100,921*	-	*585*	*3,129*	-	*141*
TOTAL	170,656	356	1,179	35,467	12	388

Consolidated	31.12.2016			31.12.2015		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives, incl:						
Currency forward agreements	*28,475*	*345*	*360*	*12,291*	*12*	*141*
Currency swaps	*41,260*	*11*	*234*	*20,047*	-	*106*
Interest rate derivatives - OTC	*100,921*	-	*585*	*3,129*	-	*141*
TOTAL	170,656	356	1,179	35,467	12	388

The concluded contracts for derivative financial instruments include short-term currency forwards, currency and interest rate swaps. During 2016 and 2015 the Bank/Group has not defined derivatives for hedge accounting purposes.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

9. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Debt securities available for sale - at fair value				
Bulgarian government securities	600,409	452,111	600,409	452,111
Corporate bonds				
Listed on official stock markets	22,194	24,180	22,194	24,180
Unlisted	4,639	4,639	4,639	4,639
	26,833	28,819	26,833	28,819
Equity securities available for sale - at fair value				
Listed on official stock markets	114	90	114	90
Unlisted	5,447	5,551	5,448	5,551
Equity securities in local entities	5,561	5,641	5,562	5,641
Equity securities in foreign entities				
Listed on official stock markets	2	14,013	2	14,013
Unlisted	8,744	20,078	8,744	20,079
	8,746	34,091	8,746	34,092
Equity shares in mutual funds	6,674	5,945	6,674	5,945
TOTAL FINANCIAL ASSETS AVAILABLE-FOR-SALE	648,223	526,607	648,224	526,608

Part of the new government securities are pledged under repo-deals and funding agreements (note 37).
As of December 31, 2015 the Bank owned one redeemable ordinary share with face value EUR 10 of Visa Europe Ltd., which is related to the economic interests of the Bank as a member of Visa. In 2015 Visa Inc. has expressed its commitment and in 2016 it exercised its right to the call option on the shares of Visa Europe, owned by its members, and thus purchased the shares of Visa Europe by paying a fee, consisting of cash and preferred shares of Visa Inc. As of December 31, 2016 the Bank/Group has sold shares of Visa Europe (unlisted equity shares in foreign entities) and shares of Visa Inc. and MasterCard Inc. (listed equity shares on official stock markets). The realized profit is BGN 30,141 thousand.
Total financial assets available for sale by type of currency and interest rate are as follows:

As of 31.12.2016
Separate

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	26,247	-	12,236	38,483
USD	-	-	4,883	4,883
EUR	594,967	6,027	3,863	604,857
TOTAL	621,214	6,027	20,982	648,223

As of 31.12.2015

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	25,188	-	15,649	40,837
USD	-	-	16,016	16,016
EUR	446,722	9,019	14,013	469,754
TOTAL	471,910	9,019	45,678	526,607

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

As of 31.12.2016
Consolidated

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	26,248	-	12,236	38,484
USD	-	-	4,883	4,883
EUR	594,967	6,027	3,863	604,857
TOTAL	621,215	6,027	20,982	648,224

As of 31.12.2015

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	25,188	-	15,650	40,838
USD	-	-	16,016	16,016
EUR	446,722	9,019	14,013	469,754
TOTAL	471,910	9,019	45,679	526,608

Movements in financial assets available-for-sale

	Financial assets available for sale Separate	Financial assets available for sale Consolidated
BALANCE AS OF JANUARY 1, 2015	276,442	276,442
Exchange differences on monetary assets	(1,233)	(1,233)
Additions	298,647	298 648
Sold/matured during the period	(52,080)	(51,842)
Net change in accrued interest	4,166	4 166
Increase changes in fair value	665	427
BALANCE AS OF DECEMBER 31, 2015	526,607	526 608
Exchange differences on monetary assets		
Additions	121,323	121,323
Sold/matured during the period	(40,091)	(40,852)
Net change in accrued interest	2,273	2,273
Increase changes in fair value	38,111	38,872
BALANCE AS OF DECEMBER 31, 2016	648,223	648,224

The table below present an analysis of AFS securities by rating agency designation as of December 31, 2016 and 2015, based on the lower rating of Moody's:

Rating	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Baa1 to Ba3	594,902	444,873	594,902	444,873
Unrated	53,321	81,734	53,322	81,735
Total	648,223	526,607	648,224	526,608

In 2008 the Bank/Group has reclassified certain financial instruments from financial assets at fair value through profit or loss to available for sale. The following tables summarizes the carrying amounts and fair values as of December 31, 2016 (as of December 31, 2015, respectively) of the securities reclassified in 2008, the fair value gain that would have been recognized in the consolidated income statement for the respective year if those securities were not reclassified, and the interest income recognized in the consolidated income statement.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Separate

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2016	Fair value at December 31, 2016	Fair value gain that would have been recognized in P&L in 2016 if not reclassified	Interest income/ dividends recognized in P&L in 2016	Impairment (loss) recognized in P&L in 2016
Corporate bonds	17,836	8,171	8,171	(775)	190	(991)
Equity shares in mutual funds	6,663	6,674	6,674	729	-	-
	24,499	14,845	14,845	(46)	190	(991)

Separate

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2015	Fair value at December 31, 2015	Fair value gain that would have been recognized in P&L in 2015 if not reclassified	Interest income/ dividends recognized in P&L in 2015	Impairment (loss) recognized in P&L in 2015
Corporate bonds	20,597	8,989	8,989	5	357	(331)
Equity shares in mutual funds	6,663	5,945	5,945	(118)	-	-
	27,260	14,934	14,934	(113)	357	(331)

Consolidated

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2016	Fair value at December 31, 2016	Fair value gain that would have been recognized in P&L in 2016 if not reclassified	Interest income/ dividends recognized in P&L in 2016	Impairment (loss) recognized in P&L in 2016
Corporate bonds	17,836	8,171	8,171	(775)	190	(991)
Equity shares in mutual funds	6,663	6,674	6,674	729	-	-
	24,499	14,845	14,845	(46)	190	(991)

Consolidated

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2015	Fair value at December 31, 2015	Fair value gain that would have been recognized in P&L in 2015 if not reclassified	Interest income/ dividends recognized in P&L in 2015	Impairment (loss) recognized in P&L in 2015
Corporate bonds	20,597	8,989	8,989	5	357	(331)
Equity shares in mutual funds	6,663	5,945	5,945	(118)	-	-
	27,260	14,934	14,934	(113)	357	(331)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. INVESTMENTS IN SUBSIDIARIES AND EQUITY

As at December 31, 2016
Separate

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost
UBB Factoring EOOD	Bulgaria	100%	10,000	BGN	1,000
UBB Asset Management AD	Bulgaria	91%	636	BGN	636
UBB Insurance Broker AD	Bulgaria	80%	400,000	BGN	400
UBB METLIFE Life Insurance Company AD	Bulgaria	30%	3,720	BGN	2,100
Druzhestvo za Kasovi Uslugi AD	Bulgaria	20%	2,500	BGN	2,501
Total investments in subsidiaries and equity method investments					6,637

Consolidated

Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Fair value
UBB METLIFE Life Insurance Company AD	Associate	30%	3,720	BGN	2,100	7,511
Druzhestvo za Kasovi Uslugi AD	Associate	20%	2,500	BGN	2,501	2,631
Total investments in associates					4,601	10,142

As at December 31, 2015
Separate

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost
UBB Factoring EOOD	Bulgaria	100%	10,000	BGN	1,000
UBB Asset Management AD	Bulgaria	91%	636	BGN	636
UBB Insurance Broker AD	Bulgaria	80%	400,000	BGN	400
UBB METLIFE Life Insurance Company AD	Bulgaria	30%	2,100	BGN	2,100
Druzhestvo za Kasovi Uslugi AD	Bulgaria	20%	2,500	BGN	2,501
Total investments in subsidiaries and equity method investments					6,637

Consolidated

Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Fair value
UBB METLIFE Life Insurance Company AD	Associate	30%	2,100	BGN	2,100	6,982
Druzhestvo za Kasovi Uslugi AD	Associate	20%	2,500	BGN	2,501	2,593
Total investments in associates					4,601	9,575

Movement in investment in associates	Investments in associates
BALANCE AS OF JANUARY 1, 2015	8,535
Payment of dividends	(1,080)
Income from equity method investments	2,470
Other	(350)
BALANCE AS OF DECEMBER 31, 2015	9,575
Payment of dividends	(2,305)
Income from equity method investments	2,108
Other	764
BALANCE AS OF DECEMBER 31, 2016	10,142

All subsidiaries and equity method investments are registered in Bulgaria. In 2016 there are no changes in the Bank/Group’s participation in shares in subsidiaries and equity method investments.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of December 31, 2016 are as follows:

Separate

COST	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
As of January 1, 2016	54,204	142,289	196,493	42,042	238,535
Additions	-	5,095	5,095	3,632	8,727
Disposals	(83)	(5,321)	(5,404)	(7,786)	(13,190)
Transfers	247	(247)	-	-	-
As of December 31, 2016	54,368	141,816	196,184	37,888	234,072
Including assets with low cost	-	2,203	2,203	-	2,203
DEPRECIATION/ AMORTIZATION					
As of January 1, 2016	38,960	118,815	157,775	37,039	194,814
Charge for 2016	2,281	7,323	9,604	1,875	11,479
Depreciation/Amortization charged on disposals	(51)	(5,164)	(5,215)	(7,711)	(12,926)
As of December 31, 2016	41,190	120,974	162,164	31,203	193,367
NET BOOK VALUE	13,178	20,842	34,020	6,685	40,705
Including assets with low cost	-	(2,203)	(2,203)	-	(2,203)

Intangible assets, property and equipment as of December 31, 2015 are as follows:

Separate

COST	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
As of January 1, 2015	49,955	146,535	196,490	56,747	253,237
Additions	-	7,553	7,553	2,078	9,631
Disposals	(26)	(7,642)	(7,668)	(16,761)	(24,429)
Transfers	4,275	(4,157)	118	(22)	96
As of December 31, 2015	54,204	142,289	196,493	42,042	238,535
Including assets with low cost	-	2,141	2,141	-	2,141
DEPRECIATION/ AMORTIZATION					
As of January 1, 2015	36,536	119,044	155,580	51,818	207,398
Charge for 2015	2,446	7,371	9,817	1,982	11,799
Depreciation/Amortization charged on disposals	(22)	(7,618)	(7,640)	(16,761)	(24,401)
Transfers	-	18	18	-	18
As of December 31, 2015	38,960	118,815	157,775	37,039	194,814
NET BOOK VALUE	15,244	23,474	38,718	5,003	43,721
Including assets with low cost	-	(2,141)	(2,141)	-	(2,141)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT (CONTINUED)

Intangible assets, property and equipment as of December 31, 2016 are as follows:

Consolidated

COST	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
As of January 1, 2016	54,204	142,570	196,774	42,511	239,285
Additions	-	5,147	5,147	3,662	8,809
Disposals	(83)	(5,321)	(5,404)	(7,786)	(13,190)
Transfers	247	(247)	-	-	-
As of December 31, 2016	54,368	142,149	196,517	38,387	234,904
Including assets with low cost	-	2,203	2,203	-	2,203
DEPRECIATION					
As of January 1, 2016	38,960	119,067	158,027	37,291	195,318
Charge for 2016	2,281	7,348	9,629	1,918	11,547
Depreciation/Amortization charged on disposals	(51)	(5,243)	(5,294)	(7,712)	(13,006)
As of December 31, 2016	41,190	121,172	162,362	31,497	193,859
NET BOOK VALUE	13,178	20,977	34,155	6,890	41,045
Including assets with low cost	-	(2,203)	(2,203)	-	(2,203)

Intangible assets, property and equipment as of December 31, 2015 are as follows:

Consolidated

COST	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
As of January 1, 2015	49,955	146,799	196,754	57,167	253,921
Additions	-	7,569	7,569	2,127	9,696
Disposals	(26)	(7,642)	(7,668)	(16,761)	(24,429)
Transfers	4,275	(4,156)	119	(22)	97
As of December 31, 2015	54,204	142,570	196,774	42,511	239,285
Including assets with low cost	-	2,141	2,141	-	2,141
DEPRECIATION					
As of January 1, 2015	36,536	119,271	155,807	52,035	207,842
Charge for 2015	2,446	7,395	9,841	2,018	11,859
Depreciation/Amortization charged on disposals	(22)	(7,618)	(7,640)	(16,762)	(24,402)
Transfers	-	19	19	-	19
As of December 31, 2015	38,960	119,067	158,027	37,291	195,318
NET BOOK VALUE	15,244	23,503	38,747	5,220	43,967
Including assets with low cost	-	(2,141)	(2,141)	-	(2,141)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

12. INVESTMENT PROPERTY

Movement in investment property

	Separate Buildings	Consolidated Buildings
BALANCE AS OF JANUARY 1, 2015	3,011	3,011
BALANCE AS OF DECEMBER 31, 2015	3,011	3,011
Depreciation	(80)	(80)
BALANCE AS OF DECEMBER 31, 2016	2,931	2,931

In December 2015, the Bank/ Group has reclassified certain assets acquired through foreclosure proceedings from the category “Other assets” to the category “Investment property”. Investment property includes buildings for independent exploitation intended for long-term lease to third parties.

The fair value of the investment property held by the Bank/Group as at December 31, 2016 and as at December 31, 2016 does not differ substantially from their carrying amount.

Fair value of the investment property has been categorized as fair value Level 3 based on the input data used in the valuation techniques.

13. DEFERRED TAX ASSETS, NET

The amounts of deferred tax assets and liabilities in the consolidated statement of financial position in respect of each type of temporary differences are as follows:

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Deferred tax assets:				
Retirement benefit obligations	787	735	787	735
Other temporary differences	1,074	681	1,064	680
Provisions for contingent liabilities	60	47	60	47
Total Deferred tax assets	1,921	1,463	1911	1,462
Deferred tax liabilities:				
Securities – available for sale	(454)	(524)	(454)	(523)
Fixed assets depreciation	(2)	(84)	(2)	(84)
Other temporary differences	-	-	-	(8)
Total Deferred tax liabilities	(456)	(608)	(456)	(615)
DEFERRED TAX ASSETS, NET	1,465	855	1,455	847

14. OTHER ASSETS

Separate

	As of 31.12.2016	As of 31.12.2015
Assets acquired against debt	79,967	74,751
Prepaid expenses	2,144	2,135
Income tax to be recovered	1,570	2,104
Warehouse	1,019	903
Suspense accounts with merchants	754	-
Suspense accounts with cards	748	833
Receivables from clients	555	2,378
Receivables under Bank – Model	145	2,310
Suspense account forTreasure deals	-	3,580
Other assets	6,582	6,443
TOTAL	93,484	95,437

All amounts are in thousand Bulgarian Levs, unless otherwise stated

14. OTHER ASSETS (CONTINUED)

Consolidated	As of 31.12.2016	As of 31.12.2015
Assets acquired against debt	79,967	74,751
Prepaid expenses	2,359	2,319
Income tax to be recovered	1,571	2,104
Warehouse	1,019	903
Suspense accounts with merchants	754	-
Suspense accounts with cards	748	833
Receivables from clients	555	2,378
Receivables under Bank – Model	145	2,310
Suspense account forTreasure deals	-	3,580
Other assets	6,810	6,618
TOTAL	93,928	95,796

Assets acquired against debt	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Buildings	55,379	55,795	55,379	55,795
Land	12,479	7,100	12,479	7,100
Machinery and equipment	11,939	11,850	11,939	11,850
Transportation equipment	1	1	1	1
Other	169	5	169	5
	79,967	74,751	79,967	74,751

The assets acquired against debt in 2016 amount to BGN 8,519 thousands (2015: BGN 19,876 thousands)

15. DUE TO BANKS

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Sight deposits	5,812	7,770	5,812	7,770
Term deposits	80,407	23,273	80,407	23,273
REPOS with banks	-	29,976	-	29,976
Other due to banks	845	1,773	845	1,773
TOTAL	87,064	62,792	87,064	62,792
Incl. deposits of the NBG Group	11,442	8,952	11,442	8,952

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. DUE TO CUSTOMERS

Analysis by customers

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Individuals				
Current/demand accounts	958,789	711,369	958,789	711,369
Saving accounts	1,417,524	1,365,457	1,417,524	1,365,457
Term deposits	1,459,299	1,548,114	1,459,299	1,548,114
	3,835,612	3,624,940	3,835,612	3,624,940
Non-bank financial institutions				
Current/demand accounts	371,507	286,306	371,507	286,306
Term deposits	33,523	23,949	33,523	23,949
	405,030	310,255	405,030	310,255
Corporate entities				
Current/demand accounts	1,072,471	873,396	1,071,578	871,278
Term deposits	210,993	239,413	207,582	237,943
REPO deals	1,102	-	1,102	-
	1,284,566	1,112,809	1,280,262	1,109,221
Government entities				
Current/demand accounts	44,387	40,373	44,387	40,373
Term deposits	997	976	997	976
	45,384	41,349	45,384	41,349
TOTAL	5,570,592	5,089,353	5,566,288	5,085,765

17. OTHER BORROWED FUNDS

The Group has signed two loan agreements with for Reconstruction and Development (“EBRD”) under the Residential Energy Efficiency Credit Line Facility (“REECL”). The first one has been signed in June 2013 for the amount of EUR 5 million. The purpose of the program is to promote eligible residential energy efficiency and small renewable energy projects in the country of operation. In 2014 the commitment period was prolonged to November 2015 and in January 2015 a new annex to the agreement for new disbursement has been signed. The loan bears a floating interest and is repayable in eight equal quarterly instalments starting in February 2016 and ending in November 2017. As at December 30, 2016 the loan is fully utilized (2015: fully utilized). The obligation is secured with a pledge of government securities (note 37).
The second loan agreement has been signed on June 13, 2016 for another amount of EUR 5 million. The loan bears a floating interest rate and is repayable on seven equal semi-annual instalments with final maturity date in June 2022. As of December 30, 2016 no funds on the loan has been utilized. The obligation is secured with a pledge of government securities.

At the end of 2008, UBB signed an agreement with the Bulgarian Development Bank for a ten-year loan amounting to BGN 30 million for lending to companies in the private and municipal sector and pre-export lending. The contract has a fixed interest rate and maturity till December 2018. As of December 31, 2016 the loan has been fully prepaid.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

17. OTHER BORROWED FUNDS (CONTINUED)

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Credit lines from banks				
In Bulgarian Levs	-	30,004	-	30,004
In EUR	4,818	9,705	4,818	9,705
TOTAL	4,818	39,709	4,818	39,709

Analysis by utilization

Facilities	Currency	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
		Separate	Separate	Consolidated	Consolidated
Energy efficiency					
Retail	EUR	4,818	9,705	4,818	9,705
		4,818	9,705	4,818	9,705
SME finance	BGN	-	30,004	-	30,004
		-	30,004	-	30,004
TOTAL		4,818	39,709	4,818	39,709

18. SUBORDINATED LIABILITIES

Separate	Carrying amount	Carrying amount	Fair value	Fair value
Subordinated loans	2016	2015	2016	2015
In EUR	50,882	101,814	50,942	101,318
TOTAL	50,882	101,814	50,942	101,318

Consolidated	Carrying amount	Carrying amount	Fair value	Fair value
Subordinated loans	2016	2015	2016	2015
In EUR	50,882	101,814	50,942	101,318
TOTAL	50,882	101,814	50,942	101,318

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/Group in any form. The original maturity of the subordinated loans is 10 years and the contractual repayment schedule contains five equal annual payments amounting to BGN 50,852 thousand for the period 2013-2017.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. RETIREMENT BENEFIT OBLIGATIONS

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Amount recognized in statement of financial position	Separate	Separate	Consolidated	Consolidated
Present value of unfunded obligations	10,984	9,245	10,984	9,245
Net liability in BS	10,984	9,245	10,984	9,245

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Amount recognized in Profit and Loss	Separate	Separate	Consolidated	Consolidated
Service cost	446	428	446	428
Net interest on the net defined benefit liability	268	247	268	247
Regular P&L Charge	714	675	714	675
Settlement/ Curtailment/ Termination (gain)	9	56	9	56
Total P&L Charge	723	731	723	731

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Reconciliation of benefit obligation	Separate	Separate	Consolidated	Consolidated
DBO at start of period	9,245	8,582	9,245	8,582
Service cost	446	428	446	428
Interest cost	268	247	268	247
Benefits paid directly by the company	(206)	(361)	(206)	(361)
Settlement/ Curtailment/ Termination gain	9	56	9	56
Actuarial gain - financial assumptions	1,518	(125)	1,518	(125)
Actuarial gain - experience	235	418	235	418
Other adjustments recognized in OCI	(531)	-	(531)	-
DBO at the end of period	10,984	9,245	10,984	9,245

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Cumulative amount recognized in the OCI	(3,117)	(1,895)	(3,117)	(1,895)

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Re-measurements	Separate	Separate	Consolidated	Consolidated
Liability gain/ (loss) due to changes in assumptions	1,518	(125)	1,518	(125)
Liability experience gain arising during the year	235	418	235	418
Total actuarial gain/ (loss) recognized in OCI	1,753	293	1,753	293
Other adjustments recognized in OCI	(531)	-	(531)	-
Total amount recognized in OCI over the period	1,222	293	1,222	293

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Movements in Liability in statement of financial position	Separate	Separate	Consolidated	Consolidated
Net Liability in statement of financial position at the beginning of the period	9,245	8,582	9,245	8,582
Benefits paid directly	(206)	(361)	(206)	(361)
Total expense recognized in the income statement	723	731	723	731
Total amount recognized in the OCI	1,222	293	1,222	293
Net Liability in statement of financial position	10,984	9,245	10,984	9,245

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Cash flows	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Expected benefits paid by the plan for the next financial year	261	84	261	84

Assumptions	As of 31.12.2016 separate	As of 31.12.2015 separate	As of 31.12.2016 consolidated	As of 31.12.2015 consolidated
Discount rate	1.90%	3.00%	1.90%	3.00%
Price inflation	2.00%	2.00%	2.00%	2.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Rate of pension increase	0.00%	0.00%	0.00%	0.00%
Plan duration	14.04	13,65	14.04	13,65

Expected charge for 2017	Separate	Consolidated
Service cost	547	547
Net interest on the net defined benefit liability/(asset)	206	206
Expected Charge for 2017	753	753

The defined benefit obligations above are linked only to obligation of the Bank/Group 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 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Amounts due to related parties under Funded participation agreement	10,150	6,194	10,150	6,194
Creditors and suppliers	6,432	5,757	6,685	5,960
Payroll related accruals	5,701	3,632	5,728	3,634
Provisions for issued letters of guarantees	600	474	600	474
Amounts due to government agencies	428	960	428	960
Dividend payable	226	-	226	-
Taxes payable - other than income taxes	153	1,038	192	1,041
Deferred income	45	47	55	47
Other provisions	-	733	-	733
Other	39	547	39	594
TOTAL	23,774	19,382	24,103	19,637

21. SHARE CAPITAL

The total authorized number of ordinary shares at December 31, 2016 and 2015 is 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 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Profit for the year	111,261	48,907	111,832	51,154
Weighted average number of ordinary shares outstanding	75,964,082	75,964,082	75,964,082	75,964,082
EARNINGS PER SHARE IN BGN	1.46	0.64	1.47	0.67

All amounts are in thousand Bulgarian Levs, unless otherwise stated

23. RETAINED EARNINGS

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Accumulated prior years' earnings at beginning of period	1,125,622	1,076,715	1,132,523	1,081,647
Net profit for the period	111,261	48,907	111,832	50,876
Paid dividends	(259,798)	-	(259,798)	-
TOTAL	977,085	1,125,622	984,557	1,132,523

Components of retained earnings are:

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
General reserves	783,666	994,557	789,676	999,100
Undistributed profit from previous years	78,011	77,171	78,902	78,062
Net profit for the period	111,261	48,907	111,832	50,876
Other	4,147	4,987	4,147	4,485
TOTAL	977,085	1,125,622	984,557	1,132,523

24. REVALUATION RESERVE

	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
Revaluation reserve - AFS investments	Separate	Separate	Consolidated	Consolidated
At the beginning of the period	21,853	13,801	22,742	14,928
Net gains from disposal transferred to Net profit	(30,141)	(2,204)	(30,141)	(2,204)
Deferred tax	(1,173)	(268)	(1,401)	(268)
Changes in fair value of AFS investments, net of tax	38,111	665	38,872	427
Impairment on AFS investments	3,761	9,859	3,761	9,859
TOTAL	32,411	21,853	33,833	22,742

25. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Agreements related to trade finance operations

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

Counterparty	Description	Currency and amount of the facility	Date of the agreement	Utilization as of 31.12.2016	Utilization as of 31.12.2015
EBRD	*Non-committed Trade Finance Guarantee Facility Agreement between UBB and EBRD under the Trade Facilitation Programme ("TFP").* Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by EBRD, by providing banks partial or full guarantees covering our payment risk.	EUR 15 millions	29.07.2013	BGN 1,154 thousands	BGN 9,779 thousands
	Non-committed Loan Facility on a Revolving basis between UBB and EBRD under the TFP. Under the facilities UBB can obtain short-term loans to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing necessary for the performance of foreign trade contracts.			Not utilized	Not utilized
IFC	*Non-committed Trade Finance Guarantee Facility Agreement between UBB and IFC under the Global Trade Finance Programme ("GTFP").* Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by IFC, by providing banks partial or full guarantees covering our payment risk.	USD 10 millions	04.08.2014	BGN 3.488 thousands	Not utilized

26. CASH AND CASH EQUIVALENTS

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Cash in hand	167,411	166,983	167,411	166,984
Current account with the Central Bank	176,259	372,595	176,259	372,595
Mandatory reserve with the Central Bank	406,813	348,138	406,813	348,138
Loans and advances to banks	238,280	157,939	238,280	157,943
TOTAL	988,763	1,045,655	988,763	1,045,660

All amounts are in thousand Bulgarian Levs, unless otherwise stated

27. NET INTEREST INCOME

	Year ended 31.12.2016	Year ended 31.12.2015	Year ended 31.12.2016	Year ended 31.12.2015
	Separate	Separate	Consolidated	Consolidated
A. Interest and similar income				
Loans and advances to banks	272	2,463	272	2,467
Loans and advances to customers				
Loans and advances to individuals	*152,846*	*164,945*	*152,846*	*164,945*
Loans and advances to enterprises	*95,826*	*105,929*	*96,393*	*106,499*
Loans and advances to financial institutions	*5,800*	*6,817*	*5,800*	*6,817*
Financial assets at fair value through profit or loss	12,680	13,829	12,680	13,829
Investment securities – available for sale	16,013	13,063	16,013	13,063
TOTAL INTEREST INCOME	283,437	307,046	284,004	307,620
B. Interest expenses and similar charges				
Due to banks	(866)	(364)	(866)	(364)
Deposits of customers				
Deposits of individuals	*(21,095)*	*(40,015)*	*(21,095)*	(40,015)
Deposits of enterprises	*(3,222)*	*(6,018)*	*(3,167)*	(5,941)
Deposits of financial institutions	*(1,531)*	*(1,319)*	*(1,531)*	*(1,319)*
Bank borrowings	(879)	(1,585)	(879)	(1,585)
Subordinated liabilities	(350)	(884)	(350)	(884)
Other interest paying liabilities	(542)	(48)	(542)	(48)
TOTAL INTEREST EXPENSES	(28,485)	(50,233)	(28,430)	(50,156)
NET INTEREST INCOME	254,952	256,813	255,574	257,464

28. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2016	Year ended 31.12.2015	Year ended 31.12.2016	Year ended 31.12.2015
	Separate	Separate	Consolidated	Consolidated
A. Fee and commission income				
Transfer of funds and cash transactions	17,851	18,014	17,851	17,990
Deposits accounts fees and commissions	31,598	30,692	31,598	30,692
Credit and debit cards related fees and commissions	22,554	21,202	22,554	21,202
Loans and advances to customers	9,205	8,883	9,205	8,883
Guarantees and letters of credit	1,711	2,213	1,711	2,213
Other fees and commissions	12,168	11,170	17,076	16,112
	95,087	92,174	99,995	97,092
B. Fee and commission expenses				
Credit and debit cards related fees and commissions	(4,213)	(3,283)	(4,213)	(3,283)
Transfer of funds	(589)	(581)	(589)	(581)
Other fees and commissions	(1,253)	(1,009)	(1,698)	(1,545)
	(6,055)	(4,873)	(6,500)	(5,409)
NET FEE AND COMMISSION INCOME	89,032	87,301	93,495	91,683

All amounts are in thousand Bulgarian Levs, unless otherwise stated

29. NET TRADING INCOME

	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Gains on Foreign exchange				
Foreign exchange contracts	7,621	6,638	7,621	6,638
Position in foreign assets/liabilities	(1,554)	(2,295)	(1,554)	(2,295)
	6,067	4,343	6,067	4,343
Gains on Interest rate instruments				
Government securities	17,383	10,787	17,383	10,787
Corporate debt securities	892	(528)	892	(528)
Interest rate swaps	(23)	26	(23)	26
	18,252	10,285	18,252	10,285
NET TRADING INCOME	24,319	14,628	24,319	14,628

30. OTHER OPERATING INCOME, NET

	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Rental income	662	899	598	838
Gain/(Loss) on disposal of fixed assets, net	241	469	267	469
IT Service fees net income	49	137	49	137
Other income, net	1,326	1,448	1,068	1,362
TOTAL	2,278	2,953	1,982	2,806

31. NET ALLOWANCES FOR IMPAIRMENT

The net charge of allowances for impairment for the year ended December 31, 2016 and 2015 is as follows:

	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Loans and advances to customers	(107,692)	(131,557)	(107,819)	(131,684)
Collection expenses	(3,276)	(4,400)	(3,276)	(4,400)
Impairment of Investment securities available for sale	(3,761)	(9,859)	(3,761)	(9,859)
TOTAL	(114,729)	(145,816)	(114,856)	(145,943)

In 2016 the Impairment of Investment securities available for sale is related to corporate bonds BGN 3,761 thousand (2015: available for sale is related to equity shares BGN 8,348 and corporate bonds BGN 1,511 thousand).

32. GENERAL ADMINISTRATIVE EXPENSES

	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Personnel costs	72,553	63,423	74,602	65,332
Occupancy expenses	19,621	18,821	19,723	18,941
Deposit Insurance Premium	17,631	28,669	17,631	28,669
Depreciation/Amortization/Impairment charge	11,559	11,799	11,627	11,859
Rentals	10,899	11,015	10,963	11,076
Duties and Taxes	9,581	9,423	9,641	9,471
Service fees	7,621	5,799	7,754	5,893
Marketing and advertisement	4,109	4,255	4,153	4,280
Stationary - other consumables	2,687	2,640	2,704	2,658
Services related to T24 and SAP	2,359	2,035	2,359	2,035
Insurance costs	1,928	2,222	1,939	2,222
Telecommunications	1,834	2,092	1,842	2,092
Business trips	1,161	1,220	1,190	1,235
Impairment of assets	218	777	218	777
Provision charges/(release) for forfeiture of letters of guarantee	127	(104)	127	(104)
Subscriptions - Contributions	118	120	137	137
Provision for legal cases	-	600	-	600
Other	2,114	2,002	2,140	2,020
TOTAL	166,120	166,808	168,750	169 193

In 2016 the Bank / Group expenses concerning services provided by the auditors are as follows:

a) Group: BGN 283 thousands and Bank: BGN 264 thousands, for the audit of the annual financial statements;
b) Group: 287 BGN thousands and Bank: BGN 287 thousand, for other audit related services.

In 2015 the Bank / Group expenses concerning services provided by the auditors are as follows:

a) Group: BGN 251 thousands and Bank: BGN 229 thousands, for the audit of the annual financial statements;
b) Group: BGN 198 thousands and Bank: BGN 198 thousand, for other audit related services.

Personnel costs consists of:	Year ended 31.12.2016 Separate	Year ended 31.12.2015 Separate	Year ended 31.12.2016 Consolidated	Year ended 31.12.2015 Consolidated
Wages and Salaries	54,561	51,165	56,144	52,725
Social security costs	9,733	8,290	9,953	8,496
Accrued bonuses	5,106	1,095	5,316	1,193
Other staff costs	1,077	961	1,113	1,006
Pension costs - defined contribution plans	1,353	1,181	1,353	1,181
Pension costs - defined benefit plans, incl.:	723	731	723	731
Current service cost	*446*	*428*	*446*	*428*
Interest cost	*268*	*247*	*268*	*247*
Loss on curtailment	*9*	*56*	*9*	*56*
TOTAL	72,553	63,423	74,602	65,332

All amounts are in thousand Bulgarian Levs, unless otherwise stated

33. INCOME TAXES

	Year ended 31.12.2016	Year ended 31.12.2015	Year ended 31.12.2016	Year ended 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Current tax expense	13,967	6,461	13,967	6,461
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(1,782)	(1,193)	(1,782)	(1,193)
Current tax paid abroad	141	116	141	116
Tax expense	12,326	5,384	12,326	5,384
Tax effects from previous periods	47	(237)	47	(199)
Share of tax in subsidiaries and equity method investments	-	-	457	506
TOTAL	12,373	5,147	12,830	5,691

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

	Year ended 31.12.2016	Year ended 31.12.2015	Year ended 31.12.2016	Year ended 31.12.2015
	Separate	Separate	Consolidated	Consolidated
Profit before taxation	123,634	54,054	124,922	56,845
Prima facie tax calculated at an applicable tax rate (10% for 2016 and 2015)	12,363	5,405	12,492	5,685
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	(178)	(137)	(178)	(417)
Taxes related to previous years-permanent differences	47	-	47	-
Current tax paid abroad	141	116	141	116
Tax expense	12,373	5,384	12,502	5,384
Tax effects from previous periods	-	(237)	328	(199)
Share of tax in associates subsidiaries and equity method investments	-	-	-	506
TOTAL	12,373	5,147	12,830	5,691
Effective income tax rate	10,01%	9,52%	10,27%	10,01%

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, 2016 and as of December 31, 2015 are calculated using the tax rate of 10%, enacted as of that date to be effective for 2016 and 2015.

34. FINANCIAL RISK MANAGEMENT

The Bank/Group actively manages the risks, inherent to its activity, aiming to achieve optimal profitability from operations, while keeping all risks under control. The Bank/Group applies the approved Risk Strategy, developed in accordance with the NBG Group Risk Strategy, the requirements of all applicable laws, BNB regulations and European Authorities' standards and framework.

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

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

The Bank's/Group's Executive and Senior Management have the responsibility for implementing the Risk strategy approved by the Board of Directors and for developing the policies, methodologies and procedures for identifying, measuring, monitoring and controlling all types of risk, consistent with the nature and complexity of the relevant activities.

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

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

The Bank's/Group's risk governance model includes three lines of defence consisting of:

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

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

The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken. The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making, as well as the assessment of the risk that may arise in cases of important changes (mergers, acquisitions etc.), with a view to adopting the proper risk management and control mechanisms.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

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

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

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

Credit risk

The credit risk is related to possible unfavorable impact to the profit and capital of the Bank/Group from an obligor's failure to meet the terms of any contract with the entity from the Group or otherwise fail to perform as agreed. It arises in lending activities as well as in various other activities where the Bank/Group is exposed to the risk of counterparty default, such as trading and settlement activities.

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

The Bank has adopted and implements *Corporate Credit Policy, Retail Credit Risk Policy and SBL Credit Risk Policy*, three master documents which regulate the lending business, the approval process, the principles of credit administration and the credit risk monitoring.

The Corporate Credit Policy sets the framework for corporate credit risk management, including approval levels and bodies, rating system, early warning system, classification and remedial management.

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

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

Retail Credit Risk Policy sets the criteria for approval of all types of credit products for individuals, approval levels, scoring models in use and their application, and portfolios' monitoring.

Credit Policy for the Small Business Lending Segment establishes the approval and monitoring criteria for all the products in this respective business area.

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

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

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

In compliance with its risk strategy, the Bank/Group targets the maintaining of low level of credit risk concentration at obligor level and by industries. The Bank/Group regularly monitors and reports the large exposures on obligor level and by industries. The Bank/Group has a financial assets impairment provision and write off policy which in consistent with the NBG Group policy and also is applied to all subsidiaries. The policy establishes guidelines for the assessment process. The Bank/Group makes assessment of the risk exposure, evolving from the loan portfolio by internally classifying and provisioning loans in compliance with the requirements of the IFRS on a monthly basis. In order to manage the country and counterparty credit risk, the Bank/Group has approved a conservative limits' framework. The Bank/Group has no appetite for risk exposures towards bank counterparties with rating - public or internal - less favorable than Ba3 (Moody's) or BB- (S&P/ Fitch). The counterparty risk originated from investments in bonds (issuer risk) is managed by position limits for securities per credit quality of the issuer, country of the issuer, type and maturity of bonds. As a general rule, the Bank invests in securities with investment-grade issuer rating - "Baa3" or higher according to Moody's and "BBB-"or higher according to S&P or Fitch. Exceptions should be approved ad-hoc by NBG Group Risk Management and Risk Management Committee after a relevant proposal. The above restrictions for selection of counterparties ensure undertaking of acceptable credit risk arising from transactions on the interbank market.

Market risk

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

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

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

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

The Bank manages the market risk by using the internationally accepted variance/covariance methodology developed by Risk Metrics / J.P. Morgan. This approach is used to calculate the VaR of UBB's Trading and AFS portfolio positions retained for one-day at a 99% confidence level. The VaR model assumes a certain "holding" period until a position can be closed. For the effective management of market risk in line with approved strategic objectives, the Bank has established a framework of VaR limits – total and by risk factors.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Foreign currency risk

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

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

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

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

Interest rate risk in the banking book (IRRBB)

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

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

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

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

Liquidity risk

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

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

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

Liquidity Risk Policy and *Contingency Funding Plan* are designed to be aligned with the Bank's Risk Strategy and to meet all the requirements set by the Bulgarian National Bank.

34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

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

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

Operational risk

The Bank/Group defines operational risk as losses due to errors, violations of established rules and procedures, damage caused by disruption of internal processes or employees; also damages for loss caused by the failure of internal systems or external events: internal or external fraud, employment practices with employees and workplace safety, claims by customers, development and commercialization of products, fines and penalties resulting from failure to comply with rules suffered property damage, business interruption and business failures in the system and management processes.

Framework for operational risk management is a set of policies and procedures to monitor measure and reduce exposure to operational risk of the Bank/Group, including management strategy for operational risk policy and methodology for operational risk management service Implementing Rules.

The Bank/Group has established a special functional structure for operational risk management within the Risk Management Division that is independent of the business and operating units as well as the function of specialized internal audit unit. The unit’s responsibility is to determine assessment methods and perform measurement and analysis of operational risk. The responsibility for collecting and reporting information on loss and taking measures to reduce and prevent risks is in the functions of the heads of the operational and functional units within the Bank/Group.

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

The BCP is developed in compliance with the regulatory requirements and best practices, taking into consideration the organizational structure and Group business functions activities.

The BCP management is realized by the Business Continuity Committee. The main goal of the Committee is the organization and business continuity management in UBB including ensuring and management of effective actions, directed to restoring of the interruption functioning of the separate business processes and systems, and the Bank as well when occur events which violate its normal functioning.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK

Credit risk is summarized as follows:

Maximum exposure to credit risk before collateral and other credit enhancements

	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
ASSETS	Separate	Separate	Consolidated	Consolidated
Loans and advances to banks	327,019	158,233	327,019	158,236
Financial assets at fair value through P/L	1,101,642	628,644	1,101,642	628,644
Derivative financial instruments	356	12	356	12
Loans and advances to customers, net	3,858,688	4,191,861	3,859,912	4,192,990
Investment in securities available for sale	627,242	480,930	627,242	480,930
Other assets	5,589	9,101	5,824	9,101
Financial guarantees	171,271	158,385	171,271	158,385
Standby letters of credit	12,229	4,628	12,229	4,628
Commitments to extend credit	625,249	613,177	641,846	632,312
MAXIMUM EXPOSURES TO CREDIT RISK	6,729,285	6,244,971	6,747,341	6,265,238

Quality of loans and advances and collaterals

Separate

	Value of collateral received			
Year ended 31.12.2016	**Real estate collateral**	**Financial collateral**	**Other collateral**	**TOTAL**
Retail lending	761,759	-	30,630	792,389
Corporate lending	1,034,959	14,914	563,038	1,612,912
Public sector	-	-	895	895
Total	1,796,719	14,914	594,563	2,406,196

Consolidated

	Value of collateral received			
Year ended 31.12.2016	**Real estate collateral**	**Financial collateral**	**Other collateral**	**TOTAL**
Retail lending	761,759	-	30,630	792,389
Corporate lending	1,034,959	14,914	563,038	1,612,912
Public sector	-	-	895	895
Total	1,796,719	14,914	594,563	2,406,196

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Quality of loans and advances and collaterals (continued)

Separate	Value of collateral received			
Year ended 31.12.2015	**Real estate collateral**	**Financial collateral**	**Other collateral**	**TOTAL**
Retail lending	834,828	-	42,749,39	877,578
Corporate lending	1,215,436	8,672	802,675	2,018,111
Public sector	-	-	1,655	1,655
Total	2 050 265	8 672	847,079	2,897,344

Consolidated	Value of collateral received			
Year ended 31.12.2015	**Real estate collateral**	**Financial collateral**	**Other collateral**	**TOTAL**
Retail lending	834,828	-	42,749	877,578
Corporate lending	1,215,436	8,672	802,675	2,026,783
Public sector	-	-	1,655	1,655
Total	2,050,265	8,672	847,079	2,906,016

Loans past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless there is objective evidence of impairment. Loans and advances to customers according to the allowed past due status and impairment estimating method as of December 31, 2016 and 2015 are as follows:

Year ended 31.12.2016	Non impaired		Impaired			Allowance for impairment				
Separate	Neither past due nor impaired	Past due but not impaired	Individual	Collective	Total before allowance	Individual	Collective	Total Allowance for impairment	Total	Fair Value of collateral
Retail Landing	1,413,448	117,351	133,608	206,512	1,870,919	(76,853)	(123,381)	(200,234)	1,670,685	792,389
Cards	*113,556*	*3,278*	-	*11,684*	*128,518*	-	*(9,960)*	*(9,960)*	*118,558*	-
Consumer	*610,495*	*39,626*	-	*138,428*	*788,549*	-	*(98,062)*	*(98,062)*	*690,487*	*27,542*
Mortgage	*674,264*	*73,924*	*133,608*	*38,976*	*920,772*	*(76,853)*	*(3,992)*	*(80,845)*	*839,927*	*761,759*
Small Business loans	15,133	523	-	17,424	33,080	-	(11,367)	(11,367)	21,713	3,088
Corporate lending	1,645,935	86,738	685,555	232,830	2,651,058	(415,259)	(68,286)	(483,545)	2,167,513	1,712,801
SMEs	*843,253*	*77,853*	*543,205*	*226,613*	*1,690,924*	*(326,294)*	*(68,163)*	*(394,457)*	*1,296,467*	*1,058,074*
Large	*802,682*	*8,885*	*142,350*	*6,217*	*960,134*	*(88,965)*	*(123)*	*(89,088)*	*871,046*	*654,727*
Public lending	20,508	2	-	-	20,510	-	(20)	(20)	20,490	895
Total	3,079,891	204,091	819,163	439,342	4,542,487	(492,112)	(191,687)	(683,799)	3,858,688	2,506,085

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Year ended 31.12.2015	Non impaired		Impaired			Allowance for impairment				
Separate	Neither past due nor impaired	Past due but not impaired	Individual	Collective	Total before allowance	Individual	Collective	Total Allowance for impairment	Total	Fair Value of collateral
Retail Landing	1,395,506	140,783	153,960	264,639	1,954,888	(83,662)	(156,934)	(240,596)	1,714,292	877,578
Cards	*123,712*	*4,467*	-	*15,120*	*143,299*	-	*(12,959)*	*(12,959)*	*130,340*	-
Consumer	*579,049*	*40,622*	-	*185,360*	*805,031*	-	*(125,988)*	*(125,988)*	*679,043*	*41,948*
Mortgage	*684,025*	*95,358*	*153,960*	*47,694*	*981,037*	*(83,662)*	*(5,551)*	*(89,213)*	*891,824*	*834,828*
Small Business loans	*8,720*	*336*	-	*16,465*	*25,521*	-	*(12,436)*	*(12,436)*	*13,085*	*802*
Corporate lending	1,764,594	155,417	798,732	245,974	2,964,717	(441,845)	(68,237)	(510,082)	2,454,635	2,018,111
SMEs	*1,038,269*	*119,486*	*647,607*	*238,010*	*2 043,372*	*(364,183)*	*(68,207)*	*(432,390)*	*1,610,982*	*1,457,446*
Large	*726,325*	*35,931*	*151,125*	*7,964*	*921,345*	*(77,662)*	*(30)*	*(77,692)*	*843,653*	*560,665*
Public lending	22,929	6	-	-	22,935	-	(1)	(1)	22,934	1,655
Total	3,183,029	296,206	952,692	510,613	4,942,540	(525,507)	(225,172)	(750,679)	4,191,861	2,897,344

Year ended 31.12.2016	Non impaired		Impaired			Allowance for impairment				
Consolidated	Neither past due nor impaired	Past due but not impaired	Individual	Collective	Total before allowance	Individual	Collective	Total Allowance for impairment	Total	Fair Value of collateral
Retail Landing	1,413,448	117,351	133,608	206,512	1,870,919	(76,853)	(123,381)	(200,234)	1,670,685	792,389
Cards	*113,556*	*3,278*	-	*11,684*	*128,518*	-	*(9,960)*	*(9,960)*	*118,558*	-
Consumer	*610,495*	*39,626*	-	*138,428*	*788,549*	-	*(98,062)*	*(98,062)*	*690,487*	*27,542*
Mortgage	*674,264*	*73,924*	*133,608*	*38,976*	*920,772*	*(76,853)*	*(3,992)*	*(80,845)*	*839,927*	*761,759*
Small Business loans	*15,133*	*523*	-	*17,424*	*33,080*	-	*(11,367)*	*(11,367)*	*21,713*	*3,088*
Corporate lending	1,647,109	86,738	685,555	233,335	2,652,737	(415,259)	(68,741)	(484,000)	2,168,737	1,712,801
SMEs	*844,427*	*77,853*	*543,205*	*227,118*	*1,692,603*	*(326,294)*	*(68,618)*	*(394,912)*	*1,297,691*	*1,058,074*
Large	*802,682*	*8,885*	*142,350*	*6,217*	*960,134*	*(88,965)*	*(123)*	*(89,088)*	*871,046*	*654,727*
Public lending	20,508	2	-	-	20,510	-	(20)	(20)	20,490	895
Total	3,081,065	204,091	819,163	439,847	4,544,166	(492,112)	(192,142)	(684,254)	3,859,912	2,506,085

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Year ended 31.12.2015	Non impaired		Impaired			Allowance for impairment				
Consolidated	Neither past due nor impaired	Past due but not impaired	Individual	Collective	Total before allowance	Individual	Collective	Total Allowance for impairment	Total	Fair Value of collateral
Retail Landing	1,395,506	140,783	153,960	264,639	1,954,888	(83,662)	(156,934)	(240,596)	1,714,292	877,578
Cards	*123,712*	*4,467*	-	*15,120*	*143,299*	-	*(12,959)*	*(12,959)*	*130,340*	-
Consumer	*579,049*	*40,622*	-	*185,360*	*805,031*	-	*(125,988)*	*(125,988)*	*679,043*	*41,948*
Mortgage	*684,025*	*95,358*	*153,960*	*47,694*	*981,037*	*(83,662)*	*(5,551)*	*(89,213)*	*891,824*	*834,828*
Small Business loans	*8,720*	*336*	-	*16,465*	*25,521*	-	*(12,436)*	*(12,436)*	*13,085*	*802*
Corporate lending	1,765,577	155,417	798,732	246,418	2,966,144	(441,845)	(68,535)	(510,380)	2,455,764	2,018,111
SMEs	*1,039,252*	*119,486*	*647,607*	*238,454*	*2,044,799*	*(364,183)*	*(68,505)*	*(432,688)*	*1,612,111*	*1,457,446*
Large	*726,325*	*35,931*	*151,125*	*7,964*	*921,345*	*(77,662)*	*(30)*	*(77,692)*	*843,653*	*560,665*
Public lending	22,929	6	-	-	22,935	-	(1)	(1)	22,934	1,655
Total	3,184,012	296,206	952,692	511,057	4,943,967	(525,507)	(225,470)	(750,977)	4,192,990	2,897,344

Ageing analysis of loans past due but not individually impaired as of December 31, 2016 and 2015:

Separate

Year ended 31.12.2016	**Loans and advances to customers**							
	Cards	**Consumer**	**Mortgage**	**Small Business loans**	**Large**	**SMEs**	**Public**	**Total Loans**
Past due up to 30 days	2,651	32,301	52,482	325	14,854	97,420	2	200,035
Past due 31-60 days	376	7,443	18,558	149	-	9,462	-	35,988
Past due 61-90 days	251	10,665	12,103	71	155	12,681	-	35,926
Past due 91-180 days	532	6,432	5,913	151	93	17,097	-	30,218
Past due 180 days- 365 days	464	6,210	6,077	152	-	8,627	-	21,530
Past due 1-2 years	2,287	5,873	3,618	5,060	-	16,345	-	33,183
Past due over 2 years	8,401	109,130	14,149	12,039	-	142,834	-	286,553
Total	14,962	178,054	112,900	17,947	15,102	304,466	2	643,433

Year ended 31.12.2015	**Loans and advances to customers**							
	Cards	**Consumer**	**Mortgage**	**Small Business loans**	**Large**	**SMEs**	**Public**	**Total Loans**
Past due up to 30 days	3,464	36,729	59,933	166	35,639	115,401	6	251,338
Past due 31-60 days	634	9,042	26,873	66	292	24,564	-	61,471
Past due 61-90 days	369	19,294	17,367	139	-	10,030	-	47,199
Past due 91-180 days	1,154	7,405	9,694	146	-	12,009	-	30,408
Past due 180 days- 365 days	755	7,811	8,785	357	-	20,153	-	37,861
Past due 1-2 years	4,557	9,111	3,673	7,832	-	21,120	-	46,293
Past due over 2 years	8,654	136,590	16,727	8,095	7,964	154,219	-	332,249
Total	19,587	225,982	143,052	16,801	43,895	357,496	6	806,819

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Consolidated

Year ended 31.12.2016	Loans and advances to customers							
	Cards	Consumer	Mortgage	Small Business loans	Large	SMEs	Public	Total Loans
Past due up to 30 days	2,651	32,301	52,482	325	14,854	97,420	2	200,035
Past due 31-60 days	376	7,443	18,558	149	-	9,462	-	35,988
Past due 61-90 days	251	10,665	12,103	71	155	12,681	-	35,926
Past due 91-180 days	532	6,432	5,913	151	93	17,097	-	30,218
Past due 180 days- 365 days	464	6,210	6,077	152	-	8,627	-	21,530
Past due 1-2 years	2,287	5,873	3,618	5,060	-	16,850	-	33,688
Past due over 2 years	8,401	109,130	14,149	12,039	-	142,834	-	286,553
Total	14,962	178,054	112,900	17,947	15,102	304,971	2	643,938

Year ended 31.12.2015	Cards	Consumer	Mortgage	Small Business loans	Large	SMEs	Public	Total Loans
Past due up to 30 days	3,464	36,729	59,933	166	35,639	115,401	6	251,338
Past due 31-60 days	634	9,042	26,873	66	292	24,564	-	61,471
Past due 61-90 days	369	19,294	17,367	139	-	10,030	-	47,199
Past due 91-180 days	1,154	7,405	9,694	146	-	12,453	-	30,852
Past due 180 days- 365 days	755	7,811	8,785	357	-	20,153	-	37,861
Past due 1-2 years	4,557	9,111	3,673	7,832	-	21,120	-	46,293
Past due over 2 years	8,654	136,590	16,727	8,095	7,964	154,219	-	332,249
Total	19,587	225,982	143,052	16,801	43,895	357,940	6	807,263

Ageing analysis of loans past due but individually impaired as of December 31, 2016 and 2015:

Separate

Year ended 31.12.2016	Cards	Consumer	Mortgage	Small Business loans	Large	SMEs	Public	Total Loans
Past due up to 30 days	-	-	-	-	7	5,975	-	5,982
Past due 31-60 days	-	-	-	-	-	14,231	-	14,231
Past due 61-90 days	-	-	531	-	-	1,197	-	1,728
Past due 91-180 days	-	-	6,710	-	-	407	-	7,117
Past due 180 days- 365 days	-	-	7,906	-	-	5,208	-	13,114
Past due 1-2 years	-	-	6,895	-	5,944	82,326	-	95,165
Past due over 2 years	-	-	111,566	-	136,399	433,861	-	681,826
Total	-	-	133,608	-	142,350	543,205	-	819,163

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Year ended 31.12.2015	**Cards**	**Consumer**	**Mortgage**	**Small Business loans**	**Large**	**SMEs**	**Public**	**Total Loans**
Past due up to 30 days	-	-	-	-	27	4,560	-	4,587
Past due 31-60 days	-	-	-	-	-	1,509	-	1,509
Past due 61-90 days	-	-	207	-	-	4,925	-	5,132
Past due 91-180 days	-	-	8,742	-	-	3,830	-	12,572
Past due 180 days- 365 days	-	-	11,615	-	-	12,984	-	24,599
Past due 1-2 years	-	-	10,414	-	5,944	125,651	-	142,009
Past due over 2 years	-	-	122,982	-	145,154	494,148	-	762,284
Total	-	-	153,960	-	151,125	647,607	-	952,692

Consolidated

Year ended 31.12.2016	**Loans and advances to customers**							
	Cards	**Consumer**	**Mortgage**	**Small Business loans**	**Large**	**SMEs**	**Public**	**Total Loans**
Past due up to 30 days	-	-	-	-	7	5,975	-	5,982
Past due 31-60 days	-	-	-	-	-	14,231	-	14,231
Past due 61-90 days	-	-	531	-	-	1,197	-	1,728
Past due 91-180 days	-	-	6,710	-	-	407	-	7,117
Past due 180 days- 365 days	-	-	7,906	-	-	5,208	-	13,114
Past due 1-2 years	-	-	6,895	-	5,944	82,326	-	95,165
Past due over 2 years	-	-	111,566	-	136,399	433,861	-	681,826
Total	-	-	133,608	-	142,350	543,205	-	819,163

Year ended 31.12.2015	**Loans and advances to customers**							
	Cards	**Consumer**	**Mortgage**	**Small Business loans**	**Large**	**SMEs**	**Public**	**Total Loans**
Past due up to 30 days	-	-	-	-	27	4,560	-	4,587
Past due 31-60 days	-	-	-	-	-	1,509	-	1,509
Past due 61-90 days	-	-	207	-	-	4,925	-	5,132
Past due 91-180 days	-	-	8,742	-	-	3,830	-	12,572
Past due 180 days- 365 days	-	-	11,615	-	-	12,984	-	24,599
Past due 1-2 years	-	-	10,414	-	5,944	125,651	-	142,009
Past due over 2 years	-	-	122,982	-	145,154	494,148	-	762,284
Total	-	-	153,960	-	151,125	647,607	-	952,692

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Forborne loans

Forbearance measures occur in situation in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Bank/Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either totally or partially.

Forborne loans are separately managed and monitored by Management of the Bank/Group.
A forborne loan that is impaired is considered cured when delays are less than 30 days for 36 consecutive months after forbearance has occurred.

For the purpose of impairment calculation not cured forborne loans are assessed as a separate group within each portfolio. The allowance for impairment on forborne loans is calculated based on present values of expected future cash flows methodology, considering all available evidence at the time of assessment.

Forborne Loans net of allowance for impairment by product line:

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Consumer	60,464	77,091	60,464	77,091
Mortgage	82,896	95,528	82,896	95,528
Small Business loans	913	1,446	913	1,446
Large corporate loans	46,297	27,386	46,297	27,386
SME'S Loans	116,800	232,779	116,800	232,779
Total	307,370	434,230	307,370	434,230

Reconciliation of forborne loans net of provision:

Separate/Consolidated
As of 31.12.2016

Movements of forborne loans	**Consumer**	**Mortgage**	**Small business loans**	**Large corporate loans**	**SME's**	**Total**
Opening balances	77,091	95,528	1,446	27,386	232,779	434,230
New forborne loans	73 ,209	95,798	31,215	23,535	93,445	317,202
Interest income	6,108	6,874	258	2,208	9,806	25,254
Repayments (partially or totally)	(36,066)	(121,063)	(30,279)	(10,248)	(118,364)	(316,020)
Exposures that exited forbearance status	(8,124)	(4,759)	-	-	(3,939)	(16,822)
Write - offs	(17,045)	(2,688)	-	-	(220)	(19,953)
Impairment loss	(13,334)	26,017	229	26,017	20,680	59,609
Other	(21,375)	(12,811)	(1,956)	(22,601)	(117,387)	(176,130)
Closing balance	60,464	82,896	913	46,297	116,800	307,370

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Separate/Consolidated
As of 31.12.2015

Movements of forborne loans	Consumer	Mortgage	Small business loans	Large corporate loans	SME's	Total
Opening balances	75,284	34,073	1,687	82,113	121,363	314,520
New forborne assets	83,641	119,225	1,478	-	165,150	369,494
Interest income	8,583	7,996	258	280	13,410	30,527
Repayments (partially or totally)	(17,816)	(24,913)	(350)	(6,929)	(38,941)	(88,949)
Exposures that exited forbearance status	(66,379)	(34,247)	(1,727)	(53,924)	(57,655)	(213,932)
Write - offs	(4,617)	(3,771)	-	-	(220)	(8,608)
Impairment loss	(1,605)	(2,835)	100	5,846	29,672	31,178
Closing balance	77,091	95,528	1,446	27,386	232,779	434,230

Repossessed collateral

Separate/Consolidated **Repossessed collateral** As of 31.12.2016	**Gross amount**	**of which added this years**	**Accumulated impairment**	**of which added this years**	**Net amount**	**Net sale price**
Real estate	71,407	12,624	(3,549)	(218)	67,858	67,858
- Residential	2,749	181			2,749	2,749
- commercial	68,658	12,443	(3,549)	(218)	65,109	65,109
Financial asset	-	-			-	-
Other collateral	12,513	-	(404)		12,109	12,109
	83,920	12,624	(3,953)	(218)	79,967	79,967

Separate/Consolidated **Repossessed collateral** As of 31.12.2015	**Gross amount**	**of which added this years**	**Accumulated impairment**	**of which added this years**	**Net amount**	**Net sale price**
Real estate	67,359	12,774	(4,464)	(373)	62,895	62,895
- Residential	3,131	331			3,131	3,131
- commercial	64,228	12,443	(4,464)	(373)	59,764	59,764
Financial asset	-	-			-	-
Other collateral	12,260	-	(404)		11,856	11,856
	79,619	12,774	(4,868)	(373)	74,751	74,751

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Industry Concentration risk

Industry Concentration risk - Loans and advances to customers

Separate	As of 31.12.2016		As of 31.12.2015	
To individuals	1,837,838	40%	1,929,368	39%
Manufacturing	808,588	18%	919,261	19%
Wholesale trade	344,360	8%	384,570	8%
Real estate activities	342,183	8%	347,617	7%
Construction	205,565	5%	215,183	4%
Agriculture, Forestry and Fishing	200,021	4%	205,515	4%
Financial and insurance activities	158,976	3%	191,176	4%
Retail trade	138,176	3%	162,009	3%
Electricity, gas, steam and air conditioning supply	120,044	3%	128,025	3%
Accommodation and food service activities	91,803	2%	109,689	2%
Trade and repair of motor vehicles and motorcycles	63,412	1%	70,171	1%
Other service activities	231,522	5%	279,956	6%
Total loans and advances, Gross	4,542,487	100%	4,942,540	100%
Less:allowance for impairment	(683,799)		(750,679)	
Loans and advances to customers, net	3,858,688		4,191,861	

Consolidated	As of 31.12.2016		As of 31.12.2015	
To individuals	1,837,838	40%	1,929,368	39%
Manufacturing	812,583	18%	926,338	19%
Wholesale trade	353,030	8%	384,570	8%
Real estate activities	342,183	8%	356,903	7%
Construction	205,565	5%	205,575	4%
Agriculture, Forestry and Fishing	200,077	4%	191,176	4%
Financial and insurance activities	138,411	3%	198,099	4%
Retail trade	146,005	3%	162,182	3%
Electricity, gas, steam and air conditioning supply	120,044	3%	128,025	3%
Accommodation and food service activities	91,803	2%	109,689	2%
Trade and repair of motor vehicles and motorcycles	65,107	1%	72,113	1%
Other service activities	231,521	5%	279,929	6%
Total loans and advances, Gross	4,544,167	100%	4,943,967	100%
Less:allowance for impairment	(684,255)		(750,977)	
Loans and advances to customers, net	3,859,912		4,192,990	

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

Counterparty concentration risk

The next table presents the information of the large exposure of the Bank/Group as for 31 December 2016 and 2015:

	As for December 31, 2016		As for December 31, 2015	
Separate	*Amount*	*% of Equity*	*Amount*	*% of Equity*
The largest total exposure	144,487	13.35%	203,354	16.65%
Total amount of five largest exposures	468,797	43.31%	550,726	45.08%

	As for December 31, 2016		As for December 31, 2015	
Consolidated	*Amount*	*% of Equity*	*Amount*	*% of Equity*
The largest total exposure	144,487	13.24%	203,354	16.65%
Total amount of five largest exposures	468,797	42.96%	550,726	45.08%

36. MARKET RISK

Market risk on trading and available for sale portfolio

For the effective management of market risk, the Bank/Group calculates and monitors at daily basis VaR - total and by risk factors.

Separate/Consolidated

VaR (daily value)	As of December 31, 2016	min	max	average
Equity Risk VaR	47	18	666	121
FX Risk VaR	2	-	13	4
Interest Rate Risk VaR	4,266	3,470	7,651	4,800
Total VaR	4,276	3,490	7,631	4,790

Separate/Consolidated

VaR (daily value)	As of December 31, 2015	min	max	average
Equity Risk VaR	376	224	609	347
FX Risk VaR	3	-	41	6
Interest Rate Risk VaR	6,254	2,304	10,475	5,023
Total VaR	6,112	2,323	10,387	5,032

Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31, 2016 and 2015. Included in the table are the Bank/Group's assets and liabilities at carrying amounts in thousands BGN, categorized by currency.

As of December 31, 2016 Separate	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	471,960	8,857	258,169	11,497	750,483
Due from banks	296,978	2,844	7,100	20,097	327,019
Loans and advances to customers, net	1,933,768	149,759	1,775,106	55	3,858,688
Financial assets at fair value through profit or loss	452,898	257,049	346,038	45,660	1,101,645
Derivative financial instruments	-	-	356	-	356
Financial assets available for sale	603 237	4,882	40,104	-	648,223
Investments in subsidiaries and equity method investments	-	-	6,637	-	6,637
Intangible assets	-	-	6,685	-	6,685
Property and equipment	-	-	34,020	-	34,020
Investment property	-	-	2,931	-	2,931
Deferred tax assets	-	-	1,465	-	1,465
Other assets	8,193	862	84,398	31	93,484
TOTAL ASSETS	3,767,034	424,253	2,563,009	77,340	6,831,636

As of December 31, 2016 Separate	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	1,698	84,186	946	234	87,064
Due to customers	1,678,657	387,711	3,428,458	75,766	5,570,592
Derivative financial instruments	585	-	594	-	1,179
Other borrowed funds	4,818 -	-	-	-	4,818
Subordinated liabilities	50,882	-	-	-	50,882
Retirement benefit obligations	-	-	10,984	-	10,984
Other liabilities	11,873	131	11,737	33	23,774
TOTAL LIABILITIES	1,748,513	472,028	3,452,719	76,033	5,749,293
TOTAL EQUITY	-	-	1,082,343	-	1,082,343
NET BALANCE SHEET POSITION	2,026,047	(47,569)	1,979,785	1,307	-
CONTINGENT LIABILITIES AND COMMITMENTS	(46,586)	47,422	(1,522)	444	(242)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)
Foreign currency risk (continued)

As of December 31, 2015 Separate	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	377,106	5,964	493,630	11,016	887,716
Due from banks	20,123	120,369	2,910	14,831	158,233
Loans and advances to customers, net	2,246,495	142,016	1,798,293	5,057	4,191,861
Financial assets at fair value through profit or loss	144,493	151,810	305,858	26,489	628,650
Derivative financial instruments	-	-	12	-	12
Financial assets available for sale	475,924	14,015	36,668	-	526,607
Investments in subsidiaries and equity method investments	-	-	6,637	-	6,637
Intangible assets	-	-	5,003	-	5,003
Property and equipment	-	-	38,718	-	38,718
Investment property	-	-	3,011	-	3,011
Deferred tax assets	-	-	855	-	855
Other assets	8,697	4,417	82,322	1	95,437
Non-current assets held for sale	-	-	1,487	-	1,487
TOTAL ASSETS	3,272,838	438,591	2,775,404	57,394	6,544,227

As of December 31, 2015 Separate	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	2,429	27,016	32,830	517	62,792
Due to customers	1,525,045	433,684	3,073,032	57,592	5,089,353
Derivative financial instruments	141	-	247	-	388
Other borrowed funds	9,705	-	30,004	-	39,709
Subordinated liabilities	101,814	-	-	-	101,814
Retirement benefit obligations	-	-	9,245	-	9,245
Other liabilities	7,373	120	11,889	-	19,382
TOTAL LIABILITIES	1,646,507	460,820	3,157,247	58,109	5,322,683
TOTAL EQUITY	-	-	1,221,544	-	1,221,544
NET BALANCE SHEET POSITION	1,627,327	(22,023)	(1,604,589)	(715)	-
CONTINGENT LIABILITIES AND COMMITMENTS	509,426	101,680	167,353	-	778,459

As of December 31, 2016 Consolidated	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	471,960	8,857	258,169	11,497	750,483
Due from banks	296,978	2,844	7,100	20,097	327,019
Loans and advances to customers, net	1,933,768	149,759	1,776,330	55	3,859,912
Financial assets at fair value through profit or loss	452,898	257,049	346,035	45,663	1,101,645
Derivative financial instruments	-	-	356	-	356
Financial assets available for sale	603,237	4,882	40,105	-	648,224
Equity method investments	-	-	10,142	-	10,142
Intangible assets	-	-	6,890	-	6,890
Property and equipment	-	-	34,155	-	34,155
Investment property	-	-	2,931	-	2,931
Deferred tax assets	-	-	1,455	-	1,455
Other assets	8,193	862	84,842	31	93,928
TOTAL ASSETS	3,767,034	424,253	2,568,510	77,343	6,837,140

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)

As of December 31, 2016 Consolidated	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	1,698	84,186	946	234	87,064
Due to customers	1,678,657	387,711	3,424,154	75,766	5,566,288
Derivative financial instruments	585	-	594	-	1,179
Other borrowed funds	4,818	-	-	-	4,818
Subordinated liabilities	50,882	-	-	-	50,882
Current income tax liabilities	-	-	13	-	13
Retirement benefit obligations	-	-	10,984	-	10,984
Other liabilities	11,873	131	12,066	33	24,103
TOTAL LIABILITIES	1,748,513	472,028	3,448,757	76,033	5,745,331
TOTAL EQUITY	-	-	1,091,809	-	1,091,809
NET BALANCE SHEET POSITION	2,026,252	(47,569)	1,979,993	1,310	-
CONTINGENT LIABILITIES AND COMMITMENTS	(46,586)	47,422	(1,522)	444	(242)

As of December 31, 2015 Consolidated	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	377,106	5,964	493,631	11,016	887,717
Due from banks	20,123	120,369	2,918	14,826	158,236
Loans and advances to customers, net	2,246,495	142,016	1,799,422	5,057	4,192,990
Financial assets at fair value through profit or loss	144,493	151,810	305,852	26,495	628,650
Derivative financial instruments	-	-	12	-	12
Financial assets available for sale	475,924	14,015	36,669	-	526,608
Equity method investments	-	-	9,575	-	9,575
Intangible assets	-	-	5,220	-	5,220
Property and equipment	-	-	38,747	-	38,747
Investment property	-	-	3,011	-	3,011
Deferred tax assets	-	-	847	-	847
Other assets	8,697	4,417	82,681	1	95,796
Non-current assets held for sale	-	-	1,868	-	1,868
TOTAL ASSETS	3,272,838	438,591	2,780,453	57,395	6,549,277

As of December 31, 2015 Consolidated	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	2,429	27,016	32,830	517	62,792
Due to customers	1,525,045	433,684	3,069,444	57,592	5,085,765
Derivative financial instruments	141	-	247	-	388
Other borrowed funds	9,705	-	30,004	-	39,709
Subordinated liabilities	101,814	-	-	-	101,814
Current income tax liabilities	-	-	86	-	86
Retirement benefit obligations	-	-	9,245	-	9,245
Other liabilities	7,373	120	12,144	-	19,637
TOTAL LIABILITIES	1,646,507	460,820	3,154,000	58,109	5,319,436
TOTAL EQUITY	-	-	1,229,841	-	1,229,841
NET BALANCE SHEET POSITION	1,627,327	(22,023)	(1,604,590)	(714)	-
CONTINGENT LIABILITIES AND COMMITMENTS	509,426	101,680	186,488	-	797,594

The Bank measures the economic value of equity (EVE) vulnerability to unfavorable changes in interest rates separately for any of the main currencies in which the Bank/Group operates and the results are used for making management decisions. The table below represent the interest rate mismatches and change in EVE at 200bps yield curve shift:

As of December 31, 2016
Separate/Consolidated

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)

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

As of December 31, 2015
Separate/Consolidated

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

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

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

Separate/Consolidated

	As of December 31, 2016	0-3 M	3 M -12 M	>12 M
IRR BB Stress Test Scenario 1	BGN	+/- 300 bp	+/- 300 bp	+/- 300 bp
	Other CCY	+/- 200 bp	+/- 200 bp	+/- 200 bp
IRR BB Stress Test Scenario 2	BGN	+/- 100 bp	+/- 200 bp	+/- 300 bp
	Other CCY	+/- 50 bp	+/- 100 bp	+/- 200 bp
IRR BB Stress Test Scenario 3	BGN	+/- 300 bp	+/- 200 bp	+/- 100 bp
	Other CCY	+/- 200 bp	+/- 100 bp	+/- 50 bp

Separate/Consolidated

	As of December 31, 2015	0-3 M	3 M -12 M	>12 M
IRR BB Stress Test Scenario 1	BGN	+/- 300 bp	+/- 300 bp	+/- 300 bp
	Other CCY	+/- 200 bp	+/- 200 bp	+/- 200 bp
IRR BB Stress Test Scenario 2	BGN	+/- 100 bp	+/- 200 bp	+/- 300 bp
	Other CCY	+/- 50 bp	+/- 100 bp	+/- 200 bp
IRR BB Stress Test Scenario 3	BGN	+/- 300 bp	+/- 200 bp	+/- 100 bp
	Other CCY	+/- 200 bp	+/- 100 bp	+/- 50 bp

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)

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

Interest rate risk

The Group/Bank interest rate risk relating to financial instruments based on next re-pricing date is summarized as follows:

As of December 31, 2016 Separate	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	-	-	-	-	-	750,483	750,483
Due from banks	44,540	123,063	156,466	2,950	-	-	327,019
Loans and advances to customers, net	2,074,524	815,173	185,193	183,356	62,374	538,068	3,858,688
Derivative financial instruments	356	-	-	-	-	-	356
Financial assets at fair value through profit or loss	269,644	247,018	18,989	253,885	312,109	-	1,101,645
Investment securities available for sale	-	3,650	-	21,676	617,918	4,979	648,223
Investments in subsidiaries and equity method investments	-	-	-	-	-	6,637	6,637
TOTAL FINANCIAL ASSETS	2,389,064	1,188,904	360,648	461,867	992,401	1,300,167	6,693,051
LIABILITIES							
Due to banks	6,657	80,403	4	-	-	-	87,064
Due to customers	2,954,435	357,246	345,289	1,913,622	-	-	5,570,592
Derivative financial instruments	594	-	-	585	-	-	1,179
Other borrowed funds	4	4,814	-	-	-	-	4,818
Subordinated liabilities	30	-	50,852	-	-	-	50,882
TOTAL FINANCIAL LIABILITIES	2,961,720	442,463	396,145	1,914,207	-	-	5,714,535
NET INTEREST RATE GAP	(572,656)	746,441	(35,497)	(1,452,340)	992,401	1,300,167	978,516

As of December 31, 2015 Separate	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	-	-	-	-	-	887,716	887,716
Due from banks	106,847	16,649	27,721	7,016	-	-	158,233
Loans and advances to customers, net	2,454,750	668,296	145,579	160,108	95,340	667,788	4,191,861
Derivative financial instruments	12	-	-	-	-	-	12
Financial assets at fair value through profit or loss	148,935	-	22,395	176,098	281,216	6	628,650
Investment securities available for sale	-	6,529	-	22,503	444,767	52,808	526,607
Investments in subsidiaries and equity method investments	-	-	-	-	-	6,637	6,637
TOTAL FINANCIAL ASSETS	2,710,544	691,474	195,695	365,725	821,323	1,614,955	6,399,716
LIABILITIES							
Due to banks	-	19,707	20,003	-	-	23,082	62,792
Due to customers	2,307,711	321,673	328,767	2,131,202	-	-	5,089,353
Derivative financial instruments	247	-	-	141	-	-	388
Other borrowed funds	-	-	-	39,709	-	-	39,709
Subordinated liabilities	-	101,703	-	-	-	111	101,814
TOTAL FINANCIAL LIABILITIES	2,307,958	443,083	348,770	2,171,052	-	23,193	5,294,056
NET INTEREST RATE GAP	402,586	248,391	(153,075)	(1,805,327)	821,323	1,591,762	1,105,660

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)

As of December 31, 2016 Consolidated	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	-	-	-	-	-	750,483	750,483
Due from banks	44,540	123,063	156,466	2,950	-	-	327,019
Loans and advances to customers, net	2,074,524	815,173	185,193	183,356	62,374	539,292	3,859,912
Derivative financial instruments	356		-	-	-	-	356
Financial assets at fair value through profit or loss	269,644	247,018	18,989	253,885	312,109	-	1,101,645
Investment securities available for sale	-	3,650	-	21,676	617,918	4,980	648,224
Equity method investments	-	-	-	-	-	10,142	10,142
TOTAL FINANCIAL ASSETS	2,389,064	1,188,904	360,648	461,867	992,401	1,304,897	6,697,781
LIABILITIES							
Due to banks	6,657	80,403	4	-	-	-	87,064
Due to customers	2,951,031	357,246	344,389	1,913,622	-	-	5,566,288
Derivative financial instruments	594	-	-	585	-	-	1,179
Other borrowed funds	4	4,814	-	-	-	-	4,818
Subordinated liabilities	30	-	50,852	-	-	-	50,882
TOTAL FINANCIAL LIABILITIES	2,958,316	442,463	395,245	1,914,207	-	-	5,710,231
NET INTEREST RATE GAP	(569,252)	746,441	(34,597)	(1,452,340)	992,401	1,304,897	987,550

As of December 31, 2015 Consolidated	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	-	-	-	-	-	887,717	887,717
Due from banks	106,850	16,649	27,721	7,016	-	-	158,236
Loans and advances to customers, net	2,456,177	668,296	145,579	160,108	95,340	667,490	4,192,990
Derivative financial instruments	12	-	-		-	-	12
Financial assets at fair value through profit or loss	148,935	-	22,395	176,098	281,216	6	628,650
Investment securities available for sale	-	6,529	-	22,503	444,767	52,809	526,608
Equity method investments	-	-	-	-	-	9,575	9,575
TOTAL FINANCIAL ASSETS	2,711,974	691,474	195,695	365,725	821,323	1,617,597	6,403,788
LIABILITIES							
Due to banks	-	19,707	20,003	-	-	23,082	62,792
Due to customers	2,305,593	320,203	328,767	2,131,202	-	-	5,085,765
Derivative financial instruments	247	-	-	141	-	-	388
Other borrowed funds	-	-	-	39,709	-	-	39, 709
Subordinated liabilities	-	101,703	-	-	-	111	101,814
TOTAL FINANCIAL LIABILITIES	2,305,840	441,613	348,770	2,171,052	-	23,193	5,290,468
NET INTEREST RATE GAP	406,134	249,861	(153,075)	(1,805,327)	821,323	1,594,404	1,113,320

The Bank/Group’s interest rate exposures are, amongst other methods monitored and managed using interest rate sensitivity reports; however the interests on monetary assets and liabilities can be reprised at relatively short notice and any interest rate sensitivity gaps are considered immaterial.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. LIQUIDITY RISK

The Bank/Group manages its assets and liabilities in a manner, guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay, both in a normal environment and under stress conditions. The Bank/Group invests mainly in liquid assets and maintains an average of 40% ratio of liquid assets to total liabilities and 41% ratio of liquid assets to customer deposits, as a result of increase in attracted funds from customers and reduced lending activity.

The Bank/Group succeed to keep its sufficient liquidity position even under stress conditions during the Greek crisis and to recover in short period the deposits loss incurred in the first 7 months of the year.

The Bank/Group has a solid funding structure as far as loan portfolio is largely funded by customer deposits. Additionally the Bank maintains (in repayment mode) a subordinated debt from the parent bank. Bank's/Group funding strategy is to develop a diversified funding base by depositor type and maintain access to a variety of alternative funding sources, to provide protection against unexpected fluctuations and minimize the cost of funding.

Management believes that the diversification of deposits by number and type of depositors, and the past experience of the Bank/Group give a basis to believe that deposits provide a long-term and stable source of funding for the Bank/Group. Simultaneously, the main part of due to banks with maturity up to one month presents resources time deposits and repo-deals, which are constant during the period and are in the framework of long-term, determine limits. These deposits are managed according to the Bank/Group's resources necessity and in respect to optimizing the financial expenses.

The Bank/Group 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 increase losses in case of unexpected movements.

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

As of 31 December 2016 Separate	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	89,790	4	-	-	-	89,794
Due to customers	3,315,612	347,139	1,605,210	315,128	-	5,583,089
Derivative financial instruments	3	4,938	-	-	-	4,941
Other borrowed funds	-	-	-	-	-	-
Subordinated liabilities	30	-	50,963	-	-	50,993
Retirement benefit obligations					10,984	10,984
Other liabilities	23,174	-	-	-	-	23,174
TOTAL LIABILITIES (contractual maturity dates)	3,428,609	352,081	1,656,173	315,128	10,984	5,762,975
Contingent liabilities	-	-	574,212	234,537	-	808,749

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. LIQUIDITY RISK (CONTINUED)

As of 31 December 2015 Separate	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	33,030	29,906	-	70	-	63,006
Due to customers	2,693,204	331,512	1,754,597	394,678	-	5,173,991
Other borrowed funds	-	111	-	41,074	-	41,185
Subordinated liabilities	-	-	53,006	53,006	-	106,012
Retirement benefit obligations	-	-	-	-	9,245	9,245
Other liabilities	18,908	-	-	-	-	18,908
TOTAL LIABILITIES (contractual maturity dates)	2,745,142	361,529	1,807,603	488,828	9,245	5,412,347
Contingent liabilities	-	-	518,733	259,895	3	778,631

As of 31 December 2016 Consolidated	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	89,790	4	-	-	-	89,794
Due to customers	3,312,208	346,239	1,605,210	315,128	-	5,578,785
Derivative financial instruments	3	4,938	-	-	-	4,941
Other borrowed funds	-	-	-	-	-	-
Subordinated liabilities	30	-	50,963	-	-	50,993
Current income tax liabilities	-	-	-	-	13	13
Retirement benefit obligations	-	-	-	-	10,984	10,984
Other liabilities	23,503	-	-	-	-	23,503
TOTAL LIABILITIES (contractual maturity dates)	3,425,534	351,181	1,656,173	315,128	10,997	5,759,013
Contingent liabilities	-	-	590,809	234,537	-	825,346

As of 31 December 2015 Consolidated	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	33,030	29,906	-	70	-	63,006
Due to customers	2,689,616	331,512	1,754,597	394,678	-	5,170,403
Other borrowed funds	-	111	-	41,074	-	41,185
Subordinated liabilities	-	-	53,006	53,006	-	106,012
Current income tax liabilities	-	-	-	-	86	86
Retirement benefit obligations	-	-	-	-	9,245	9,245
Other liabilities	19,163	-	-	-	-	19,163
TOTAL LIABILITIES (contractual maturity dates)	2,741,809	361,529	1,807,603	488,828	9,331	5,409,100
Contingent liabilities	-	-	537,868	259,895	3	797,766

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. LIQUIDITY RISK (CONTINUED)

Assets pledged and re-pledged

Separate

Category of the assets pledged	Portfolio	Type of the transaction	Book value of underlying collateral December 31, 2016	Carrying amount of related liability, December 31, 2016	Book value of underlying collateral, December 31, 2015	Carrying amount of related liability, December 31, 2015
Government bonds	HFT	Repo deals	1,074	1,103	35,347	29,968
Government bonds	AFS	Government deposits	56 819	44,544	53,922	40,453
Government bonds	AFS	EBRD line	7 496	4,819	16,077	9,705
Loans		BDB line	-	-	5,779	30,004
			65,389	50,466	111,125	110,130

Consolidated

Category of the assets pledged	Portfolio	Type of the transaction	Book value of underlying collateral December 31, 2016	Carrying amount of related liability, December 31, 2016	Book value of underlying collateral, December 31, 2015	Carrying amount of related liability, December 31, 2015
Government bonds	HFT	Repo deals	1,074	1,103	35,347	29,968
Government bonds	AFS	Government deposits	56 819	44,544	53,922	40,453
Government bonds	AFS	EBRD line	7 496	4,819	16,077	9,705
Loans		BDB line	-	-	5,779	30,004
			65,389	50,466	111,125	110,130

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE

Financial instruments not measured at fair value

The table below summaries the carrying amounts and fair value of those financial assets and liabilities, not presented on the Bank/Group’s statement of financial position at fair value.

	2016		2015	
Separate	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	750,483	750,483	887,716	887,716
Due form other banks	327,019	327,019	158,233	158,233
Loans and advances to customers, net	3,858,688	3,979,183	4,191,861	4,265,560
Available-for-sale investment securities	5,553	5,553	5,553	5,553
Non-current assets held for sale	-	-	1,487	1,487
TOTAL ASSETS	4,941,743	5,062,238	5,244,850	5,318,549
LIABILITIES				
Due to customers	5,570,592	5,574,868	5,089,353	5,095,505
Other borrowed funds	4,818	4,814	39,709	42,709
Subordinated liabilities	50,882	50,943	101,814	104,318
TOTAL LIABILITIES	5,626,292	5,630,625	5,230,876	5,242,532

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

Consolidated	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
ASSETS				
Cash and balances with the Central Bank	750 ,483	750 483	887,717	887,717
Due form other banks	327,019	327,019	158,236	158,236
Loans and advances to customers, net	3,859,912	3,980,407	4,192,990	4,266,689
Available-for-sale investment securities	5,554	5,554	5,554	5,554
Non-current assets held for sale	-	,-	1,868	1,868
TOTAL ASSETS	4,942 968	5,063,463	5,246,365	5,320,064
LIABILITIES				
Due to customers	5,566,288	5,570,564	5,085,765	5,091,917
Other borrowed funds	4,818	4,814	39,709	42,709
Subordinated liabilities	50,882	50 943	101,814	104,318
TOTAL LIABILITIES	5,621,988	5,626,321	5,227,288	5,238,944

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2016 and 2015:

The carrying amount of cash and balances with central banks, due from and due to banks as well as accrued interest, approximates their fair value.

The fair value of loans and advances to customers is estimated using discounted cash flow models.

Due to customers: The fair value for demand deposits and deposits with no defined maturity is determined to be the amount payable on demand at the reporting date. The fair value for fixed-maturity deposits is estimated using discounted cash flow models based on rates currently offered for the relevant product types with similar remaining maturities.

Fair value of bank borrowings and Subordinated liabilities are estimated based on discounted cash flow analysis using current interest rates for similar types of borrowings arrangements.

Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities recorded on the Bank's/Group's statement of financial position measured at fair value as of 31 December 2016 and 2015.

As of December 31, 2016	Fair value measurement using			
Separate	Level 1	Level 2	Level 3	Total assets/ liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	-	1,101,645	-	1,101,645
Derivative financial instruments	-	356	-	356
Available-for-sale investment securities	6,790	623,285	12,596	642,671
Total Assets	6,790	1,725,286	12,596	1,744,672
Liabilities				
Derivative financial instruments	-	1,179	-	1,179
Total liabilities	-	1,179	-	1,179

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

Financial instruments measured at fair value

As of December 31, 2015	Fair value measurement using			
Separate	Level 1	Level 2	Level 3	Total assets/ liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	-	628,650	-	628,650
Derivative financial instruments	-	12	-	12
Available-for-sale investment securities	20,047	469,874	31,133	521,054
Total Assets	20,047	1,098,536	31,133	1,149,716
Liabilities				
Derivative financial instruments	-	388	-	388
Total liabilities	-	388	-	388

As of December 31, 2016	Fair value measurement using			
Consolidated	Level 1	Level 2	Level 3	Total assets/ liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	-	1,101,645	-	1,101,645
Derivative financial instruments	-	356	-	356
Available-for-sale investment securities	6,790	623,285	12,596	642,671
Total Assets	6,790	1,725,286	12,596	1,744,672
Liabilities				
Derivative financial instruments	-	1,179	-	1,179
Total liabilities	-	1,179	-	1,179

As of December 31, 2015	Fair value measurement using			
Consolidated	Level 1	Level 2	Level 3	Total assets/ liabilities at fair value
Assets				
Financial assets at fair value through profit and loss	-	628,650	-	628,650
Derivative financial instruments	-	12	-	12
Available-for-sale investment securities	20,048	469 874	31,133	521,055
Total Assets	20,048	1,098,536	31,133	1,149,717
Liabilities				
Derivative financial instruments	-	388	-	388
Total liabilities	-	388	-	388

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

Financial instruments measured at fair value (continued)

No transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2016.

Level 3 financial instruments at December 31, 2016 include:

(a) available-for-sale securities, which are price-based and the price is subject to liquidity adjustments or credit value adjustments and
(b) available-for-sale non-marketable equity securities, which are valued by independent valuers based on inputs such as earnings forecasts comparable multiples of Economic Value to EBITDA and other parameters which are not market observable.

The Bank/Group conducts a review of the fair value hierarchy classifications on a quarterly basis.
The table below presents a reconciliation of all Level 3 fair value measurements for the period ended December 31, 2016, including realized and unrealized gains/(losses) included in the “income statement” and “statement of the comprehensive income”.

No transfers into or out of Level 3 occurred for the year ended December 31, 2016.

Reconciliation of fair value measurements in Level 3

Separate	Available-for-sale investment securities as of 2016	Available-for-sale investment securities as of 2015
Balance at 1 January	31,133	24,460
Gains / (losses) included in income statement	16,337	(9,859)
Gains / (losses) included in the statement of comprehensive income	(16,320)	16,532
Transfer into/ (out of) level 3	(18,554)	-
Balance at 31 December	12,596	31,133

Consolidated	Available-for-sale investment securities as of 2016	Available-for-sale investment securities as of 2015
Balance at 1 January	31,133	24,460
Gains / (losses) included in income statement	16,337	(9,859)
Gains / (losses) included in the statement of comprehensive income	(16,320)	16,532
Transfer into/ (out of) level 3	(18,554)	-
Balance at 31 December	12,596	31,133

Valuation Process and Control Framework

The Bank/Group has various processes in place to ensure that the fair values of its assets and liabilities are reasonably estimated and has established a control framework which is designed to ensure that fair values are validated by functions independent of the risk-taker. To that end, the Bank/Group utilizes various sources for determining the fair values of its financial instruments and uses its own independent functions to validate these results where possible.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

Valuation Process and Control Framework

Fair values of debt securities are determined either by reference to prices for traded instruments in active markets, to external quotations or widely accepted financial models, which are based on market observable or unobservable information where the former is not available, as well as relevant market-based parameters such as interest rates, option fluctuations, currency rates, etc., and may also include a liquidity risk adjustment where the Bank/Group considers it appropriate.

The Bank/Group may, sometimes, also utilize third-party pricing information, and perform validating procedures on this information, or base its fair value on the latest transaction prices available, given the absence of an active market or similar transactions. All such instruments are categorized within the lowest level of fair value hierarchy (i.e. Level 3).

Generally, fair values of debt securities, including significant inputs on the valuation models are independently checked and validated by Risk Management Division on a regular basis.

Fair value of derivatives is determined using valuation models which include discounted cash-flow models or other appropriate models. Adequate control procedures are in place for the validation of these models, including the valuation inputs, on systematic basis. Risk Management Division provides the control valuation framework necessary to ensure that the fair values are reasonably determined, reflecting current market and economic conditions.

Market Valuation Adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model driven valuation uncertainty, trading restrictions and other factors, when such factors would be considered by market participants in measuring fair value.

				Range of Inputs	
Financial Instrument	**Fair Value**	**Valuation Technique**	**Significant Unobservable Input**	**Low**	**High**
Investment Securities - Available-for-Sale BONDS	1,195	Recovery rates on unsecured corporate bonds – Moody's	-	-	
	7,129	Valuation based on the collateral	- Collateral valuation	5,506	8,468
			- Collateral value	13,028	13,028
			- Adjustment factor	42%	65%
	3,992	Close Price - Bulgarian Stock Exchange	-	-	
Investment Securities - Available-for-Sale SHARES	12,108	Auction price from the forced sale of the shares of InterV Investment SARL	-	-	
	5	Offer price	-	-	

Sensitivity of Fair Value Measurements to Changes in Unobservable inputs

Due to the Bank/Group's limited exposure to investment securities in available-for-sale portfolio for which the market valuation adjustments is significant to their fair value, a reasonable change in the unobservable inputs would not be significant to the Bank/Group.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. CAPITAL AND CAPITAL BASE

The Bank/Group determines its risk-bearing capacity on the basis of the capital resources, available for covering losses, generated by the Bank's/Group's risk profile. During the management of its capital-at-risk, the Bank/Group observes the regulatory instructions, as well as its own objectives.

The minimum requirements, applicable to Bulgaria following implemented in 2016 requirements of Directive 2013/36/EU and Regulation (EU) No 575/2013, include maintaining of Total capital adequacy not less than 13.5% and Tier-one capital adequacy of not less than 11.5% . This levels include respectively 8% total capital adequacy and 6% tier-one capital adequacy, as well as 2.5% Capital Conservation Buffer and 3% Systemic Risk Buffer.

The Bank/Group has complied with the regulatory requirements of minimum capital adequacy for 2016 and for 2015.

In accordance with the regulatory framework the Bank/Group allocates capital for covering the capital requirements for credit risk, market risk and operational risk applying the Standardized Approach.

Regulatory Capital (Own Funds)

The capital base (own funds) includes Tier-one and Tier-two capital, in accordance with the applicable regulatory requirements.

	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Paid up Capital Instruments	75,964	75,964	75,964	75,964
Reserves, incl. retained earnings	865,824	1,076,715	872,725	1,081,647
Other comprehensive income	29,294	16,206	30,716	17,095
Common Equity Tier I deductions	(21,882)	(23,916)	(22,656)	(24,667)
Common Equity Tier I Capital (CET1)	949,200	1,144,969	956,749	1,150,039
Total Tier I Capital	949,200	1,144,969	956,749	1,150,039
Subordinated debt	41,003	91,994	41,003	91,994
Tier II deductions (see below)	-	-	-	-
Tier II Capital	41,003	91,994	41,003	91,994
Additional deductions from Tier I and Tier II Equity	-	-	-	-
Total Regulatory Capital (own funds)	990,203	1,236,963	997,752	1,242,033
Common Equity Tier 1 Capital ratio	23.24%	26.09%	23.32%	26.12%
Tier 1 Capital ratio	23.24%	26.09%	23.32%	26.12%
Total capital ratio	24.25%	28.19%	24.32%	28.21%
Surplus(+)/Deficit(-) of total capital	663,485	885,922	669,477	889,785

Tier II capital consist of subordinate term debt that includes provided long-term loans by National Bank of Greece S.A. with initial value of EUR 130 million (in local currency BGN 254 million). The regulatory eligible subordinated debt amount after repayment according to schedule and regulatory required amortizations as of December 2016 is EUR 26 million (in local currency BGN 52 million).

Risk Weighted Assets

The changes in the RWA structure and amounts are related to the respective changes in Bank/Group's assets structure.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. CAPITAL AND CAPITAL BASE (CONTINUED)

Capital requirements

As of December 31, 2016 and December 31, 2015 the capital requirements for credit, market and operational risks are, as follows:

Risk Weighted Assets	As of 31.12.2016 Separate	As of 31.12.2015 Separate	As of 31.12.2016 Consolidated	As of 31.12.2015 Consolidated
Credit Risk, including exposures to:	3,364,421	3,698,232	3,380,006	3,710,381
Central governments or central banks	-	-	-	-
Regional governments or local authorities	5,694	8,011	5,694	8,011
Institutions	72,128	52,147	72,128	52,148
Corporates	1,072,179	1,229,574	1,072,590	1,224,896
Retail	836,139	806,278	842,130	814,297
Secured by mortgages on immovable property	469,058	464,566	469,058	464,566
Exposures in default	741,303	928,662	741,363	928,939
Equity	33,822	66,985	42,391	75,147
Other items	134,098	142,009	134,652	142,377
Operational Risk	507,375	494,209	511,256	497,140
Market Risk	209,563	195,513	209,563	195,513
Credit Valuation Adjustment (CVA)	2,613	63	2,613	63
TOTAL RISK EXPOSURE AMOUNT	4,083,972	4,388,017	4,103,437	4,403,097

The Bank/Group has established an internal capital adequacy assessment process, where other except under Pillar 1 risks assessed as material for the Bank (concentration risk, interest rate risk in the banking book) are quantified and additional internal capital under Pillar II for them is allocated.

40. RELATED PARTY TRANSACTIONS

The Bank/Group is controlled by the National Bank of Greece S.A. which owns 99.91% of the ordinary shares of UBB.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Bank/Group is managed by a Board of Directors, representing the major shareholders of the Bank/Group. The Bank/Group is related to the Management and employees of the group companies and its subsidiaries and associates and the other companies within NBG Group. A number of banking transactions are performed with related parties in the normal course of business. These include mostly loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2016 and 2015 the Bank/Group has performed transactions with the following related parties:

Related parties	Type of relation
National Bank of Greece S.A.	Parent company
Interlease EAD	Entity under control of Parent company
Stopanska Banka AD	Entity under control of Parent company
Finansbank A.S. (Group)*	Entity under control of Parent company
Ethnodata S.A.	Entity under control of Parent company
NBG Management Services LTD	Entity under control of Parent company
ARC Management Two EAD	Entity under control of Parent company
NBG Securities S.A.	Entity under control of Parent company
NBG Cyprus Ltd	Entity under control of Parent company
Banca Romaneasca S.A.	Entity under control of Parent company
Vojvodjanska Banka a.d. Novi Sad	Entity under control of Parent company
NBG Bank Malta Ltd	Entity under control of Parent company
Banka NBG Albania Sh.a.	Entity under control of Parent company
Bankteco EOOD	Entity under control of Parent company
UBB Asset Management AD	Subsidiary
UBB Insurance Broker AD	Subsidiary
UBB Factoring EOOD	Subsidiary
UBB Metlife Life Insurance Company AD	Associate company
Nova ins EAD, previous UBB AIG Insurance Company AD**	Associate company/Held for Sale*
Druzhestvo za Kasovi Uslugi AD	Associate company
UBB Balanced Fund	Mutual funds managed by Subsidiary
UBB Premium Shares Fund	Mutual funds managed by Subsidiary
UBB Platinum Bonds Fund	Mutual funds managed by Subsidiary

** Finansbank A.S. (Group) has been classified as Entity under control of Parent company until June, 15, 2016.*
*** UBB AIG Insuarance Company has been classified as Associate company/Non-current Assets Held for Sale until January 4, 2016.*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2016 and 2015 the Bank's outstanding balances are as follows:

Separate Related parties	Type of transaction	As of 31.12.2016	As of 31.12.2015
Parent company	ASSETS		
Parent company	Amounts receivable on sale of assets	122,585	-
Parent company	Loans and advances to banks	939	1,313
Parent company	Other assets	145	736
Parent company	TOTAL ASSETS	123,669	2,049
Parent company	LIABILITIES		
Parent company	Subordinated term debt	50,882	101,814
Parent company	Deposits received	11,442	3,565
Parent company	Derivatives	161	141
Parent company	Other liabilities	926	1,018
Parent company	TOTAL LIABILITIES	63,411	106,538
Parent company	OFF-BALANCE		
Parent company	Financial guarantees	2,739	2,739
Parent company	TOTAL OFF-BALANCE	2,739	2,739
Entities under control of Parent company	ASSETS		
Entities under control of Parent company	Loans granted	133,025	186,442
Entities under control of Parent company	Other receivables	2927	4,184
Entities under control of Parent company	Loans and advances to banks	848	46,549
Entities under control of Parent company	TOTAL ASSETS	136,800	237,175
Entities under control of Parent company	LIABILITIES		
Entities under control of Parent company	Other liabilities	10,718	54
Entities under control of Parent company	Deposits received	9,017	18,756
Entities under control of Parent company	TOTAL LIABILITIES	19,735	18,810
Entities under control of Parent company	OFF-BALANCE		
Entities under control of Parent company	Financial guarantees	755	-
Entities under control of Parent company	Unutilized loans	9,148	-
Entities under control of Parent company	TOTAL OFF-BALANCE	9,903	-
Subsidiaries	ASSETS		
Subsidiaries	Loans granted	12,971	17,084
Subsidiaries	Other receivables	20	-
Subsidiaries	TOTAL ASSETS	12,991	17,084
Subsidiaries	LIABILITIES		
Subsidiaries	Deposits received	4,311	3,710
Subsidiaries	Other liabilities	8	28
Subsidiaries	TOTAL LIABILITIES	4,319	3,738
Subsidiaries	OFF-BALANCE		
Subsidiaries	Unutilized loans	7,565	-
Subsidiaries	TOTAL OFF-BALANCE	7,565	-
Associate companies	ASSETS		
Associate companies	Other assets	588	945
Associate companies	TOTAL ASSETS	588	945
Associate companies	LIABILITIES		
Associate companies	Deposits received	7,967	7,781
Associate companies	Other liabilities	-	1,470
Associate companies	TOTAL LIABILITIES	7,967	9,251
Held for Sale	ASSETS		
Held for Sale	Deposits received	-	3,238
Held for Sale	Other assets	-	400
Held for Sale	TOTAL ASSETS	-	3,638
Held for Sale	LIABILITIES		
Held for Sale	Other liabilities	-	1,470
Held for Sale	TOTAL LIABILITIES	-	1,470

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2016 and 2015 the Group's outstanding balances are as follows:

Consolidated Related parties	Type of transaction	As of 31.12.2016	As of 31.12.2015
	ASSETS		
Parent company	Amounts receivable on sale of assets	122,585	-
Parent company	Loans and advances to banks	939	1,313
Parent company	Other assets	145	736
Parent company	TOTAL ASSETS	123,669	2,049
Parent company	LIABILITIES		
Parent company	Subordinated term debt	50,882	101,814
Parent company	Deposits received	11,442	3,565
Parent company	Derivatives	161	141
Parent company	Other liabilities	926	1,018
Parent company	TOTAL LIABILITIES	63,411	106,538
Parent company	OFF-BALANCE		
Parent company	Financial guarantees	2,739	2,739
Parent company	TOTAL OFF-BALANCE	2,739	2,739
Entities under control of Parent company	ASSETS		
Entities under control of Parent company	Loans granted	133,025	186,442
Entities under control of Parent company	Other receivables	2927	4,184
Entities under control of Parent company	Loans and advances to banks	848	46,549
Entities under control of Parent company	TOTAL ASSETS	136,800	237,175
Entities under control of Parent company	LIABILITIES		
Entities under control of Parent company	Other liabilities	10,718	54
Entities under control of Parent company	Deposits received	9,017	18,756
Entities under control of Parent company	TOTAL LIABILITIES	19,735	18,810
Entities under control of Parent company	OFF-BALANCE		
Entities under control of Parent company	Financial guarantees	755	-
Entities under control of Parent company	Unutilized loans	9,148	-
Entities under control of Parent company	TOTAL OFF-BALANCE	9,903	-
Associate companies	ASSETS		
Associate companies	Other assets	613	945
Associate companies	TOTAL ASSETS	613	945
Associate companies	LIABILITIES		
Associate companies	Deposits received	7,967	7,781
Associate companies	Other liabilities	-	1,470
Associate companies	TOTAL LIABILITIES	7,967	9,251
Held for Sale	ASSETS		
Held for Sale	Deposits received	-	3,238
Held for Sale	Other assets	-	400
Held for Sale	TOTAL ASSETS	-	3,638
Held for Sale	LIABILITIES		
Held for Sale	Other liabilities	-	1,470
Held for Sale	TOTAL LIABILITIES	-	1,470

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Bank during 2016 and 2015 from deals with related parties are as follows:

Separate Related parties	Type of transaction	As of 31.12.2016	As of 31.12.2015
Parent company	INCOME		
Parent company	Other income	624	706
Parent company	Income from fees and commissions	8	7
Parent company	Net trading income	-	(58)
Parent company	Due from reverse REPOS	(13)	-
Parent company	TOTAL INCOME	619	655
Parent company	EXPENSE		
Parent company	General administrative expenses	3,653	1,253
Parent company	Interest expense	439	892
Parent company	Other operating expenses	-	2,037
Parent company	TOTAL EXPENSE	4,092	4,182
Entities under control of Parent company	INCOME		
Entities under control of Parent company	Interest income	4,329	5,954
Entities under control of Parent company	Other income	1,318	-
Entities under control of Parent company	Income from fees and commissions	349	314
Entities under control of Parent company	TOTAL INCOME	5,996	6,268
Entities under control of Parent company	EXPENSE		
Entities under control of Parent company	Other operating expenses	941	-
Entities under control of Parent company	Interest expense	30	21
Entities under control of Parent company	TOTAL EXPENSE	971	21
Subsidiaries	INCOME		
Subsidiaries	Interest income	312	420
Subsidiaries	Other operating income	169	-147
Subsidiaries	Income from fees and commissions	1	27
Subsidiaries	TOTAL INCOME	313	447
Subsidiaries	EXPENSE		
Subsidiaries	Expense from fees and commissions	68	1
Subsidiaries	Interest expense	55	77
Subsidiaries	TOTAL EXPENSE	292	225
Associate companies	INCOME		
Associate companies	Commission income	8,422	8,956
Associate companies	TOTAL INCOME	8,422	8,956
Associate companies	EXPENSE		
Associate companies	Cash Service costs	1,964	2,056
Associate companies	Other operating expenses	280	415
Associate companies	Interest expense	11	149
	Cost for external services	-	4,656
Associate companies	TOTAL EXPENSE	2,255	7,276
Held for Sale	INCOME		
Held for Sale	Income from commissions	-	1,156
Held for Sale	TOTAL INCOME	-	1,156
Held for Sale	EXPENSE		
Held for Sale	Cost for external services	-	4,656
Held for Sale	Expenses for interest	-	86
Held for Sale	TOTAL EXPENSE	-	4,742

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Group during 2016 and 2015 from transactions with related parties are as follows:

Consolidated Related parties	Type of transaction	As of 31.12.2016	As of 31.12.2015
Parent company	INCOME		
Parent company	Other income	624	706
Parent company	Income from fees and commissions	8	7
Parent company	Net trading income	-	(58)
Parent company	Due from reverse REPOS	(13)	-
Parent company	TOTAL INCOME	619	655
Parent company	EXPENSE		
Parent company	General administrative expenses	3,653	1,253
Parent company	Interest expense	439	892
Parent company	Other operating expenses	-	2,037
Parent company	TOTAL EXPENSE	4,092	4,182
Entities under control of Parent company	INCOME		
Entities under control of Parent company	Interest income	4,329	5,954
Entities under control of Parent company	Other income	1,318	-
Entities under control of Parent company	Income from fees and commissions	349	314
Entities under control of Parent company	TOTAL INCOME	5,996	6,268
Entities under control of Parent company	EXPENSE		
Entities under control of Parent company	Other operating expenses	941	-
Entities under control of Parent company	Interest expense	30	21
Entities under control of Parent company	TOTAL EXPENSE	971	21
Associate companies	INCOME		
Associate companies	Commission income	8,719	8,956
Associate companies	TOTAL INCOME	8,719	8,956
Associate companies	EXPENSE		
Associate companies	Cash Service costs	1,964	2,056
Associate companies	Other operating expenses	280	415
Associate companies	Interest expense	11	149
	Cost for external services	-	4,656
Associate companies	TOTAL EXPENSE	2,255	7,276
Held for Sale	INCOME		
Held for Sale	Income from commissions	-	1,156
Held for Sale	TOTAL INCOME	-	1,156
Held for Sale	EXPENSE		
Held for Sale	Cost for external services	-	4,656
Held for Sale	Expenses for interest	-	86
Held for Sale	TOTAL EXPENSE	-	4,742

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

The total amount of remuneration for 2016 is BGN thousand 668(2015: BGN 603 thousand).

Total amount of deposits and current accounts of BD members and their close family (domestic partner, children and dependents), is BGN 7,180 thousand and the amount of loans is BGN 155 thousand.

The items in the consolidated income statement are as follows: Interest and commission income – BGN 7 thousand, Interest and commission expenses – BGN 21 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

The Bank/Group participates in Mutual funds managed by UBB Asset Management AD as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management AD	As of 31.12.2016	As of 31.12.2015	As of 31.12.2016	As of 31.12.2015
	Separate	Separate	Consolidated	Consolidated
UBB Balanced Fund	2,441	2,401	2,441	2,401
UBB Premium Shares Fund	2,687	2,021	2,687	2,021
UBB Platinum Bonds Fund	1,546	1,523	1,546	1,523

41. INFORMATION BASED ON REQUIREMENT OF ART. 70 § 6 FROM LAW FOR CREDIT INSTITUTIONS

The Bank holds a bank license granted by the Bulgarian National Bank 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 does not have subsidiaries and branches located outside Bulgaria. The subsidiaries are operating in insurance brokerage, assets management and factoring line of business. The Bank/Group has not received any government grants as of December 31, 2016. The separate and consolidated performance is presented below:

As at December 31, 2016	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	404,483	2,559	123,634	(12,373)	1.63%
Group	Bulgaria	408,528	2,620	124,922	(12,830)	1.64%

As at December 31, 2015	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	356,819	2,637	54,054	(5,147)	0.75%
Group	Bulgaria	359,378	2,692	56,427	(5,417)	0.78%

42. EVENTS AFTER THE REPORTING PERIOD

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