

ANNUAL REPORT 2012



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Statement Of The Chairman Of The Board Of Directors

**Dear shareholders,
Dear ladies and gentlemen,**

Over the elapsed Y2012 the main challenges before the Bulgarian banking sector, UBB included, continued to be the problematic economic environment, the ever increasing burden of non-performing loans, the feeble economic activity, the lack of opportunities and prerequisites for banking growth.

At the end of Y2012 the total percentage of non-performing and restructured loans for the Bulgarian banking system reached 17.8%, including 17.9% for the corporate sector and respectively 17.7% for loans to individuals. In addition to this adverse external environment in terms of lending, UBB, being the largest institution, property of the Greek banking community in Bulgaria, had to offset as much as possible the impact of the severe economic crisis in the Republic of Greece, through establishment of additional capital and liquidity buffers.

Considering the overall negative influence of the above-stated factors, the Board of Directors has focused on two main priorities in the activity of UBB Group over Y2012:

- 1) Effective and persistent handling of problem loans, accompanied with a conservative provisioning policy to the highest possible extent and
- 2) Allocation of additional liquidity from the local market through expansion of the bank's deposit base.

The successful accomplishment of these two targets had its considerable price – a drop in the loan portfolio, a certain loss of market positions

and deterioration of the end financial result. United Bulgarian Bank reports at the end of Y2012 negative financial result before taxes in the amount of BGN 46.9 million, mainly due to the stated lower interest income and the considerable volume of allocated provisions for problem loans' impairment.

At the end of Y2012 the total amount of UBB assets equaled BGN 6.4 billion or there was a reported reduction of 5.2% compared to Y2011. The net value of the provided loans amounted to BGN 4.552 bn., against BGN 4.860 bn. for Y2011 or the reported drop equals 7%. This reduction is mainly at the expense of retail loans, while corporate loans retain their previous-year level.

The attracted client deposits comprise BGN 4.756 bn., reporting a growth of 10% y/y. In an environment of escalating market competition through the launching of new products and the successful finalization of series of promotional campaigns the Bank has achieved a growth of retail deposits by 11% y/y. In the corporate segment the reported deposit growth was 8%. As of 31 December 2012 UBB maintained key market positions in terms of retail deposits by 10.2% and 7.6% of this country's corporate deposits.

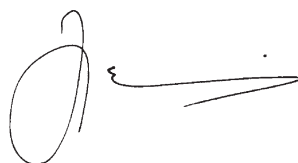
The attracted deposits from banks at the end of Y2012 decreased from BGN 783.8 m. down to BGN 52.4 m. The reduction was entirely at the expense of the financing by the mother bank – NBG- through which UBB managed to recover its Y2006 status of a self-funding institution. At the same time the Bank

maintains optimum liquidity and improves its loan/ deposit ratio – from 155% in Y2009 to 133% at the end of Y2010, 112.7% at the end of Y2011 and 97% at the end of Y2012. UBB maintains a stable capital position and reports a total capital adequacy ratio of 13.9%.

The elapsed Y2012 was the third consecutive year, during which under extremely adverse circumstances UBB managed to recurrently demonstrate its ability for adequately coping with the problems in the banking sector, generated by the persisting economic crisis, thus proving once again its capital strength and its traditionally resilient and competitive position on the Bulgarian banking market.

Over the current Y2013 the Board of Directors and the Bank's executives will continue to focus on the effective management of the loan portfolio and the enhancement of its quality, the maintaining of optimum liquidity and a strong capital position. Along with that we have all the necessary conditions and prerequisites in place to once again concentrate on a much more proactive lending activity over Y2013 and the years to follow and to quickly reinstate our leadership role on the Bulgarian banking market as well as the high level of the end financial result in the interest of our numerous clients and our reputable shareholders.

Sincerely,
Stilian Vatev
Chief Executive Officer and
Chairman of the Board of Directors





General Information

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

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

▪ **Registered Share Capital: BGN 75,964,082**

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

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

▪ **Banking License:**

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

▪ **Ratings:**

FITCH

- 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

▪ **Over 800 Correspondent Relations**

▪ **Branch Network:**

210 units countrywide

▪ **Banking Services:**

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

▪ **Market Position**

- Third largest Bulgarian bank by assets
- Second in domestic retail lending
- Leader in the card services market and in domestic BGN payments

▪ **Market share** (as of 31 December 2012 calculated as a percentage of the entire banking sector, according to BNB statistical data):

- **7.6%** Corporate deposits
- **8.0%** Corporate loans
- **10.2%** Deposits to individuals
- **12.9%** Consumer Loans
- **15%** Mortgage loans
- **18%** Debit Cards
- **20%** Credit cards
- **17%** ATMs
- **18%** POS terminals
- **9%** Inter-bank transactions

▪ **Memberships and Others:**

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



Business Strategy

BUSINESS STRATEGY

I. Macroeconomic assumptions

- 1.8% economic growth with recovery in export and moderate increase in domestic demand
- Still limited credit expansion - up to 4%,
- Deposits growth of 11% y/y, incl. retail deposits of 12% y/y and corporate deposits increase of 8% y/y
- Average CPI of 4.8%
- No material changes in spreads over benchmark interest rates (600-800 bps for loans and 350-500 bps negative spread on deposits);
- Currency Board in place, fixed exchange rate BGN/EUR

II. Key business targets:

Given the continuing macroeconomic adversity in Greece that negatively affects the NBG Group's access to the international markets the UBB Group's attention in 2013 will be placed on:

1.Liquidity and strong capital position. In this challenging climate the retention and further expansion of our customer deposit base is of paramount importance. The Group will be focused to provide the NBG Group adequate liquidity trough individual and corporate customer funds.

2.Asset Quality. On the lending side the Group will put all efforts on assets quality, collections and restructuring;

3.Expenses. Cost containment remains a top priority of the Group. The Group will aim to identify opportunities to further reduce its cost base compared to 2012.

4.Restore the Group's market positions. UBB Group will be more active in the credit market in course gradually to recover its leading position in the Bulgarian banking sector.

Selected Highlights

	2010	2011	2012
	BGN'000	BGN'000	BGN'000
Performance			
Operating Income	492 266	597 047	529 666
Net Interest Income	375 455	300 444	227 490
Net Profit	63 881	11 553	(42 200)
Balance Sheet			
Total Assets	7 455 032	6 698 873	6 348 270
Capital	1 095 056	1 107 521	1 072 181
Deposits from Companies and Individuals	4 398 256	4 325 786	4 755 751
Loans to Companies and Individuals, net	5 785 352	4 859 834	4 552 027
Capital Adequacy (%)			
General Capital Adequacy (BIS Tier 1 + Tier 2)	12.73	15.55	13.98
Primary Capital Adequacy	12.73	15.55	13.98
Capital / Total Assets	14.93	16.49	16.89
Liquidity (%)			
Total Liquidity	20.53	25.81	24.28
Total Loans / Total Deposits	131.46	112.76	95.71
Staff Number as of the end of the period	3 140	3179	2652
Inflation ¹ (%)	2.4	4.2	3.0
Exchange Rate USD/BGN (31 December)	1.47	1.51	1.48

¹Source – National Institute of Statistics.



Board of Directors

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BOARD OF DIRECTORS

Agis Ioannis Leopoulos

General Manager International Activities of NBG
Board Member, Chairman of the Board of Directors

Anthimos Konstantinos Thomopoulos

Chief Financial and Chief Operations Officer of NBG
Non-executive Board Member

Alexandros Georgios Tourkolias

General Manager Corporate & Investment Banking of NBG
Non-executive Board Member

Radka Ivanova Toncheva

Executive Director of UBB AD
Executive Board Member

Stilian Petkov Vatev

Chief Executive Officer of UBB AD
Executive Board Member

Theodor Valentinov Marinov

Non-executive Board Member

ECONOMIC ENVIRONMENT

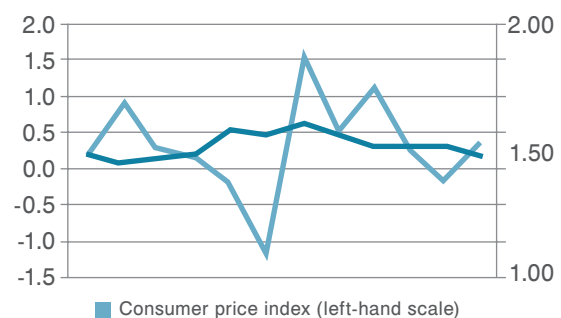
In 2012 the Bulgarian economy continued to grow and increased by 0.8%, compared to negative growth in the euro area and the EU. In 2012, a major factor of growth is the domestic demand supported by the Structural Funds. Exports decreased as a result of the contraction of the economies of the EU countries that are major trading partners of Bulgaria. Domestic consumption offset slowing trend in exports and together with collective consumption has become a major driver of economic growth in 2012. The most important role for the economy played the services (reported 69.3% of GVA), followed by industry (with 26.5% of GVA) and agriculture (with 4.2% of GVA). In Q4 2012 it was registered growth in agricultural and industrial sector by 3% and 3.2%, respectively. The services sector recorded a decrease of 0.3%.

According to the Labor Agency in December 2012 the unemployment rate in Bulgaria reached 11.4%. Eight regions had unemployment rates below the country average - Sofia City - 3.6%, Gabrovo - 7.3%, Varna (8.2%), Burgas (9.5%), Plovdiv (10%), Ruse (10.3%), Pernik (10.4%) and Stara Zagora (10.6%). In twenty regions the unemployment rates were above the country average and its highest prevalence was in Vidin - 22%, Montana - 20.8%, Vratsa (20.4%) and Smolyan (20.2%).

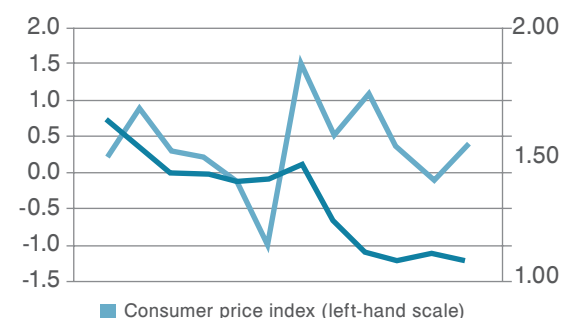
In 2012 Bulgaria's CPI rose to 4.2%, which is the second highest index value since the crisis, after in 2010 was reported CPI increase of 4.5% y/y. Meanwhile, in 2011 it was reported annual inflation of 2.8%. The average annual inflation rate for 2012 is 3%. Compared to November 2012 the monthly inflation posted level of 0.9%. The NSI breakdown

presented that higher CPI inflation is due to two main factors: rising food prices, as well as utilities and transport prices increase during the month. Foods that account for 37% of consumption in Bulgaria have risen by 5.4% in 2012. On the other hand, utilities such as water, electricity, heating does represent about 17% of consumption, increasing by 10.3%. The fuel and transport services, which are the third highest share in consumption – with 7.5% relative share have risen by an average of 4.9%. The harmonized index of consumer prices (HICP) registered 2.8% and is equal to the government's forecast for 2012. In 2013 Bulgaria's government target for an average inflation rate is 3.4%.

Exchange Rate and Inflation



Base Interest Rate and Inflation



Bulgaria's budget deficit on a cash basis for 2012 fell to BGN 350.2 mln. or 0.45% of GDP. Thus, the reported budget deficit is nearly four times smaller compared to the projected size of the gap in the State budget for 2012, which amounted to BGN 1.1 bn or 1.3% of full year projected GDP. Furthermore, at the end of last year, Bulgaria's budget position improves nominal BGN 1.14 bn compared to 2011. Shortfall in the state budget by the end of 2012 is based on the national budget deficit amounting to BGN 680.4 mln. and on registered surplus on funds from the European at a value of BGN 330.2 mln. Fiscal reserve at 31 December 2012 amounted to BGN 6.1 bn or 7.8% of full year projected GDP. The proceeds from revenues and grants in the 2012 budget amounted to BGN 27.5 bn. In 2012 the tax collected reported BGN 15.2 bn, which presented 99.4% of the plan. Below the estimates are corporate income taxes valued at BGN 1.4 bn (93.3% of the plan) and excise at BGN 4.0 bn (98% of the plan). General government expenditure, together with the contribution to EU budget for 2012 amounts to BGN 27.8 bn and represented 93.2% of the annual target. The most were tight the capital expenditures, voted by the Parliament of BGN 5.2 bn actually realized BGN 3.6 bn. This is again due to the lower cost of the projects, which are implemented through EU funds.

Bulgaria's fiscal reserve at December 31, 2012, amounted to BGN 6.1 bn, or 7.8% of GDP. Fiscal reserve decreased by BGN 0.7 bn against the previous month when it was in the amount of BGN 6.8 bn. Meanwhile, in January 2013 the government withdraw from the fiscal reserve a total of EUR 879 mln. to settle one of the final two issues of global bonds, which were agreed in 2002 by the government of National Movement Simeon II. This amount includes payment on principal in the amount of EUR 818.46 mln. and EUR 61.38 mln. for the last interest payment. For the state, this means that in January is expected fiscal reserve funds to fall by BGN 1.71 bn, and the level of debt to GDP ratio to drop at 14.75%.

At the end of 2012 Bulgaria's public debt of Bulgaria registered EUR 6991.2 mln., of which EUR 2546.7 mln. internal debt and EUR 4444.5 mln. external

debt. Thus, the debt reduction recorded EUR 43.9 mln. compared to the previous month. This is mainly due to the reducing the size of debt and of the registered exchange rate changes during the month. At the end of December 2012 the Debt/GDP ratio is 17.6%. In the debt structure relative share of domestic debt was 36.4% and external - 63.6%. At the end of December 2012 the amount of government debt amounted to EUR 515.8 mln., of which EUR 12.0 mln. were domestic government guarantees. The government guaranteed debt/GDP ratio was 1.3% at the end of December 2012. According the latest EUROSTAT data Bulgaria is among the countries with the lowest share of debt to GDP (18.7% of GDP at the end of the third quarter 2012). Ahead of it is ranked Estonia with 9.6%, followed by Luxembourg with 20.9%.

The currency board arrangement is expected to remain in place with the BGN fixed to the Euro at the current rate of BGN 1.95583/EUR 1. The exchange rate risk is low in a short term.

In 2012 Bulgaria's Current account (CA) of balance of payments was negative and amounted to EUR 267.8 mln. compared to the reported surplus of EUR 103.5 mln at the end of December 2011. For December alone the reported CA deficit was at the amount of EUR 300.8 mln. In 2012 Bulgaria was imported goods totaled for EUR 24.4 bn and exported goods and services for EUR 20.8 bn, thus registered an increase of the trade in this country by 2.6% y/y. In December Bulgaria's exports amounted to EUR 1.5 bn, which was 3.4% less than in the same month of 2011. Last year, the country imported goods were to EUR 24.4 bn, which is 8.8% more than in 2011. In December alone the imports amounted to EUR 1.9 bn and decreased by 2.5% m/m. As a result, the trade balance was negative amounting to EUR 3.6 bn in 2012 and covered 9.1% of GDP compared to 5.6% of GDP in 2011. The current account deficit is due to the negative trade balance and the „Income“, which includes the proceeds of foreigners employed in Bulgaria and Bulgarians working abroad. It also includes interest and dividends paid on the loans, direct and portfolio investments. At the end of 2012 the balance of this item for 2012 was negative

amounting to EUR 1,3 bn. In December 2012 the trade balance was on deficit of EUR 254.6 mln. At the end of 2012 the item Service has a positive balance amounting to EUR 2.52 bn and increased by EUR 240 mln for period of one year, mainly due to the significant tourism revenue. In 2012 the Current and Capital account was positive and amounted to EUR 275.6 mln. compared with the registered surplus of EUR 600.3 mln. for the previous year. The Current and Capital account was negative and amounted to EUR 66.9 mln. in December 2012. The Financial account balance last year was positive, amounting to EUR 2.1 bn against a deficit of EUR 788.4 mln. in 2011. For December alone it was positive amounting to EUR 468.6 mln.

The foreign direct investment (FDI) in Bulgaria reached EUR 1.398 bn for a period of one year and presented 3.5% of GDP. compared to EUR 1.746 bn in 2011 (4.5% of GDP). For December alone the FDI was negative, amounting to EUR 96.7 mln. against their positive amount of EUR 530.5 mln. in December 2011.

Bulgaria's foreign reserves increased by 3% m/m and 16.5% y/y and amounted EUR 15.52 bn in 2012. The deposit of the government declined by 10.3% m/m, following the reported growth of 2.1% m/m in November 2012. Indicatively, this presented seasonally increased government spending, typically for the end of the financial year. The state deposit remained 33% y/y higher compared to December 2011, on the back of the Eurobond issue placed on July 2, 2012, the proceeds from which were reported in the fiscal reserve. The money in circulation declined by 7.7% m/m and the deposits of the commercial banks increased by 16% m/m. Holdings of other depositors declined slightly by 0.4% m/m in December. Short – term foreign debt to Foreign reserve ratio reported 156.1% as of end October 2012 against 161.6% in September 2012 and 133.5% in December 2011.

In 2012 the total assets of the banking system amounted to BGN 82.415 mln. and occupied 106.06% of projected full-year GDP. Growth was recorded in financial assets held for trading, available for sale

and held to maturity, and a decline was reported in those designated at fair value. As a result, the relative share of securities increased to 9.4% of total banking assets. Gross loans increased by 3.8% y/y, while their total amount reached BGN 57.6 bn. The most significant growth of 5.7% y/y was reported in the segment of corporate loans. The total retail portfolio of the banking sector reported shrinkage or minor gains due to the fact that the credit followed the households' demand and do not form it as was before the crisis. A positive growth of 0.79% y/y was reported in mortgage loans, while consumer loans shrank by 1.88% y/y, respectively. In December 2012 the deposits of the banking system amounted to BGN 57.3 bn and increased by 8.44% y/y. The relative share of households deposits amounted to 50.7% of total deposits, and their annual growth amounted to 12.4%. In December 2012 the relative share of bad and restructured loans registered a strong decline to 17.8% against 18.5% in November 2012. Following the start of the crisis it has been rising gradually reaching 17.3% at the end of 2011 (against 14.2% at the end of 2010, 8.3% at end of 2009 and 2.4% at the end of 2008). At the end of 2012 the total capital adequacy ratio of the banking system was 16.66% and the adequacy of Tier I capital 15.16%. The two indicators remain higher than average for most European banking systems. Levels of capital ratios would have been even higher without going through adjustments specific provisions for credit risk, which are a component of the National Bank Regulatory Policy and complement nature impairments under International Accounting Standards, forming additional reserves against future losses by certain conservative levels provisioning of credit risk. In 2012 the banking system retains its high liquidity buffer. The increase in the attracted resources during the year has been accompanied by increasing amount of the liquid assets. As a result, the factor calculated in accordance with Ordinance № 11 of BNB as at 31 December retains on optimal level of 26%.



Review of 2012 Activities

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1.1. CONSOLIDATED FINANCIAL PERFORMANCE

2012 was the fourth consecutive year in which the main challenges for Bulgarian banking sector, including UBB's Group, continued to be a difficult economic environment with growing burden of non-performing loans, weak economic activity, lack of opportunities and conditions for growth. At the end of 2012 the share of non-performing and restructured loans for Bulgarian banking system reached 17.8%, including 17.9% for corporate loans and 17.7% for the retail loans. This resulted in high loans impairment costs and significant decrease of the commercial banks profitability.

In addition to the unfavourable for the credit activity external environment, UBB Group as the largest institution representing the ownership of the Greek banking community in Bulgaria, had to compensate as far as possible the negative impact of the economic crisis in Greece, through the establishment of additional capital and increased liquidity buffers. Considering the overall negative effect of those factors, the Board of Directors focused on two major priorities for the Bank's activities in 2012:

1. Effective and targeted work on problematic loans accompanied by most conservative provisioning policy, and

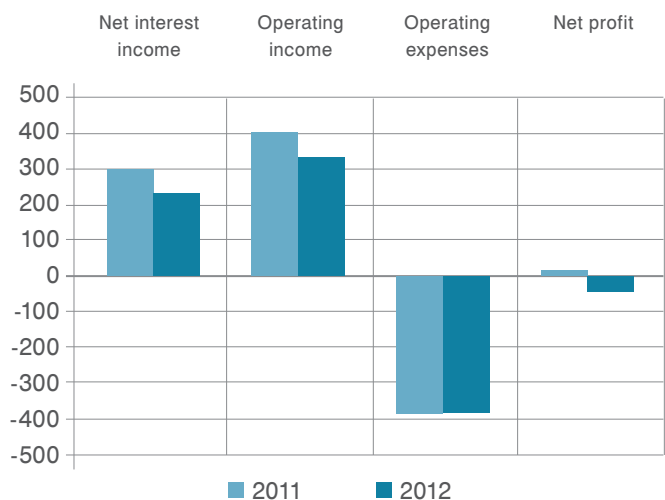
2.

Accumulation of additional liquidity from the local market through escalating of the Bank's deposit base.

In fact, the successful implementation of those

objectives had been at significant price - a decline in the loan portfolio, a certain loss of market share and deterioration of the financial results. According preliminary data UBB reported at the end of 2012 a loss before tax at BGN 46.9 mln. on a consolidated basis, mainly due to lower interest income and the significant amount of allocated provisions for impairment of problem loans. In 2013 UBB Group will continue its efforts on improving the quality of the loan portfolio, optimizing costs, maintaining optimum liquidity and a strong capital position. Furthermore, UBB will be more active in the credit market in course gradually to recover its leading position in the Bulgarian banking sector.

Net Operating Income and Net Profit (BGN mln.)



Net interest income

In 2012 the consolidated net interest income reported amounted to BGN 227.5 mln. (BGN 300.4 mln. for 2011), thus registering a decline of 24.3% y/y due to the continuing negative effect from the global financial and economic crisis on the Bulgarian economy.

Net interest margin	2011 BGN '000	2012 BGN '000	Chang (% , y/y)
Interest income	490,714	417,843	(14.9)
Interest expense	(190,270)	(190,353)	0.04
Net interest income	300,444	227,490	(24.3)

The interest income from loans to individuals decreased by 11.4% y/y and reached BGN 218.8 mln. The interest income from loans to companies amounted to BGN 179.5 mln. and decreased by 22.3% y/y. The interest income from financial institutions accelerated nearly 2 times (198.9%) y/y. Thus, the total interest income from loans declined by 16.2% y/y. The interest income from money market placements grew 53.1% y/y and reached and BGN 1,474 mln at the end of 2012. Interest income from financial assets at fair value through profit or loss reached BGN 7.0 mln. and increased by 59.1% y/y. For one year period interest income from financial assets available for sale increased by 25.9% y/y and amounted BGN 8.0 mln.

The interest expense declined by 0.03% y/y and as at the end of 2012 amounted to BGN 190.4 mln, due to the Group's policy focused on the improvement of the loan portfolios' quality as well as the deposits' base development and the related promotions for the clients. The interest expense on the attracted from other banks resources amounted to BGN 1.8 mln versus BGN 13.2 mln in 2011, representing 0.9% of the total amount of the interest expense and declined by 86.4% y/y. The interest expense on deposits from customers amounted to BGN 176.4 mln. as compared to BGN 164.9 mln for the previous year, representing 92.6% of the total interest expense and growing by 6.9% y/y. Interest expenses on credit lines totaled at BGN 8.7 mln and represented 4.6% of total interest expense. The subordinated debt costs amounted to BGN 3.5 mln. and decreased by 30.8% y/y. The relative share of the subordinated debt costs in the total amount of expenses is 1.8%.

Non-interest income

The net fees and commissions income amounted to BGN 80.6 mln. as compared to BGN 84.9 mln. at the end of 2011 and decreased by 5.6% y/y. In structural aspect of decisive importance is the fee income from debit and credit cards, which represented 26.1% of the total fees and commissions income, which registered a sharp decline of 12.7% y/y. The fees from bank transfers and cash transactions accounted for 20.3% and their decline on annual base was 10.9%. The fees for servicing deposits increased their relative share to 27.4% but decreased by 6.3% y/y. The commissions income from retail

Review of 2012 Activities

and corporate loans grew up marginally by 0.6% due to the lower number of the new loans granted in 2012. The fees and commissions collected from letters of credit and guaranties represented 2.2% and reported 5.2% y/y decline, indicating for the documentary business deterioration.

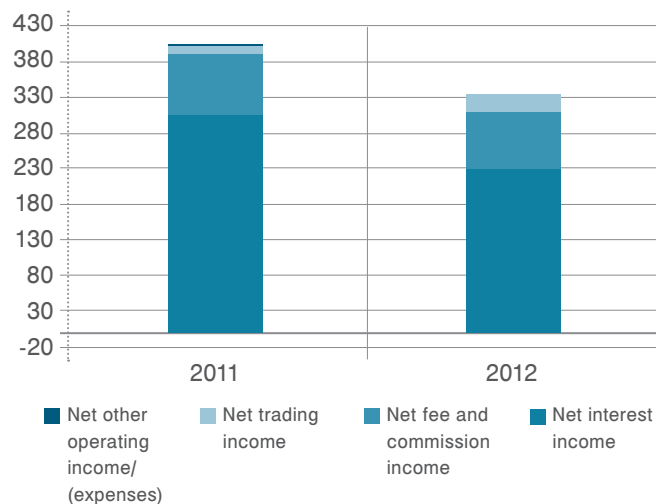
Net trading income

The total value of net trading income amounted to BGN 23.5 mln. and accelerated by 108.3% y/y. The main contribution within this item belongs to profit from interest bearing instruments, which reached BGN 12.5 mln. and increased 7.31 times at the end of 2012. The net profit from currency exchange amounted to BGN 11 mln and increased by 14.6% y/y.

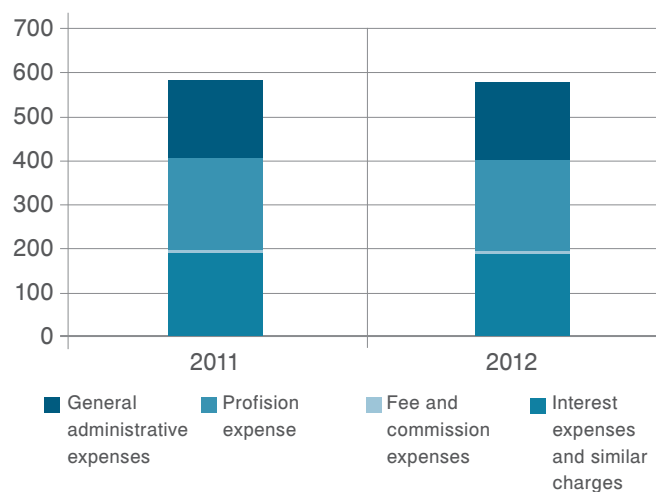
General administrative expense

During the year the consolidated general administrative expense declined by 1.2% y/y and amounted to BGN 174.3 mln. During 2012 the Group continued exercising its program for optimizing the administrative costs. Thus for one year period the consolidated administrative expense declined as follows: by 13.5% for rentals, by 10.9% for fees and remuneration to third parties, by 16.9% for tax duties, by 13.7% for consummative materials, by 16.4% for subscriptions fees, by 17.4% for audit, legal and other fees, by 49.2% for provisioning of letters of credits (net). During the year the staff cost had been reduced by 2.8% y/y.

Operating Income (BGN mln)



Operating Expenses (BGN mln)

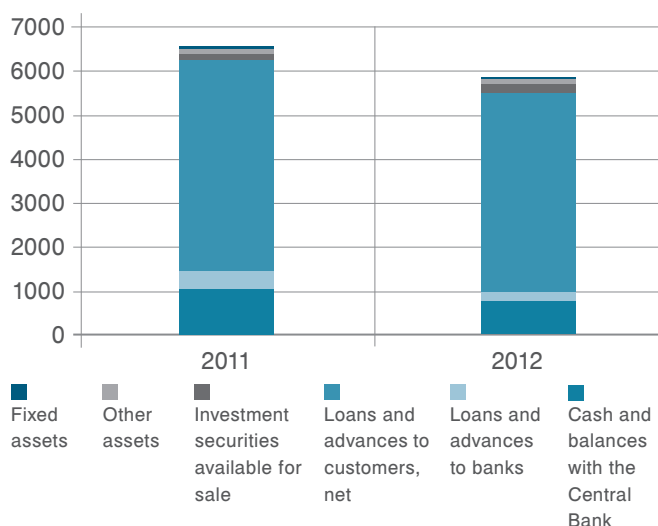


Net allowances for impairment and uncollectability
The unfavorable business environment in the country resulted in extremely high level of the provisions expense. At the end of 2012 the net allowance for impairment and uncollectability decreased by 0.7% y/y to BGN 207.2 mln. compared to BGN 208.5 mln. as at the end of 2011.

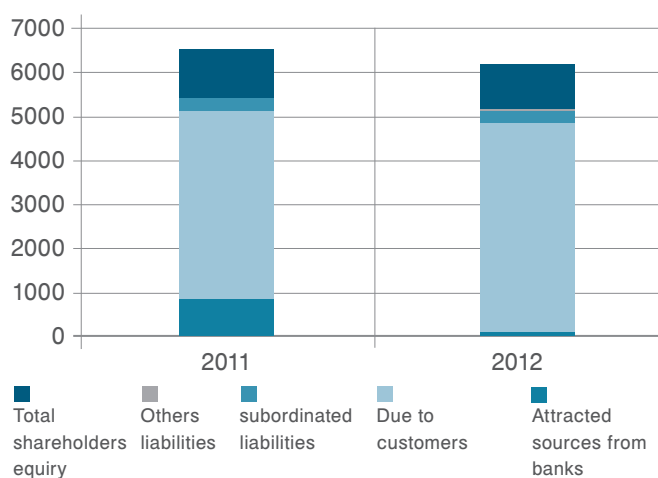
ASSETS AND LIABILITIES

In 2012 the consolidated total assets declined by 5.2% y/y to BGN 6.348 mln. as compared to BGN 6.699 mln. in 2011. In structural aspect the main balance sheet positions of the Bank report the following dynamics:

Assets (BGN mln)



Liabilities and Capital (BGN mln)



Cash and cash equivalents

At the end of 2011 the cash and balances with the Central bank amounted to BGN 739.2 mln., including minimum statutory reserves. The maintained required minimum statutory reserves with the BNB in percentage terms was at an optimum level during the year, as follows:

BGN mln	12. 2011	05. 2012	06. 2012	09. 2012	12. 2012
Minimum Required Reseve	872	891	494	519	589
Fulfillment (monthly average)	100%	100%	102%	101%	101%

Due from financial institutions

At the end of 2012 the net amounts due from financial institutions amounted to BGN 221.4 mln. and decreased more by 43% y/y due to the undertaken actions for achieving optimum liquidity

Financial assets designated at fair value through profit or loss

At the end of 2012 the consolidated trading securities amounted to BGN 470.8 mln were distributed as follows: Bulgarian government securities – 53.1% of the portfolio and other debt instruments – 46.9%.

Loans and advances to customers

Due to the conservative lending approach during 2012 the total value of the loans portfolio decreased sharply. New approvals for economic sectors with higher risk were restricted. The Group was focused on restructuring and collections on problematic exposures increased cautiousness in lending activities and reduced exposures towards existing customers. Thus, at the end of 2012 the total amount of net loans and advances to customers was BGN 4.552 mln. (against BGN 4.860 mln. as of end 2011), which represented 71.7% of the total consolidated assets. Thus the decrease of the net

loan portfolio was 6.3% y/y, due to continued widespread negative impact of the global crises on the Bulgarian companies, as well as on the households. For one year period the retail loans decreased by 5.8%. The corporate lending segment remained practically flat (0.1% y/y increase only). In 2012 the lending activity was realized in a difficult economic environment and the Group continued to form provisions for loans losses, and their registered annual growth was 29.5% against to 20.6% y/y in 2011. At the end of 2012 the classified loans with acceptable risk presented 95.27% from those which are not overdue and are not individually impaired. The loans classified as watched presented 3.74%, sub-standard 0.14%, non-performing 0.85%. The loan portfolio was diversified across all industries with emphasis on retail banking, small and medium-sized businesses, as well as the dynamically developing sectors of the economy - industry, trade, construction, transportation and communication, etc.

Financial assets available for sale

At the end of 2012 the financial assets available for sale amounted to BGN 197.9 mln and registered a 71.6% y/y increase. In structural aspect they included: 72.75% government bonds, 13.03% corporate bonds, 2.75% corporate shares traded OTC, 9.06% shares in foreign companies and 2.41% shares in mutual funds.

ATTRACTED RESOURCES AND EQUITY

At the end of 2012 the consolidated amount of liabilities reached BGN 5.276 mln. as compared to BGN 5.591 mln. at the end of 2011 registering a nominal decrease of 5.6% for a period of one year.

Deposits from banks

Funds deposited by banks decreased by 93.3% y/y. At the end of 2012 the deposits from banks amounted to BGN 52.4 mln against BGN 783.8 mln. at the end of 2011. For one year period their relative share of total liabilities decreased from 14% at the end of 2011 to 0.99% at the end of 2012, as a result of UBB Group's efforts to gradually recover its status of self-financing institution.

Deposits from customers

At the end of 2012 client deposits reached BGN 4.756 bn. compared to BGN 4.326 bn. at the end of 2011 and registered 9.9% y/y increase. During the year the deposits of individuals increased by 10.9% y/y due to offered promotions as well as to the attractive conditions of the individuals' segment. For the same period corporate deposits increased by 6.9% y/y. Deposits from government institutions and agencies accelerated by 53.2% y/y. Market conditions, influenced by the crisis in the economy have an impact on deposits of non-bank financial institutions, which declined by 7.4% y/y.

Deposits from clients, BGN (000)	31.12.2011	31.12.2012	Change y/y (%)
Deposits of individuals	3,062,915	3,397,567	10.93
Deposits of non-bank institutions	187,404	173,546	-7.39
Corpoates deposits	999,869	1,068,782	6.89
Deposits from government institutions	75,598	115,856	53.25
Total	4,325,786	4,755,751	9.94

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The deposits of individuals continued to dominate in the structure of deposits, representing 71.4% of the deposits portfolio. The dynamics of corporate deposits followed the deterioration in the economic trends and their relative share in the deposits' structure declined to 22.5%. The relative share of deposits from non-bank and financial institutions declined to 3.6% and the share of deposits from government institutions and agencies increased to 2.4%.

Clients' Deposits (BGN mln)



As of December 31, 2012 UBB's Group has key market positions by holding 10.2% of retail deposits and 7.6% of the corporate deposits on the local market.

BANK BORROWINGS

At the end of 2012 the UBB Group reported BGN 188.1 mln credit lines from banks, which presented 4% of the borrowed funds.

UBB has signed two long-term credit facilities with European Bank for Reconstruction and Development (EBRD) for the total amount of EUR 20 mln - Energy Efficiency and Renewable Energy Facility (EUR 15 mln) and Energy Efficiency Facility (EUR 5 mln). All facilities are bound with EBRD Grant schemes for the Bank and its clients. Their maturity is up to January 2014.

At the end of 2008 UBB signed an agreement with the Bulgarian Development Bank for ten-year loan amounting to BGN 30 mln for lending to companies in the private and municipal sector and preexported lending. As of December 31, 2009 the loan has been utilized. The maturity is until December 2018. The obligation is secured with a pledge of receivables from final borrowers, through funding provided under this Agreement, with a total principal amount of BGN 30 mln.

In 2009, UBB has signed a contract with the Bulgarian Development Bank for working capital financing to farmers for EUR 15 mln. At December 31, 2009 the entire amount of the loan is utilized. The contract is maturing in December 2018. The obligation is secured with a pledge of receivables from final borrowers, through funding provided under this Agreement, with a total principal amount of BGN 15 mln.

In 2010, UBB has signed a contract with EBRD for financing existing or new clients of UBB, including private enterprises, firms, sole proprietors, or other legal entities formed under the laws of the Republic of Bulgaria, as well as individuals registered or otherwise recognised as entrepreneurs in accordance with Bulgarian legislation for EUR 150 mln. As at December 31, 2012 the amount of EUR 75 mln of the loan is utilized. Utilization deadline is up to two years from the date of the loan contract and the maturity date is until December, 2014.

Subordinated debt

At the end of 2012 the Bank recorded BGN 254.7 mln subordinated debt, which presented 5% of the borrowed funds on the balance sheet. In October and November 2007 the UBB Group has signed two subordinated debt agreements with National Bank of Greece totaling EUR 130 mln. 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 Group in any form. Original maturity of subordinated debt is 10 years. From 2013 begins annual repayment of subordinated term debt on both agreements in equal installments in the amount of BGN 50,852 thousand..

Capital and capital adequacy

The capital, owned by UBB Group shareholders by the end of 2012 amounts to BGN 1.070 mln (2011: BGN 1.108 mln) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy, as well as Tier 1 capital adequacy as of December 31st 2012 amounts to 13.98%.

1.2. BUSINESS DEVELOPMENT

RETAIL BANKING

In 2012 UBB retained its strong and sustainable position in the banking segment for retail loans and deposits. In the retail deposits market with extremely challenging environment, the Bank had significant growth of BGN 336 mln, enhancing liquidity and reaching deposit base of BGN 3.397 bn compared to BGN 3.062 bn at the end of 2011. Although the promotional lending activities by the major banks, the retail loans market continued to be characterized by overall decrease. UBB year-end portfolios for mortgage and consumer loans were BGN 1.226 bn and BGN 1.129 bn, respectively. UBB retained its leading position as a bank issuer of international credit and debit cards under the logo of Master Card and VISA. In terms of absolute figures, at the end of 2012 the total portfolio of UBB's cards in circulation accounted for over 1,000,000 with 15 mln. number of transactions on an annual basis, while the total volume of transactions surpassed BGN 2,012 mln. Thus in 2012, the number of POS transactions of our credit card business grew with 19% and with another 15% for our debit cards. In terms of cards servicing, UBB further expanded its POS network with 6% and ATMs network with 3% and as of the end of 2012, the Bank had over 10,600 POS terminals and 800 ATMs located in key merchants and locations all across the country.

In 2012 UBB's Retail banking was focused on the ongoing development of innovative products and promotional campaigns in all retail categories in an environment of increased competition. We measure our success by the ability of the Bank to anticipate, create and implement products and services that help our customers to achieve their objectives. The Bank launched new savings product „Available Funds” especially designed for customers who



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want to take advantage of high yield with the option of terminating the contract without losing significant part of the interest. Led by the segmented approach, the Bank introduced new package of accounts exclusively developed to serve the activities of bailiffs. Throughout 2012, UBB's Affluent service model had been further improved, resulting in new attracted customers and volumes. The assets under management from the Affluent Segment, increased with more than 20% on an annual basis. Special UBB Club web page was introduced as a part of the preferential service provided to the Affluent customers, as we recognize that efficient information sharing is one of the main prerequisites for productive partnership with the Affluent segment. In mortgage lending, the Bank introduced lower interest rates equal in BGN and in EUR for the most demanded products and special refinancing offer for external loans with an option for additional cash. In the consumer lending area, new "United loan" was launched targeting external refinancing of unsecured exposures at attractive interest rate levels. Throughout the year the activities of the were supported by constant promotional activities for both existing and new customers with the revolving products. In 2012 UBB continued to improve its credit cards business in terms of both security and convenience. UBB's cardholders already benefit from the online payments service 3D Secure by VISA and MasterCard, which assures secure online payments and fraud protection. A major success was the launch of the Multi Merchant Rewarding scheme "UWin" allowing all UBB credit cardholders to benefit from the bank's relationship with key merchants. During the year our customers profited from a range of cash back campaigns related to

purchases on gas stations and utility payments. As a strategic goal UBB will strive for continuous improvement in its services and the implementation of new products offers meeting and even exceeding the expectations of our customers.

In 2012, the bank-assurance business of UBB was one of the main sources of non-interest income of the bank with a constantly increasing share. "Over the Counter" retail sales of standalone insurance products as saving program "For our Future" and "Health", "Protector" and "Second home" insurances had a significant weight in the annual growth. The successful first year of sales of TPL insurance for motor vehicles opened new business opportunities bundled with Casco Insurance. Further to the above, the expansion in the business of borrowers' insurance is due to a successful upgrade with attractive additional coverage to the core insurance products.

PAYMENT PRODUCTS AND SERVICES

In 2012 the number of electronic banking users reached 154,000, which represent an increase over the previous year at the rate of 9%. In 2012 through this electronic channel are executed 57 % of all payments. Bill payment service maintains a stable growth rate and at the end of 2012 is actively used by 86,000 customers paying 156,000 bills. UBB's market share in money transfers in terms of realized payments through Western union in 2012 is 14%. In 2012 UBB Call Center continue to maintain the highest standard for customer service via alternative channels.

CORPORATE BANKING

In 2012 Corporate banking's main goal was to stabilize the quality and the size of the loan portfolios in an environment of rising non-performing loans and limited liquidity of the real estate collaterals. Furthermore, we aimed at increasing the momentum of the new loan production, as we believe in the recovery potential of the Bulgarian economy and the good quality of the loans granted under well structured facilities to companies which managed to retain or boost their competitiveness in the current business environment. UBB remained one of the leading banks granting loans for projects under the Competitiveness and the Rural Development Programs financed by EU. In addition, in November 2012 the Bank renegotiated the terms of granting credit under the guarantee scheme for small and medium-sized enterprises of JEREMIE initiative. In 2012, the overall size of the lending portfolio decreased by BGN 308 mln. or by 6% y/y, largely reflecting the outcome of sales of non-performing loans and the repayments under exit strategies on risky exposures. Having merely exhausted the further downsizing impact of such actions, we believe that in 2013 UBB will be more active in the credit market in course gradually to recover its leading position in the Bulgarian banking sector.

INVESTMENT BANKING

In 2012 the impact of the world economic and financial crisis on financial markets continued to influence the investment banking activities of UBB. 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. All main subdivisions in the investment banking activity registered decent results. Irrespective of the fact that new issuance on the local corporate bond market remained weak throughout 2012, UBB continued to participate actively on the corporate bond market by rendering services related to bond restructuring, as well as services in its capacity of a trustee of bondholders. The withdrawal of institutional investors from the bond segment of the BSE-Sofia AD led to a deterioration of the possibilities for Bulgarian companies and municipalities to attract fresh capital. The Investment Banking Department 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. UBB actively participated in the restructuring of the bond issues of Balkanstroy AD, Erato Holding AD, Eurolease Auto AD, Farin AD and Hypocredit AD. In 2012 UBB performed the function of a trustee bank for the bondholders of 25 bond issues. The ongoing financial crisis and liquidity concerns in 2012 led to an outflow of institutional investors and a continued decline in blue-chip indexes on the Bulgarian Stock Exchange. In a persistently uncertain environment „Brokerage services” section managed to retain its market positions on the Bulgarian stock market. For the past year UBB in its capacity of investment intermediary succeed to hold its trading volumes

on the BSE, where 13,593,572 lots were traded in 2,524 transactions in financial instruments on a regulated market. UBB clients participated in the privatization of the minority government stake in the local electricity distribution companies on the „Privatization segment“ of BSE in 2012. In a highly competitive environment of 62 existing investment intermediaries, UBB Brokerage services has managed to maintain its client base and attracted new clients using U-Broker electronic trading platform, with total number of clients reaching 854 in 2012. The Depository services section offers all services allowed under Bulgarian law covering customers from all sectors of Bulgarian capital market. Due to the adverse economic conditions, a number of customers returned their licenses to FSC (Financial Supervision Commission), limited their investment activity and terminated their contracts for depository services with UBB. The Bank has long-term contracts for depository services with 76 clients - financial institutions and corporate customers, supervised by the Financial Supervision Commission i.e. 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. The client base of Depository Services provides an average daily funding for UBB at the amount of BGN 75 mln. UBB performs the services of a custodian bank for the pension funds managed by Pension Insurance Company Doverie, which has a leading market position among Bulgarian pension fund management companies. The total assets of the three pension funds under management are over BGN 1.7 bn as of the end of 2012.

TREASURY ACTIVITIES

In 2012 the Treasury department continued to be focused on liquidity and maintaining the optimal liquidity ratios by acting on government bond market, FX trading and inter-bank operations. Thus, in 2012 UBB received an honorary award of Ministry of Finance as a primary dealer purchased the most government securities on Bulgarian market. The global lack of liquidity focused the Treasury, as well as the large corporate clients in attracting additional resources and in optimizing their management. The Treasury continued to provide to the institutions, corporations and big private-sector investors with value added deposit products and investment options. At the end of 2012, the deposits from banks declined from EUR 401 mln to EUR 27 mln or by 93% y/y. The reported reduction is entirely due to the contraction of the funding, received in previous years from the parent-bank – NBG. We consider this as an exceptionally positive development towards a gradual recovery of UBB's status as a self-funding bank, which the institution had until the end of 2006. At the same time, the Bank improved significantly its Loans/Deposits Ratio - from 155% in 2009 to 133% at the end of 2010, 112.3% at the end of 2011 and 96% at the end of 2012. Over the year UBB maintained optimum levels of liquidity.

INFORMATION TECHNOLOGIES

През 2012 гейността на ИТ бе насочена към In 2012 the IT business was focused on providing optimal operating conditions within the UBB system in terms of hardware and software. During the year 100 PCs were replaced and 50 new were installed. 50 laser printers were replaced. In April was finalized the joint project with Microsoft Bulgaria for the virtualization and renew of the hardware and software of the electronic banking system. A penetration test was performed by Deloitte Bulgaria. Following BNB requirements, UBB successfully completed a project aiming creation of the necessary infrastructure in its main Data Center in Sofia and ensuring UBB can start operating independently within 48 hours in case there is an issue with ADC primary and disaster sites. The project scope covers the following IT systems – Core Banking System T24, SAP FI & HCM, SWIFT. In 2012 the dealers information system used in UBB migrated entirely to the Internet platform - Thomson Reuters Eikon. At the end of the year the main anti-virus software was replaced by McAfee. In 2012 were replaced 5,941 POS terminals and the installed new were 2,300.

HUMAN RESOURCES MANAGEMENT

In 2012 the process of developing HR rules and procedures at the Bank and their harmonization with the one of NBG Group continued. The UBB AD Training Policy was updated aiming at regulating the employees' training and development processes at UBB AD according to the approach applied on a Group level. Effective actions were taken to improve the planning, monitoring and controlling the number and cost of staff and enhanced the bank managers' responsibilities in this area. In the spirit of cooperation UBB's HR Management Department shared with the colleagues from NBG

Group subsidiaries its great experience in the implementation of Business Partnership Model in human resources. In 2012 the active participation of UBB HR representatives in different career fairs continued in order to introduce UBB as a reliable employer. The participation in the career fair in London under the auspices of the Ministry of Labour and Social Policy was particularly successful, where the Head of UBB HR met many young people who have completed their university education in England and were interested in the opportunity to build career in Bulgaria. Some of them already finished their traineeship at the bank structures and others are about to do it. HR Management Department has reasons to believe that long-term cooperation has been established between UBB and these successful young people with excellent education from prestigious British universities who actively seek opportunities to work in Bulgaria and see in the face of UBB a reliable and committed employer. In 2012 bank employees participated more than once in different forms of trainings. The training programme for UBB employees in 2012 emphasized on training of employees from the corporate segment in Branch Network and Head Office. In this regard, at the beginning of the year 20 employees from Head Office (SME and SP, LCC and Corporate Credit Risk departments) passed a specialized training for improvement of professional skills which was presented by a leading international consulting company. Also in early 2012 the implementation of SAP CRR Corporate system completed successfully and was presented to all employees from the corporate segment in Branch network in one-day software training. For employees from the corporate segment in Branch Network several specialized internal banking training were designed and presented by top experts from SME and SP, Corporate Credit Risk, Property Management and UBB Factoring and Interlease.

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2-module training programme for internal trainers in the corporate segment in Branch Network (by regions) was developed. Internal trainers were trained by SME managers and by a coach of external consultant company „Communication Experts” on methodologies and techniques for the design, development and presentation of internal banking trainings. The commitment of internal trainers is to keep up-to-date knowledge in their colleagues, explain the practical application of rules, procedures and work instructions for structuring deals, corporate clients’ service, etc., and support newly appointed employees in the region. Managers and CBR employees (a total of 111 employees) passed a specialized training to master the techniques in corporate sales under the title “Skills to hold high effective sales meetings with business clients,” presented by Vision T Ltd - an external consultant company. Aiming at reinforcing the team and increasing the effectiveness and quality of work at the end of 2012 3-module training for managers from the corporate segment in Head Office and Branch network started. Strong emphasis was also put on the training of employees from the Retail Banking segment. Earlier in 2012 a software training SAP CRM Retail was launched for another 53 branches whose employees gained access to the system for customer relationship management. Within the year all employees from the Retail Banking segment engaged in sales and service of affluent and mass clients (a total of 813 employees) passed training in sales techniques titled “Successful Sales” presented by the best specialists from the Sales Department. All head tellers and tellers (a total of 299 employees) passed a training related to specialized professional knowledge, internal practices and amendments in internal rules. In 2012, the number of pilot courses in e-learning system increased and reached six courses with a total number of 1,531 participants.

The official implementation of the system and the use of its full capacity will be concluded in 2013. Last year UBB Training Centre hosted 111 internal banking trainings as well as two international. Trainings of Master Card Europe and Visa Europe were attended by UBB employees and by representatives of other banks and financial institutions from the country and abroad. Throughout 2012 the active development of UBB Traineeship program continued and 192 out of more than 1,100 candidates conducted traineeship in different units and branches and 16 of them has already been hired at different positions in Branch Network and Head Office. The program was enriched by launching a pilot project of long-term traineeship in the corporate segment, aiming at deeper initial practical training for young people with economic education and interest in the corporate banking to start working in this segment in the bank. In order to carry out more qualitative selection for various positions at UBB and to determine the potentiality of employees with regard to their future careers, the bank Group is now using new tools for appraising personality.

BRANCH NETWORK

In 2012 the total number of UBB branch network structural units is 210, including:

- 124 structures, focused in servicing retail and micro business customers;
- 45 structural units, servicing retail, micro and small business;
- 18 structures for retail, micro and SME business;
- 9 Business Centres- specialized structural units, profiled in servicing SME business customers;
- 14 representative offices.

Customers in all UBB Group’s 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.



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In 2012 UBB continued its CSR and sponsorship policy in accordance with its overall strategy, aimed at nourishing and promoting the Bulgarian cultural and historical heritage, sports, art events and initiatives, supporting vulnerable social groups. In addition UBB complimented its lines of support with one for science, while carrying out rich regional sponsorship programme.

UBB CSR & Sponsorship total contribution for 2012 amounts to 310 KEUR. The Bank's main CSR goals in sponsorship activities were dedicated to following fields of support:

Cultural and Historical Heritage

▪ **Karanovo Archeological Complex** – As part of its cultural and historical heritage programme, UBB continued its support for the archaeological and restoration efforts in the area of Karanovo's Eastern tomb. The bank's efforts met the support of the Ministry of Culture, the local authorities and the enthusiasm of the archaeological team of the Nova Zagora History Museum. Throughout the year the first of its kind deep drilling in the region with special equipment, manipulated by world renowned figures in the archaeology. The goal was to identify the next zones of archaeological work.

▪ **Luititza Fortress, near Ivaylovgrad** – UBB supported the final works on the full restoration of the Luititza fortress in the region of Ivaylovgrad and its transformation into tourist landmark. In sign of appreciation Ivaylovgrad's mayor awarded UBB with the first Luititza Ring for the bank's contribution to the preservation of the cultural and historical heritage in the region.

Sport

▪ **Bulgarian Rowing Federation** – UBB developed its partnership with the Bulgarian rowing federation by supporting the conduction of the World rowing championship for youths and girls at the rowing channel in Plovdiv in August. The success of the event gave additional stimulus to the local authorities to start a project for the building of new parallel rowing channel in the city. As part of its policy for encouraging the sport activities among youngsters UBB carried out a touring children rowing regatta in some of the biggest Bulgarian cities. Hundreds of children took part in the improvised tournaments on professional rowing ergometers, and the most successful among the participants found their new sport vocation. The rowing regatta was organized in Plovdiv, Russe, Pleven and Sofia for the period of 2 months.

▪ **Bulgarian Biathlon Federation** – In 2012 UBB continued its partnership with the Bulgarian biathlon federation, whose athletes showed remarkable results on world and European championships. With the idea to encourage their successful performance UBB awarded the best Bulgarian biathletes, and the chairperson of the Federation Ekaterina Dafovska presented a plaque of gratitude to UBB for the bank's strong and sustainable support.

▪ **Children Golf School** – In 2012 UBB realized yet another new partnership – with the Golf and SPA complex BlackSeaRama, based near Varna. For the duration of the project golf lessons for children were conducted on one of the biggest golf terrains in Bulgaria. In the final phase of the initiative a golf tournament for children was conducted, whereas the school activities, as well as the tournament were broadly covered by media and appreciated by the local community because of its positive messages for healthy lifestyle.

- **Children's Soccer Tournament „Dimitar Penev“** – For a fifth consecutive year the bank supported the conduction of children's football tournament, organized by Dimitar Penev, the coach of the star Bulgarian national football team from the 1994 World Cup and the figure still considered to be the most successful Bulgarian coach of all time. The event was part of the UBB program aimed at promoting the healthy lifestyle and active sports among children and adolescents.
- **„Never too late for new beginning“ Campaign** – As part of its sports program UBB supported and joined with its football team the Ministry of Physical Education and Sports' initiative „Never too late for a new beginning“ - a project for which UBB again was awarded by the sports' Minister Svilen Neykov.

Arts

- **March Music Days, Russe** – UBB proudly continued its support for the event - one of the oldest in the country (since 1961). The festival traditionally attracts the interest of the passionate connoisseurs of good music who bow before the works of greats such as Dmitri Shostakovich, Yuri Bashmet, Gidon Kremer, Emil Tabakov, Antoni Donchev, Svetlin Roussev and others.
- **International Theatre Festival „Varna Summer“** - In 2012 the festival celebrated its 20th birthday and again UBB again supported the realization of this most prestigious and large-scale theater festival of the year in Bulgaria. Through the event UBB gives the admirers of the theatre the chance to witness the novelties in the performing arts and to meet best international and Bulgarian artists, including Teddy Moskov Margarita Mladenova Kurkinski Marius and others.
- **„Apollonia“ Festival** – UBB celebrated a 18-year partnership with this unique art festival. The Bank not only sponsored the jazz program of the event and gave away its traditional award for renowned Bulgarian artists, but also conducted an attractive photo contest among the devoted followers of the festival. At the opening of the festival UBB honored the President of the Festival Professor Dimo Dimov with and honorary diploma for long-term partnership.
- **Musical evenings in Varna** – UBB again supported the conduction of evenings of the French music in Varna as part of its effort to satisfy the cultural hunger of the society for quality music, presented by young and enthusiastic artists.
- **New Symphonic Orchestra** – As part of its mission to reach its hand to young artists UBB agreed to be patron of the New Symphonic Orchestra - the first private orchestra in Bulgaria, giving a platform for young talents to perform before public.
- **NATFA** – The Bulgarian actors and directors also got the chance for development thanks of UBB, which in 2012 was the major partner of the Academic Drama Theatre and of the graduate play performed by the class of the actor Ivaylo Hristov.
- **Photo Contest** – Together with the „EIGHT“ magazine UBB organized a photo contest dedicated to the Bulgarian crafts. The photographs of the winners in the „The Secret of crafts“ contest were exhibited at the bridge of lovers in Sofia and were subsequently been used in the corporate branding materials of UBB.
- **Sofia Rocks Festival** – To celebrate its 20th birthday UBB decided to support as general partner of the most remarkable rock event of 2012 - the „Sofia Rocks“ Festival, during which the long awaited by the fans group Guns `n` Roses performed for the first time on Bulgarian stage. UBB commemorated its jubilee and the festival with a cocktail for its partners and with a number of surprises for the fans of true rock music.



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Support for Science

▪ **National Museum of Natural History** – In 2012 UBB gave its support for a unique transformation of one of the oldest halls at the National Museum of Natural History in Sofia – the minerals' hall. Thanks to the financial support provided by the bank, the hall opened in late 2012 with a new and previously never been exposed collection of precious stones, the most interesting of which were found precisely on Bulgarian territory. In a gesture of gratitude the management of the museum put a permanent thank-you plaque for UBB's contribution for the renovation of the hall.

Regional Sponsorships

▪ In 2012 UBB financially supported the conduction of nearly 35 regional events with local importance. Among them were the celebrations of the anniversaries of several cities - Troyan, Montana, Kardjali, Pazardjik, anniversaries of commemorative events such as the centenary of the liberation of the Rodopi, as well as cultural events such as "Pirin Folk", "Ruse reads" and more.

Charity

▪ **„United for charity“** – In 2012 the „United for charity“ continued to develop its noble goals, reporting impressive results – the money collected from membership fees and donations from employees amounted to more than € 51 000, and from external donations – to about € 2,000. The Association made a very successful campaign with a contest for art works among the employees and their children, followed by a charity exhibition „My family draws“ and a sale of works and calendars with their reproductions.

▪ **Material donations to social and state institutions** – In 2012 UBB supported with material and financial donations the flood victims in the area of Harmanly. The bank also made numerous donations - of machinery and equipment for a number of orphanages and elderly in the country. To some of these institutions, and to others with a primary function to help the vulnerable members of the society, the bank also made financial donations.

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

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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 31.12.2012, 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 31.12.2012, 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 2012 was BGN 314 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	31.12.2011	31.12.2012
Stilian Petkov Vatev	50 бп.	150 бп.
Total	50 бп.	150 бп.

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



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

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 member's 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 (UBB – METLIFE), Chairman of the Board of Directors

UBB – Charitis Insurance and Reinsurance Company (UBB - CHARTIS), 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

Cash Services Company's Board member

Member of the Board of Association of Commercial Banks in Bulgaria

Member of the Board of Fondation “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 Group that go beyond the usual activity or significantly deviate from market conditions.

Payment of dividends and interest

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



Finance Instruments and Risk Management

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

UBB actively manages the risks, inherent to its activity, in order to achieve optimal ratio between profitability from operations and the risk that goes along with them. The Bank has developed and applies Risk Management Policy. The Policy is prepared in compliance with the requirements of all effective laws and bylaws, BNB regulations and the directives of the Basel Standards. Being a part of NBG Group, UBB also adheres to the risk management standards, adopted within the Group. The risk management policy defines the establishment of an organizational structure and internal system of principles, rules, procedures and limits for identification, measuring, assessment and control of the main risk types. All structural units in the Bank work in a strictly regulated environment, not allowing unsubstantiated risk undertaking in the everyday banking operations.

United Bulgarian Bank evaluates as material for its activity and manages with higher priority the credit risk, liquid risk, market risk and operational risk. Risk management

- **Strategic** – performed by UBB BoD who approves the risk strategy and appoints the Risk Management Committee, which is responsible for maintaining the bank's activities in compliance with the approved strategy.
- **Tactical** – performed by UBB Senior Management through specialized collective bodies, who approve all policies and procedures for managing risks. A main role is dedicated to the Risk Management Division, which identifies, assesses and controls the risk, develops appropriate methodologies, reported to Senior Management and proposes measures for

minimizing risk, if need.

- **Operational** – it encompasses the different types of LoBs and business units and includes managing risks at their points of creation. Risk management at this level is performed through appropriate control systems, included in the main procedures and instructions.

An important role for maintaining independent control and assessment of the risk management systems is taken by the Legal Compliance division and the Specialized Internal Audit Division.

b) The Bank's exposure with regard to credit, liquidity, market and operational risk

The exposures of United Bulgarian Bank related to credit, liquidity, market and operational risk and respectively the utilized risk management methods are stated below in a sequence according to their significance for the Bank's activity.

Credit risk

Credit risk is expressed in the possibility the Bank not to receive back funds or income from extended loans and deposits and from the investments made in debt securities and other assets, as it is provisioned in the respective agreements.

The main source of credit risk for the Bank are the loans extended to clients, which, as of 31.12.2012 amounted to BGN 5.273 mln. As of the same date, the total value of depreciation (IFRS provisions) was 721 mln. or 14% of the credit portfolio. The specific provisions (under BNB Ordinance № 9) amounted to BGN 632 mln.

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

United Bulgarian Bank has adopted and follows Corporate Credit Policy and Retail Credit Policy, which regulate:

- Development and implementation of strict procedures for lending;
- Maintaining adequate credit administration;
- Permanent process of credit risk monitoring, measuring and control.

Detailed procedures are applied in the process of lending, concerning analysis of the economic justifiability of each project, acceptable for the Bank collateral types, control and administration of the used funds.

Corporate credit policy is updated on an ongoing basis and contains new features such as: early-warning system and updated framework for credit risk management, including credit risk assessment by rating system.

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

Retail Credit Policy sets the criteria for approval of all types of credit products for individuals, levels of approval, scoring models in use and their application, The Retail Risk Credit Policy is actualized and ratified on an annual basis by the competent approval bodies.

Depending on their size, loans are approved by credit centers and credit committees for corporate and retail portfolios, according to their competence levels. Above a certain level Risk Management Division is directly involved in the approval of credit transactions and the process of provisioning, and as for the retail portfolio, the approval process is fully integrated within the Risk Management Division.

Regarding the retail portfolio the Bank has set limits for approval of credit parameters as overrides to the Retail Risk Credit Policy and monitors their observation.

The Bank has accepted and follows limits for loan exposure by industries as a percentage of the Bank's regulatory capital. The purpose for these limits is credit portfolio concentration in one or group of related industries to be reduced. The largest sectors in corporate portfolio are construction, wholesale and retail trade, agriculture, food production, infrastructure etc.

In compliance with its policy, the Bank targets the maintaining of low level of credit risk concentration at borrower level. The Bank has approved a limit system and maintains the exposures to one or several connected borrowers within the limit, determined as a percentage of the Bank's regulatory capital.

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

The credit expansion in the preceding years and the world financial and economic crisis has affected negatively the credit portfolio quality. In this connection, a large part of the bank's efforts continued to be dedicated to collection and restructuring of underperforming loans, however the bank also focused on generating new lending business and improving profitability.

UBB actively operates on the international financial markets. In order to reduce the risk of default on the obligations on the part of counter party banks and the risk of operations in unstable countries in economic and political aspect, the bank has approved and monitors the observation of limits for this type of exposures. The Bank has no appetite for risk exposures towards bank counterparties with rating - public or internal - less favourable than Ba3 (Moody's) or BB- (S&P/ Fitch). The above restrictions for selection of counterparties presuppose undertaking of medium credit risk arising from transactions on the interbank market.

Liquidity risk

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

UBB invests mainly in highly liquid assets and maintains an average of 25% ratio of liquid assets to total liabilities and 30% ratio of liquid assets to customer deposits, because of the accomplished increase in attracted funds from customers and of the reduced lending activity.

UBB's financing structure was also significantly improved as a result of replacing the short-term money market financing towards more stable long-term customer financing. Additionally the has

attracted subordinated term debt from its mother-bank, as well as established long-term credit lines from BDB and EBRD provided for energy efficiency projects and agriculture producers' lending.

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

- Risk Management Committee;
- Specialized collective body for liquidity management – Asset and Liability Management Committee (ALCO);
- Liquidity risk policy and Contingency Funding Plan;
- Management information system;

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

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

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

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

Interest rate risk

This risk is related to possible unfavourable impact to the profit and capital of the bank from the market interest rates.

The Bank's exposure to interest rate risk is relatively small and amounts to only 2% of the regulatory capital.

UBB manages the interest rate risk separately for the Trading Book and the Banking Book portfolios by using respectively the "Value at Risk" method and evaluating the sensitivity of the economic capital to a parallel shift of the interest rates by 200 b.p.

The Bank tries to restrict the interest rate risk and to maintain it within acceptable parameters, by maintaining an adequate structure of its interest-sensitive assets and liabilities and minimizing the mismatching between them. The interest rate risk is measured separately for each of the major currencies, in which the bank is active.

Currency risk

This is the risk for the bank to sustain losses due to fluctuations of market prices of different currencies. UBB balance sheet structure includes assets and liabilities, denominated in different currencies, mostly in BGN and EUR. Upon the currently effective currency board in this country, the currency risk, undertaken by the bank, mainly evolves from changes in the EUR/USD exchange rate and to a smaller extent from the exchange rates of other currencies to the Euro.

The bank manages the risk of the open FX positions aiming to minimize the possibility of loss in case of unfavourable 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 operations 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

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 approved Operational Risk Management Framework and is documented in policies, instructions and procedures.

The main operational risks, to which the bank is exposed according to the documented activities and processes, are identified and categorized according to the UBB's risk typology. The identified risks are assessed and on this base are developed Action plans in the respective areas, where the risk should be reduced, according to the group standards of NBG.

Adequate system of KRIs and thresholds for them is developed, their trends are analysed 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.

For the precise measurement, analysis and forecasting of the operational risk losses, a system for collection of operational loss events, which are stored in a special register, is functioning in the Bank.

The entire operational risk management process was fully automated by implementation of specialized software.

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. Meanwhile the implementation of the advanced approach is being developed, since such is being used by NBG.

Business Continuity Plan

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

The BCP is developed in compliance with the regulatory requirements and best practices, taking into consideration the organizational structure and UBB's Group business functions. The BCP maintenance is implemented through planned or unplanned update activities.





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Annual Report of the UBB's Subsidiaries and Associate Companies

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 Chartis 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.

Subsidiaries in which UBB owns 100% equity	Net Assets 31.12.2012
UBB Assets management	BGN'000
UBB Insurance broker	1,801
UBB Factoring	12,579

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

Changes in the Board of Directors of the Bank

At an Extraordinary General Meeting of Shareholders of UBB AD, held on 18.02.2013 in Sofia have been elected as new members of the Board of Directors of UBB AD Mr. Konstantinos Pavlos Milonas and Mr. Panagiotis George Karandreas.

At an Extraordinary General Meeting of Shareholders of UBB AD held on 04.03.2013 in Sofia have been decided Mr. Dimitrios Anagnostopoulos to be released as a member of the Board of Directors of United Bulgarian Bank AD.

Acquisition of Eurobank Ergasias S.A. by NBG S.A. (the parent company)

On 5 October 2012 NBG S.A. submitted a voluntary offer to acquire all the ordinary registered shares with voting rights of Eurobank Ergasias S.A. ("Eurobank"), which it did not hold at 5 October 2012, at an exchange ratio of 58 new ordinary registered shares with voting rights of the Bank for every 100 shares of Eurobank. On 15 February 2013 NBG had acquired 84,35% of the ordinary share capital and obtained control of Eurobank.

The Eurobank Group offers a full range of banking and financial products and services to households and enterprises also in the Bulgarian financial market. Retail Banking, Corporate Banking, Investment Banking and Asset Management are part of its activities.

The acquisition of Eurobank may lead to restructuring activities in 2013 and subsequent

periods, in the markets in which the NBG Group operates. The impact of such restructuring on the financial position of the NBG Group subsidiaries cannot be reliably assessed at this stage.

The enlarged NBG Group is expected to achieve significant annual synergies, benefit from a large branch network in Greece, together with an enhanced presence in South Eastern Europe, with material positions in key regional markets including Bulgaria. Customers will benefit from the enhanced capabilities of the combined group drawing on each bank's competitive strengths, including a wider product offering, improved capacity to lend, and better and more efficient service.

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

Name: UBB Asset Management EAD

Location: Sofia

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

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

Capital: BGN 700,000, including:

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

Name: UBB - ALICO Life Insurance Company

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 – Chartis Insurance Company

Location: Sofia

Head Office address: Sofia 1000, Oborishte region, 4, Iskar Str.

Number and batch of entry in the commercial register: No 108888, v. 1469, reg. I, p. 179, under company file No 10676 of Sofia City Court according to the inventory of 2006.

Capital: BGN 7,000,000

Participation in the company: 30% or BGN 2,082,000 nominal value of participation

Name: UBB Insurance Broker

Location: Sofia

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

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

Capital: BGN 500,000

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



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Annual Report of the UBB's Subsidiaries and Associate Companies

Name: Company for Cash Services

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 10,000,000

Participation in the company: 25% or BGN 2,500,523 nominal value of participation.

Name: UBB Factoring

Location: Bulgaria, area Sofia (capital), municipality Sofia, Sofia 1040, 5 Sveta sofia str.

Number and batch of entry in the commercial register:

N 20091016151609/16.10.2009

Capital: BGN 1,000,000

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

Used financial instruments

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

In 2012 UBB Asset Management and UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund and the associated with UBB - UBB Chartis Insurance Company, UBB Alico Life Insurance Company, UBB Factoring, Cash Services Company maintaining current accounts and deposits, used no derivatives for hedging purposes.

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

The capital exposures of the subsidiaries UBB Insurance Broker, UBB Asset Management, UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund, UBB Chartis Insurance Company, UBB Alico Life Insurance company, UBB Factoring, Cash Services Company maintaining current accounts and deposits, are reported in compliance with regulations, evolving from the requirements of Regulation N 8 on capital adequacy.

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

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

In accordance with the Corporate Governance Programme, approved during 2003 the Group has been established an active and transparent process of strategic decision making.

The Code of Ethics of UBB Group, policies and working procedures clearly define and handle the prevention of conflicts of interest and the bank secrecy security. In 2012 the Group invested additional efforts and resources to ensure the effective management of any potential or real conflict of interests. During the year was finalized a process of the review on questionnaires for coherence and conflict of interest of all employees.

In 2012 Audit Committee, which members are independent experts in finance, banking, tax law and practice continued its activity. Once per month the Committee assessed the control systems and control processes within the bank.

The Board of Directors

The Group places considerable emphasis on the appointments of Directors, and the essential role in adding value to the Bank's strategic decision making, as well as in monitoring the Bank's progress. During 2012 the Board of directors undertook measures for conservative management of credit portfolio. Other important issue of the 2012 activity was the election of new member of Board, representative of National Bank of Greece, which was appointed as General Executive Director of UBB AD during the period of 07.03.2012 to 28.12.2012.

Communication with Shareholders

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

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



Corporate Governance

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Performance Reporting and Internal Financial Control

The Board's report on the performance and prospects of the Group is included in this annual report. The Board acknowledges that it has ultimate responsibility for ensuring that the Group 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 Group works with financial and other authorization limits and procedures for approving capital expenditure. The Board 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 inform about issues concerning incorrect representation of accounting information or information on the basis of which the independent financial audit takes place or reports to the supervisory bodies are established

Statement of Management Responsibilities

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

In preparing these financial statements the management should ensure that:

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

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

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



Additional Information

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The cover features a dark blue header with the title 'ANNUAL REPORT 2012' in white serif font. Below the header is a large, abstract geometric pattern of overlapping triangles in various shades of blue and teal, transitioning from dark blue on the left to light blue and white on the right. The overall design is modern and professional.

ANNUAL REPORT 2012