ANNUAL REPORT 2014

UNITED BULGARIAN BANK
NBG Group

CONTENTS

Address by the Chairman of the Board of Directors

Dear Shareholders,

Y2014 was characterized by indiscernible credit growth, persisting high share of bad and restructured loans (18% with households and 19% with corporates), but also by an apparent recovery of the banking business after the unprecedented economic crisis with onset in Y2009. Unfortunately, the second part of the year was marked by the bankruptcy of one of the largest banks in Bulgaria – Corporate Commercial Bank. That highly unfortunate event somewhat shattered the public's confidence in Bulgaria's entire banking sector.

Given these circumstances and notwithstanding its prudent behavior United Bulgarian Bank reports excellent Y2014 financial performance. The profit, generated on a separate basis (Bank only), is BGN 76.3 million, against BGN 17 million for Y2013. The net interest income has increased by 13.3% up to BGN 240 million, mainly due to the considerable drop in interest expenses by over 33%. The Bank reports fees and commissions income for Y2014 in the amount of BGN 83.2 million, against BGN 78.9 million for Y2013, a growth of 5%. It should be noted that the reported increase has been achieved against the backdrop of the significant decline in the income from certain fees and commissions, as confined by the entry into force of the mid-2014 amendments to the Consumer Loan Act. The lower (by 3% y/y) level of expenses has also significantly contributed to the reported profit.

During Y2014 UBB reported a decrease in its asset base by 2.2% down to BGN 6.6 billion compared to Y2013, mainly due to the loan portfolio decrease with 1.9%. As at the end of Y2014 deposits amounted to BGN 5.4 billion, indicating an increase by 3.9%, compared to previous-year figures. UBB's equity as at the end of Y2014 equaled BGN 1.165 million, thus ensuring a total capital adequacy level of 27.4%, or 13.9% over the regulatory threshold of 13.5% required by the BNB.

The Bank's reports explicitly indicate that for a second successive year UBB is fully independent in financial terms from the parent bank – the National Bank of Greece. The Y2015 semi-annual performance undeniably validates UBB's positive motion forward at an even higher gear.

Over Y2015 UBB's Board of Directors, its Management and employees will persist in their efforts for improving the loan portfolio quality and optimizing the costs, in view of maintaining the Bank's optimum liquidity and resilient capital position. UBB will continue with strengthening its authority as a leading player on the Bulgarian banking market, while expanding its positions in lending and in general banking at high profitability levels.

Stilian Vatev

BoD Chairman and
Chief Executive Officer

General Information

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

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

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

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

- **Main Shareholders:**

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

- **Banking Licence**:
  Full banking license for domestic and overseas banking and financial operations.

- **Ratings**:
  FITCH
  - ***B*** Long Term Foreign Currency
  - ***B*** Short Term Foreign Currency
  - Outlook Negative

  Standard & Poor's
  - ***B*** Long Term Foreign Currency
  - ***C*** Short Term Foreign Currency
  - Outlook Negative

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

- **Branch Network: 199** business units across the country

- **Banking Services**:
  - Lev and foreign exchange loans
  - Lev and foreign exchange deposits
  - Foreign exchange transactions
  - Prompt and express intra-bank transfers
  - Electronic banking
  - Cash management
  - Transactions on BGN and foreign exchange accounts and traveller's cheques
  - Debit and credit card payments
  - Cash operations and depositories
  - Bank guarantees and letters of credit

- Securities trading
- Depository / Custodian services
- Investment services
- Western Union transfers

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

- **Market Share** (as of 31 December 2014 calculated as a percentage of the entire banking sector according to BNB statistical data):
  - 7% of corporate deposits
  - 9% of corporate loans
  - 10% of retail deposits
  - 12% of consumer loans
  - 12% of mortgage loans
  - 18% of the debit card market
  - 20% of the credit card market
  - 17% of ATMs
  - 18% of POS-terminals
  - 7% of inter-bank transactions

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

Business Strategy

I. Macroeconomic Assumptions

The main macroeconomic conditions for business development in Bulgaria in 2015 are driven by the impact of the following parameters:

- 0.8% economic growth, according to the latest forecast of the Ministry of Finance (MoF), taking into account the adverse effect of the crisis in Ukraine and the recession in the EU member states that are our main business counterparts;
- Limited growth of lending year-on-year – 2% for retail loans and 3% for corporate lending;
- Deposit growth by 6% in the part of retail deposits and 4% in that of corporate deposits year-on-year;
- Expectations of very low growth of average annual inflation of 0.1%, impacted by the long period of deflation;
- Insignificant changes in the interest rate income (1,200 -800 bps for consumer and mortgage loans; 800-700 bps for corporate loans). The interest rate income on deposits is expected to be in the range of 400-300 bps for the households and corporations segment, respectively;
- A Currency Board Arrangement with fixed exchange rate BGN/EUR:1.95583.

II. Key Business Goals:

Owing to the continuing instability in Greece and the unpredictable developments in the macroeconomic environment, which for Bulgaria will be further deteriorated by the crisis in Ukraine, in 2015 UBB will mainly focus on:

1. **Liquidity and strong capital position**. In the conditions of a rather challenging environment the development of the Bank's customer deposit base will be of paramount importance. UBB will focus on providing adequate liquidity to the Bank;
2. **Asset quality**. On the lending side, UBB will target its efforts towards loan portfolio quality improvement, collection of receivables and restructuring;
3. **Costs**. Cost optimization remains one of the Bank's top priorities. In this regard we are aiming at identifying new cost optimization opportunities, also providing conditions for business development;
4. **Recovering market positions**. The Bank will be much more active on the credit market to gradually regain its leading position in the Bulgarian banking sector.

The listed set of strategic measures is aimed at ensuring UBB's sustainable position, even in the case of the worst macroeconomic scenario, while the Bank will remain profitable at the end of 2015.

Selected Indicators

SELECTED INDICATORS IN ACCORDANCE WITH THE SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF UBB AS OF 31.12.2014

	2013 Separate	2014 Separate	2013 Consolidated	2014 Consolidated
Performance (BGN '000)				
Operating Income	477,798	456,513	483,095	459,417
Net Interest Income	211,756	240,004	212,354	240,682
Net Profit	17,030	76,286	19,604	77,443
Balance Sheet (BGN '000)				
Total Assets	6,715,191	6,570,259	6,718,170	6,574,604
Capital	1,087,789	1,164,878	1,091,831	1,170,937
Retail and Corporate Deposits	5,203,681	5,114,045	5,201,952	5,111,691
Retail and Corporate Loans	4,229,193	4,147,915	4,229,901	4,148,757
Capital Adequacy (%)				
Overall Capital Adequacy	14.81	27.4	14.81	27.4
Tier 1 Capital Adequacy	14.81	24.2	14.81	24.2
Capital /Total Assets	16.20	17.73	16.25	17.81
Liquidity (%)				
Overall Liquidity	34.94	28.05	34.95	28.05
Total Loans / Total Deposits	81.27	81.11	81.31	81.16
Staff Number as of the end of the period	2,475	2,498	2,525	2,548
Average Annual Inflation Rate (%)*	0.9	-1.4	0.9	-1.4
Exchange Rate BGN/ USD (31st December)**	1.42	1.61	1.42	1.61

**Source: NSI*

*** Source: BNB*

Board of Directors

Stilian Vatev
Chief Executive Officer
Chairman of the Board of Directors

Radka Toncheva
Board Member
Executive Director

Theodor Marinov
Board Member

Anastasios Lizos
Board Member

Konstantinos Bratos
Board Member

Pavlos Mylonas
Board Member

Panagiotis Karandreas
Board Member

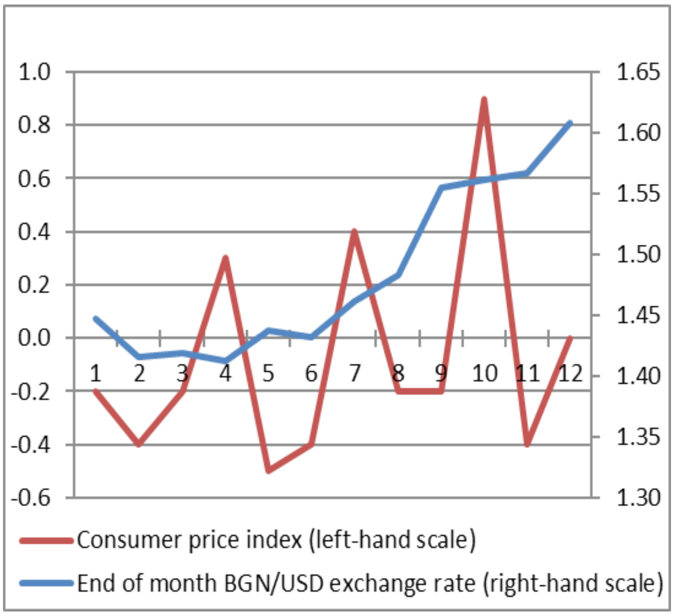
Economic Environment

In 2014 the gross domestic product (GDP) of Bulgaria amounted to BGN 82.164 billion at current prices. GDP, derived as the sum total of quarterly data, increased in real terms by 1.7% compared to 2013. Translated in US dollars at an average annual exchange rate of BGN 1.47437 to 1 US dollar, GDP amounted to USD 55.728 billion. The per capita indicator amounted to BGN 11,360, or USD 7,705. Translated into Euro, the GDP was 42.01 billion, respectively, with a GDP per capita of EUR 5,808. The gross value added amounted to BGN 70.666 billion. The real value of the indicator was by 1.6% higher than in 2013. The industrial sector generated 28.3% of the value added in the economy, which is by 0.4 percentage points higher than in 2013. The services sector generated 66.4%, and the agricultural sector - 5.3% of the value added.

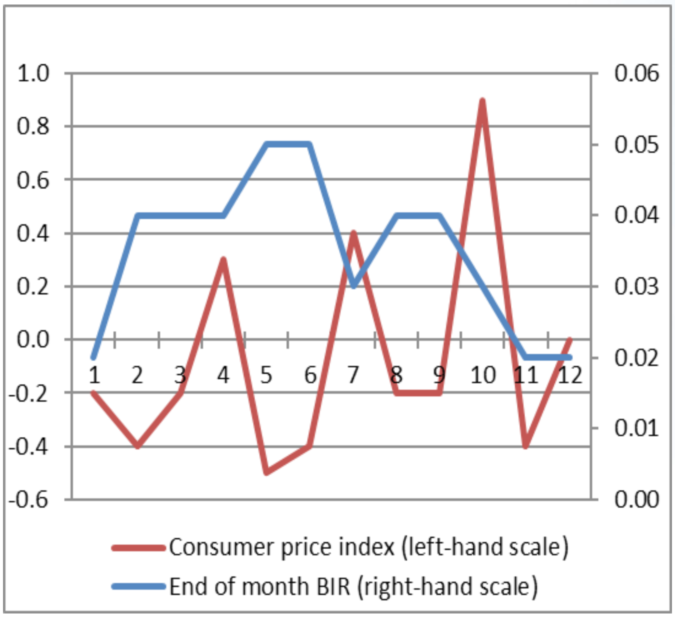
In December 2014, unemployment in Bulgaria decreased by 2.4 percentage points compared to the same period of 2013, reaching 10.6%. This is the lowest value of the indicator since the fourth quarter of 2009. In the fourth quarter of 2014 the total number of employees of age 15 and older was 2.99 million, of which 1.88 million were employed in the services sector. The unemployed in the country were 354,500. Compared to the fourth quarter of 2013, the number of unemployed was by 19.4% lower. The share of youth unemployment was 17.6% - 18.5% for men and 16.5% for women, respectively. Compared to the fourth quarter of 2013, it was by 4.6 percentage points lower.

In December 2014, inflation in Bulgaria was 0% on monthly basis. However, as a result of price decreases in the previous months, the country reported a 0.9% deflation on annual basis. The average annual inflation was minus 1.4%. The decrease in international fuel prices ranks among the main factors for the drop in the domestic retail prices. The harmonized index of consumer prices (HICP) in December 2014 reported monthly inflation of minus 0.3% compared to December 2013. The annual inflation in December 2014 was minus 2%, and the average annual inflation was minus 1.6%. The projections of the Bulgarian government feature consumer price inflation of 0.1% in 2015, 1.1% in 2016, and 1.6% in 2017. Inflation is expected to remain negative at the beginning of 2015, however with a slowing-down trend in the rate of price decrease.

Exchange Rate and Inflation



Base Interest Rate and Inflation



The balance under the 2014 consolidated fiscal programme (CFP) was negative and amounted to BGN 3.048 billion, or 3.7% of the projected GDP. The 2015 budget envisages a 3% deficit and reduction to 2.5% and 2% in 2016 and 2017, respectively. The revenues and grants under the 2014 CFP were BGN 29.400 billion. The total amount of tax proceeds (including revenues from social security contributions) for 2014 amounted to BGN 23 billion reporting a 2.9% growth year-on-year. In structural terms, the revenues from social security and health insurance contributions exceeded the target for the year and compensated to a great extent the VAT revenue under-performance, thus the tax revenues under CFP were close to those targeted in the amended annual plans. The direct tax revenues were BGN 4.300 billion marking a growth of BGN 374.3 million or 9.6% compared to the previous year. Revenues from personal income tax (PIT) registered 10.6% growth year-on-year. Corporate tax revenues also reported a growth in 2014 – by 8.1% on annual basis. Indirect tax revenues amounted to BGN 11.5 billion. VAT revenues were BGN 7.3 billion, with a decrease of BGN 102.1 million owing to the bigger amount of VAT refunds to companies. As of end-2014, the non-refunded VAT amounted to BGN 105 million, thus registering the lowest level of this indicator in the recent 10 years, significantly below the BGN 240 million reported in 2013. Another factor to be taken into consideration in comparisons with the previous year is the base effect from the receipt in February 2013 of one-off revenues from old tax arrears of BGN 65 million. Excise duty revenues were in the amount of BGN 4.1 billion with a 0.4% reduction on annual basis. Customs duty revenues were BGN 153.1 million or 102.5% compared to the plan for the year. Proceeds from other taxes (including property taxes and other taxes under the Corporate Income Tax Act, amounted to BGN 822.4 million, i.e. 101.5% performance of the amended annual plans. Revenues from social security and health insurance contributions were BGN 6.5 billion, or 102.7% of those planned for the year. Compared to the previous year the revenues from social security contributions increased by 6.4% in nominal terms on annual basis. Non-tax revenues amounted to BGN 3.500 billion or 100.7% performance of the amended annual plans. This is by BGN 493.5 million less than the previous year and is due to the base effect of one-off dividend revenue for the state in 2013 and a sum awarded to the state under arbitration proceedings. Proceeds from grants, domestic and foreign, (including grants from EU Funds) amounted to BGN 2.9 billion, i.e. 90.3% of the annual plan. The expenditures under the consolidated fiscal programme (including the contribution of the Republic of Bulgaria to the EU budget) for 2014 amounted to BGN 32.5 billion. Compared to 2013, the total expenditure under the CFP grew by BGN 2.1 billion, or 6.7% on annual basis, mainly due to the accelerated absorption under EU programmes and funds, and to the growth of social and health insurance payments. Expenditure under the EU funds accounts (including national co-financing) increased by 23.6% on annual basis, and social security and health insurance expenditures - by 7.5% compared to those reported in 2013. Non-interest expenditure amounted to BGN 30.9 billion, i.e. 103.2% of the amended annual plan. Current non-interest expenditure for 2014 amounted to BGN 26 billion, capital expenditures (including net growth rate of the state reserve) amounted to BGN 4.9 billion (96.5% of the plan for 2014). Interest payments amounted to BGN 579.8 million (86.6% of the 2014 plan). The portion of the contribution of the Republic of Bulgaria to the EU budget, paid as of 31.12.2014 from the central government budget, amounted to BGN 954.9 million, which is in compliance with Council Regulation (EC, Euratom) No. 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources. The budget balance on a cash basis under CFP for 2014 was negative, amounting to BGN 3.048 billion, formed by a deficit under the national budget of BGN 2.388 billion and a deficit under EU Funds of BGN 659.6 million. The fiscal reserve as of 31.12.2014 amounted to BGN 9.2 billion, including BGN 8.100 billion as fiscal reserve deposits in the BNB and banks and BGN 1.1 billion receivables under the EU Funds for certified expenditures, advance payments, etc.

In December 2014, Bulgaria's government debt grew by EUR 4.080 billion compared to the end of 2013. In December 2014 the debt's share as a percentage of GDP increased to 27.1%. For the sake of comparison, at the end of 2013 the government debt to GDP ratio was 17.9%, and as of November 2014 – 23.1%. The growth of the state's liabilities was expected, as in December the Ministry of Finance placed in the market securities of a slightly over EUR 800 million (BGN 1.619 billion) and took out an EUR 1.5 billion loan from four banks to provide funds to pay out the guaranteed deposits in Corporate Commercial Bank (KTB) and to bridge the budget gap. Earlier during the year, Bulgaria tapped the international markets and raised EUR 1.5 billion with an issue enjoying high investor interest and a favourable yield. The funds were used to repay a global bond issue maturing in January 2015. As of 31 December 2014, the overall government debt amounted to EUR 11.3 billion, with more than 57% growth rate on annual basis. External government debt increased by 77%, or EUR 3 billion, to slightly over EUR 7 billion. Domestic debt amounted to EUR 4.219 billion, with a 31% growth rate on annual basis. In the debt structure, the relative share of domestic government debt was 37.3% and of the external one 62.7%.

In December 2014, the BNB's foreign reserves amounted to EUR 16.6 billion, reporting growth of 14.6% on annual basis. During the month, over 90% of the customers' deposits in the closed KTB bank were paid out, and this caused no shocks for the country's banking system, nor for the balance in the BNB international foreign exchange reserves account. Bulgaria's international liquidity position, represented by the *short term external debt/ foreign reserves ratio,* as per the latest end-October 2014 data, improved to 168.1% from 148.7% as of end-2013 and 146.7% as of end-2012. BNB and MoF pursue a prudent fiscal policy and maintain the stability of the Currency Board Arrangement.

According to BNB preliminary data, in 2014 the surplus on the current and capital account decreased to EUR 1.030 billion, compared to near EUR 1.320 billion in 2013. Only the current account surplus shrank to EUR 18.8 million, compared to EUR 848 million surplus in 2013. The capital account balance is positive, in the amount of EUR 1.020 billion against a positive value of EUR 468 million a year earlier. In 2014, Bulgaria's exports dropped for the first time in five years, while imports grew by 1.2%. Thus, the trade balance deficit increased to EUR 2.900 billion, against an EUR 2.430 billion shortfall in 2013. At the end of 2014, current transfers, including the transfers from Bulgarians abroad, EU subsidies and Bulgaria's contribution into the EU budget, amounted to EUR 1.620 billion, compared to EUR 2.380 billion reported in 2013. Only in December they were EUR 77 million. Proceeds from foreign tourists visiting the country increased by 1.9% on annual basis to EUR 3.116 billion. For comparison sake, in 2013 proceeds from foreign tourists amounted to EUR 3.058 billion. In the period under survey, the amounts spent by Bulgarian tourists travelling abroad increased by 6.9% to EUR 1.230 billion. EUR 1.150 billion were spent for travelling in 2013. The financial account, comprising direct and portfolio investment, has a positive balance of EUR 1.955 billion, against a negative one of EUR 1.476 billion in 2013. The growth is mainly accounted for by the improvement in item *Portfolio Investment*, which includes investments in shares up to 10% of a company's equity, in bonds, notes, money market instruments or other negotiable securities, as well as by a decrease in item *Other Investment*, which comprises trade credits granted and received, loans, deposits, etc. In the final run, the balance of payments closed with a positive balance. For 2014 it was EUR 1.910 billion, against a deficit of EUR 599.2 million for 2013.

Foreign direct investment in 2014 amounted to EUR 1.182 billion, marking an EUR 93.5 million drop from the revised 2013 FDI data (EUR 1.275 billion). The main part of funds attracted from abroad in 2014 were in the form of the so-called *Other Capital*. This category comprises intra-company loans extended by foreign parent companies to their subsidiaries in Bulgaria. For the whole 2014, their total amount was EUR 514.3 million, i.e. almost five-fold increase from the previous year. Investments in share capital are assessed at EUR 498.4 million, against over EUR 1 billion for the previous year. For a one-year period, the reinvested profit amounted to EUR 169 million, from EUR 103.4 million in 2013. In 2014, with investments of EUR 747 million, the Netherlands was the biggest foreign investor in Bulgaria, followed by Austria with EUR 291 million, United Kingdom with EUR 180 million, and Russia with EUR 173 million. The greatest negative net flows in the period were to Germany (-EUR 338.4 million). A breakdown by industry shows that in 2014 the greatest net investments were in sectors *Real estate transactions, leasing and business services* EUR 478.3 million, *Financial Intermediation* EUR 163.8 million, and *Generation and distribution of electricity and heat energy, gaseous fuels and water* EUR 102.5 million.

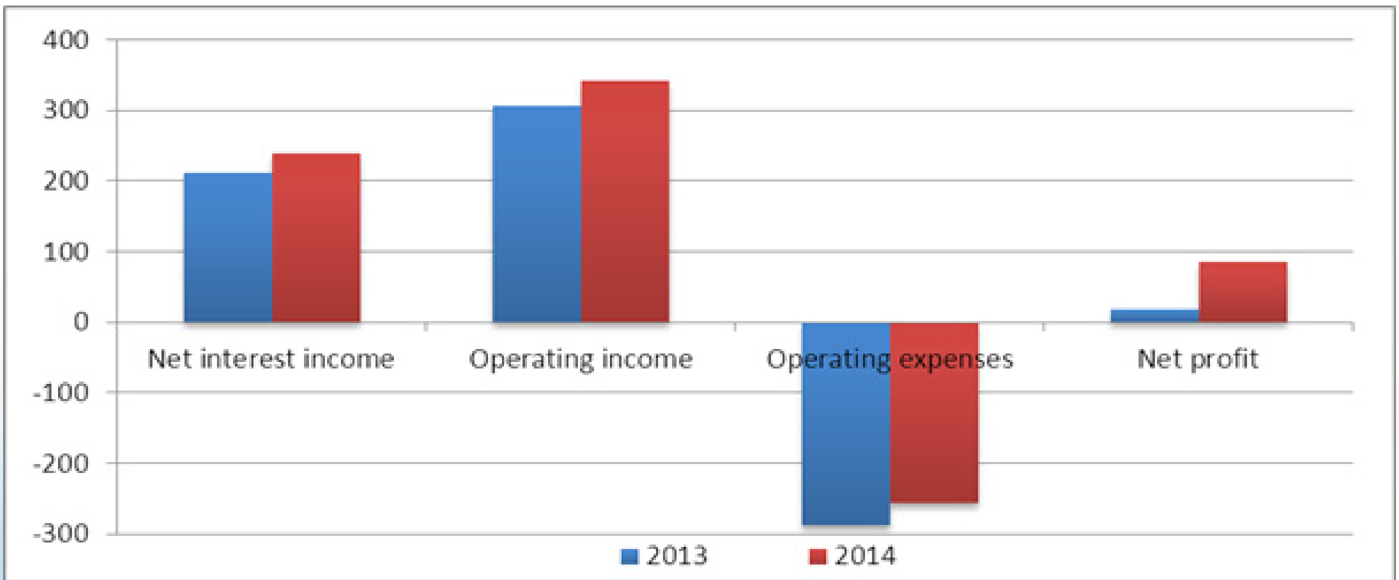
In 2014 the banking system in Bulgaria managed to increase its profit and assets in spite of the panic in the sector during the summer months, the situation with KTB, the unsatisfactory credit growth, the still high share of non-performing and restructured loans and the unstable macroeconomic environment. At the end of 2014, the net profit of the banking system amounted to BGN 746 million, marking a 27.6% growth on annual basis. Several factors contributed to the positive results. *First,* the higher net interest income (NII) – the difference between interest revenues, received by banks under loans grated, and the interest costs they pay on attracted resources (e.g. current accounts, savings deposits, term deposits). As of end 2014, NII of the banking system increased by 3.6% on annual basis reaching BGN 2.632 billion. The NII dynamics was driven by the lower interest rates on deposits offered by banks, and the lower interest revenues on extended loans, as lending activity was subdued, on the one side, and on the other in their efforts to stimulate it banks were forced to further reduce the borrowing costs. A *second factor* stimulating banks' financial performance were the revenues from fees and commissions collected for various services rendered – servicing of current accounts, savings and deposit accounts, or granting loans. A challenge banks faced was the amended Consumer Loans Act, which from the end of July 2014 prohibited institutions to collect and charge specific fees for loan extension and management. At the same time, the fee and commission costs incurred by banks, which have increased by almost 9.5% on annual basis, are a factor in the formation of the net fee income, i.e. the difference between the revenues received by banks for services rendered, and the costs incurred by them for specific services. As of end-2014, the net fee income increased by approximately 1.2% on annual basis to BGN 828 million. Banks' administrative costs are a main item, and for a one-year period they increased by 4.17% to BGN 1.857 million. Additionally, in the period the total amount of financial assets held for trading, those designated at fair value in the balance sheet, and those available for sale were slightly over BGN 12 million. This distribution includes all financial instruments generating income for the banks (primarily Bulgarian government securities through purchases in the domestic market), but also those banks intend to sell to realize income. As of end-2014, the total assets in the banking system amounted to BGN 85.1 billion, with a 0.7% growth on annual basis, amounting to 106.05% of the projected GDP. As regards the dynamics of balance sheet assets, it was impacted significantly by two events in the last month of the year. From 4.12.2014 started the payment of the guaranteed amounts totalling BGN 3.7 million to the depositors of KTB, whose banking license was revoked on 6.11.2014. From 12.12.2014, the banking operations restrictions imposed on Commercial Bank Victoria EAD were lifted. The bank resumed meeting its obligations to its depositors with its own funds (in accordance with a decision of the BNB Governing Council of 19.11.2014). At the end of 2014, attracted funds from customers in the banking sector increased by 2.38% on annual basis, reaching BGN 63.7 billion. Growth was driven by deposits of individuals and households, which increased by 10.05% month-on-month, and by 4.47% year-on-year. At the end of 2014, the attracted retail resources reached BGN 41.0 billion, and its share in total attracted resources increased to 55.8%. The corporate deposits in the banking system amounted to BGN 22.7 billion, reporting a 1.2% drop on annual basis. The banking system preserved its trend towards an increasing share of domestic sources of funding. As a result, as of 31.12.2014 the resources from residents were 85.1% of the total amount of attracted resources. The currency composition underwent no significant change. The share of euro-denominated resources decreased by 1.5 percentage points to 42.0% at the end of 2014, at the expense of an increase in the attracted resources denominated in levs and other currencies, to 50.9% and 7.0%, respectively. As of end-2014, loans to the non-government sector amounted to BGN 55.589 billion (69.24% of GDP), from BGN 54.48 billion reported as of end-November 2014. The total amount of loans decreased by 4.96% on annual basis. In 2014 loans to central governments increased to BGN 1.548 billion (1.93% of GDP). Compared to December 2013, they grew over 1.7 times. The financing provided to non-credit institutions reported a 28.7% growth reaching BGN 1.431 billion. Loans to companies amount to BGN 34.319 billion, reporting 10.4% drop on annual basis. Their relative share in the projected GDP was 42.75%. Loans to households amounted to BGN 18.290 billion (22.78% of GDP) at the end of 2014, with a 1.16% decrease compared to 2013. As of end-2014, consumer loans amounted to BGN 8.986 billion, with a 1.4% decrease on annual basis, while housing loans amounted to BGN 9.304 billion, and their level decreased by 0.9% on annual basis. The reduction of the levels and severity of credit risk is among the priorities in banking risk management. As a result of the banks' efforts, the credit risk level and trend as of the end of 2014 remained within the parameters of previous periods. At the end of 2014 the gross *loans more than 90 days past due* in the banking system were 14.08%. In the same period the banking system reported high liquidity and stable financial indicators. The liquid assets of the 28 credit institutions reached BGN 22.2 billion. The ratio calculated under BNB Ordinance No. 11 increased to 30.12%, driven by the significant cash growth. As of the end of 2014, the overall capital adequacy ratio of the banking system under the capital requirements Directive 2013/36/EU and Regulation (EU) No. 575/2013 was 21.95%. The common equity Tier 1 capital ratio was 19.51%, and the Tier 1 capital ratio – 19.97%.

Review of UBB's Activities in 2014

FINANCIAL PERFORMANCE

2014 was one of the hardest years for the Bulgarian banking sector since 1997. The year was marked by the liquidity crisis during the summer, which was felt by several banks, and one of them - Corporate Commercial Bank (CCB), finally remained without a license, after being for more than four months under special supervision by the Bulgarian National Bank (BNB). In a very short time the system lost the confidence of depositors, but very quickly regained it considering the amount of savings in banks, which at the end of Q3 2014 increased compared with that in May (the last month before the placement under special supervision of the CCB and Commerce Bank “Victoria”). In 2014, UBB managed to increase profits despite the panic in the sector during the summer months, due to the state of Corporate Commercial Bank (CCB), the continued unsatisfactory credit growth and the resilient high share of bad and restructured loans in the banking sector (18.8% in total, including 18% in household sector and 19.2% in corporate sector). Additionally, UBB being the largest bank representing ownership of the Greek banking community in Bulgaria had to compensate for the severe economic crisis in Greece by creating additional capital and liquidity buffers. Furthermore, in 2014 UBB’s Board of Directors continued to direct its focus and efforts on problematic loans and in achieving additional liquidity from the local market through the expansion of the Bank’s deposit base. At the end of 2014 UBB recorded a profit before tax of BGN 84.9 million compared to BGN 18.7 million at the end of 2013, which represents an increase over 3.5 times yoy. On a consolidated basis the profit before tax of the Bank increased almost 3 times and reached BGN 86.4 million at the end of 2014. UBB’s financial result was affected by significant growth in net interest income (13.3% yoy), net income from fees and commissions (5.5% yoy for the Bank and by 6.3% yoy on a consolidated basis) with the simultaneous contraction of administrative costs (by almost 3% for the Bank and by 2.8% on a consolidated basis). Thus for a period of one year UBB achieved a return on assets (ROA) of 1.3% while return on equity (ROE) rose to 7.3%. In 2014 the Bank maintained one of the lowest Cost to Income Ratio of 43.2% within Bulgaria’s banking sector.

Net Operating Income and Net Profit (BGN million)



Net interest income

In 2014 UBB reported net interest income of BGN 240.0 million (compared to BGN 211.8 million in 2013) or an increase of 13.3% yoy. The dynamics of net interest income is due to lower interest rates on deposits and lower interest income from loans. On one hand, UBB's lending activity was influenced by weak credit expansion activity in the banking sector and on the other the Bank drastically reduced the interest rates on its deposit products.

	2013 BGN '000	2014 BGN '000	Change (%, y/y)
Interest income	378 248	350 708	(7.3)
Interest expense	(166 492)	(110 704)	(33.5)
Net interest income	***211 756***	***240 004***	***13.3***

Lending interest income of the individuals decreased by 22.4% yoy and amounted to BGN154.4 million. Interest income on loans to companies amounted to BGN 130.9 million and decreased by 13.4% yoy. Interest income on financial institutions decreased by 8.7% yoy. Interest income from loans and advances to banks increased by 512.6% and at the end of 2014 amounting to BGN 15.8 million. Interest income arising from financial assets at fair value through profit or loss amounted to BGN37.8 million and increased by 1.7 times yoy. Interest income originating from securities available for sale recorded a growth of 5.3% and amounted to BGN 8.6 million. Total amount of interest income declined by 7.3% yoy.

Interest expense decreased by 33.5% yoy and at the end of 2014 amounted to BGN 110.7 million, mainly as a result of the policy of reducing the cost of funding to individual and corporate customers of the Bank. Interest expense on borrowings from other banks amounted to BGN 0.2 million. Interest expense on borrowings from individual customers amounted to BGN 88.4 million and decreased by 28.8% yoy. For the same period, the interest expense on deposits from non-banking financial institutions decreased by 42.6% and amounted to BGN 5.6 million. Interest expense on corporate deposits amounted to BGN 11.5 million and decreased by 53.1% yoy. Interest expense on credit lines amounted to BGN 3.3 million and decreased by 44.2% yoy. At the end of 2014 the cost of borrowed subordinated debt amounted to BGN 1.7 million and declined by 18.2% yoy.

Net fee and Commission income

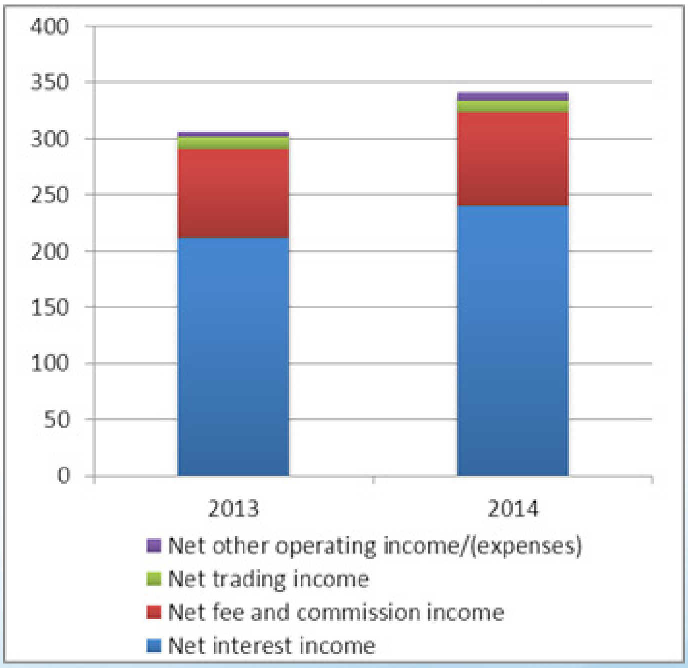
UBB's net income from fees and commissions totaled BGN 83.2 million compared to BGN 78.9 million at the end of 2013 and registered a growth of 5.5% yoy. For the same period net income from fees and commissions on a consolidated basis amounted to BGN 87.1 million compared to BGN 82.00 million at the end of 2013, growing by 6.3% yoy and reflects the direct effect of the activities of the subsidiaries and associates of the Bank. In 2014, revenue from fees for operating the transfers and cash transactions amounted to BGN 17.5 million and grew by 3.7% yoy. Income from fees for servicing deposit accounts amounted to BGN 26.9 million and increased by 7.4% yoy. Income from fees on debit and credit cards, amounted to BGN 21.6 million, decreasing by 3.4% yoy. In 2014 the Bank was challenged by the amended Consumer Credit Act, which by the end of July 2014 prohibits the institutions to collect and charge some fees for granting and management of loans and generally limited credit activity in the corporate sector. Nevertheless, at the end of 2014 income from fees and commissions on loans and advances to customers increased by 8.5% yoy and reached BGN 8 million. Revenues from commissions on guarantees and letters of credit increased by 14% yoy and amounted to BGN 3.5 million. An increase in revenues from other fees and commissions is evident (9.1% yoy), which at the end of 2014 amounted to BGN 10.2 million. At the same time the decrease in UBB's fees and commissions expenses by 14.6% yoy is a key factor in creating the uptrend in net income from fees and commissions. At the end of 2014 UBB's total fees and commissions expense amounted to BGN 4.5 million.

On a consolidated basis at the end of 2014, revenues from *other fees and commissions* increased by 12.6% yoy to BGN 14.6 million. The total revenue from fees and commissions on a consolidated basis amounted to BGN 92.1 million and increased by 5% yoy. Furthermore, on a consolidated basis the fees and commissions expenses decreased by 12.8% yoy and amounted to nearly BGN 5 million.

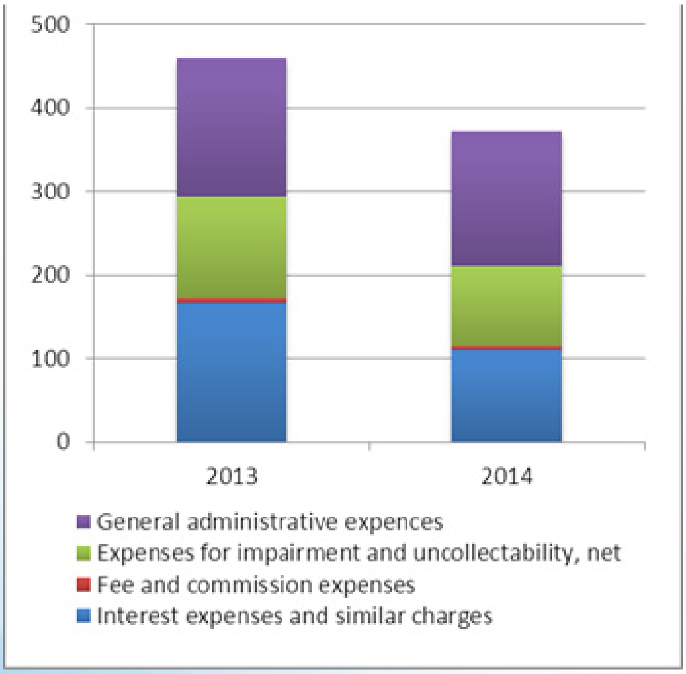
Net trading income

At the end of 2014, net trading income amounted to BGN 10.5 million and decreased by 5.9% yoy. Total revenue from trading amounted to BGN 8.3 million and grew by 3.5% yoy. The largest contribution in this position is the gain on foreign exchange, which at the end of the year amounted to BGN 12.5 million and increased by 17.7% yoy. Net income from interest rate instruments amounted to BGN 2.2 million and decreased by 30.3% compared to the same period of 2013.

Operating Income (BGN million)



Operating Expenses (BGN million)



General and administrative expenses

In 2014, UBB's general administrative expenses contracted by 3.0% yoy and reached BGN 160.2 million. During the year the Bank continued to consistently apply a program to "optimize" administrative costs. This way the decline on an annual basis in the administrative expenses is as follows: 18.2% in depreciation and amortization, 15.9% in rental expenses, 6.2% for duties and taxes, 22.3% for fees and charges for third parties, 28.4% for telecommunications, 14.4% for insurance costs, 9.4% for expenditure on consumables, 13.8% decline in expenses for business trips and 22.4% reduction in other expenses (audits, consulting, legal fees). UBB's annual personnel costs increased by 2.5%.

On a consolidated basis general administrative expenses for 2014 decreased by 2.8% yoy and reached BGN 162.4 million. During the year, the effect of the Bank's optimization of administrative expenses is also reflected in the results of subsidiary and associated companies. As a result of this the decline on an annual basis in administrative expenses on a consolidated basis is as follows: 18.1% in depreciation and amortization, 15.9% in rental expenses, 5.9% for duties and taxes, 22.2% for fees and charges for third parties, 28.4% for telecommunications, 14.4% for insurance costs, 9.2% for expenditure on consumables, 13.2% of expenditure on business trips and 20.9% in other expenses (audits, consulting, legal fees). For the year ended 2014 personnel costs on a consolidated basis increased by 2.8%.

Net charge for impairment

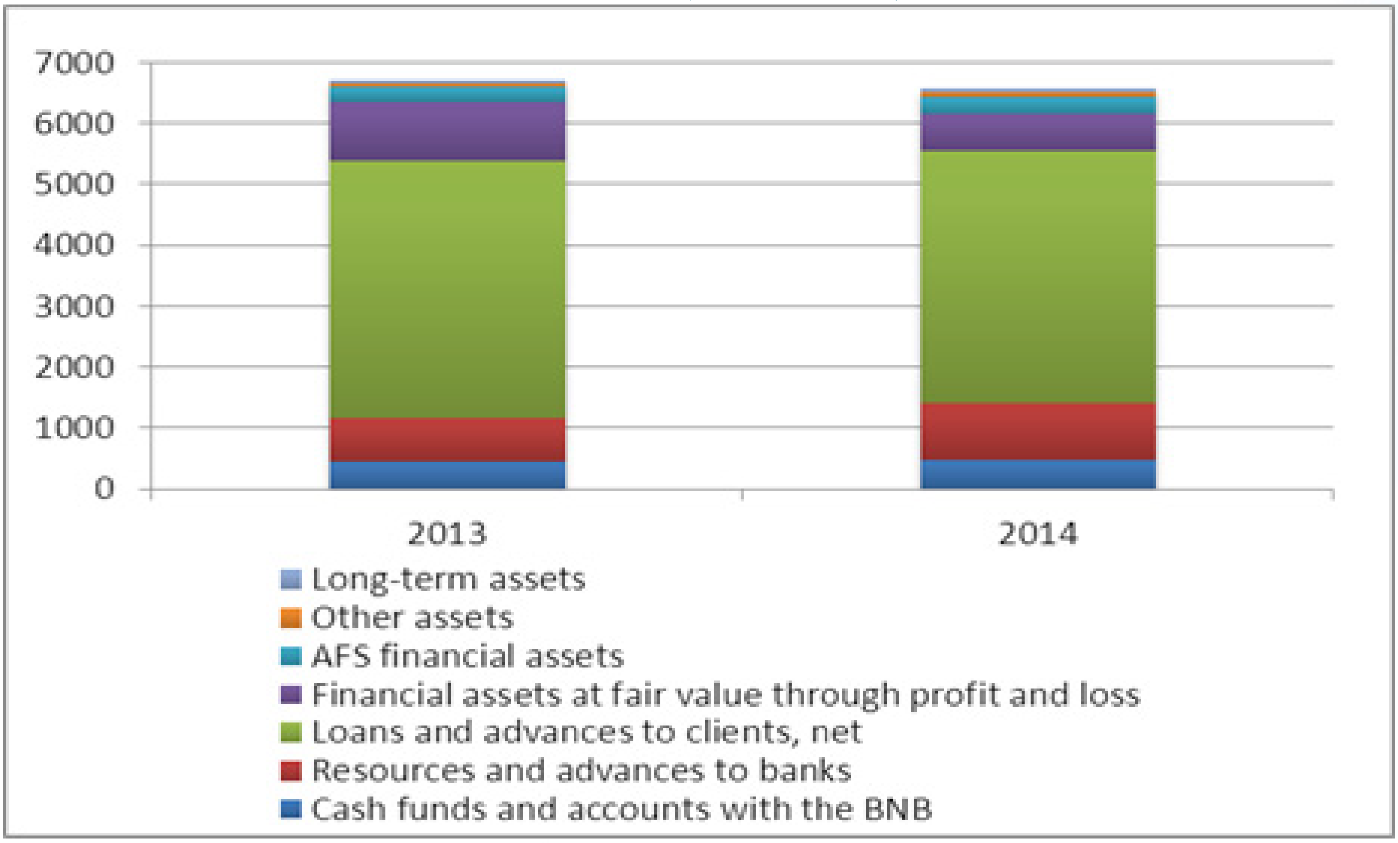
For the year end 2014 UBB's net impairment expense decreased by 21.3% to BGN 96.2 million compared to BGN 122.3 million in 2013. The highest decline is reported in impairment charges of loans and advances to customers by 36.3% yoy. There was 74.5% yoy reduction in the recovery of previously written-off debt and 50.9% yoy reduction in the impairment of investment securities available for sale.

On a consolidated basis, net charge for impairment decreased by 21.1% yoy to BGN 96.4 million compared to BGN 122.3 million in 2013.

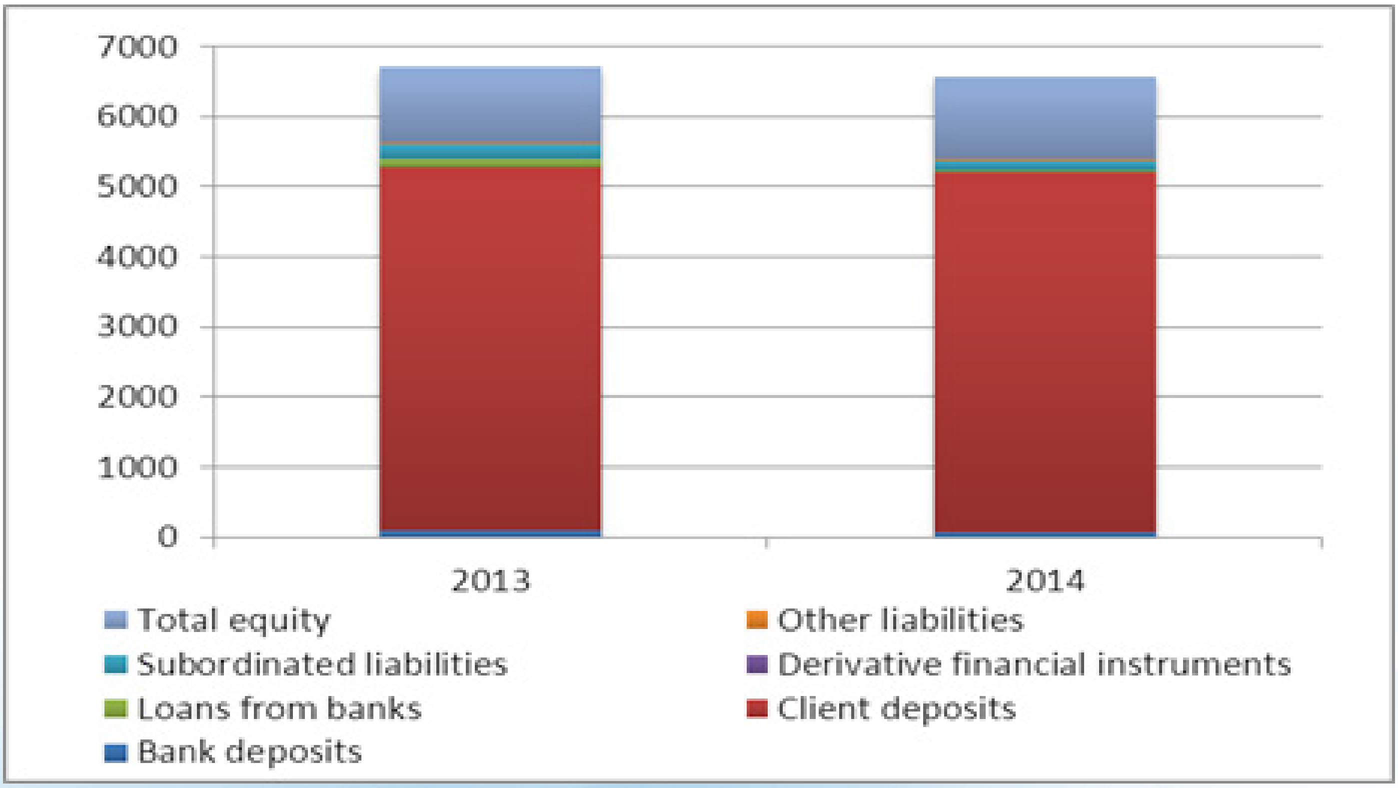
ASSETS AND LIABILITIES

At the end of 2014 the UBB's total assets decreased by 2.2% yoy, reaching to BGN 6,570 million compared to BGN 6,715 million in 31.12.2013. Structurally, the main balance sheet items of the Bank reported the following dynamics:

Assets (BGN million)



Liabilities and Capital (BGN million)



At the end of 2014, consolidated assets reached BGN 6,575 million and decreased by 2.1% yoy (2013: BGN 6,718 million).

Cash and cash equivalents

At the end of 2014 UBB's and consolidated cash and balances with the Central bank amounted to BGN 478.4 million, including minimum statutory reserves. The maintained required minimum statutory reserves with the BNB in percentage terms were at an optimum level during the year, as follows:

BGN million	Mar-14	Jun-14	Sep-14	Dec-14
Minimum Required Reserve	386	437	283	295
Fulfillment (monthly average)	100%	101%	101%	102%

Due from banks

At the end of 2014 the net amounts due from banks amounted to BGN 923.2 million, increased by 28.1% yoy.

On a consolidated basis loans and advances to banks amounted to BGN 923.4 million, increased by 28.05% yoy.

Financial assets designated at fair value through profit or loss

At the end of 2014 UBB's and consolidated financial assets designated at fair value through profit and loss amounted to BGN 597.8 million and are allocated as follows: 94.7% in securities with a fixed interest rate and 5.3% in securities with floating interest rate.

Loans and advances to customers

In 2014 due to the volatile macroeconomic environment UBB continued to apply a conservative approach in lending. Thus, at the end of the year, the Bank's net loan portfolio declined by 1.9% 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 2014 the net value of loans amounted to BGN 4,148 million compared to BGN 4,229 million at the end of 2013. In 2014, high growth of unemployment and the contraction of the salary income of the population led to a decline in loans to households by 4.5% yoy. For the same period, loans in the corporate sector increased by 3.6% yoy amounting to BGN 2,906 million. In 2014 due to the persistently difficult economic environment the Bank continued to form high levels of provisions for loans. At the end of 2014 the loans classified without any delinquencies are 56.29% of the total portfolio. Specifically 8.61% are past due total and, up to 30 days – 5.44%, past due 30-60 days – 1.19%, past due 60-90 days – 1.43%, and past due 90-180 – 0.55%. The share of impaired loans amounted to 35.09%. In 2014 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 2014, the net amount of loans amounted to BGN 4,149 million compared to BGN 4,230 million in 2013, decreased by 1.9% yoy. For the same period, loans on a consolidated basis in the corporate sector increased by 3.6% yoy and amounted to BGN 2,908 million.

Financial assets available for sale
At the end of 2014 the Bank's and consolidated financial assets available for sale amounted to BGN 276.4 million and registered a 10% yoy increase. In structural aspect 83.6% of them are fix interest securities, 3.84% are floating interest securities and 12.6% are non-interest bearing securities.

Attracted resources and equity
At the end of 2014 UBB's amount of liabilities reached BGN 5,405 million compared to BGN 5,627 million at the end of 2013 registering a nominal decrease of 3.9% for one year period.
For the same period liabilities on consolidated base decreased by 3.96% yoy and amounted at BGN 5,403 million.

Deposits from banks
Funds deposited by banks declined by 2.3% yoy. At the end of 2014 the deposits from banks amounted to BGN 83.6 million compared to BGN 85.6 million at the end of 2013. Their relative share of total liabilities maintained a level of 1.5%.

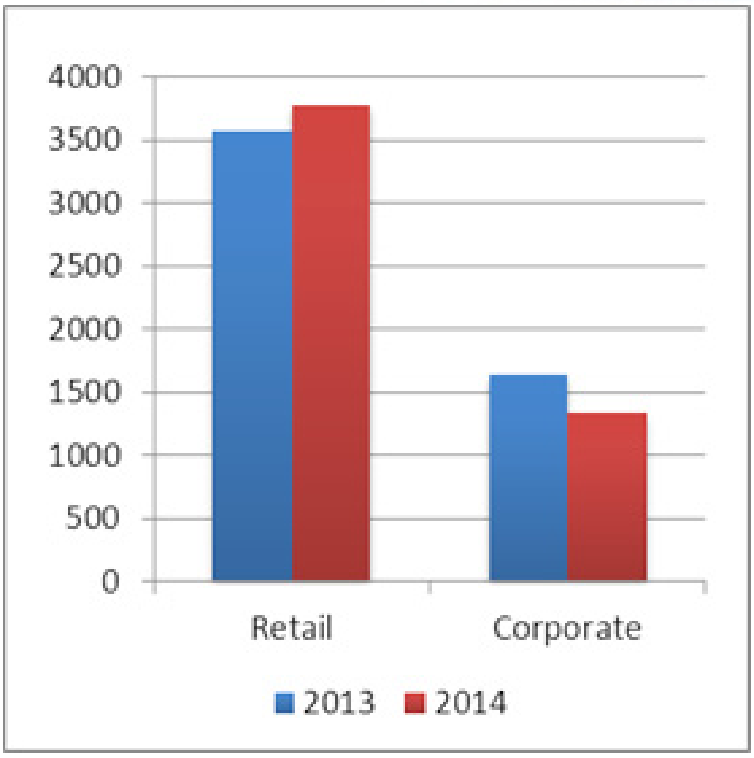
Deposits from customers
At the end of 2014 client deposits reached BGN 5,114 million compared to BGN 5,204 million at the end of 2013 and registered 1.7% yoy decline. During the year the deposits of individuals increased by 5.75% due to the offered promotions as well as to the attractive conditions of the individuals' segment. Deposits of non-bank financial institutions decreased by 69.9% yoy. Corporate deposits improved by 6.3% yoy. Deposits from government institutions and agencies declined by 33.7% yoy.

Deposits' Structure

Deposits from clients, BGN (000)	31.12.2014	31.12.2013	Change y/y (%)
Deposits of individuals	3 772 934	3 567 918	5.75
Deposits of non-bank institutions	142 951	475 140	-69.91
Corporates deposits	1 138 526	1 070 688	6.34
Deposits from government institutions	59 634	89 935	-33.69
TOTAL	5 114 045	5 203 681	-1.72

The deposits of individuals continued to dominate the structure of deposits, representing 73.8% 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 22.3%. The relative share of deposits from non-bank financial institutions deteriorated to 2.8% and the share of deposits from government institutions and agencies declined to 1.2%.

Clients Deposits (BGN million)



As of December 31, 2014 UBB has key market positions by holding 10.1% of retail deposits and 7.4% of the corporate deposits on the local market.

Bank Borrowings

At the end of 2014 Bank reports on separate and on consolidated basis BGN 30 million credit lines from banks. This is essentially a credit line from Bulgarian Development Bank (BDB). At the end of 2008 UBB signed an agreement with BDB for a loan of EUR 30 million for lending to companies in the private and municipal sector and pre-export financing. The contract has a fixed interest rate and maturity to December 2018. The obligation is secured by a pledge of receivables from final borrowers through funding provided under this agreement, with a total principal amount of BGN 30 million

Subordinated debt

At the end of 2014 the Bank recorded on a separate and a consolidated basis BGN 152.7 million subordinated debt. In October and November 2007 UBB signed two subordinated debt agreements with National Bank of Greece totaling EUR 130 million. Subordinated debt is used as a supplement to the capital reserves in accordance with the requirements of BNB on capital adequacy. Repayment of subordinated debt is not guaranteed by the Bank. Original maturity of subordinated debt is 10 years. From 2013 UBB began annual repayment of the subordinated debt in both agreements in equal installments in the amount of BGN 50,852 thousand for the period 2013-2017.

Shareholders Equity and capital adequacy

UBB's shareholders equity at the end of 2014 amounts to BGN 1,165 million (2013: BGN 1,088 million).

On a consolidated basis, the total amount of shareholders equity is BGN 1,171 million at the end of 2014 compared to BGN 1,092 million reported at the end of 2013.

The total capital adequacy as of December 31st 2014, as per CRD IV regulatory framework amounts to 27.4% (based on total Regulatory Capital on individual basis at BGN 1,212 million and on consolidated basis at BGN 1,215 million) and Tier 1 capital adequacy amounts to 24.2%.

BUSINESS DEVELOPMENT

RETAIL BANKING

In 2014 United Bulgarian Bank retained 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 as the Bank aimed to promote savings and current accounts rather than term deposits. The Bank's retail deposit portfolio grew by BGN 205 million, enhancing liquidity and reaching BGN 3,773 million at the end of 2014. Although the promotional lending activities by the major banks, the retail loans market recorded a decrease of balances. In 2014 UBB had 22% growth in the newly disbursed volumes from the consumer and mortgage lending disbursements, where the total retail loans year-end portfolio was BGN 2,118 million. UBB continue to be one of the top bank issuers of international credit and debit cards under the logos of Master Card and VISA. In 2014 the process of upgrade of the mass debit product Maestro to Debit MasterCard has been initiated together with the launch of a new debit product for upper-mass customers. In terms of absolute figures, during 2014 the total portfolio of UBB's cards in circulation had constant growth in number of transactions i.e. 16.3 million on an annual basis, while the total volume of transactions surpassed BGN 2,2 million. Thus, throughout the whole year, the number of POS transactions of Bank's credit and debit cards business grew with 13%. In terms of cards servicing, UBB had 11% growth of the total POS turnover compared to 2013 and 13% increase in the gross income from those transactions. The focus in the area was the better usage of the POS and ATM network for key merchants and locations.

In 2014 UBB's Retail banking continued its focus on continuous development of innovative products and promotional campaigns in all retail categories in an environment of increased competition. Throughout 2014, the Bank continued to provide professional and inclusive banking services to its affluent customers. The access to premium bank products and services increased the number of customers of UBB Club and registered an increase in the deposit base of this segment. In mortgage lending, the Bank introduced a fixed interest rate offer for the first 3 years in BGN for the most demanded products and further improved the existing parameters. In the consumer lending area the attractive fixed interest rate consumer loan has been extended targeting mass segment and especially the walk-in customers. The existing parameters of the preferential groups were improved as was the Retention program. Throughout the year, the activities of the Bank were supported by constant promotional activities for both existing and new customers. In 2014, UBB continued to improve its credit cards business in two main directions – the development of contemporary services for cardholders as an added value for the customers and supplying a competitive product at a reasonable price and financial conditions. Most of the marketing activities carried out by UBB have been focused on the promotion of credit cards as a payment instrument and during the year our customers profited from a range of promotional campaigns related to usage of credit cards. The Multi Merchant Loyalty Program *"UWIN"* is gradually expanding and all UBB credit cardholders can benefit from the Bank's relationship with key merchants.

During 2014, UBB Bancassurance business strengthened its growth and increasing share as one of the main sources of non-interest income. For only 8 years after its establishment, after continuous upward trend, the life insurance company of the bank – UBB Alico moved to the Top 4 ranks of life insurance companies in Bulgaria for 2014 with 10% market share. With the biggest product contribution in the income are the long term saving programs, insurances bundled with credit products, bank cards and deposits. Promising start is registering in 2014 the new life insurance program for SME "Business Protection" providing employee benefits. The successful partnership with Bulstrad Vienna Insurance Group in the sales of car insurance as "*Motor TPL"* and "*Casco"* again is delivering growth through the unique possibility for UBB credit cardholders for 6 or 12 zero percent interest rate monthly installments.

PAYMENT PRODUCTS AND SERVICES

In 2014 the number of clients, registered for the e-banking service was 185,128, representing a growth of 9.5% y/y. 62% of the effected transfers were made through the e-banking channel. As at 2014 end the utility bills' payment service was actively used by 79,086 clients, with 150,860 registered consents for payment to companies, rendering utility services. In 2014 the Bank launched a new alternative channel for payment of utility bills and taxes – UPAY (www.ubbpay.bg) - which registered users at the year-end numbered 10,000. UBB's market share with regard to the realized payments through the Western Union fund transfer system in 2014 equaled 11%. In 2014 UBB installed 20 new ATMs with deposit functionality, through which their total number reached 60, thus maintaining the Bank's leadership position in the sphere of the offered service. In 2014 UBB's Call Centre continued its compliance with the highest standards for rendering customer services through alternative banking channels.

CORPORATE BANKING

In 2014 the main goal of Corporate Banking was to stabilize and diversify the income from corporate business in an environment, characterized by intense competition for a limited number of customers and declining interest income. In 2014 the gross amount of UBB's corporate portfolio /Small business loans excluded/ totaled BGN 2,884 million, encompassing financing of BGN 140.3 million to non-bank financial institutions, BGN 2,717 million to large corporate and SME clients and BGN 26.7 million to government institutions and agencies. The Corporate business generated for the Bank gross interest income on loans of BGN 134.8 million and total fees and commissions' income of BGN 3.4 million, while the provision cost was BGN 63 million.

In 2014 the Bank focused its efforts on funding the corporate credit portfolio through its increasing in terms of volume and improving in terms of price own liquidity. In addition to that, UBB continued to utilize and expand the opportunities for ensuring specialized resources for lending to Small and Medium enterprises in Bulgaria, in cooperation with international financial institutions, such as the European Investment Bank, the European Investment Fund and the European Bank for Reconstruction and Development. Taking into account the success of the JEREMIE guarantee scheme, which was practically launched in October 2012 and was fully utilized by March 2014, the Bank negotiated an additional guarantee scheme in the amount of EUR 15 million with draw-down deadline by the end of Y2015.

In 2014 the International Finance Corporation (IFC, part of the World Bank Group) granted a USD 10 million trade finance line of credit to UBB. This was the first joint project between UBB and IFC, aimed at fostering the activities of export-import companies in Bulgaria through provision of access to trade finance instruments at preferential terms. Expectations are that the growth of the export-oriented sector will be crucial for Bulgaria, in an environment of limited growth on the domestic side and expected gradual recovery and increase in international trade volumes.

TREASURY ACTIVITIES

In 2014 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. Further, the "Treasury" ended 2014 with a significant contribution to UBB's financial results, generating more than EUR 11.5 million net profit from overall activity. Additionally, UBB continued to maintain optimal Loans/Deposits Ratio at 81.1% as of end of 2014. Furthermore, UBB continues to keep its status as a self-financing financial credit institution, with independent liquidity from the parent bank.

INVESTMENT BANKING

In 2014 UBB Investment banking department was striving to meet the needs of the Bank's current and potential clients through rendering investment intermediation and depository services. UBB continued to participate actively on the corporate bond market by rendering services related to bond restructuring, as well as providing services in its capacity of a trustee of bondholders and focused mainly on keeping its existing business and successful bond restructuring considering the unfavorable economic environment and the ability of individual issuers to overcome the financial crisis. In 2014 UBB performed the function of a trustee bank for the bondholders of 18 bond issues. UBB brokerage services unit succeeded in maintaining its market positions on the stock market in the context of an ongoing financial crisis and low liquidity on the stock exchange that led to a considerable outflow of institutional investors in 2014. Despite a decline in major indexes and competing with more than 45 investment intermediaries UBB maintained its client base and booked 60 new customers in its U-Broker stock trading platform. Depository services unit offers all services allowed under Bulgarian law to customers from all sectors of the Bulgarian capital market. Although most of the current customers limited their investment activity due to the ongoing economic crisis the unit managed to increase its customer base and attracted 11 new clients. Currently the bank has a portfolio of 78 long term contracts for depository services and its client base includes financial institutions and corporate customers, management and investment companies, mutual funds, real estate investment trusts (REIT), insurance and life-insurance companies and licensed investment intermediaries. UBB maintains foreign securities custody accounts for its clients through *Clearstream Banking SA, Luxembourg*. UBB performs the services of a custodian bank for the pension funds managed by the Pension Insurance Company *"Doverie"*, which has a leading market position among Bulgarian pension fund management companies. Total assets of the three pension funds under management exceed BGN 2,2 million as at the end of 2014. 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 2014 UBB's "Information Technologies" Department successfully completed several significant projects. The E-mail system was migrated to the latest version (Microsoft Exchange 2013), which enable the size of users' mailboxes to be increased from 50 Mb to 1GB. Together with Microsoft Bulgaria a successful Proof of Concept (PoC) for Microsoft Rights Management (RMS) was done, allowing the protection of corporate documents and sensitive information. During the project the needed „Cloud" IT infrastructure was implemented, which will allow to apply the RMS solutions for the entire bank. U-PAY— electronic payment system utilities and tax liabilities, was put into operation.

HUMAN RESOURCES MANAGEMENT

In 2014 the process of development of UBB rules and policies related to the management of human resources (HR) with those of NBG Group continued. In order to harmonize the job descriptions in UBB with the NBG Group model a project for update of all job descriptions was realized, which included over 600 positions. In order to optimize the Bank document flow functionality for e-management and e-signature was developed for the processes of leaves request and approval and performance appraisal. In 2014 a Disciplinary Sanctions Committee started working in UBB as a specialized body for violation of labor discipline. UBB employees participated in different types and forms of training in 2014. For Head Office (HO) structured trainings aimed at maintaining timely information on legislative and regulatory changes, improving the security of information, advancing the expertise in areas of direct relevance to project initiatives and strategic objectives of the Bank. Employees of the corporate segment in Branch network (BN) went through specialized business trainings on financial analysis, credit proposal structuring and sales skills, presented by Small and Medium Business and Specialized Programmes Department. In relation to the project for business development with clients from the newly established segment Micro-business Branch managers of branches type 1 participated in training provided by Sales Retail Banking Department about products, services and systems for this segment. Security and Guarding Department and Operations Department held together training *"Cash management, security when working with cash, armed robberies, internal and external frauds"* for all employees of retail segment working on cash desk. A differentiated approach of training was developed and introduction into the specifics of the position for new employees on all positions as well as managers in BN. The E-learning system won recognition as a tool for internal bank trainings allowing the training of employees to start from the day of appointment, continue throughout the whole period of work at UBB and be monitored by specialized electronic tests. To measure the effectiveness of training activities in 2014 feedback surveys, interviews with lecturers, participants and their managers were used, the analysis of which showed high satisfaction with the trainings. In 2014 HRM department actively cooperated for the realization of training activities for UBB subsidiaries. Throughout the year the active development of UBB Trainee-ship programme continued and 150 out of more than 1,000 candidates conducted trainee-ship in different structures and 16 of them were hired at different positions in Branch Network and Head Office. The Programme for long-term traineeship in the corporate segment was prolonged, aiming at a more thorough initial practical training for young people with economic education, interested in corporate banking to start working in this segment at the Bank.

BRANCH NETWORK

In 2014 the total number of UBB branch network structural units is 199, including:

- 125 structures, focused in servicing retail and micro business customers;
- 27 structural units, servicing retail, micro and small business;
- 17 structures for retail, micro and SME business;
- 9 Business Centers - specialized structural units, profiled in servicing SME business customers;
- 21 representative offices.

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

Sponsorship and Corporate Social Responsibility

In 2014 UBB continued to develop its sponsorship and corporate social responsibility policy in accordance with the overall corporate vision which aimed at promoting and encouraging the arts and culture, science and sport, as well as supporting the vulnerable groups in our society. UBB also developed even more substantial regional sponsorship program. UBB's 2014 sponsorship and CSR overall expenses amount to EUR 150,000. The main fields of CSR activities during the year were directed toward:

Cultural projects:

- **"March Music Days", Rousse:** In 2014 UBB's partnership with one of the oldest festivals in Bulgaria was celebrated for the 11th time. Once again the event was a cultural center of the world's most brilliant artists, to which lovers of classical and modern music showed a strong interest.

- **Partnership with the Sofia Opera and Ballet with the presenting of the opera *"Boris Godunov"* and *"Opera in the Park"***: With UBB's support in 2014 Sofia Opera and Ballet realized one significant project – the presenting of the opera *"Boris Godunov"* in the open square in front of the *"St. Alexander Nevsky"* Cathedral. For the second year in a row UBB was a partner of the Opera and its initiative to give the audience a valuable cultural experience – "Opera in the Park". The one-month summer event once again welcomed fans of classical music and ballet in the park of the Military Academy *"G.S. Rakovski"* in Sofia.

- **International Theater Festival "Varna Summer":** In 2014, UBB was a pillar of strength to the Festival for the ninth consecutive year - a fact which the Bank actively communicated. The Festival again impressed the audience with classical performances, as well as impressive interpretations and interactive performances. They went outside the theater halls and turned Varna into a big scene, to which the festival was presented.

- **Apollonia Festival:** UBB marked the 20th anniversary of the partnership with the Festival of Arts in Sozopol. As usual, the Bank was the general partner of the event, organizing the traditional jazz music club *"Stage UBB/Club Apollonia"* for true fans and the best young performers. In the anniversary year UBB honored the organizers of *"Apollonia"* with a statuette in appreciation of the longstanding partnership. Traditionally, the Bank presented its annual award for successful Bulgarian artist, and for the youngest visitors of the Apollonia Festival again organized school *"Photography for the little"*.

- **International "Crossroad Scene Festival"**: The 18th edition of the Festival in Plovdiv again welcomed UBB in the so called *"sponsor societe"*. Again, in 2014 the Bank supported the implementation of the international event as well as its active promotion. UBB awarded with a prize one of the most inspiring performances included in the Festivals' program - the play "*Yerma"*, which was played under the Bank's auspices.

- **NATFA**: In 2014, the young talents from the National Academy of Theater and Film Arts again received the help of UBB, as this year it was focused on the implementation of an intensive workshop - "First steps in cinema", which was held in Yundola and welcomed the first-year students of the Academy. The ten-day initiative brought together the Bank and the Academy in supporting the high start in education.

- **Children's Photo-atelier "*Photography for the little":*** For the second time UBB supported the children's school "Photography for the little" - initiative, for the children who are interested in photo shooting, which proved successful. During the past year, the project of the photographer Alberto Staykov again ended with a formal ceremony, where the young participants were awarded with certificates of excellence in photography. At the ceremony UBB was again awarded with a certificate of prominent sponsors of the project.

Sports

- **Tennis tournaments for children**: UBB actively directed its attention to supporting the conduction of three children's tennis tournaments – a tournament for the private schools, regional tournament for children under the age of 12 and Masters Tournament for all children-champions of regional competitions. The events took place under the motto *"For the awards UBB"* and were widely reported in the national media. The children who demonstrated sporting achievements were awarded by the Bank's representative. Moreover, UBB used the opportunity to emphasize on its responsibility as a responsible member of society for the children's healthy development and the necessity for active sports.

Support for Science

- **National Museum of Natural Studies:** In 2014, with the financial support of UBB, The National Museum of Natural Studies carried out paleontological excavation, conducted by the Museum's team of scientists. The project was announced properly in the academic society and Bank was noted as one of the leading patrons of the museum.

Regional sponsorships

- In 2014 UBB supported financially nearly 40 regional events which were with significant local importance. Among them were the celebrations of festivals in several towns such as Peshtera, Smolyan, Petrich, Pazardzhik, Belovo and many others. The Bank also supported the happening of cultural events, sports events, music festivals, performances of children's theater companies and others.

Charity

- **Association "United for charity"**: In 2014 The Association *"United for charity"* continued to develop its noble goals, taking into account the extremely good results - funds collected from memberships and donations from employees amounted to almost EUR 60,000 and EUR 3,000 were collected from additional campaigns. Traditionally was organized the annual competition for art works of employees and their children - *"My family is drawing"*. Results from it were presented at an exhibition in the Training Puppet Theater of NATFA, where everyone could buy paintings in favor of the Association. Reproductions of the winning pieces were again included in calendars, which were presented for charity sale. Shortly before the Christmas holiday the Bank successfully organized another initiative - culinary charity bazaar, which the employees met with a great deal of interest. The funds were again collected in support of the Association and its noble missions.

Information Required Pursuant to Art. 187e and Art. 247 of the Commerce Act

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

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 31.12.2014, 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 31.12.2014, 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 2014 was BGN 606 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	31.12.2013	31.12.2014
Stilian Petkov Vatev	210 shares	210 shares
Total:	***210 shares***	***210 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
Bankservice AD Board of Directors' member
Interlease Board of Directors' Chairman
Interlease Auto Board of Directors' Chairman
UBB – Alico Life Insurance Company, Chairman of the Board of Directors
UBB – AIG Insurance Company (UBB - AIG), Chairman of the Board of Directors
Insurance Broker Board of Directors' member
Representative of the Association of Banks in Bulgaria in European Payment Council

Radka Ivanova Toncheva
Company for Cash Services Board member
Member of the Board of Foundation "Atanas Burov"

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.

1. Payment of dividends and interest

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

Financial Instruments and Risk Management

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Risk Management Goal and Policy of the Bank

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

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

The Board of Directors, through its Risk Management Committee, has the responsibility 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 have the responsibility for implementing the risk strategy approved by the Board of Directors and for developing the policies, methodologies and procedures for identifying, measuring, monitoring and controlling all types of risk, consistent with the nature and complexity of the relevant activities.
A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank risk management framework is reviewed periodically and adjusted in accordance with the Bank's overall risk appetite and profile, as well as internal and external norms and banking best practices. The Bank Risk Management function is capturing all material risk sources across all portfolios and operations.

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

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

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

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

The Bank Compliance function is ensuring, through proper procedures, that the requirements and deadlines provided 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 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.

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 otherwise fail to perform as agreed.

The main source of credit risk for the Bank is the loans to customers, which, as of 31.12.2014 amounted to BGN 5,025 million (BGN 5,026 million on consolidated basis). As of the same date, the total amount of impairment (IFRS provisions) was BGN 877 million or 17% of the credit portfolio. Additionally, the specific provisions (considered as Capital buffer by the Central Bank), under the canceled BNB Ordinance № 9 amounted to BGN 419 million.

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

UBB has adopted and implements *Corporate Credit Policy* and *Retail Credit Risk Policy*, two 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.

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.

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 (except exposures below BGN 100 thousand), where it participates vested with veto right. The approval process for the retail portfolio is fully integrated within the Risk Management Division, with multi-level committees, clear determination and monitoring of limited overrides.

In compliance with its risk strategy, the Bank targets the maintaining of low level of credit risk concentration at obligor level and by industries. The Bank regularly monitors and reports the large exposures on obligor level and by industries. The largest sectors in corporate portfolio are wholesale and retail trade, agriculture, food and beverage production, real estate and construction.

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

The credit expansion, especially in the years 2007 and 2008 and the recent but continuing economic crisis have affected negatively the credit portfolio quality. Recently the Portfolio Quality (in terms of NPLs and NPL ratios) has stopped deteriorating, but effort is needed for recovering troubled loans The corporate NPLs have almost stabilized and there is a clear improvement in the area of collaterals' liquidation. In Retail the main risks remain: significant unemployment; still limited market opportunities and collateral liquidation options and a sizable renegotiated portfolio.

Large part of the Bank's efforts continued to be dedicated to collection and restructuring of delinquent loans, however the Bank also focused on generating new and healthy lending business, thus improving profitability and credit quality.

UBB actively operates in the financial markets. In order to manage the country and counterparty credit risk, the Bank has approved a conservative limits' framework. The Bank has no appetite for risk exposures towards bank counterparties with rating - public or internal - less favorable than Ba3 (Moody's) or BB- (S&P/ Fitch). The above restrictions for selection of counterparties ensure undertaking of acceptable credit risk arising from transactions on the interbank market.

Liquidity risk

The liquidity risk is related to possible unfavorable impact 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 28% ratio of liquid assets to total liabilities and 30% ratio of liquid assets to customer deposits, as a result of increase in attracted funds from customers and reduced lending activity.

UBB have 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. UBB's funding strategy is to develop a diversified funding base by depositor type and maintain access to a variety of alternative funding sources, to provide protection against unexpected fluctuations and minimize the cost of funding.

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

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

Liquidity Risk Policy and *Contingency Funding Plan* are designed to be aligned with the Bank's Risk Strategy and to meet all the requirements set by the Bulgarian National Bank. The liquidity management is centralized and is measured through evaluation of the mismatches between cash flows of assets, liabilities and off-balance sheet positions. The liquidity is being evaluated for all major currencies, in which the Bank operates actively.

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

UBB is applying regular stress-tests with 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.

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 31.12.2014 amounted to BGN 4,760 million or 0.40% of the regulatory capital. The largest market risk exposure is related to interest rate risk resulting from positions in bonds.

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

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

UBB manages the market risk by using the internationally 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. 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.

Currency risk

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

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

The Bank's exposure to interest rate risk in the banking book is relatively small and as of December 2014 amounted to 2.3 % of the regulatory capital.

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 Bank manages the interest rate risk in the banking book by evaluating the sensitivity of the economic capital to a parallel shift of the interest rates by 200 basis points.

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. The interest rate risk is measured separately for each of the main currencies, the Bank is exposed to.

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 an 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 was 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 developed.

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 ("BCP")

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 on the business continuity.

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

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

The BCP maintenance is implemented through planned or ad hoc update activities.

The BCP management is realized by the Business Continuity Committee *("BCCommittee").* The main goal of the *BCCommittee* is the organization and 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.

Capital and capital adequacy

Separate basis

The capital, owned by UBB Group shareholders by the end of 2014 amounts to BGN 1,165 million (2013: BGN 1,088 million) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy as of December 31st 2014, as per CRD IV regulatory framework amounts to 27.4% (based on total Regulatory Capital on solo basis at BGN 1,212 million) and Tier 1 capital adequacy amounts to 24.2%.

Consolidated basis

The capital, owned by UBB Group shareholders by the end of 2014 amounts to BGN 1,171 million (2013: BGN 1,092 million) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy as of December 31st 2014, as per CRD IV regulatory framework amounts to 27.4% (based on total Regulatory Capital on consolidated basis at BGN 1,215 million) and Tier 1 capital adequacy amounts to 24.2%.

Activity of UBB's Subsidiaries and Associate companies as of 31.12.2014

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

Transactions between UBB and UBB Asset Management, UBB Insurance Broker, UBB AIG Insurance Company, UBB Alico Life Insurance Company and mutual funds managed by UBB Asset Management (UBB Balanced Fund, UBB Premium Fund and UBB Platinum Fund) are related mainly with the maintaining of Deposits and Current accounts. The Bank has a stake of shares in Mutual funds managed by its subsidiary UBB Asset Management.

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

Shares in mutual funds, managed by subsidiary UBB Asset Management	31.12.2013	31.12.2014
UBB Balanced Fund	2,221	2,475
UBB Premium Shares Fund	1,774	2,094
UBB Platinum Bond Fund	1,460	1,495

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 with the exception of the event related to the sale of UBB-AIG Insurance Company AD. A biding offer was received in 16th January 2015. The sale is expected to be completed within the last quarter of 2015. As the Management of UBB is committed to the sale of UBB-AIG Insurance Company AD, and the sale is expected to be completed within the next twelve months, the aforementioned joint venture has been reclassified as at December 31, 2014 to "Non-current assets held for sale".

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: No 83704, v. 1021, reg. I, p. 44, under company file No 4098 of Sofia City Court according to the inventory of 2004
Capital: BGN 700,000, including:
UBB participation in the company: 90.86%, or BGN 636,000 nominal value of participation.

Name: UBB - ALICO Life Insurance Company AD
Location: Sofia
Head Office address: Bulgaria, Sofia, Triaditza region, postal code 1404, 75, Bulgaria Blvd.
Number and batch of entry in the commercial register: No 108941 v. 1469, reg. I,

p.143, under company file No 10677 of Sofia City Court according to the inventory dated 29.09.2006.
Capital: BGN 7,000,000
Participation in the company: 30% or BGN 2,100,000 nominal value of participation

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

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

Name: UBB Factoring EOOD
Location: Bulgaria, area Sofia (capital), Sofia Municipality,
Sofia 1040, 5, Sveta Sofia Str.
Number and batch of entry in the commercial register:
N 20091016151609/16.10.2009
Capital: BGN 1,000,000
Participation in the company: 100% or BGN 1,000,000 nominal value of participation.

Used financial instruments

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

In 2014 the subsidiaries UBB Asset Management, UBB Factoring and UBB Insurance Broker, and the associates - UBB Alico Life Insurance Company and Cash Services Company, 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, UBB Factoring and UBB Insurance Broker, and the associates - UBB Alico Life Insurance Company and Cash Services Company are reported in compliance with regulations, evolving from the requirements and regulations

Corporate Governance

As part of its long-term objectives, UBB is committed to the principles and implementation of good corporate governance. The Bank recognizes the valuable contribution that strong corporate governance makes to business prosperity and to ensuring accountability to its stakeholders, especially in view of the events on the international financial markets. The Board of Directors ensures that the bank is managed in a way which maximizes long-term shareholders' value and which takes into account the interests of all stakeholders. In accordance with the "*Corporate Governance Programme*", approved in 2003, the Bank has established an active and transparent process of strategic decision making. On the basis of this a new Corporate Governance Framework was developed and currently is in the process of discussions and coordination. The Code of Ethics of UBB, as wells as its policies and working procedures clearly define and handle the prevention of conflicts of interest. In 2014 the Bank invested additional efforts and resources to ensure the effective management of any potential or real conflict of interests. In 2014 the Audit Committee, whose members are independent experts in finance, banking and law, continued its activity. The Committee held meetings in a two-month period where assessed the control systems and control processes within the Bank.

The Board of Directors

Directors of the Bank play an essential role in the strategic decision making processes in the Bank. During 2014 Mr. Anastasios Lizos was reelected as a member of the Board of Directors, for a period of 3 years.

Communication with Shareholders

The Bank is committed to the equitable treatment of all its shareholders. Insofar as practicable, the Bank ensures equal access to information for all shareholders. Shareholders are provided with full year accounts to help them keep up to date on the performance and progress of the Bank. The General Meeting of Shareholders provides an opportunity for shareholders to ask questions to the Directors. The Bank believes that full disclosure and transparency in its operations are in the interest not only of its own good governance, but also in the interest of a sound and stable banking sector.

Performance Reporting and Internal Financial Control

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

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

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

Financial Control, Data Processing and Monitoring

The Bank works with financial and other authorization limits and procedures for approving capital expenditure. The Board of Directors approves strategic plans and detailed annual budgets and reviews monthly performance against these budgets. The Internal Audit monitors the internal financial control system across all branches and departments of the Bank and reports directly to the Board of Directors. A functioning procedure through which all Bank's employees can raise issues concerning incorrect representation of accounting information or information on the basis of which the independent financial audit takes place or reports to the supervisory bodies are established.

Statement of Management's Responsibilities

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

In preparing these financial statements the Management should ensure that:
- accounting policies have been suitably selected and applied consistently;
- judgements and estimates are reasonable and prudent, and the International Financial Reporting Standards are followed with regard to any material circumstances, which are to be disclosed and explained in the financial statements.

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

The Bank's Management is responsible for keeping proper accounting records, which disclose at any time with reasonable accuracy the financial position of the Bank. The Management is also responsible for safeguarding the assets of the Bank and for taking prudent steps to detect any intended fraud and other irregularities.

Additional Information

GENERAL CUSTOMER INFORMATION

Head Office
5 Sveta Sofia Str., 1000 Sofia, Bulgaria
Tel.: (00359 – 2) 811 + Ext, Fax:
(00359 – 2) 988 08 22, Telex: 25 092
E-mail: info@ubb.bg
Web site : http://www.ubb.bg
Swift: UBBSBGSF

Mr. Theodor Marinov
Executive Manager Corporate Banking
Ext.: 2333
e-mail: marinov_t@ubb.bg

Mr. Ivan Koutlov
Head of Treasury Department
Ext.: 2428
e-mail: koutlov_i@ubb.bg

Mr. Alexander Georgiev
Head of Retail Banking Department
Ext.: 2355
e-mail: georgiev_a@ubb.bg

Mr. Emil Milanov
Head of Card Centre
Ext.: 3436
e-mail: milanov_e@ubb.bg

Mrs. Polina Kancheva
Manager, Branch Network Management
Ext.: 2255
e-mail: kancheva_p@ubb.bg

Mr. Eliyan Batinov
Head of Large Corporate Customers and Financial Institutions Credit Centre
Ext.: 2203
e-mail: batinov_e@ubb.bg

Mr. Christo Konstantinov
Head of Investment Banking Department
Ext.: 3750
e-mail: konstantinov_h@ubb.bg

Mr. Jivko Hristov
Head of Information Technology Department
Ext.: 3340
e-mail: hristov_j@ubb.bg

Mrs. Elena Ivanova
Head of Secretariat & Administration Department
Ext.: 2330
e-mail: ivanova_e@ubb.bg

UNITED BULGARIAN BANK
NBG Group