Annual Report 2009

UNITED BULGARIAN BANK

A Member of NBG Group

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Statement Of The Chairman Of The Board Of Directors

Dear Shareholders,

In the past few years, the Bulgarian economy had been running at a robust economic growth of more than 6% in average. During 2008 the world experienced an unprecedented financial crisis which started in the US and soon spread over Europe and the rest of the world.
The impact of the economic crisis on the Bulgarian economy was deep, leading to a GDP contraction of 5% in 2009 vs. the previous year. At first the construction, real estate and export industries were strongly affected but eventually the rest of the sectors of the Bulgarian economy were also negatively impacted by the crisis. Unemployment increased by 2,8 pps to 9,1% in the end of 2009, while consumption dropped by more than 30%.
The deterioration of the local Banks' lending portfolio was significant, the non-performing loans increased at first in the retail segment and later on in the corporate one. By year-end 2009 the banking sector overall reported 8,2% bad & restructured loans, 7% for corporate loans and 10,2% for retail.
Under these circumstances the Bank's Board of Directors and Management revised their priorities entirely by focusing their efforts towards loan portfolio quality preservation, which became the top priority goal of the Bank's business plan during 2009. UBB immediately initiated several programs for restructuring and recovery of problematic loans aiming to improve portfolio quality and to support its clientele.
Despite the extremely deteriorated situation for the Banking sector, UBB reports for 2009 a 5% growth in assets up to BGN 8,1 billion, 1% growth in corporate loans and a 4% decline in retail lending. The Bank's main income drivers also increased in 2009 i.e. NII increased by 10,1%, trading income more than doubled (110% growth) reaching a pre provisions profit growth of 6,5%.
The sharp increase of the provisions allocated against potential losses for bad and doubtful debts was the key factor for the significant decrease of the Bank's profitability ratios in 2009 vs. the previous year. The reported pre-tax profit was BGN 89,9 million, while both ROA and ROE marked a drop down to the levels of 1,1% and 8,5% respectively. Due to strict cost control and despite business stagnation UBB maintained one of the most efficient cost / income ratios in the Bulgarian banking sector, reporting an efficiency ratio at the extremely good level of 36,7%.
In 2009 UBB did not expand its network ending the year with 272 branches throughout the country. The Bank continued to develop the card business and its commercial network as well with 827 ATMs and 11.000 POS terminals. Part of the Bank's business continues to be delivered through a Call Centre, Internet Banking and third parties operations.
UBB has maintained its strong positions on the market of bank cards and card business with 15% market share in debit cards and a leading 45% in credit cards by year-end. The total number of issued cards (debit and credit) was about 1,27 million which qualifies UBB as the leader on the Bulgarian card market.
In 2010 UBB will continue to focus on efficient loan portfolio management, optimum liquidity and good capital adequacy ratios. In addition, the Bank stands ready to professionally deliver the personal attention and financial solutions necessary to fulfill its customers' changing needs.

Agis Leopoulos
Chairman of the Board of Directors

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General Information

GENERAL INFORMATION

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

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

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

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

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

• **Ratings:**
FITCH
BBB Long Term Foreign Currency
F3 Short Term Foreign Currency
Outlook Stable
Individual D
Support – 2
Outlook Stable
Standard & Poor's
BBB- Long Term Foreign Currency
A-3 Short Term Foreign Currency
Outlook Negative

• **Over 740 Correspondent Relations**
• **Branch Network: 272** units countrywide

• **Banking Services:**
- BGN and FX loans
- BGN and FX deposits
- FX transactions
- Prompt and express intra-bank transfers
- Electronic banking
- Cash management
- BGN and FX accounts and traveller's cheques
- Debit and credit card payments

- Cash collection operations and depositories
- Bank guarantees and letters of credit
- Securities' trading
- Depository / fiduciary services
- Investment banking services
- Western Union transfers

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

• **Market share** (as of 31 December 2009 calculated as a percentage of the entire banking sector, according to BNB statistical data):

11%	Corporate deposits
12%	Corporate loans
11%	Deposits to individuals
16%	Consumer Loans
15%	Mortgage loans
15%	Debit Cards
45%	Credit cards
17%	ATMs
18%	POS terminals
10%	Inter-bank transactions

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

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Business Strategy

BUSINESS STRATEGY

I. Macroeconomic assumptions

• Moderate economic growth (0.8%), slight recovery in export, moderate increase in domestic demand
• Limited credit expansion - up to 6%,
• Deposits growth - 8.5% retail deposits, 10-11%
• Benchmark Interest rates (SOFIBOR and EURIBOR) are projected in the range of 2.6%-2.1% for BGN and 0.6%-1.6% for EUR;
• 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:

• Maximize customers deposits growth at rationalized cost;
• Protect and improve asset quality by putting all efforts on collections and limited gross NPL formation;
• Cost containment remains top priority

III. Key performance indicators:

• Deposits growth
▶ Retail - 9% y/y
▶ Corporate – 14 % y/y
• Lending growth – maintain *gross loans/deposits ratio* below 160% (2009 -160%)
▶ Retail – 9% y/y with focus on credit risk
▶ Corporate – 8% y/y predominately in lower risk sectors
• Portfolio quality
▶ NPL's ratios – no material increase versus 2009, will maintain below the level of 11% for Retail and close to 5% for Corporate. Provisioning coverage for Retail will remain within the range of 65-68% and increased for Corporate (close to 65%);
▶ Improved collection capabilities will limited Net NPL formation

IV. Other

• Rationalization of branch network and optimization on staff number;
• Cost limitations on G&A expenses will support cost: *income ratio* (36-37%);

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Selected Highlights

SELECTED HIGHLIGHTS

	2007	2008	2009
	BGN'000	BGN'000	BGN'000
Performance			
Operating Income	377,579	460,608	484,725
Net Interest Income	276,524	348,245	383,488
Net Profit	185,381	195,343	80,851
Balance Sheet			
Total Assets	6,129,856	7,732,488	8,132,335
Capital	749,741	937,659	1,024,425
Deposits from Companies and Individuals	3,421,651	4,009,921	4,244,029
Loans to Companies and Individuals, net	4,916,408	6,731,279	6,504,280
Capital Adequacy (%)			
General Capital Adequacy (BIS Tier 1 + Tier 2)	14.82	12.90	13.54
Primary Capital Adequacy	9.92	9.63	11.57
Capital / Total Assets	12.23	12.13	12.60
Liquidity (%)			
Total Liquidity	22.88	13.68	20.81
Total Loans / Total Deposits	104.30	105.26	153.25
Staff Number as of the end of the period	2,635	3,252	3188
Inflation[1] (%, y/y)	8.4	12.3	2.8
Exchange Rate USD/BGN (31 December)	1,3312	1,3873	1.3382

[1] *Source – National Statistical Institute.*

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Board of Directors

BOARD OF DIRECTORS

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

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

Agis Ioannis Leopoulos
General Manager International Activities of NBG
Board Member

Alexandros Georgios Tourkolias
General Manager Shipping Finance of NBG
Board Member

Konstantinos Adamantios Othoneos
Manager International Network B of NBG
Board Member

Radka Ivanova Toncheva
Executive Director
Board Member

Stilian Petkov Vatev
Chief Executive Officer
Board Member

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Economic Environment

ECONOMIC ENVIRONMENT

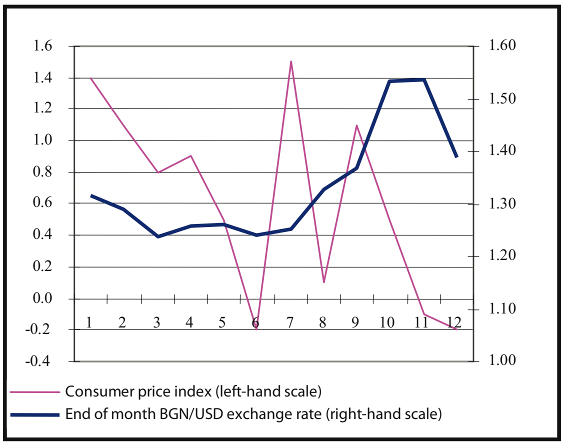
The GDP for 2009 amounted to BGN 66 256,2 mn. in current prices which in EUR is 33 876,3 mn. The GDP per capita is EUR 4 466.1. In real value the GDP decrease with 5.0% compare to 2008. According the preliminary data the produced GDP in the Q4 of 2009 is BGN 17 917.2 mn. (EUR 9 160.9) in current prices. The GDP per capita for Q4 of 2009 is BGN 2 366.9 (EUR 1 210.2). In USD equivelent the GDP amounted to USD 13 540.6 mn. and GDP per capita USD 1 788,7 respectively. In EUR the trend is the same. Compare to Q4 of 2008 the real GDP drop is 5.9%. The branches Gross domestic value amounted to BGN 14 830,1 mn. in current prices. Recalculated in comparable prices the added value decrease with 5.3% compare to the same period previous year. The industrial sector decrease its relative share in the economy added value compare to Q4 of 2008 and reach up to 28.0% in the Q4 of 2009. The relative share in the added value, realized by the activities in the services sector is 68.3%, which is with 1.7% more compare to the same period previous year. The relative share in the Agriculture sector decrease with 0.8% and reach 3.7% in Q4 of 2009. The GDP drop in the Q4 of 2009 is mainly due to the added value in the agriculture sector, which is 11.3% less compare to Q4 of 2008. Compare to the same period of 2008 the real GDIP drop in the services sector is 3.9%, while the industrial sector gross added value decrease with 7.5% real. For the population individual consumption in Q4 of 2009 the expenditures amounted to 72.7% of the produced GDP. The real decrease of the indicator is 8.7% compare to the same quarter of 2008. The investments physical volume index is 64.6% and determines the main share of the category up to 24.7% of the produced GDP. The import of services and goods exceed with BGN 1 475.8 mn. The export, for this period the external trade balance decrease with 10% average. The export of services and goods decreased with 0.8%, while the import is 20% compare to the same period of 2008.

The budget deficit on accrual basis, which is used for estimating the criterion for EU adoption, reached 3.9% last year as compared to an earlier statement of the Finance ministry for 3.7% of GDP and an initial estimate of 1.9% of GDP. In 2008, the corresponding budget stance was positive at 1.8% of GDP. Despite the steep increase, the indicator is much lower than the EU 27 average of 6.8% of GDP, Eurostat data showed. According to EU regulations, the EC should automatically start excessive budget procedure as the deficit has exceeded the 3% benchmark. Ministry of Finance announced that the cabinet would do its best to contain the budget deficit to below 3% of GDP this year as compared to initial plans for a broadly balanced budget.

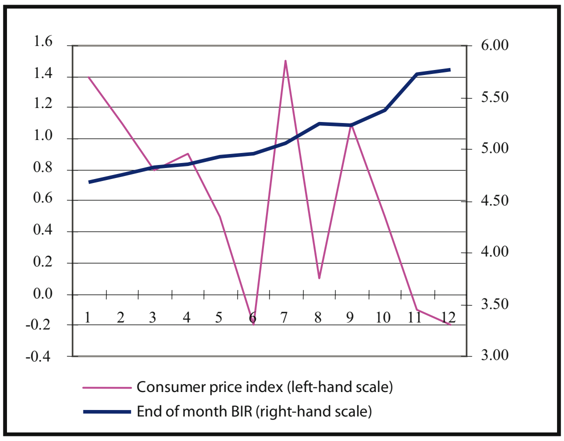
The unemployment rate measured by registrations with the National Employment Agency rose by 0.5% m/m to 9.13% at the end of December. The annual rate of increase sustained for a tenth consecutive month and sped to 2.9% y/y in December from 2.4% y/y a month earlier. The annual average rate reached 7.58% last year, up by 1.27pps as compared to 2008 but still lower than the 7.75% in 2007. The 2% cut of the social insurance contributions as of this year is expected to help about 100,000 employees to keep their positions. In addition, a total of 22 new government programs valued at BGN 315mn. (EUR 161.1mn.) under the Human resources operational program is to open up to 150,000 new jobs. The government forecasts 11.4% average unemployment rate this year while the Industrial chamber expects the indicator to exceed 16%. However, human resources companies project less than 10% jobless rate this year mostly due to increase of the grey economy.

The average inflation reached 2.8% last year, down from 3.3% y/y in the period December 2008 – November 2009 and 12.3% in 2008. In December, nonfood and catering prices rose by more than 4% on annual basis while food prices continued to contribute negatively. The prices of services remained almost unchanged as compared to one year earlier. The EU harmonized inflation index (HICP) accelerated to 1.6% y/y in December, rising by 0.3% during the month. The year average was reported at 2.5%, down from 11.9% in 2008. The government projected average HICP of 2.3% this year and end-of-period of 1.8%. Next year harmonized inflation is expected at 2.2% (both average and eop).

Exchange Rate and Inflation



Base Interest Rate and Inflation



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

The gross external debt rose by 1.3% m/m and 1.7% y/y to EUR 37.6bn as of end-December 2009. Total external liabilities of the country have been declining in the two previous months in annual terms. Public sector debt advanced by 4.2% in a year and 0.5% during the month to 11% of total as compared to 10.7% of total a year earlier. Private sector external debt also rose but at a slower rate of 1.4% y/y after declining in the previous months. In monthly terms, it was by 1.4% higher mainly due to increase of short-term foreign deposits and the long-term loans of the local banks. Total foreign debt accounted for 110.6% of the full-year GDP estimate, rising from 108.4% of GDP at end-2008. The share of inter-company loans, which are not included in the short-term debt statistics, accounted for 38.1% of the total external debt, slightly lower relative to one month earlier but up from 36% at end-2008.

The CA deficit declined by 66% y/y to EUR 327mn. in 2009 and at the same rate to EUR 2.91bn in January-December. The deficit accounted for 8.6% of the full-year GDP projection as compared to 25.4% of GDP a year ago. The sizeable reduction in the external deficit accrued primarily as a result of the large correction in the trade deficit which shrank to only 12% of GDP in 2009 relative to 25.2% in 2008 but was also supported by the smaller net income deficit and the larger services surplus by EUR 596 mn. As a direct repercussion from the global financial crisis exports declined by 22.5% y/y in 2009, compared to a growth of 12.5% in 2008. Depressed domestic consumption brought about an even stronger 33.3% y/y contraction in imports last year. There was a sharp reduction in capital and financial flows last year as well. This account dropped by nearly 78% y/y, reflecting a decline in direct investment of 56.6% y/y. FDI accounted for only 8.4% of GDP but covered 97.7% of the CA deficit in 2009, compared to 19.2% of GDP and 75.7% coverage of the deficit in 2008. The CA deficit in 2009 did not shrink sufficiently to make up for the decline in the financial account surplus because its coverage by financial flows worsened to 89% in 2009 from 135% in 2008. Central bank reserve assets decreased by EUR 649.8 mn. in January-December 2009, compared to an increase of EUR 674.2mn in January-December 2008.

The aggregated net profit of Bulgarian banking sector has declined by 43.7% y/y to BGN 780.2 mn. (EUR 398.9mn) last year. The contraction narrowed from 46.8% y/y in January-November. In December only, the net profit expanded by 15.6% y/y to BGN 79.2 mn. for the first time since March last year when profit figures were affected by a change in the methodology for accounting for bad loans. The expenditures on devaluation were BGN 89 mn. in December and BGN 1.04 bn. last year, up by 43.5% y/y and 215% respectively. The asset value in the sector rose by 1.7% during the month and 1.9% y/y to BGN 70.9 bn. at the end of December. Total bank assets accounted for 111.2% of the updated full-year GDP forecast for last year. The expansion of the credit stock flattened at 5% y/y at the end of December. In monthly terms, bank credits increased by 1.2% pushed up by loans to credit institutions. The credits to non-credit institutions and consumer lending contracted m/m in December. Attracted resources advanced by 1.8% during the month. The deposits of the households rose by 3.1% m/m in December covering 41.5% of all credits as compared to coverage of 40.7% as of end-November and 38.9% at the end of 2008. The last year's profits will be transferred to the capital of the lenders for a second year in a row.

The loans disbursed by non-bank credit institutions decreased by 37.6% y/y and 20.1% q/q to BGN 1.76 bn. (EUR 898.1mn.) as of the end of December 2009. The contraction sustained for a third consecutive quarter steepening from 18.6% y/y as of end-September and 9.4% y/y as of the end of June. The share of non-performing loans continued rising to 12.7% of total as of end-December from 10.9% at the end of September and 6.9% at the end of 2008. The assets of non-bank credit institutions declined by 15% during the quarter and 12.9% y/y to BGN 2.62 bn. or about 4% of the GDP estimate for last year.

The stock of financing disbursed by leasing companies dropped by 14.6% y/y to BGN 4.97 bn. (EUR 2.54bn.) as of end-December last year or 7.5% of GDP as compared to 8.7% of GDP a year earlier. This is the second consecutive drop since the Central bank started providing data on leasing companies' performance in Q3 of 2005. The negative rate accelerated from 1.6% decline at end-September, while there were growth rates of 16.5% y/y at end-June, 38.8% y/y at end-March, 59% y/y as of end-2008 and 83.1% at the end-2007. The share of non-serviced contracts rose to 15.8% of the total as of end-December from 12.9% at the end of September, but is still much higher than the 1.6% share at end-December a year earlier. The assets of the 65 leasing companies active in the country dropped by 10.6% y/y to BGN 6.3 bn. as of end-December but fell by 4% as compared to the end of the previous year. The leasing firms explain the deterioration with worsened companies' financials (mostly from the infrastructure construction sector) as a result of overdue payments of the general budget and reduction of public capital expenditures.

The value of savings managed by local and foreign investment funds active in the country rose by 33.5% y/y and 8.9% in Q4 to BGN 608.5 mn. as of end-December. This is the first annual increase since the end of June 2008. The value of savings allocated to investment funds declined by 62% y/y at end-2008 and the downward correction gradually narrowed to 19.1% y/y as of end-September. Total savings managed by investment funds accounted for 0.9% of the GDP estimate for last year, up from 0.7% of GDP at the end of 2008. The savings allocated to both foreign and domestic funds grew by 72.5% y/y and 10.4% y/y at the end of last year after declines of 2.5% y/y and 27.9% y/y as of end-September respectively. The savings allocated to local funds accounted for 51.9% of the total as compared to 58.2% at the end of September and 62.8% at end-2008. A total of 255 funds are monitored by the Central bank, of which 93 have only domestic company registrations.

The assets of insurance companies active in the country rose by 49% y/y and 4.3% q/q in Q4 to BGN 3.98 bn. (EUR 2.03bn) as of end-December. The annual growth decelerated from 52.2% y/y as of the end of September and 59.4% y/y as of end-June. Total assets accounted for 6% of GDP as compared to 4% of GDP in 2008. A total of 66 companies were registered as of end-December, 26 of which general insurers accounting for 73.3% of total assets (up from 63.7% at end-2008), 20 life insurers (25% and 34.1% respectively) and 20 health insurance companies (1.7% and 2.2% respectively).

The total volume of the BSE in December was BGN 79 183 mn. On the official market were traded stocks which total volume was BGN 19 757 mn. and on the unofficial market the traded volume was BGN 54 896 mn. In December the total volume of the BSE was 2.99 times more compare to the one in November which amounted to BGN 26 429 mn. On the official market the traded volume for November increased 1.96 times compare to the one realized in November. The average level of the indexes decrease as follows : 427.27 b.p. for SOFIX, 117.16 for BG40, 48.01 for BGREIT and 334.84 for BGTR30.

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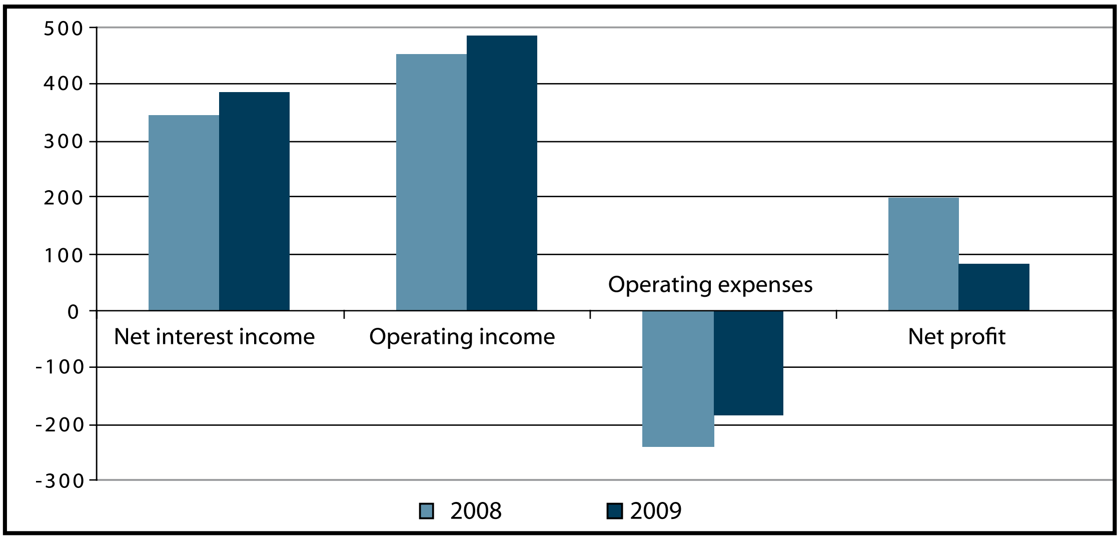
Review of 2009 Activities

I. REVIEW OF 2009 ACTIVITIES

1.1. FINANCIAL PERFORMANCE

Despite the rapid deterioration as a result from the extremely unfavorable global economic situation, UBB Group's 's results for 2009 demonstrate the response of the Group's position and the successful business model. As of December 31 2009 UBB Group reports a growth in assets by 5.17% up to BGN 8,133 bn. Versus December 31 2008 UBB Group ended 2009 at a profit before tax of BGN 91,7 mn. The unfavorable economic environment in Bulgaria resulted to the increase of provisions for impairment and un-collectability. Furthermore, the registered efficiency ratios are respectively 1.1% for ROAA, 8.5% for ROAE and 36.7% for CIR. In 2010 the Group will continue to observe a conservative credit policy, following the needs of the economy, with a main emphasis on the quality of assets.

Net Operating Income and Net Profit (BGN mn.)



Net interest income

In 2009 the Group has generated net interest income of BGN 383,5 mn. (BGN 348,2 mn. for 2008) and thus achieves a growth of 10.12% y/y in spite the increasing negative effect from the global financial and economic crises on the Bulgarian economy.

Net interest margin	**2008 BGN '000**	**2009 BGN '000**	**Change (%, y/y)**
Interest income	592,826	638,925	7.78
Interest expense	(244,581)	(255,437)	4.44
Net interest income	***348,245***	***383,488***	***10.12***

The interest income from loans to individuals increased by 7.45% y/y and reached BGN 309,8 mn. The interest income from loans to companies amounted to BGN 316,7 mn. and increased by 9.20% y/y. Thus, the total interest income from loans grew by 8.35% y/y. The interest income from placements on the money market declined by 77.9% y/y and compare to the end of 2009 reached BGN 0,3 mn. due to the changes in the policy for attracting funds. The financial assets designed at fair value trough profit or loss reached BGN 5,2 mn. And decreased by 41.8% y/y. For one year period the financial assets available for sale increased by 66.6% y/y and amounted BGN6,5mn.

The interest expense grew by 4.44% y/y and as of end of 2009 they amounted to BGN 255,4 mn. while for the 2008 they were BGN 244,5 mn. This was due to the increase in the business, the deposits' portfolio growth and the related promotions with it. The interest expense on the attracted from other banks resources amounted to BGN 95,8 mn. versus BGN 114,8 mn. in 2008. They represented 37.49% of the total amount of the interest expense and declined by 16.56% y/y. The interest expenses on the deposits from customers amounted to BGN148,6 mn. versus BGN 102,9 mn. for the previous year. They represent 58.18% total of all interest expense and grew by 44.31% y/y. The interest expense on bank loans amounted to BGN 3,9 mn. and on debt securities issued reached BGN 1,4 mn. Their relative share in the total interest expense is respectively 1.51% and 0.56%.The subordinated debt costs amounted to BGN 5,7 mn. and increased by 58.82 % y/y. This decrease was due to the interest rate reduction and CDS , which are used as a benchmark against the interest rates fluctuation. The relative share of the subordinated debt costs from the total amount of expenses is 2.25%.

Non-interest income

The net fees' and commissions' income amounted to BGN 90.8 mn. compare to BGN 100,3 mn. at the end of 2008 and declined by 9.47%y/y. In structural aspect of decisive importance is the income from debit and credit cards, which represented 31.41% of the total income from fees and commissions but for the first time reported a decrease by 8.31% y/y as a result of the global financial crises. The bank transfers accounted for 21.20% and their decline on annual base was 17%. The fees for servicing deposits' increased their relative share to 24.52% and increased by 7.65% y/y. The relative share of charges on loans accounted to 9.13% of the income and reported the sharpest decline in non-interest income group of 53.85%, due to the lower number of the new loans granted during 2009. The fees and commissions collected from letter of credits and guaranties represented 3.14% and reported 31.58% y/y decline. The other fees and commissions income reported 10.78%y/y increase and represented 19.22% from total non-interest income.

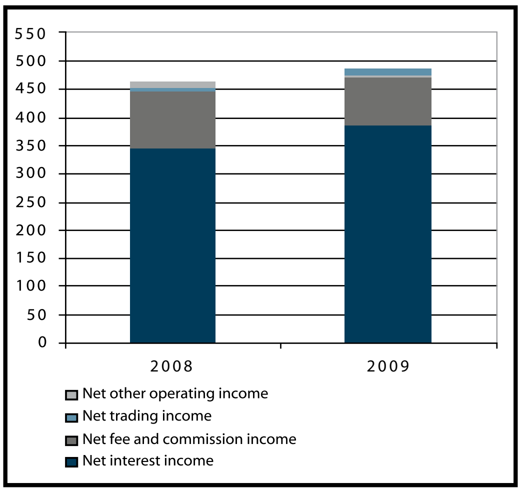
Net trading income

The total value of the net trading income amounted to BGN 12,6 mn. and reported an increase of 112% y/y. The main contribution within this item belongs to profit from currency exchange , which increased by 69.15% y/y and reached BGN 12,9 mn. at the end of 2009.

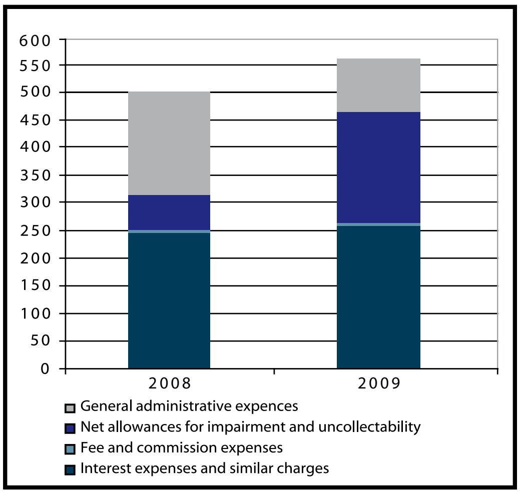
General administrative expense

During the year the general administrative expense on the Group increased by 3.38% y/y. For the same period the staff costs grew by 3.07% y/y. During 2009 the Group successfully implemented a program for optimizing of the administrative costs due to the extremely unfavorable economic environment as well as diminished business. Thus for one year period the administrative expenses declined as well as by 4.23% for the tax expense, 9.98% for insurance expense, 54.20% for marketing and advertisement, 11.85% for materials, 9.27% for audit and consultation services, legal fees and others, 15.34% for business trips expense.

Operating Income (BGN Mio)



Operating Expenses (BGN Mio)



Net allowances for impairment and uncollectability

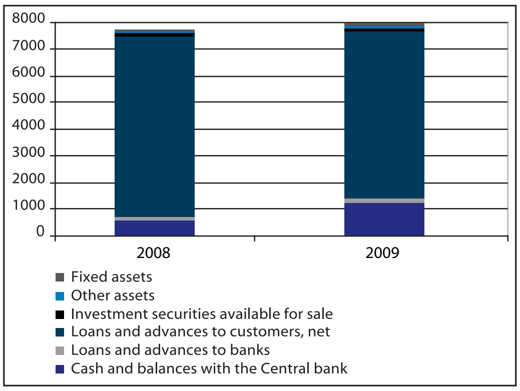
The unfavorable business environment as well as the reported economic decline resulted as an increase on loans provisions expenses. At the end of 2009 the net provisions expenses reached BGN 205,6 mn. including gross provision expenses for loans BGN 213,2 mn. from which BGN 7,7 mn. loans recoveries were deducted.

[2] *Credit Default Swap - a swap designed to transfer the credit exposure of fixed income products*

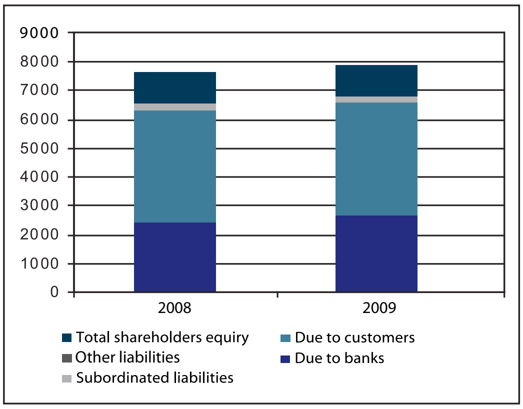
ASSETS AND LIABILITIES

The Group's total assets grew by 5.17% y/y to BGN 8,133 mn. compared with BGN 7,732 mn., in 2008. In structural aspect the main balance sheet positions of the Bank report the following dynamics:

Assets (BGN Mio)



Liabilities and Capital (BGN Mio)



Cash and cash equivalents

At the end of 2009 the cash and balances with the Central bank amounted to BGN 1,129 mn., including minimum statutory reserves. The maintaining of the required minimum statutory reserves with the BNB in percentages was at an optimum level during the year, as follows:

Mio BGN	Dec-08	Mar-09	Jun-09	Sep-09	Nov-09	Dec-09
Minimum Req. Reserve	382.0	286.8	712.4	875.4	1 153.3	931.8
Fulfillment	92.88%	92.34%	93.35%	96.20%	100.05%	107.92%

Due from financial institutions

At the end of 2009 net amounts due from financial institutions amounted to BGN 108.1 mn. and increased more then 3.5 times y/y as a result of the Bank's actions for achieving optimum liquidity.

Financial assets designed at fair value trough profit or loss

At the end of 2009 the Group's trading securities amounted to BGN120,2 mn. distributed as follows: Bulgarian government securities – 92.22% of the portfolio, foreign government and corporate securities, traded on the official markets – 6.15%, bonds issued by foreign institutions, which are traded on the official stock markets – 1.63%.

Loans

During the year the Group's credit activity was influenced by the decline the in economy, unfavorable conditions for business development and increasing credit risk. Under these conditions the Group analyzed the results of credit activity, the tendencies in the loan portfolio quality and tightened the lending criteria. Simultaneously, assessment and control credit risk criteria were upgraded. Thus, at the end of 2009 the total value of the net loans and advances to customers was BGN 6,504 mn. (against BGN 6,731 mn. as of end 2008), which represented 79.98% of the total Group's assets. Thus the Bank decreased it's loan portfolio by 3.37% y/y because of the wide-spread impact of the global crises on Bulgarian economy and households. For one year period the loans for individuals decreased by 3.39%. The corporate lending segment increased by 0.58% y/y. The growth of lending operations realized in completely difficult economic environment has led to an increase in loans provisions near 2 times for one year period. Thus, loans classified as regular represent 76.45% of the portfolio. Out of the total loan portfolio volume loans, classified as watch were12.93%, substandard – 4.54%, non-performing – 6.08%. The loan portfolio continued to diversify across all industries with emphasis on retail banking, small and medium-sized businesses, as well as the dynamically developing sectors of the economy-industry, construction, transportation and communication, trade, etc.

Deposits and equity

At the end of 2009 the total amount of liabilities reached BGN 7,106 mn. against BGN 6,794 mn. at the end of 2008. Their nominal growth y/y is 4.61%, which is entirely due to the increase of the deposits from financial institutions, the development of client deposit base, as well as subordinated debt.

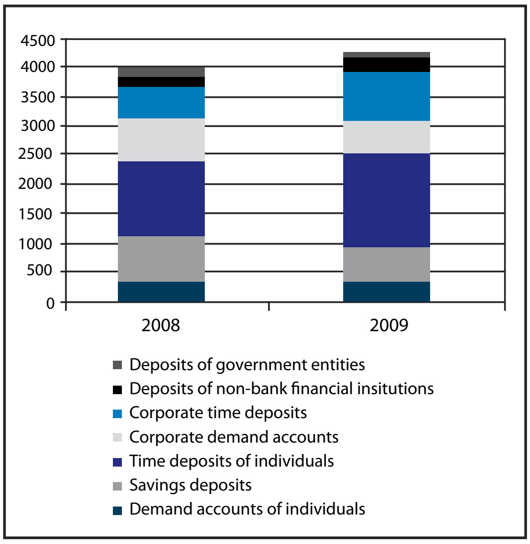
Deposits from banks

Funds deposited by banks grew by 2.90% y/y. At the end of 2009 those amounted to BGN 2,499 mn. against BGN 2,385 mn. at the end of 2008. At 2009 end their total amount represented 35.17% of the total amount of liabilities.

Deposits from customers

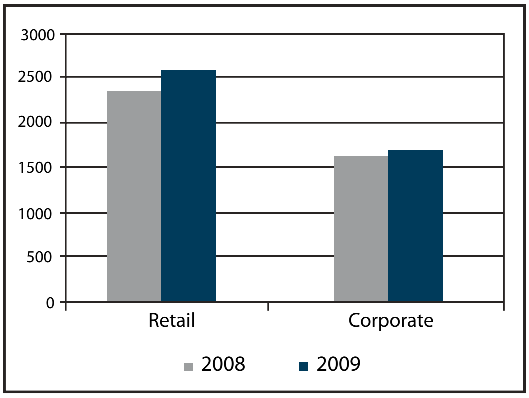
At the end of 2009 client`s deposits reached BGN 4,242 bn. against BGN 4,009 bn. at the end of 2008. The offering of new products and targeted advertising campaigns brought about a 5.80% y/y growth in extremely increased completion and "deposits war" situation. During the year the deposits from government agencies and budget accounts decreased by 27.00%, deposits of individuals increased by 7.22% y/y , while those of corporate clients – by 4.93%. Non-bank financial institutions reported 13.65% y/y increase.

Deposits Structure (BGN Mio)



The deposits of individuals were of dominating importance, which took 59.66% of the deposits portfolio. The dynamics of corporate deposits followed the growth in the economy and the interest of the business towards term deposit instruments.

Clients Deposits (BGN Mio)



As of December 31 2009 UBB has key market positions by holding 10.7% of retail deposits and 10.9% of the corporate deposits on the local market.

Equity and capital adequacy

At the end of 2009 the UBB Group shareholders' equity was BGN 1 027 mn. (2008: 938,5 mn.) and ensures a level of capital adequacy above the requirements and regulations of the BNB. The total capital adequacy as of December 31, 2009 is 13.54%, while tier-one capital adequacy is 11.57%.

II. BUSINESS DEVELOPMENT

RETAIL BANKING

In 2009 UBB Group had a dominant and sustainable position in the banking segment for retail loans and deposits. In the situation of overall re-shift of the market focus on deposits, UBB Group increased its retail deposits base by 7% up to BGN 2 530 mn. The overall retail loans market was characterized by slow down of the lending activity and the year end mortgage and consumer loans, credit cards and overdrafts volumes of UBB Group were BGN1 355mn. and BGN 1573 mn., respectively. UBB Group retained its leading position with the biggest number of issued international credit cards under the logo of Master Card, VISA and VISA Electron. In terms of absolute figures the total number of credit cards in circulation issued by UBB Group went close to 310 000 and the total portfolio of UBB's cards in circulation exceeded 1 250 000. The number of transactions with these cards increased to 15 mn. on annual basis, whereas in terms of volumes it reached a total volume of BGN 1 805 mn. In 2009 UBB Group actively worked on new products development and launched deposit and card products that have not been popular on the Bulgarian market. In terms of deposits, the Bank introduced advance interest payment deposit, 6 month EUR Premia deposit, special saving account for pensioners. On the card business side, UBB Group was the first bank to introduce Cash Back service in cooperation with VISA thus providing for the first time to all Visa cardholders the opportunity to benefit form the Visa Cash Back Program. The Group proved it leading position on the card business market also by the introduction of the innovative payment of utility bills via the UBB Group clients' credit card and the launch of the virtual POS project on merchants' websites. In alliance with UBB's strategy to develop segmented products and service for its customers, the Group continued the expansion of its small business line for small and medium enterprises (SME) which had annual sales income of up to BGN 1 mn. Further to that in 2009 was developed the UBB Club for affluent clients who have assets under management at the Bank above BGN 25 k, for the purpose of their personal banking service, cooperation with excellent professionals, and access to first class bank products and services. The alternative sales channels provide new opportunities for realizing the supplementary sales and add new services to the ones provided by the bank's branch network; UBB Group continued the expansion of its POS and ATMs network and the successful cooperation with third party agencies. As of the end of 2009, UBB Group had over 11000 POS terminal and 800 ATMs located in key position all across the country. In addition to that the bank has long-term relationships with merchants who are participating in the distribution of retail banking products. Despite the difficult situation on the real estates market, UBB Group succeeded to retain its position as one of the most trusted partners of the biggest real estate agencies and mortgage lending institutions. This is mainly attributed to effective collaboration with its partners, staff efforts and continuous training. During 2009 the bancassurance business of UBB Group was further developed by enriching the existing insurance coverage of the consumer and mortgage loan products. Further to the above during the year was the official launch of the long–term „pure endowment" saving product with Life and TPD insurance called "For our future". In 2010 the Group plans to continue the process of gradual release of new bancassurance and insurance products as well as to introduce new sales channels for this type of products.

CORPORATE BANKING

In 2009, operating in a difficult and highly competitive business environment, UBB Group followed its targets in the area of corporate banking, in terms of both loan book growth and profitability. The total lending to large corporates amounted to BGN 1775,6 bn. at the end of 2009. The bulk of the growth in credit was absorbed by public sector corporates and businesses active in the energy, services, trading and agriculture sectors. The Group broadening cooperation with businesses in sectors such as renewable energy sources, food and construction and of the systematic marketing of products such as leasing, trade finance, cash management, business payrolls, insurance and investment products.

Corporate loans portfolio	2008 BGN'mn.	2009 BGN'mn.	Change (%, y/y)
Large corporate clients	1,923,4	1,775,6	-7.69
Medium and small corporate clients	1,849,1	2,053,8	11.07
Total	*3,807,5*	*3,829,4*	*0.58*

In 2009, lending to medium-sized businesses reported a growth of 11.07%, resulting the Group's strong relationship with the most dynamic sectors of the Bulgarian economy. Despite the global financial crises, UBB Group was in a position to keep its finance to businesses flowing normally. The domestic lending balance to SME's totaled BGN 2053,8 bn. The business growth was achieved by keeping problem loans to a reasonable level, due, on the one hand, to the credit policy and the credit approval function and, on the other, current monitoring of the portfolio and implementation of specialized schedules for the restructuring of credit presenting high risk. In view of the crisis that has hit hard certain sectors and businesses, UBB Group's performance, indicates that it has selected and developed its credit policy adequate and prudently.

The European Bank for Reconstruction and Development (EBRD) lend EUR 15mn. to UBB Group to finance energy efficiency and small renewable energy projects. The loan is part of the second extension of the Bulgarian Energy Efficiency and Renewable Energy Credit Line Framework, which aims at providing up to EUR 55 mn. So far, UBB Group has financed over 40 projects worth a total of EUR 28.5 mn. under the sustainable energy credit lines from EBRD.

In the segment of small and middle business the Group offered an opportunity for the farmers to take a special credit with low interest rate of 7.5% on annual basis, for the whole term, with the minimum amount of BGN 5,000. The collateral is European subsidiary. The product is specially made for farmers, who had submitted documents under the measures for supporting the General agricultural policy. The clients have as well the opportunity to use "bridge" credits. These credits could be 95% of the applied amount for direct payments and should be returned to the bank when the State Fund Agriculture pays the direct payments to the farmers.

TREASURY ACTIVITIES

During the year, the UBB Group's Treasury was focused on the Bank's liquidity and maintaining the optimal liquidity ratios by acting on government bond market, FX trading and inter-bank operations. The global liquidity crises focused the Group's Treasury, as well as our large corporate clients in attracting additional resources and in optimizing their management. The Treasury also provided to the institutions, corporations and big private-sector investors with value added deposit products and investment options.

INVESTMENT BANKING

In 2009 investment banking continued to develop successfully, despite of the serious impact of the world economic and financial crisis on the financial markets, investment activity and the activity of the department, by striving to meet the needs of the Group's current and potential clients through rendering alternative forms of financing, investment intermediation services and consultancy in terms of company restructuring, mergers and acquisitions. All main trends in investment banking activity registered good results. UBB Group continued to participate actively on the corporate bonds market through rendering services for structuring, issue, placement and subscription of issues, as well as rendering services as bondholders' trustee and servicing bank. In 2009 UBB Group took part in structuring, issue and subscription of a municipal bonds issue to a total amount of EUR 7,5 mn. In 2009 UBB Group performed the function of a trustee bank for bondholders under 34 bond issues, with a total nominal value of BGN 79,34 mn., as it signed 3 new agreements in implementation of this function. According to the data announced by the Central Depositary AD, the Group held a significant share of that market - approximately 30% at the end of 2009. In 2009 under the conditions of a huge downturn and crisis in the activity and levels on the capital markets, Brokerage Services Section managed to conclude 7 440 deals with securities totaling to BGN 16,2 mn., ranking it respectively 15th and 23rd in terms of the above ratios among 77 investment intermediaries, thus succeeding not only to maintain its client base, but to attract new clients as well. UBB Group offers all depositary services, regulated by the legislation, targeting clients from all capital market sectors in this country. The Group has signed long-term depositary services agreements with 83 clients – institutional investors, including financial institutions and corporate clients, which are entities supervised by the Financial Supervision Commission: asset management companies, investment companies and mutual funds, Real Estate Investment Trust /REIT/, licensed investment intermediaries. UBB Group renders services under long-term agreements signed with clients – professional investors – in terms of keeping registers of government securities and foreign securities' issues in Clearstream Banking SA Luxembourg. In 2009 Custodian Services and Depository Services Sections through agreements with its clients provided BGN 111 mn. attracted funds in UBB AD. UBB Group is a trustee bank to the Additional Pension Insurance Funds managed by Pension Insurance Fund Doverie AD, which occupy a leading position in terms of assets' amount. The three pension insurance funds have assets totaling to over BGN 1 bn. at 2009 end.

In 2009 the number of e-banking customers became 77105 clients. This represents an increase over 2008 equal to 44.43%. Development of bill payments service has marked increase in customers and realized payments amounting to over 300% compared to 2008, when the service began to be promoted actively. At the end of 2009, 31000 customers paying monthly over 60000 bills have been registered. The number of payments realized through Western Union maintained an upward trend despite the economic crisis. In 2009, 167845 transactions have been made, which represents 13.50 % market share for UBB Group.

COMPLIANCE

Bulgarian legislation continued to be dynamic and during 2009. Basic acts in the sphere of payments services, tax legislation and commercial law were accepted. UBB Group took best efforts for complying its internal policies and procedures with the dynamic and complex legislation related to the activity of banks. The Bank treats compliance as the fundamental rule for managing the business, defines it in correspondence with the applicable laws and good banking practices, aiming at fair and honest activity, which does not contradict the generally accepted social standards. The Bank adheres to the principle for maintaining and management of an efficient compliance program, aiming at the timely detection and prevention of breaches in the regulatory framework. Since 2003 an efficient procedure functions in the Bank for considering clients' complaints, which main purpose is the fair and timely satisfaction of the client's claim and elimination of the reasons, relating to the complaint. The major concern of the Bank's management relates to the strict application of the measures against money laundering and the financing of terrorism. Considerable efforts were made for cooperation with the supervisory, the other administrative and court authorities while implementing their powers.

BRANCH NETWORK

During 2009, UBB Group branch network continued its dynamic development. At the end of the year the total number of the bank's structures was 272 including 148 for retail business, 60 for Retail and micro business, 23 for retail, micro and SME business, 9 for SME business and 32 offices. All clients of the Group, in all branches are offered the full range of products and services, alongside with individual treatment, high quality and competent service, rendered by energy and motivated employees. Clients are able to manage their funds on-line, both through the traditional channel – the branch network, as well as through a wide range of alternative channels – call centre, e-banking, ATM network and others

HUMAN RESOURCES MANAGEMENT

During 2009 the work over SocHRat Project, aiming at transformation of UBB Group human resources' management and development (established and started together with Deloitte Bulgaria) was completed. Jointly with Branch Network Management Department a new customers Service model (based on clients' segmentation), was implemented in the bank. In accordance with this model, some qualitative changes in UBB Group were performed – in Branch network were established new types of branches and positions; in the Head office (HO) several structures were reorganized. A Matrix of the professional requirements and positions was established and implemented in BN, HO business units and Operations Department. UBB Group's Recruitment Procedure was updated and completed. The Remuneration Policy was brought into line with the European Union Commission's principles and requirements towards the banks. A new Internship Policy was elaborated. During the year continued the work over SAP Project, aiming at implementation of a new system for human resources management in UBB. The foundation of a Project for internal communication improvement was also laid. For Y 2009 a total of 5229 employees passed through various training forms. With the largest number of participants were the internal bank training programs – 3887 employees, of whom 466 from the HO and 3421 from the BN. Trainings, related to enrichment of the leadership skills and abilities of the bank's managers, were also organized (together with ConsulTeam - a leading company for HR management):

• "Management skills" where participated a total of 202 managers from Head Office and Branch Network;

• "Management skills – Master Class" in which 32 Directors/ General Managers of UBB senior management took part.

For the past year the bank succeeded in attracting 315 new employees – 144 in the Head Office and 171 in the Branch Network. Over 180 candidates expressed a wish to participate in the annual Internship Program due to which some of them were appointed to permanent employment in UBB Group.

SPONSORSHIP & CORPORATE SOCIALRESPONSIBILITY ACTIVITIES

UBB's important social actions include a series of special programs, sponsorships and its own employees' voluntary contributions, which aim at supporting vulnerable social groups, enhancing education and sports, and promoting cultural issues and events. UBB total contribution for CSR & Sponsorship for 2009 exceeded EUR450 000.

The Bank's main CSR and sponsorship actions were as follows:

• UBB Employee Charity Organization continues its efforts in helping disabled people and children around the country. UBB employees have gathered more than 40 000 EUR from staff donations and another 10 000 EUR from charity campaigns – selling UBB sponsored books and calendars. In 2009 UBB employees organized a drawing competition among their children "My favorite fairy-tale", which ended with a charity exhibition, opened by Mrs. Radka Toncheva, Executive Director of the bank.

• Being a sponsor of the Bulgarian Rowing Federation UBB organized the 2009 School Regatta, together with Mrs. Roumiana Neikova, Beijing 2008 Olympic Champion and Athlete of the Bank. More than 500 school children participated in the event. The Regatta will have a second edition in 2010. The event is aiming in promoting sports and physical activities among youngsters as an alternative of drug usage and crime.

• UBB helped Bulgarian Rowing Federation in developing and promoting its Adaptive rowing project – focused on the possibility for disabled people to practice rowing. UBB designed and sold copies of the sports hat of Mrs. Roumiana Neikova, Beijing 2008 Olympic Champion and Athlete of the Bank, with which she won its gold medal. A special press conference in The National Museum of Sports was used as launch of the charity campaign, on which Mrs. Neikova donated her sports equipment to the museum. A tent on the 27th Sofia Marathon (also sponsored by the Bank) was built by UBB in order to promote the adaptive rowing. Mr. Neikov, Minister of Sports participated on the marathon wearing starting number one and the logo of UBB.

• UBB cultural and historical heritage program supported the reconstruction of a chariot of a Thracian king from the Hellenistic period found near the town of Nova Zagora, popular wit its richly ornate bronze applications. The rear applications – a 3 color bronze plate, resembling ancient temple, together with two heads of Gorgon Medusa ant the young Heracles were exhibited in one of the largest Sofia malls. The exhibition was opened by the Deputy Minister of Culture Mr. Chobanov. In 2010 UBB will organize a travelling exhibition which will tour Bulgaria with the fully reconstructed chariot.

• UBB cultural and historical heritage program supported the archeological excavations near the village of Caranovo, where a tomb of a Thracian king of the Odryssian royal family appeared, together with his chariot. Among the findings are a couple of silver cups with the God of Love – Eros, depicted on them. UBB sponsored the building of a special protective shelter for the found tomb and chariot, and also financed the Nova Zagora History Museum for the restoration of the found relics. UBB plans exhibitions with the findings in Sofia in the autumn of 2010.

• UBB continued its partnership as a main sponsor of some of the biggest cultural festivals in Bulgaria – Apolonia Art Fest, Rouse Music Fest, Varna Summer Theater Fest, etc. The Bank became a sponsor of the movie "World is big and salvation lurks behind the corner", which was short listed for Oscar nomination and won more than 17 awards of film festivals around the world.

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

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

Information under Art. 187 "d"

1. Number and nominal value of the acquired and transferred during the year own shares, part of the equity they represent, as well as the price at which the acquisition or transfer was made;
As of 31.12.2009, there is no ordinary registered voting shares had been transferred with the Central Depository.

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

3. Number and nominal value of the possessed own shares and part of the equity that they represent.
UBB does not possess own shares.

As of 31.12.2009, the shareholdes 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 2009 is BGN 387 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	31.12.2008	31.12.2009
Stilian Petkov Vatev	10 shares	10 shares
Total:	10 shares	10 shares

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

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

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

Stilian Petkov Vatev
Bankservice AD Board of Directors' member
Interlease Board of Directors' member
Interlease Auto AD Board of Directors' member
UBB – Alico Life Insurance Company AD Chairman of the Board of Directors
UBB – Charitis Insurance and Reinsurance Company AD Chairman of the Board of Directors
Insurance Broker Board of Directors's member

Radka Ivanova Toncheva
Cash Services Company's Board member

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

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

Payment of dividends and interest

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

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Finance Instruments and Risk Management

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

UBB Group 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 Group 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 Group 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 Group work in a strictly regulated environment, not allowing unsubstantiated risk undertaking in the everyday banking operations.

The risk management in UBB Group covers the following main areas:

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

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

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

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

Risk management in UBB Group is based on the principle of centralization and is structured according to the levels of authorities as follows:

▶ Board of Directors – determines the level of risk undertaking within the framework of the adopted development strategy;

▶ Specialized collective bodies, approving the framework and the parameters of the Group's risk management activity:

- Risk Management Committee;
- Assets and Liabilities Management Committee;
- Credit Committee;
- New Products Committee.

▶ Executive Directors – control the process of approval and application of adequate policies and procedures within the framework of the adopted Bank's risk management strategy;

▶ Risk Management Department – performs the operating activity on measuring, monitoring and control of risk exposures.

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

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

The exposures of UBB Group related to credit, liquidity, market and operational risk are stated below. The influence of risk factors is indicated in a sequence according to their significance for the Bank's activity.

Credit risk

Credit risk is expressed in the possibility the Group 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 Group are the loans extended to clients, which, as of 31.12.2009 amounted to BGN 6 504.3 mn. As of the same date, the total value of depreciation (IFRS provisions) was 263.8 mn. or 3.9% of the credit portfolio. The specific provisions (under BNB Ordinance № 9) amounted to BGN 222.6 mn.

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

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

UBB Group 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 Group collateral types, control and administration of the used funds. New Corporate credit policy was approved at the beginning of 2009. The policy 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.

Depending on the volume the credits are improved by the credit centers, Credit Committee, Executive Credit Committee, or the Board of Directors, according to the level of the competences. Over a certain management level "Risk Management" is directly involved in the process of credit's approval and provisioning. The risk management is involved in the processes of determine the provisions for devaluation and un-collectability, determine the volume of non-performing and overdue loans and the process of determine the specific provisions.

The Group has accepted and follows limits for loan exposure by industries. The purpose for these limits is credit portfolio concentration in one or group of related industries to be reduced.

The table below presents the ten biggest industry exposures.

Industry	Share
Construction	20%
Wholesale trade	11%
Real estate activities	8%
Manufacture of food products and beverages	8%
Agriculture, hunting and related service activities	7%
Infrastructure	5%
Retail trade	5%
Hotels and restaurants	5%
Post and telecommunications	3%
Manufacture of basic metals	3%

In compliance with its policy, the Group maintains a low level of credit risk concentration at borrower level. The table below presents information according to the definition for the large exposures in the Law on Credit Institutions and BNB Ordinance № 7:

BGN Mio	2005	2006	2007	2008	2009
Capital base	308.4	399.5	791.2	925.9	951.5
Large exposures	48.1	95.0	97.5	105.8	111.6
Ratio	**15.60%**	**23.78%**	**12.32%**	**11.42%**	**11.72%**

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

UBB Group loan portfolio quality (BNB Ordinance 9 classification)

Exposure	2005	2006	2007	2008	2009
Standard	94,13%	96,56%	96.93%	94.05%	76.45%
Watch	2,26%	0,99%	1.08%	2.52%	12.93%
Substandard	0,93%	0,42%	0.34%	0.94%	4.54%
Nonperforming	2,68%	2,03%	1.64%	2.50%	6.08%

The credit expansion in the last few years and the world financial and economic crisis has affected the credit portfolio quality. In this connection, big part of the bank efforts were turned to – collection of bad loans, restructuring and also adoption of more conservative criteria and procedures in the lending process.

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

In 2010 UBB Group will start providing information to NBG for corporate portfolio capital requirements calculation under FIRB (Foundational Internal Rating Approach). Also the bank will apply for the same FIRB approach in capital adequacy calculation in accordance with BNB Ordinance № 8.

Liquidity risk

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

The UBB Group'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, including a Contingency Funding Plan;

▶ Management information system;

The liquidity management is centralized and is measured through evaluation of the mismatching between cash flows of assets, liabilities and off-balance sheet positions. The liquidity is being evaluated for all major currencies, in which the Group actively effects operations.
While determining acceptable parameters for the liquidity risk value, the Group reports the volume and nature of operations to date and their projected development; the access to money markets; diversification of liabilities and their volatility, as well as the maturity profile and assets' quality.
In view of precisely measuring liquidity, the Asset and Liability Management Committee (ALCO) has approved and controls internal liquidity ratios as Loans/Deposits ratio, Quick Liquidity Ration and Internal Liquidity by different currencies.

Liquidity ratios

	2005	2006	2007	2008	2009
BGN and EUR	23,68%	18,80%	19.15%	10.18%	18.00%
USD	83,52%	83,51%	87.28%	78.66%	59.52%
Total liquidity	31,97%	25,93%	22.88%	13.68%	20.81%

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

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

▶ BDB for target refinancing of commercial banks to the amount of BGN 30 mn., with expiry date December 31, 2018

▶ BDB for financing agricultural producers to the amount of BGN 15mn., with expiry date April 24, 2014.

With the intent of long term financing and better capitalization, the Group disposes of EUR 130 mn. as a subordinated 10 years term debt from the National Bank of Greece.

Interest rate risk

This risk is related to possible unfavorable impact to the profit and capital of the bank from the market interest rates. UBB Group manages the interest rate risk and maintains it within acceptable parameters, seeking to maintain adequate structure of its interest-sensitive assets and liabilities and minimize the mismatching between them. The interest rate risk is measured separately for each of the major currencies, in which the bank has active operations and also as total exposure. The measuring is based on an analysis of the mismatching between the interest-sensitive assets and liabilities by standardized time intervals, considering historical trends and stress-test scenarios. Limits are adopted for the maximum amount of the trading and banking book exposure to interest rate risk.

Currency risk

This is the risk, the bank to sustain losses due to fluctuations of market prices of different currencies, which it works with. UBB Group balance sheet structure includes assets and liabilities, denominated in different currencies. The assets and liabilities of the bank are mainly in BGN and EUR. Upon the currently effective currency board in this country, upon the fixed exchange rate of BGN to EUR at a rate of 1.95583, the currency risk, undertaken by the bank mainly evolves from changes in the EUR/USD exchange rate and to a smaller extent from the exchange rates of other currencies to the Euro. The Group manages the risk of the open FX positions with the aim to minimize the possibility of loss in case of unfavorable exchange rates' fluctuations.
The maximum amount of the open positions as percentage of the capital base is regulated by Regulation 8 of BNB. UBB Group additionally limits the FX risk, by approving maximum exposure limits, both with regard to balance sheet positions, expressed as mismatching between balance sheet assets, liabilities and off-balance sheet elements denominated in foreign currency, and with regard to daily operations on the financial markets. For defining the above limits, the „Value at Risk" method and different stress-test scenarios are used.

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 Group 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 Group'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 analyzed on a monthly basis and in case a threshold is breached a procedure for development of an Action plan is triggered in order to reduce or eliminate the identified negative trends.

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.
Regarding the estimation of the effect of more serious operational events on the activities of the bank, together with the major business units, currently are made many stress tests and scenario analyses concerning the relationship between the operational risk and the other risks. Most important in this regard is the approved in 2009 Business Continuity Plan. Its practical tests are pending, and the expectations are that in the presence of such a complex and detailed plan, the operational events and the losses from them will be reduced significantly.
Automation of the entire operational risk management process by implementing new specialized software is pending.

For the purposes of the regulatory compliance with Basel II, after it has completed the requirements of BNB's Ordinance №8 and builds a solid operational risk framework, UBB has sent an application and is waiting for an approval from BNB for the transition to Standardized approach for the calculation of the required capital for operational risk.

UNITED
BULGARIAN
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A Member of NBG Group

Annual Report of the UBB Group Supsidiaries and Associate Companies

ACTIVITY OF UBB GROUP SUBSIDIARIES AND ASSOCIATE COMPANIES

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

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

As of end 2009 the total assts of the subsidiaries and associates of managed by UBB Group is as follows:

Assets (BGN'000)	As of 31.12.2009
UBB Assets Management	2 348
UBB Insurance Broker	1 035
UBB AIG Insurance and Rreinsurance company	14 096
UBB AIG Life Insurance Company	38 131
UBB Factoring	965
BB Balanced Fund	4 489
UBB Premium Fund	19 426
UBB Platinium Fund	2 348
Cash Services Company	13 781

2. Important events, occurred after the date of the financial statements:
The Group's subsidiaries and associated companies had not reported important events, which have occurred after the date the annual report of the Group.

3. Number and par value of the shares or stakes owned by UBB Group, 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 BGN636 000 nominal value of participation.

Name: UBB BALANCED FUND AD
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Number and batch of entry into the commercial register: No 87998, v. 1108, reg. I, p. 62, under company file No 11245 of Sofia City Court according to the inventory of 2004.
Capital: BGN 37 345.
Participation in the company: 40.92% or BGN 15281.000 nominal value of participation.

Name: UBB Platinum Fund
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Capital: BGN 215 830.58
Participation in the company: 49.81% or BGN 107 508.2971 nominal value of paricipation

Name: UBB Premium Fund
Location: Sofia
Head Office address: Sofia, 5, St. Sofia Str., Vazrazhdane Municipality
Capital: BGN 1 446 944.46
Participation in the company: 14.12% or BGN 204 237.4486 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 6 400 000.
Participation in the company: 30% or BGN 1 920 000 nominal value of participation

Name: UBB – AIG Insurance and Reinsurance 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: 6 400 000
Participation in the company: 30% or BGN 1 920 000 nominal value of participation

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

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 2 500 000 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,

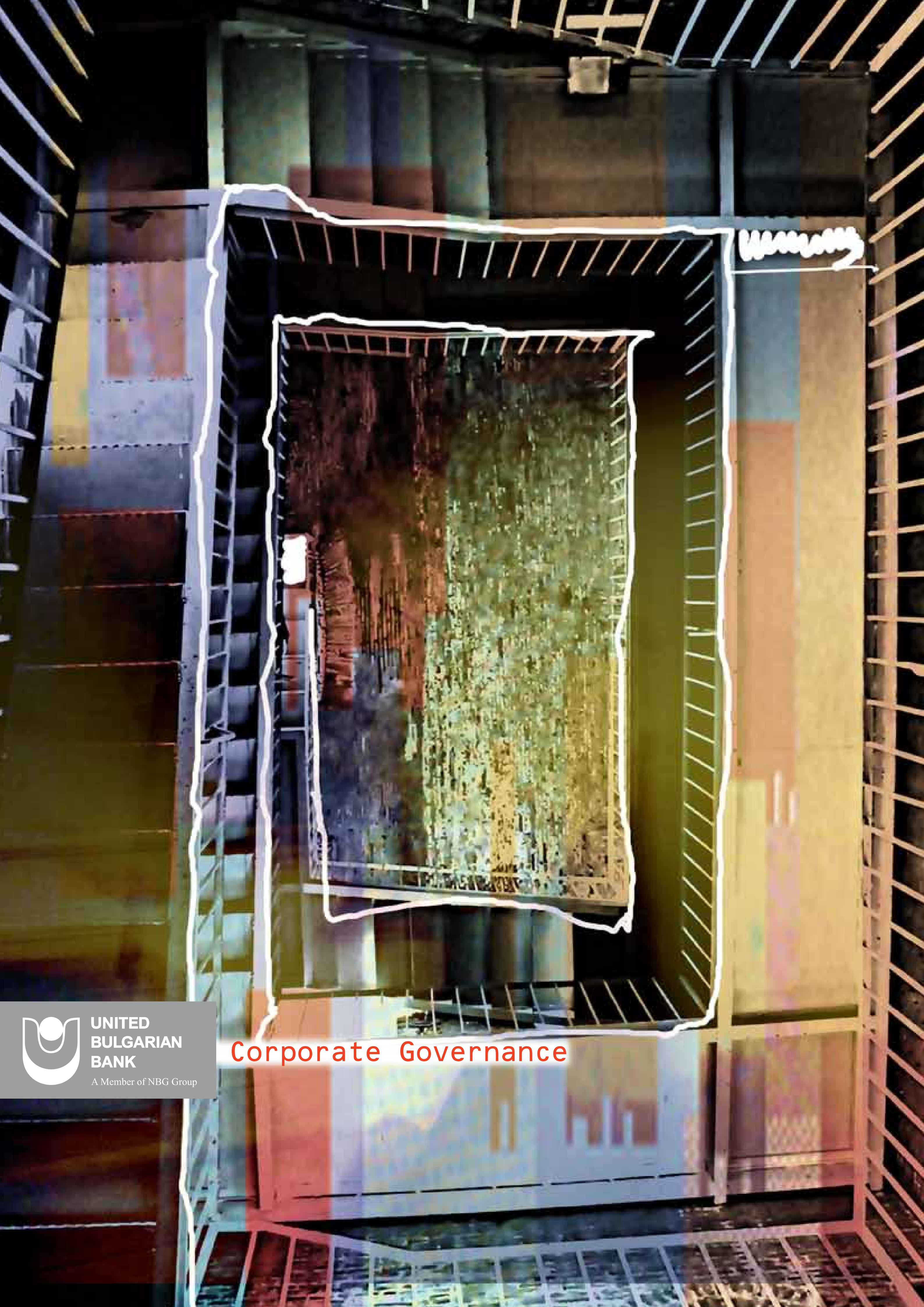
Used financial instruments

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

In 2009 UBB Asset Management and UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund and the associated with UBB- UBB AIG Insurance and Reinsurance Company, UBB AIG Life Insurance Company, 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 subsidiary UBB Insurance Broker, UBB Asset Management, UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund, UBB AIG Insurance and Reinsurance Company, UBB AIG Life – Insurance company, 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.



UNITED BULGARIAN BANK
A Member of NBG Group

Corporate Governance

CORPORATE GOVERNANCE

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

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

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

The Code of Ethics of UBB, policies and working procedures clearly define and handle the prevention of conflicts of interest and the bank secrecy security. In 2009 the Bank invested additional efforts and resources to ensure the effective management of any potential or real conflict of interests.

In 2007 was established an Audit Committee, which members are independent experts in finance, banking, tax low and practice.

The Board of Directors

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

Communication with Shareholders

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

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

Performance Reporting and Internal Financial Control

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

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

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

Financial Control, Data Processing and Monitoring

The Bank 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 UBB employees can inform about issues concerning incorrect representation of accounting information or information on the basis of which the independent financial audit takes place or reports to the supervisory bodies are established.

UNITED BULGARIAN BANK
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Statement of Management Responsibilities

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

In preparing these financial statements the management should ensure that:

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

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

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

UNITED
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Independent Auditor's Report

Deloitte.

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България

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
United Bulgarian Bank AD

Report on the separate financial statements

We have audited the accompanying separate financial statements of United Bulgarian Bank AD ("the Bank"), which comprise the separate statement of financial position as of December 31, 2009, and the separate income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the separate financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Bank as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as approved by the European Union.

Other reports on legal and regulatory requirements - Annual separate report on the activities of the Bank according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual separate report on the activities of the Bank prepared by the Bank's management. The Annual separate report on the activities of the Bank is not a part of the separate financial statements. The historical financial information presented in the Annual separate report on the activities of the Bank prepared by the management is consistent, in all material aspects with the financial information disclosed in the separate financial statements of the Bank as of December 31, 2009, prepared in accordance with IFRS, as approved by the European Union. Management is responsible for the preparation of the Annual separate report on the activities of the Bank dated March 29, 2010.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Managing Director
Registered Auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №033
"Делойт Одит" ООД

Sofia
March 31, 2010

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE STATEMENT OF FINANCIAL POSITION
As of December 31, 2009
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	As of 31.12.2009	As of 31.12.2008
ASSETS			
Cash and balances with the Central Bank	4	1,129,446	612,603
Loans and advances to banks	5	108,078	23,964
Loans and advances to customers, net	6	6,504,280	6,731,279
Financial assets at fair value through profit or loss	7	120,247	106,477
Derivative financial instruments	8	2,129	5,475
Financial assets available for sale	9	121,935	112,829
Investments in associates and subsidiaries	10	8,719	7,719
Intangible assets	11	14,877	16,877
Property and equipment	11	92,836	95,914
Deferred income tax assets	16	883	458
Other assets	12	28,905	18,893
TOTAL ASSETS		8,132,335	7,732,488
LIABILITIES			
Due to banks	13	2,498,898	2,385,430
Due to customers	14	4,244,029	4,009,921
Derivative financial instruments	8	208	9,402
Bank borrowings	15	96,783	78,954
Debt securities in issue		-	41,215
Subordinated liabilities	17	254,945	257,118
Deferred income tax liabilities	16	2,308	2,959
Retirement benefit obligations	18	4,569	3,958
Other liabilities	19	6,170	5,871
TOTAL LIABILITIES		7,107,910	6,794,828
NET ASSETS		1,024,425	937,660
SHAREHOLDERS' EQUITY			
Share capital	20	75,964	75,964
Retained earnings	22	948,337	867,486
Revaluation reserves	23	124	(5,790)
TOTAL SHAREHOLDERS EQUITY		1,024,425	937,660
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		8,132,335	7,732,488
Contingent liabilities and commitments	24	809,501	633,364

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

Stilian Vatev, CEO Radka Toncheva, Executive Director

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД * гр. СОФИЯ *

March 29, 2010

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

Sylvia Peneva
Registered Auditor
Date: 31/03/2010

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №033 "Делойт Одит" ООД

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UNITED BULGARIAN BANK
A Member of NBG Group

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE INCOME STATEMENT
For the year ended December 31, 2009
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2009	Year ended 31.12.2008
Interest and similar income		638,925	592,826
Interest expenses and similar charges		(255,437)	(244,581)
Net interest income	26	383,488	348,245
Fee and commission income		96,217	107,943
Fee and commission expenses		(7,005)	(9,029)
Net fee and commission income	27	89,212	98,914
Dividend income		14	2,028
Net trading income	28	12,648	5,966
Net other operating income/(exp ense)	29	(637)	5,455
Net allowances for impairment and uncollectability	30	(205,579)	(60, 430)
General administrative expenses	31	(189,276)	(183, 063)
		(394,855)	(243,493)
PROFIT BEFORE TAXATION		89,870	217,115
Income tax expenses	32	(9,019)	(21,772)
PROFIT FOR THE YEAR		80,851	195,343
Earnings per share - basic	21	1.06	2.57

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

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД *гр. СОФИЯ*

Stilian Vatev, CEO

Radka Toncheva, Executive Director

March 29, 2010

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

Sylvia Peneva
Registered Auditor
Date: 31/03/2010

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №033
"Делойт Одит" ООД

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UNITED BULGARIAN BANK AD, SOFIA

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2009
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Year ended 31.12.2009	Year ended 31.12.2008
PROFIT FOR THE YEAR	80,851	195,343
Other comprehensive income, net of tax		
Revaluation of available for sale securities, net of tax	5,914	(7,155)
TOTAL COMPREHENSIVE INCOME/(EXPENSE), net of tax	86,765	188,188

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

Stilian Vatev, CEO

Radka Toncheva, Executive Director

March 29, 2010

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД *гр. СОФИЯ*

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

Sylvia Peneva
Registered Auditor
Date: 31/03/2010

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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UNITED BULGARIAN BANK AD, SOFIA

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2009
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share capital	Retained Earnings	Revaluation reserve	Total
BALANCE AS OF JANUARY 1, 2008	75,964	672,143	1,365	749,472
Profit for the period	-	195,343	-	195,343
Other comprehensive income for the period	-		(7,155)	(7,155)
BALANCE AS OF DECEMBER 31, 2008	75,964	867,486	(5,790)	937,660
Profit for the period	-	80,851	-	80,851
Other comprehensive income for the period	-	-	5,914	5,914
BALANCE AS OF DECEMBER 31, 2009	75,964	948,337	124	1,024,425

Retained earnings as of December 31, 2009 include an undistributable part amounting to BGN 867,486 thousand and a distributable part amounting to BGN 80,851 thousand.

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

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД
гр. СОФИЯ

Stilian Vatev, CEO

Radka Toncheva, Executive Director

March 29, 2010

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

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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"Делойт Одит" ООД

Sylvia Peneva
Registered Auditor
Date: 31/03/2010

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE STATEMENT OF CASH FLOWS
For the year ended December 31, 2009
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2009	Year ended 31.12.2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after taxation		80,851	195,343
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Allowances for impairment and uncollectability charge for the period		205,579	60,430
Depreciation / impairment losses on property and equipment		17,504	15,712
Amortization / impairment losses on intangible assets		4,600	3,741
Allowances for staff obligations		4,231	1,181
Net (gains)/loss from investments in AFS		(5,840)	(7,433)
Net (gains)/loss on disposal of fixed assets		203	(4,278)
Interest income on financing activities		11,036	26,802
Accrued income tax expense		8,534	21,667
		326,698	313,165
Change in operating assets:			
Increase / (Decrease) in loans and advances to customers		21,420	(1,875,301)
Increase / (Decrease) in Financial assets at fair value through P/L		(13,770)	9,023
Increase / (Decrease) in Derivatives		3,346	(4,862)
Increase in other assets		(4,414)	(10,452)
Change in operating liabilities:			
Increase in amounts due to other banks		113,468	1,093,403
Increase / (Decrease) in Derivatives		(9,194)	6,863
Increase in amounts due to other customers		234,108	588,270
Increase / (Decrease) in other liabilities		(3,322)	2,859
Income taxes paid		(15,208)	(26,607)
NET CASH USED IN OPERATING ACTIVITIES		653,132	96,361
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(14,639)	(26,077)
Proceeds from sale of property and equipment		11	5,228
Purchases of intangible assets		(2,600)	(11,873)
Acquisition of subsidiaries, net of cash acquired		(1,000)	(120)
Acquisition of financial assets available for sale		(6,014)	(776)
Proceeds from sale and redemption of financial assets available for sale		1,181	318
Interest received and dividens from infinancial assets available for sale		7,481	3,100
NET CASH PROVIDED BY INVESTING ACTIVITIES		(15,580)	(301,446)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		52,823	32,934,
Repayments of bank borrowings		(38,855)	(34,124)
Repayments of debts securities in issue		(42,650)	(286,452)
Repayments of subordinated liabilities		(7,913)	(13,804)
NET CASH PROVIDED BY FINANCING ACTIVITIES		(36,595)	32,934,
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		600,957	(235,285)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		636,567	871,852
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	1,237,524	636,567

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

Stilian Vatev, CEO Radka Toncheva, Executive Director

March 29, 2010

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД * гр. СОФИЯ * 16

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

Sylvia Peneva
RegisteredAuditor
Date: 31/03/2010

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №033

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1. GENERAL

United Bulgarian Bank AD, Sofia ("UBB" or the "Bank") is a joint stock company registered in Bulgaria in September 1992, through the merger of 22 commercial banks. In July 2000 National Bank of Greece S.A. ("NBG") acquired 89.9% of the Bank's capital and on July 20, 2004 it acquired another 10%.

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

During the period, the Bank's operations were conducted through a head office located in Sofia and 240 branches and 32 offices throughout Bulgaria.

Full-time equivalent of employees as of December 2009 was 3,313 (2008: 3,253).

These financial statements have been approved for issue by the Board of Directors on March 29, 2010.

2 BASIS OF PRESENTATION

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

The endorsed by the European Union, IFRSs may differ from IFRSs as issued by the International Accounting Standards Board ("IASB") if, at any point in time, new or amended IFRSs have not been endorsed by the E.U. Commission.

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

The bank have in possession participation in subsidiaries and associate companies and according IAS 27 "Consolidated and separate financial statements " is going to prepare consolidated financial statements, which have to be approved by Board of Directors on March 29, 2010.

2. BASIS OF PRESENTATION (CONTINUED)

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

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

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

Application of IFRS

New standards, amendments and interpretations to existing standards applied from 1 January 2009

During 2009 the Bank has adopted all new and revised IFRS by IASB, as approved by the EU, effective for 2009, which refer to the Bank's business, such as:

- **IFRS 8, "Operating Segments"** (effective from 1 January 2009). This standard changes the way the segment information is measured and disclosed and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segments and to assess performance. This standard is mandatory for applications for companies whose shares or securities are publicly traded or in the process of registration for public trading. Bank shares are not subject to public trading, as well as at the date of the Bank's financial statements issued or not in the process of issuing securities are subject to public trading or intending to register for public trading, which is why management has chosen to not apply the requirements of this standard in the financial statements for the year ended December 31, 2009.

- **IAS 1 "Presentation of Financial Statements"** (Revised) (effective from 1 January 2009). It requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The Bank has applied this standard in the separate financial statements for the year ending December 31, 2009.

- **IFRS 7 "Financial Instruments: Disclosures"** (Amendment March 2009) (effective for annual periods beginning on or after 1 January 2009). The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.
The Bank has applied these amendments to included additional disclosures in their annual separate financial statements required by this amendment.

2. BASIS OF PRESENTATION (CONTINUED)

Application of IFRS (continued)

- **IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives" (Amendment March 2009)** (effective for annual periods ending on or after 30 June 2009). These amendments clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives have to be 'assessed and, if necessary, separately accounted for in financial statements.
This amendment did not have an impact on the Bank`s financial statements.

- **IAS 23, "Borrowing costs" (Revised)** (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Bank has applied IAS 23 (Revised) from 1 January 2009, however it did not have an impact on the separate financial statements.

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

- **IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements"** (Amendment) (effective from 1 January 2009). This amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:
  - puttable financial instruments (for example, some shares issued by co-operative entities)
  - instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

The Bank has applied this amendment for the annual period beginning on 1 January 2009, however it did not have an impact on the separate financial statements.

- **IFRIC 13, "Customer Loyalty Programmes"** (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 addresses the accounting treatment by the entity that grants award credits to its customers as part of a sale transaction(s). The Bank has applied this IFRIC from 1 January 2009, however it did not have an impact on the separate financial statements.

- **Improvements to IFRSs, May 2008** (effective for annual periods beginning on or after 1 January 2009, except amendments to IFRS 5 that are effective for periods beginning on or after 1 July 2009). These improvements include amendments considered to be necessary, but non-urgent, and that will not be included as part of another major project.The Bank has applied these amendments for the annual period beginning on 1 January 2009 (except for IFRS 5), however it did not have an impact on the separate financial statements.

- **Improvements to IFRSs, April 2009** (effective for annual periods beginning on or after 1 July 2009 or later, except amendments to IAS 18 that are effective for 2009). The amendment relating to IAS 18 did not have an impact on the Bank`s separate financial statements.

2. BASIS OF PRESENTATION (CONTINUED)

Application of IFRS (continued)

- **IFRIC 15, "Agreements for the Construction of Real Estate"** (effective for annual periods beginning on or after 1 January 2009)

- **IFRIC 18, "Transfers of Assets from Customers"** (effective for transfers received on or after 1 July 2009).

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

These interpretations did not have significant impact on Bank`s separate financial statements.

New standards, amendments and interpretations to existing standards adopted by the EU as of the date of authorization of the separate financial statements which are effective after 2009

- **IFRS 3 "Business Combinations"** and **IAS 27 "Consolidated and Separate Financial Statements"** (Amendment) (effective from July 1, 2009). The amendments include:

- Partial acquisitions. Non-controlling interests are measured either as their proportionate interest in the net identifiable assets (which is the original IFRS 3 requirement) or at fair value.
- Step acquisitions: The requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.
- Acquisition-related costs. Acquisition-related costs are generally recognised as expenses (rather than included in goodwill).
- Contingent consideration. Contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).
- Transactions with non-controlling interests. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.

These amendments would not affect the separate financial statements of the Bank.

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

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

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

The Bank is going to apply this amendment for the annual period beginning on 1 January 2010, and does not expect that it will have a significant impact on the separate financial statements.

2. BASIS OF PRESENTATION (CONTINUED)

Application of IFRS (continued)

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

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

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

- **IFRIC 17, "Distributions of Non-cash Assets to Owners"** (effective for annual periods beginning on or after 1 July 2009). The Interpretation clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity,
- an entity should measure the dividend payable at the fair value of the net assets to be distributed,
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

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

IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.
The Bank will apply this Interpretation for the annual period beginning on 1 January 2010, and does not expect that it will have any impact on the separate financial statements.

- **IFRS 9 "Financial Instruments** (effective for annual reporting periods beginning on or after 1 January 2013). IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be:

(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.
(c) subsequently measured at amortised cost or fair value.

The Bank has not applied this Standard and is currently evaluating the impact of IFRS 9 on the financial statements. The Bank expects the new Standard to have an effect on the separate financial statements.

- **Improvements to IFRSs, April 2009** (effective for annual periods beginning on or after 1 July 2009 or later, except amendments to IAS 18 that are effective for 2009, see above). The Bank will apply these amendments for the annual period beginning on 1 January 2010 (except IAS 18), however they are not expected to have a significant impact on the separate financial statements.

2. BASIS OF PRESENTATION (CONTINUED)

Application of IFRS (continued)

- **IFRS 2 "Share-based Payment"** (Amendment) (effective from 1 January 2010). The amendments clarify:

- the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries.
- the accounting for some group and treasury share-based payment transactions. An entity must measure the goods or services it received as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective, which may not always be the same as the amount recognised by the consolidated group.

This amendment is not expected to have an impact on the Bank`s separate financial statements.

- **IFRS 1 "First-time Adoption of International Financial Reporting Standards"** (Amendment) (effective from 1 January 2010). The amendments address the retrospective application of IFRSs to particular situations. This amendment will not have an impact on the Bank`s separate financial statements.

- **IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction."** (Amendment "Prepayments of a Minimum Funding Requirement" November 2009) (effective for annual periods beginning on or after 1 January 2011). The Bank has not applied this amendment.

- **IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"** (effective for annual periods beginning on or after 1 July 2010). The Bank has not applied this Interpretation.

- **IAS 32 "Financial Instruments: Presentation"** and **IAS 1 "Presentation of Financial Statements"** (Amendment) (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Bank has not applied this amendment.

- **IAS 24 "Related parties"** (Revised) (effective from 1 January 2011). The revised standard provides a partial exemption for government-related entities and a revised definition of a related party. The Bank has not applied this amendment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Interest income and expense

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Interest income and expense (continued)

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

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

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

3.2. Fee and commission income and expenses

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

3.3. Foreign currency translation

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

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

Significant exchange rates are as follows:

Currency	31.12.2009	31.12.2008
EUR	1.95583	1.95583
USD	1.36409	1.38731

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

(a) ***Financial assets***

The Bank classifies its financial assets in the following categories: 'financal assets at fair value through profit or loss', 'loans and advances' and 'financial assets available for sale'. The classification depends on nature and purpose of the financial assets at the time of their acquisition.

The management determines the classification of the financial assets of the Bank at the time on their initial recognition on the statement of financial position.

(b) ***Financial liabilities and equity instruments***

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

(c) ***Derivative financial instruments***

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

(d) ***Recognition of financial instruments***
The Bank recognizes financial instruments in the statement of financial position when and only when, its becomes a party to the contractual provision of the instrument.

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

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

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

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

(h) ***Offsetting of financial instruments***
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) ***Hierarchy of the fair value of financial instruments***
The Bank measures the fair value of its financial instruments based on a framework for measuring fair value that categorises financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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

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

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

This category has the following two sub-categories:

Trading securities

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

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

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

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

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

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

Once included in this category of financial assets and liabilities, the decision is final and they cannot be reclassified into another category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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

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

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

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

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

(k) Loans and advances
Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. This group of financial assets include: available resources and advances to banks Loans and advances to customers and other claims.

Loans and advances that are individually originated in the Bank are recognized when cash is actually advanced to the borrowers or another financial or non-financial asset is provided to the borrower.
Acquired loans and advances are recognized when a significant part of benefits and risks incidental to ownership are received by the Bank.

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

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

Loans and advances granted by the Bank are presented in the statement of financial position at amortized cost less impairment and allowances for impairment and uncollectability.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

(l) ***Financial assets available for sale***

Financial assets available for sale are those non-derivative assets that are not designated as financial assets at fair value through fair value through profit or loss, loans and advances or investments held to maturity. The Bank classfies as available-for-sale financial assets debt securities and investments in equity shares intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or stock prices.

Measurement

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

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

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

(m) ***Allowances for impairment and uncollectability***

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

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

Loans and advances

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

- adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Corporate loans are grouped based on days in arrears, product type, economic sector, size of business, collateral type and other relevant credit risk characteristics. Mortgages and retail loans are also grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not exist currently.

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

A loan, which is deemed to be uncollectible or forgiven, is written off against the related provision for loans impairment. Subsequent recoveries are credited to impairment losses on loans and advances in the income statement.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

Financial assets available for sale

Available for sale financial assets are impaired if there is objective evidence that show a significant and prolonged decline in the fair value of the respective assets or group of assets or with regard to financial assets (equity instruments) measured at acquisition cost – when there is evidence that the carring amount is higher than the espected recoverable amount. If any such evidence, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement.

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

3.5. Investments in subsidiaries and associates

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

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:
(a) power over more than half of the voting rights by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the entity under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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

3.6. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank for use in the supply of services or for administrative purposes.
Property and equipment are presented in the financial statements at historical cost of acquisition except those acquired before December 31, 2003, which are presented at deemed cost for purpose of first time adoption of IFRS, less accumulated depreciation.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Property and equipment (continued)

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

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

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

The Bank periodically reviews its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in the income statement as other operating income/expenses.

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

3.7. Intangible assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Intangible assets (continued)

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

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

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

The Bank calculates amortisation for the intangible assets on a straight-line basis over their estimated useful lives. The useful life adopted by the Bank for main group of intangible assets is as follows: Software – not exceeding a period of 5 years; rights for use of property - residual term of use; other - not exceeding a period of 7 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are included in the income statement.

3.8. Operating lease

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

3.9. Cash and cash equivalents

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

3.10. Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Fiduciary and trust activities

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

3.12. Employee benefits

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

Short-term employee benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognized as an expense in the income statement in the period when the service thereon has been rendered or requirements for their receipt have been met and as current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Bank's payables for social security and health insurance are recognized as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accruals.

At each reporting date the Bank measures the expected costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the undiscounted estimate of the expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long- term employee benefits

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

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

Defined contribution plans

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Income taxes

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted at the reporting date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary difference will occur in the same period, from which they can be deducted.

3.14. Related party transactions

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

3.15. Earnings per share

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

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

3.16. Shareholder's equity

The Shareholder's equity of the Bank included share capital, Retained earnings from previous years, allocated reserves, undistributed profits formed from adoption of IFRS, revaluation of Financial assets available for sale and the profit for the current year.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Fair value disclosure

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

3.18. Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. The Bank believes that the judgments, estimates and assumptions used in the preparation of the Consolidated and Bank financial statements are appropriate given the factual circumstances as of 31 December 2009.

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

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

Fair value of financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods, models based on observable input parameters. Valuation models are used primarily to value derivatives transacted in the over–the-counter market. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by Risk Management Department thereafter. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate its models. A variety of factors are incorporated into the Bank's models, including actual or estimated market prices and rates, such as time value and volatility, and market depth and liquidity. The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risks associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Critical judgments and estimates (continued)

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

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

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

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

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

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

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Critical judgments and estimates (continued)

Income taxes

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

4. CASH AND BALANCES WITH THE CENTRAL BANK

	As of 31.12.2009	As of 31.12.2008
Cash in hand	197,694	230,553
Mandatory reserve with the Central Bank	915,328	293,375
Current account with the Central Bank	16,424	88,675
TOTAL	1,129,446	612,603

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

Mandatory reserve is a part of required reserves in Central Bank, which also includes current account with BNB. Cash in hand is not included in minimum reserve for regulatory purposes.

Required reserves are not interest bearing and their use is unrestricted. Such reserves are regulated on a monthly basis and their insufficiency carries penalty interest. Daily fluctuations within a month period are allowed.

In 2009, cash amounting to 50% of their carrying value are recognized as part of required reserves for regulatory purposes.

5. LOANS AND ADVANCES TO BANKS

	As of 31.12.2009	As of 31.12.2008
Nostro accounts	15,748	11,528
Interbank placements	82,043	4,519
Receivables under repurchase agreements	5,000	-
Other loans and advances to banks	5,287	7,917
TOTAL	108,078	23,964
Included in cash equivalents (note 25)	108,078	23,964

All amounts are in thousand Bulgarian Levs, except otherwise stated

6. LOANS AND ADVANCES TO CUSTOMERS, NET

(a) Analysis by type of customer

	As of 31.12.2009	As of 31.12.2008
Individuals (retail)		
Overdrafts	38,210	34,884
Credit cards	268,586	278,349
Mortgages	1,354,355	1,351,230
Consumer loans	1,265,858	1,381,825
	2,927,009	3,046,288
Corporate entities		
Non-bank financial institutions	4,915	7,049
Corporate customers	3,824,514	3,800,142
Government and agencies	11,631	384
	3,841,060	3,807,575
TOTAL LOANS AND ADVANCES, GROSS	6,768,069	6,853,863
Less: allowance for impairment	(263,789)	(122,584)
LOANS AND ADVANCES TO CUSTOMERS, NET	6,504,280	6,731,279
Pledged loans under mortgage bonds issued (note 16)	-	47,644

(b) Analysis by loan product

	As of 31.12.2009	As of 31.12.2008
Overdrafts		
performing	35,259	32,373
non-performing	2,951	2,511
Less: allowance for impairment	(2,339)	(1,714)
	35,871	33,170
Credit cards	238,165	253,312
non-performing	30,421	25,037
Less: allowance for impairment	(30,010)	(21,060)
	238,576	257,289
Mortgages		
performing	1,240,029	1,313,965
non-performing	114,326	37,265
Less: allowance for impairment	(39,621)	(9,123)
	1,314,734	1,342,107

	As of 31.12.2009	As of 31.12.2008
Consumer loans		
performing	1,126,998	1,317,760
non-performing	138,860	64,065
Less:allowance for impairment	(110,209)	(60,507)
	1,155,649	1,321,318
Corporate loans		
performing	3,671,673	3,760,841
non-performing	167,006	41,858
Less: allowance for impairment	(81,610)	(30,180)
	3,757,069	3,772,519
Other loans and advances	2,381	4,876
Loans and advances to customers, net	6,504,280	6,731,279

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

(c) Movement of allowances for impairment and uncollectability

	BGN'000
BALANCE AS OF JANUARY 1, 2008	(69,977)
Allowances for impairment and uncollectability charge, net (note 34)	(74,896)
Unwind of the discount	1,944
Loans and advances written off as unrecoverable	20,345
BALANCE AS OF DECEMBER 31, 2008	(122,584)
Allowances for impairment and uncollectability charge, net (note 34)	(213,256)
Loans and advances written off as unrecoverable	72,051
BALANCE AS OF DECEMBER 31, 2009	(263,789)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of 31.12.2009	As of 31.12.2008
Government securities	110,884	98,089
Foreign government and corporate securities		
Listed on official stock markets	7,396	6,424
Debt securities of foreign issuers		
Listed on official stock markets	1,964	1,964
Shares		
Listed on official stock markets	3	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE	120,247	106,477

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

	As of 31.12.2009	As of 31.12.2008
In Bulgarian Levs	80,638	71,928
In foreign currencies	39,609	34,549
	120,247	106,477

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

As of December 31, 2009 securities amounting to BGN 51,750 thousand (2008: BGN 46,036 thousand) were pledged with the Central Bank for the purpose of serving as a collateral against the state funds deposited at the Bank, which are at approximately the same carrying amount.

All amounts are in thousand Bulgarian Levs, except otherwise stated

8. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2009			31.12.2008		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives	309,253	2,094	208	362,622	5,420	9,391
Currency forward agreements	89,388	85	152	140,181	4,111	4,029
Currency swaps	219,865	2,009	56	222,441	1,309	5,362
Index options, incl.	7,691	35	-	15,117	55	11
Index options bought	6,936	35	-	10,882	55	-
Index options embedded	755	-	-	4,235	-	11
	316,944	2,129	208	377,739	5,475	9,402

The concluded contracts for derivative financial instruments used include short-term currency forwards, currency swaps and currency options and index options. Embedded derivatives are stripped from structured deposits based on EUR/USD currency rate movements or based on movements of stock exchange indices. The embedded derivatives do not significantly modify the cash flows that otherwise would be required by contract. The Bank acts as an intermediary provider of these instruments to certain clients. During 2009 and 2008 the Bank has not used derivatives for hedging purposes.

9. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	As of 31.12.2009	As of 31.12.2008
Debt securities available for sale - at fair value		
Bulgarian government securities	51,472	41,340
Corporate bonds		
Listed on official stock markets	56,706	56,854
Unlisted	5,411	7,633
	62,117	64,487
Equity securities available for sale - at fair value		
Equity securities in local entities		
Unlisted	970	970
	970	970
Equity securities in foreign entities		
Listed on official stock markets	2,806	1,687
Unlisted	128	128
	2,934	1,815
Equity shares in mutual funds	4,442	4,217
TOTAL	121,935	112,829

Bulgarian government securities are denominated in leva, euro and USD and bear fixed interest coupons. Corporate debt securities are denominated in euros and USD and bear variable interest rates, related to the respective levels of EURIBOR and LIBOR. Securities available for sale include medium-and long-term securities, with no significant concentrations in terms of maturities and securities issues. Shares in foreign companies are mainly denominated in USD.

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Movements in financial assets available-for-sale

Movement in AFS investments	As of 31.12.2009
BALANCE AS OF JANUARY 1, 2008	2,552
Exchange differences on monetary assets	1,503
- Additions / disposals within the period	609
-Reclassified from financial assets at fair value through profit or loss	112,641
- Net change in accrued interest	2,639
- Decrease changes in fair value	(7,115)
BALANCE AS OF DECEMBER 31, 2008	112,829
- Exchange differences on monetary assets	(703)
- Additions / disposals within the period	6,014
- Maturity of the principal	(1,181)
Net change in accrued interest	(938)
- Increase changes in fair value	5,914
BALANCE AS OF DECEMBER 31, 2009	121,935

In 2008 the Bank has reclassified certain financial instruments from financial assets at fair value through profit or loss to available for sale. The following table summarizes the carrying amounts and fair values as of December 31, 2009 of the securities reclassified in 2008, the fair value gain that would have been recognized in the income statement in 2009 if those securities were not reclassified, and the interest income recognized in the income statement in 2009.

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at reporting date December 31, 2009	Fair value at reporting date December 31, 2009	Fair value gain / (loss) that would have been recognised in P&L in 2009 if not reclassified	Interest income/dividends recognised in P&L in 2009
Debt securities issued by other government and public entities	41,978	45,409	45,409	5,506	2,290
Corporate bonds	63,999	62,118	62,118	585	4,005
Equity shares in mutual funds	6,664	4,442	4,442	224	-
	112,641	111,969	111,969	5,145	6,295

10. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Fair value
UBB Asset Management	Bulgaria	90%	636	BGN	636	636
UBB AIG Insurance Company	Bulgaria	30%	1,920	BGN	2,082	2,082
UBB AIG ALIKO Insurance Company	Bulgaria	30%	1,920	BGN	2,100	2,100
UBB Insurance Broker	Bulgaria	80%	400,000	BGN	400	400
Drujestvo za Kasovi Uslugi AD	Bulgaria	20%	2,500	BGN	2,501	2,501
UBB Factoring EOOD	Bulgaria	100%	10,000	BGN	1,000	1,000
Total investments in subsidiaries and associates					8,719	8,719

10. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES (CONTINUED)

Movement in investment in subsidiaries and associates	As of 31.12.2009
BALANCE AS OF JANUARY 1, 2008	7,599
Additions within the period	120
BALANCE AS OF DECEMBER 31, 2008	7,719
Additions within the period	1,000
BALANCE AS OF DECEMBER 31, 2009	8,719

In October 2009 the Bank has established a new subsidiary - UBB Factoring EOOD with registered share capital BGN`000 1,000, which as of 31.12.2009 is entirely paid-in. As of 31.12.2009 the company is no active

11. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of December 31, 2009 are as follows:

COST	Land and buildings	Equipment and other FA	Total property and equipment	Intangible assets	Total
As of January, 1 2009	47,746	154,777	202,523	53,087	255,610
Additions	-	14,757	14,757	2,660	17,417
Disposals	-	(5,508)	(5,508)	(751)	(6,259)
As of December, 31 2009	47,746	164,026	211,772	54,996	266,768
Including assets with low cost	-	1,777	1,777	-	-
DEPRECIATION					
As of January, 1 2009	20,866	85,743	106,609	36,210	142,819
Charge for 2009	2,418	15,086	17,504	4,600	22,104
Depreciation charged on disposals	-	(5,177)	(5,177)	(691)	(5,868)
As of December, 31 2009	23,284	95,652	118,936	40,119	159,055
Including assets with low cost	-	1,777	1,777	-	-
NET BOOK VALUE	24,462	68,374	92,836	14,877	107,713

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

12. OTHER ASSETS

	As of 31.12.2009	As of 31.12.2008
Assets by Bank – Model project	10,558	4,483
Income tax to be recovered	7,361	1,764
Prepaid expenses	5,276	6,437
Assets acquired through foreclosure proceedings	2,046	3,131
Claims against the state	904	904
Other items	2,760	2,174
TOTAL	28,905	18,893

13. DUE TO BANKS

	As of 31.12.2009	As of 31.12.2008
Sight deposits	4,517	6,657
Time deposits	2,462,521	2,378,225
REPOS with banks	31,328	-
Other due to banks	532	548
TOTAL	2,498,898	2,385,430
*Money Market deposits of the Parent Company (NBG S.A.)	2,242,433	2,179,096

14. DUE TO CUSTOMERS

Analysis by customers

	As of 31.12.2009	As of 31.12.2008
Retail customers		
Current/demand accounts	317,538	336,478
Saving accounts	651,528	815,099
Time deposits	1,561,524	1,208,624
	2,530,590	2,360,201
Non-bank financial institutions		
Current/demand accounts	65,061	84,886
Time deposits	178,753	129,644
	243,814	214,530
Corporate entities		
Current/demand accounts	579,839	755,627
Time deposits	806,619	565,631
	1,386,458	1,321,258
Government entities		
Current/demand accounts	45,020	52,624
Time deposits	38,147	61,308
	83,167	113,932
TOTAL	4,244,029	4,009,921

All amounts are in thousand Bulgarian Levs, except otherwise stated

15. BANK BORROWINGS

UBB has signed five long term credit facilities with EBRD for total amount of EUR 75 mln.- SME Finance Facility (EUR 20 mln), Energy Efficiency and Renewable Energy Facility (EUR 25 mln), Rural Facility (EUR 10 mln), Energy Efficiency Facility (EUR 5 mln) and Residential Energy Efficiency Credit Line (EUR 15 mln.). All facilities are bound with EC Grant schemes for the Bank and its clients. As of December 31, 2009 the Bank has breached certain clauses in contracts as a result of the global economic crisis, relating to the overall quality of bank owned loan portfolio for which the EBRD is notified. Non-compliance of these indicators is reason for EBRD to request for canceling the contract agreements and earlier payment of their credit lines. As a result, for the purposes of managing liquidity risk, the obligations under these lines are disclosed as liabilities subject to notice (note 37). At the date of preparation of these separate financial statements the bank is in the process of renegotiation of these terms and indicators for subsequent application initially agreed repayment terms. These loans have a fluctuating interest rate and their maturity is up to January 2012.

In 2008 UBB signed a Global Loan agreement with the European Investment Bank for EUR 15 mln for lending to companies in the private and municipal sector. The contract is with fixed interest rate and maturity till December 2018. In March 2010 UBB has fully repaid its liabilities under this contract.

In 2008 UBB signed a 10 year agreement with the Bulgarian Development Bank 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 contract has a floating interest rate plus margin and maturity till December 2018.

In 2009, UBB has signed a contract with the Bulgarian Development Bank for working capital financing to farmers for 15 million euros. At December 31, 2009 the entire amount of the loan is utilized. The contract is with fixed interest rate and maturity till December 2018

	As of 31.12.2009	As of 31.12.2008
Credit lines from banks		
In Bulgarian Levs	54,056	18,550
In EUR	42,727	60,404
TOTAL	96,783	78,954

Analysis by utilization

Facilities	Currency	As of 31.12.2009	As of 31.12.2008
Energy efficiency			
Retail (Residential energy efficiency)	BGN	3,976	7,020
Corporate/municipalities	EUR	23,820	32,228
		27,796	39,248
Agriculture		15,000	-
Rural Finance	EUR	9,128	16,660
		24,128	16,660
SME finance	BGN	35,080	11,530
	EUR	9,779	11,516
		44,859	23,046
TOTAL		96,763	78,954

All amounts are in thousand Bulgarian Levs, except otherwise stated

16. DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As of 31.12.2009	As of 31.12.2008
Deferred tax assets:		
Other liabilities – unused paid leave	425	62
Retirement benefit obligations	458	396
TOTAL DEFERRED TAX ASSETS	883	458
Deferred tax liabilities:		
Investment securities - available for sale	124	716
Fixed assets depreciation	2,184	2,243
Total deferred tax liabilities	2,308	2,959
NET DEFERRED TAX LIABILITY	1,425	2,501
Aggregate deferred tax liability relating to items credited to revaluation reserves in equity:		
Opening	716	29
Change in the fair value of available for sale investments	(592)	702
Transfer to the income statement	-	(15)
CLOSING	124	716

17. SUBORDINATED LIABILITIES

Subordinated loans	Carrying amount 2009	Carrying amount 2008	Fair value 2009	Fair value 2008
In EUR	254,945	257,118	254,945	257,118
TOTAL	254,945	257,118	254,945	257,118

In October and November 2007 UBB signed two Subordinated Loan Agreements with its parent National Bank of Greece S.A. amounting to a total of EUR 130 million. The subordinated debt is used as supplementary capital reserves to meet the requirements of the Bulgarian National Bank regulations on capital adequacy. The repayment of the subordinated loans is not guaranteed by the Bank in any form. The original maturity of the subordinated loans is 10 years. As of December 31, 2009 the loans have been fully disbursed.

18. RETIREMENT BENEFIT OBLIGATIONS

	As of 31.12.2009	As of 31.12.2008
Present value of unfunded obligations	6,502	5,737
Unrecognized actuarial gains / (losses)	(1,933)	(1,779)
PENSION SCHEMES	4,569	3,958

COMPONENT OF PROFIT AND LOSS CHARGE	As of 31.12.2009	As of 31.12.2008
Current service cost	(272)	(242)
Interest cost on obligation	(371)	(277)
Amortization of unrecognized net gain/(loss)	(115)	(101)
Losses on curtailments/settlements	(38)	(21)
PENSION COSTS - DEFINED BENEFIT PLANS	(796)	(641)

All amounts are in thousand Bulgarian Levs, except otherwise stated

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The principal actuarial assumptions used were as follows:

	As of 31.12.2009	As of 31.12.2008
Discount rate	6.25%	6.50%
Rate of compensation increase	5.50%	5.50%
Average future working life	10.54	10.52

Movements in net Liability in Statement of financial position is as follows:

	As of 31.12.2009	As of 31.12.2008
At beginning of period	3,958	3,434
Benefits paid directly	(185)	(117)
Total expenses recognised in the Income Statement	796	641
NET LIABILITY IN THE STATEMENT OF FINANCIAL POSITION	4,569	3,958

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

19. OTHER LIABILITIES

	As of 31.12.2009	As of 31.12.2008
Creditors and suppliers	992	2,346
Payroll related accruals	4,500	975
Taxes payable - other than income taxes	188	1,304
Amounts due to government agencies	490	1,216
Dividend payable	-	15
Other	-	15
TOTAL	6,170	5,871

20. SHARE CAPITAL

The total authorized number of ordinary shares at December 31, 2009 and 2008 was 75,964,082 shares with a par value of BGN 1 per share. All issued shares are fully paid, ranked equally and have one voting right each.

21. EARNINGS PER SHARE

	As of 31.12.2009	As of 31.12.2008
Net profit for the year	80,851	195,343
Weighted average number of ordinary shares outstanding	75,964,082	75,964,082
EARNINGS PER SHARE	1.06	2.57

All amounts are in thousand Bulgarian Levs, except otherwise stated

22. RETAINED EARNINGS

	As of 31.12.2009	As of 31.12.2008
Accummulated prior years' earnings at beginning of period	867,486	672,143
Net profit for the period	80,851	195,343
TOTAL	948,337	867,486

Components of retained earnings are:

	As of 31.12.2009	As of 31.12.2008
General reserves	853,446	658,103
Net profit for the period	80,851	195,343
Other	14,040	14,040
TOTAL	948,337	867,486

23. REVALUATION RESERVE

	As of 31.12.2009	As of 31.12.2008
Revaluation reserve - AFS investments	124	(5,790)
TOTAL	124	(5,790)

The movements in revaluation reserves are as follows:

	As of 31.12.2009	As of 31.12.2008
Revaluation reserve - AFS investments		
At the beginning of the period	(5,790)	1,365
Net losses transferred to net profit	-	(150)
Changes in fair value of AFS investmets	5,914	(7,020)
Defferred tax	-	15
AT DECEMBER 31	124	(5,790)

24. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As of December 31, 2009 there were several outstanding legal proceedings against the Bank. Management believes that no provision should be made as professional advice indicates that it is unlikely that any material loss will eventuate.

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

	As of 31.12.2009	As of 31.12.2008
Undrawn credit commitments	547,804	323,940
Guarantees, documentary and commercial letters of credit	261,697	309,424
TOTAL	809,501	633,364

All amounts are in thousand Bulgarian Levs, except otherwise stated

24. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

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

	As of 31.12.2009	As of 31.12.2008
Up to 1 year	14,599	19,465
More than 1 year and less than 5 years	50,124	66,832
More than 5 years	12,643	16,857
TOTAL	77,366	103,154

25. CASH AND CASH EQUIVALENTS

	As of 31.12.2009	As of 31.12.2008
Cash and money at hand	197,694	230,553
Current account with the Central Bank	16,424	88,675
Mandatory reserve with the Central Bank	915,328	293,375
Loans and advances to banks	108,078	23,964
TOTAL	1,237,524	636,567

26. NET INTEREST INCOME

	Year ended 31.12.2009	Year ended 31.12.2008
A Interest and similar income		
Loans and advances to banks	306	1,388
Loans and advances to customers		
Loans and advances to financial institutions	384	1,264
Loans and advances to individuals	309,788	288,251
Loans and advances to enterprises	316,694	289,026
Financial assets at fair value through profit or loss	5,224	8,979
Investment securities – available for sale	6,529	3,918
TOTAL INTEREST INCOME	638,925	592,826
B Interest expenses and similar charges		
Due to banks	(95,767)	(114,787)
Deposits of customers		
Deposits of financial institutions	(10,805)	(8,742)
Deposits of individuals	(97,863)	(61,310)
Deposits of enterprises	(39,966)	(32,939)
Bank borrowings	(3,861)	(4,391)
Debt securities in issue	(1,435)	(8,473)
Subordinated liabilities	(5,740)	(13,939)
TOTAL INTEREST EXPENSES	(255,437)	(244,581)
NET INTEREST MARGIN	383,488	348,245

All amounts are in thousand Bulgarian Levs, except otherwise stated

27. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2009	Year ended 31.12.2008
A. Fee and commission income		
Transfer of funds and cash transactions	20,803	25,067
Deposits accounts fees and commissions	24,057	22,347
Credit and debit cards related fees and commissions	30,817	33,611
Loans and advances to customers	8,964	16,506
Guarantees and letters of credit	3,083	3,070
Other fees and commissions	8,493	7,342
	96,217	107,943
B. Fee and commission expenses		
Credit and debit cards related fees and commissions	(4,965)	(4,941)
Transfer of funds	(1,421)	(3,294)
Other fees and commissions	(619)	(794)
	(7,005)	(9,029)
FEE AND COMMISSION INCOME, NET	89,212	98,914

28. NET TRADING INCOME

	Year ended 31.12.2009	Year ended 31.12.2008
Gains on Foreign exchange		
Foreign exchange contracts	16,362	13,378
Position in foreign assets/liabilities	(3,432)	(5,734)
	12,930	7,644
Losses on Interest rate instruments		
Government securities	(1,007)	(21)
Corporate debt securities	736	(196)
Options	(10)	
Mutual funds	-	(1,313)
Other	2	
	(279)	(1,530)
(Losses) on Index options	(3)	(299)
Gains on Equities	-	151
NET TRADING INCOME	12,648	5,966

29. NET OTHER OPERATING INCOME/(EXPENSE)

	Year ended 31.12.2009	Year ended 31.12.2008
Gains on disposal of fixed assets, net	(203)	4,278
Rental income	321	319
Other	(755)	858
NET OTHER OPERATING EXPENSE	(637)	5,455

All amounts are in thousand Bulgarian Levs, except otherwise stated

30. NET ALLOWANCES FOR IMPAIRMENT AND UNCOLLECTABILITY

The net charge of allowances for the year ended December 31, 2009 and 2008 is as follows:

	Year ended 31.12.2009	Year ended 31.12.2008
Loans and advances to customers	(213,257)	(74,896)
Recoveries of written off debts	7,678	14,466
TOTAL	(205,579)	(60,430)

31. GENERAL ADMINISTRATIVE EXPENSES

	Year ended 31.12.2009	Year ended 31.12.2008
Personnel costs	60,233	58,713
Depreciation/Amortization expenses	22,103	19,453
Rentals	19,931	16,036
Third party remuneration and fees	17,866	17,491
Deposit Insurance Premium	16,987	13,712
Occupancy expenses	16,761	15,329
Duties and Taxes	13,351	13,940
Telecommunications	5,220	5,049
Insurance costs	4,936	5,484
Promotion and advertisement	4,488	9,669
Stationary - other consumables	3,753	4,265
Other (Audit, consulting, legal fees etc.)	2,103	2,132
Traveling expenses	1,378	1,626
Subscriptions - Contributions	166	164
TOTAL	189,276	183,063

Personnel costs consists of:	Year ended 31.12.2009	Year ended 31.12.2008
Wages and Salaries	45,762	41,474
Social security costs	7,801	8,011
Bonuses and other compensation expenses	3,653	6,847
Other staff costs	1,247	983
Pension costs - defined contribution plans	973	757
Pension costs - defined benefit plans	797	641
Current service cost	*273*	*242*
Interest cost	*371*	*277*
Net actuarial (gains) losses recognized in period	*115*	*101*
Losses (gains) on curtailment	38	21
TOTAL	60,233	58,713

In 2009 expense concerning audit services provided by the Auditors are as follows: audit of annual financial statement with amount of BGN 327 thousand, other services, concerning the audit with amount of BGN 246 thousand.

All amounts are in thousand Bulgarian Levs, except otherwise stated

32. TAXATION

	Year ended 31.12.2009	Year ended 31.12.2008
Current tax expense	10,096	21,160
Deferred tax expense/(income) related to origination and reversal of temporary differences	(1,077)	612
TOTAL TAX EXPENSE	9,019	21,772

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

	Year ended 31.12.2009	Year ended 31.12.2008
Profit before tax	89,870	217,115
Prima facie tax calculated at an applicable tax rate (10% for 2009 and 2008)	8,987	21,712
Tax effect of expenses that are not deductible in determining the taxable profit	32	60
TOTAL TAX EXPENSE	9,019	21,772
Effective income tax rate	10.04%	10.03%

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

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

Credit risk

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

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

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Basel II allows banks to calculate their regulatory capital requirements using the output of their internal rating systems, subject to supervisory approval. In view of the latter, a working group has been put together within the Risk Management Department, which will be charged with the development of internal rating and other models under Basel II. The Bank projects the new models to be introduced till 2010, and – validated by Central Bank.

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

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

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

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

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

Market risk

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

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Market risk (continued)

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

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

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

Foreign currency risk

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

Interest rate risk

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

Liquidity risk

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

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

34. LOANS AND ADVANCES – CREDIT RISK ANALYSIS

Loans and advances are summarised as follows:

	As of 31.12.2009		As of 31.12.2008	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without past due	4,858,725	108,078	5,744,301	23,964
Past due	1,455,780	-	938,826	-
Past due up to 30 days	*889,755*	-	*740,443*	-
Past due 30-60 days	*290,653*	-	*122,232*	-
Past due 60-90 days	*275,372*	-	*76,151*	-
Impaired	*453,564*	-	*170,736*	-
GROSS LOANS	6,768,069	108,078	6,853,863	23,964
Less: allowance for impairement	(263,789)	-	(122,584)	-
NET LOANS	6,504,280	108,078	6,731,279	23,644

Loans past due but not impaired

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

	As of 31.12.2009			As of 31.12.2008		
	Past due up 30 days	Past due 30-60 days	Past due 60-90 days	Past due up 30 days	Past due 30-60 days	Past due 60-90 days
Individuals (retail customers)						
Overdrafts	400	145	172	621	73	197
Credit cards	21,103	7,395	4,226	20,193	4,471	3,925
Consumer loans	134,701	50,261	28,544	133,119	38,847	15,569
Mortgages	136,029	60,023	29,193	119,156	37,785	16,535
	292,233	117,824	62,135	273,089	81,176	36,226
Corporate loans						
Large customers	301,560	69,148	150,565	209,611	13,362	32,675
SMEs	288,999	102,029	60,456	250,367	26,262	6,332
Micro	6,963	1,652	2,216	7,376	1,432	918
	597,522	172,829	213,237	467,354	41,056	39,925
TOTAL	889,755	290,653	275,372	740,443	122,232	76,151

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Loans and advances to customers according to the allowed past due status and impairment estimating method as of December 31, 2009 and 2008 are as follows:

	Loans and advances to customers						
As of 31.12.2009	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	235,862	928,061	996,896	1,479,477	1,050,254	4,690,550	108,078
Past due but not impaired	32,724	376,007	270,912	682,063	458,041	1,819,747	-
Individually impaired	-	-	86,547	30,003	141,222	257,772	-
TOTAL Gross	268,586	1,304,068	1,354,355	2,191,543	1,649,517	6,768,069	108,078
Less: allowance for individually impaired loans	-	-	*(32,823)*	*(17,830)*	*(23,508)*	*(74,161)*	-
Less: allowance for collectively impaired loans	*(30,010)*	*(112,548)*	*(6,798)*	*(37,544)*	*(2,728)*	*(189,628)*	-
TOTAL Allowance for impairment	(30,010)	(112,548)	(39,621)	(55,374)	(26,236)	(263,789)	-
TOTAL NET LOANS	238,576	1,191,520	1,314,734	2,136,169	1,623,281	6,504,280	108,078

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

Loans neither past due nor individually impaired according to their credit quality as of December 31, 2009 and 2008:

	Loans and advances to customers						
Rating As of 31.12.2009	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Satisfactory risk	202,298	925,685	990,069	1,389,732	910,273	4,418,057	108,079
Watch list	23,099	1,907	5,727	61,456	88,325	180,514	-
Substandard	10,465	469	1,100	28,289	51,656	91,979	-
TOTAL	235,862	928,061	996,896	1,479,477	1,050,254	4,690,550	108,079

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Rating As of 31.12.2008	Loans and advances to customers						
	Cards	Consumer	Mortgage	Small business loans	Corporate loans	Total Loans	Due fro banks
Satisfactory risk	222,492	1,160,518	1,137,251	1,532,802	1,631,991	5,685,054	23,9
Watch list	25,037	1,571	1,747	4,245	39,432	72,032	
Substandard	-	333	293	1,613	-	2,239	
TOTAL	247,529	1,162,422	1,139,291	1,538,660	1,671,423	5,759,325	23,9

Ageing analysis of loans past due but not individually impaired as of December 31, 2009 and 2008:

Time band As of 31.12.2009	Loans and advances to customers					
	Cards	Consumer	Mortgage	Small business loans	Corporate loans	Total Loans
Past due up to 30 days	21,103	135,101	136,029	338,014	181,168	811,415
Past due 31-60 days	7,395	50,406	60,023	107,003	75,295	300,122
Past due 61-90 days	4,226	28,716	29,193	68,689	144,548	275,372
Past due 91-180 days	-	48,951	10,511	71,060	14,377	144,899
Past due 180 days- 365 days	-	16	35,156	0	-	35,172
Past due 1-2 years	-	5	-	97,297	42,653	139,955
Past due over 2 years	-	112,812	-	-	-	112,812
TOTAL	32,724	376,007	270,912	682,063	458,041	1,819,747

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

Ageing analysis of loans past due and individually impaired as of December 31, 2009 and 2008:

Time band As of 31.12.2009	Loans and advances to customers					
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	-	-	-	2,334	120,303	122,637
Past due 31-90 days	-	-	-	845	-	845
Past due 91-180 days	-	-	23,335	-	10,830	34,165
Past due 180 days- 365 days	-	-	63,212	-	-	63,212
Past due 1-2 years	-	-	-	26,824	10,089	36,913
TOTAL	-	-	86,547	30,003	141,222	257,772

Time band As of 31.12.2008	Loans and advances to customers					
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	-	-	19,178	12,706	-	31,884
Past due 31-90 days	-	-	1,217	228	-	1,445
Past due 91-180 days	-	-	7,759	7,235	1,391	16,385
Past due 180 days- 365 days	-	-	9,111	-	-	9,111
Past due 1-2 years	-	-	-	-	-	-
TOTAL	-	-	37,265	20,169	1,391	58,825

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

Maximum exposures to credit risk before collateral and other credit enhancements

	As of 31.12.2009	As of 31.12.2008
Assets		
Loans and advances to banks	108,078	23,964
Financial assets at fair through P/L	120,245	106,473
Derivative financial instruments	2,129	5,475
Loans and advances to customers, net	6,504,280	6,731,279
Investment securities available for sale	113,590	105,827
Other assets	904	904
Financial guarantees	247,478	270,438
Standby letters of credit	14,219	31,949
Commitments to extend credit	547,804	323,940
MAXIMUM EXPOSURES TO CREDIT RISK	7,658,727	7,600,249

Collateral held against loans and advances not impaired

In thousands of BGN	As of 31.12.2009	As of 31.12.2008
Loans and advances not past due		
Mortgage	6,066,632	6,894,433
Cash collateral	35,465	72,476
Securities	10,438	33
Other types of collateral	2,687,915	2,961,918
	8,800,450	9,928,860
Loans and advances past due		
Mortgage	2,659,427	1,600,601
Cash collateral	7,993	6,132
Securities	26,425	-
Other types of collateral	1,286,804	713,455
	3,980,649	2,320,188
TOTAL	12,781,099	12,249,048

Collateral held against impaired loans and advances:

In thousands of BGN	As of 31.12.2009	As of 31.12.2008
Mortgage	305,430	75,189
Cash collateral	1,713	850
Other types of collateral	158,499	94,300
TOTAL	465,642	170,339

35. LOANS AND ADVANCES – INDUSTRY ANALYSIS

Industry Concentration risk - Loans and advances to customers

	As of 31.12.2009		As of 31.12.2008	
Construction and real estate development	988,120	14%	912,323	13%
Trade and services (excl. tourism)	912,334	14%	917,691	13%
Small scale industry	600,452	8%	612,570	9%
Industry and mining	530,063	8%	549,344	8%
Transportation and telecommunications	248,194	3%	162,300	2%
Property brokerage	222,096	3%	209,497	3%
Tourism	168,754	2%	183,033	2%
Energy	56,431	1%	57,157	1%
Professionals	43,309	1%	38,129	1%
Other	31,622	1%	132,463	2%
Leasing companies	23,139	0%	25,635	0%
Government	11,631	0%	384	0%
Financial institutions	4,915	0%	7,049	0%
To individuals	2,927,009	45%	3,046,288	45%
Total loans and advances, gross	6,768,069	100%	6,853,863	100%
Less: allowance for impairment	(263,789)		(122,584)	
Loans and advances to customers, net	6,504,280		6,731,279	

The next table presents the information of the large exposure of the Bank as for 31 December 2009 and 2008:

	As for December 31, 2009		As for December 31, 2008	
	Amount	*% of Tier2*	*Amount*	*% of Tier2*
The largest total exposure	111,553	11,72%	105,768	11,42%
Total amount of five largest exposures	421,352	44,28%	412,298	44,53%
Total amount of the large exposures	111,553	11,72%	105,768	11,42%

36. CURRENCY ANALYSIS

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31, 2009 and 2008. Included in the table are the Bank's assets and liabilities at carrying amounts in thousand BGN, categorized by currency.

As of December 31, 2009	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	957,554	8,492	155,756	7,644	1,129,446
Loans and advances to banks	5,617	66,541	26,070	9,850	108,078
Loans and advances to customers, net	3,267,398	46,414	3,190,467	1	6,504,280
Financial assets at fair through profit or loss	15,636	23,973	80,638	-	120,247
Derivative financial instruments	15	20	2,094	-	2,129
Financial assets available for sale	63,753	44,096	14,086	-	121,935
Investments in subsidiaries and associates	-	-	8,719	-	8,719
Intangible assets	-	-	14,877	-	14,877
Intangible assets, property and equipment	-	-	92,836	-	92,836
Deferred income tax assets	-	-	883	-	883
Other assets	755	3	28,147	-	28,905
TOTAL ASSETS	4,310,728	189,539	3,614,573	17,495	8,132,335

All amounts are in thousand Bulgarian Levs, except otherwise stated

36. CURRENCY ANALYSIS (CONTINUED)

As of December 31, 2009	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	2,234,577	2,222	261,908	191	2,498,898
Due to customers	2,093,995	269,818	1,843,834	36,382	4,244,029
Derivative financial instruments	-	-	207	1	208
Bank borrowings	54,056	-	42,727	-	96,783
Subordinated liabilities	254,945	-	-	-	254,945
Deferred income tax liabilities	-	-	2,308	-	2,308
Retirement benefit obligations	-	-	4,569	-	4,569
)ther liabilities	-	-	6,170	-	6,170
TOTAL LIABILITIES	4,637,573	272,040	2,161,723	36,574	7,107,910
TOTAL EQUITY	-	-	1,024,425	-	1,024,425
NET BALANCE SHEET POSITION	(326,845)	(82,501)	423,696	(19,079)	-
CONTINGENT LIABILITIES AND COMMITMENTS	319,135	46,715	443,650	-	809,500

As of December 31, 2008	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	353,528	13,239	239,013	6,823	612,603
Loans and advances to banks	10,026	3,207	8,640	2,091	23,964
Loans and advances to customers, net	3,230,744	50,819	3,449,715	1	6,731,279
Financial assets at fair through profit or loss	16,292	18,892	71,293	-	106,477
Derivative financial instruments	34	21	5,420	-	5,475
Financial assets available for sale	59,857	38,859	14,113	-	112,829
Investments in subsidiaries and associates	-	-	7,719	-	7,719
Intangible assets	-	-	16,877	-	16,877
Intangible assets, property and equipment	-	-	95,914	-	95,914
Deferred income tax assets	-	-	458	-	458
Other assets	-	-	18,893	-	18,893
TOTAL ASSETS	3,670,481	125,037	3,928,055	8,915	7,732,488
LIABILITIES					
Due to banks	2,201,541	13,814	169,964	111	2,385,430
Due to customers	1,700,639	303,026	1,973,191	33,065	4,009,921
Derivative financial instruments	11	-	-	9,391	9,402
Bank borrowings	60,404	-	18,550	-	78,954
Debt securities in issue	-	-	41,215	-	41,215
Subordinated liabilities	257,118	-	-	-	257,118
Deferred income tax liabilities	-	-	2,959	-	2,959
Retirement benefit obligations	-	-	3,958	-	3,958
Other liabilities		-	5,872	-	5,872
TOTAL LIABILITIES	4,219,713	316,840	2,215,709	42,567	6,794,829
TOTAL EQUITY	-	-	937,659	-	937,659
NET BALANCE SHEET POSITION	(549,232)	(191,803)	774,687	(33,652)	-
CONTINGENT LIABILITIES AND COMMITMENTS	314,744	11,646	306,974	-	633,364

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. CONTRACTUAL MATURITY ANALYSIS

a) Liquidity analysis

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

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

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

As of December 31, 2009	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
ASSETS						
Cash and balances with Central Bank	1,129,446	-	-	-	-	1,129,446
Loans and advances to banks	108,078	-	-	-	-	108,078
Loans and advances to customers, net	1,076,375	338,347	1,066,216	1,565,152	2,458,190	6,504,280
Financial assets at fair value through profit or loss	3	-	495	49,761	69,988	120,247
Derivative financial instruments	2,129	-	-	-	-	2,129
Investment securities available for sale	8,345	-	8,544	66,235	38,811	121,935
Investments in subsidiaries and associates	-	-	-	-	8,719	8,719
Intangible assets	-	-	-	-	14,877	14,877
Property and equipment	-	-	-	-	92,836	92,836
Deferred income tax assets	-	-	-	-	883	883
Other assets	-	-	-	-	28,905	28,905
TOTAL ASSETS	2,324,376	338,347	1,075,255	1,681,148	2,713,209	8,132,335
LIABILITIES						
Due to banks	2,336,755	2,581	108,000	51,562	-	2,498,898
Due to customers	2,083,319	746,645	1,244,952	169,113	-	4,244,029
Derivative financial instruments	208	-	-	-	-	208
Bank borrowings	61,993	-	15,611	19,179	-	96,783
Subordinated liabilities	-	-	-	-	254,945	254,945
Deferred income tax liabilities	-	-	-	-	2,308	2,308
Retirement benefit obligations	-	-	-	-	4,569	4,569
Other liabilities	-	-	-	-	6,170	6,170
TOTAL LIABILITIES	4,482,275	749,226	1,368,563	239,854	267,992	7,107,910
NET LIQUIDITY GAP	(2,157,899)	(410,879)	(293,308)	1,441,294	2,445,217	1,024,425
CUMULATIVE	(2,157,899)	(2,568,778)	(2,862,086)	(1,420,792)	1,024,425	-

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of December 31, 2008	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
ASSETS						
Cash and balances with Central Bank	612,603	-	-	-	-	612,603
Loans and advances to banks	23,964	-	-	-	-	23,964
Loans and advances to customers, net	1,630,481	547,580	1,057,199	1,914,286	1,581,733	6,731,279
Financial assets at fair value through profit or loss	4	-	5,594	35,231	65,648	106,477
Derivative financial instruments	5,475	-	-	-	-	5,475
Investment securities available for sale	-	-	-	-	112,829	112,829
Investments in subsidiaries and associates	-	-	-	-	7,719	7,719
Intangible assets	-	-	-	-	16,877	16,877
Property and equipment	-	-	-	-	95,914	95,914
Deferred income tax assets	-	-	-	-	458	458
Other assets	-	-	-	-	18,893	18,893
TOTAL ASSETS	2,272,527	547,580	1,062,793	1,949,517	1,900,071	7,732,488 4
LIABILITIES						
Due to banks	2,385,430	-	-	-	-	2,385,430
Due to customers	2,167,796	631,392	915,919	294,814	-	4,009,921
Derivative financial instruments	9,402	-	-	-	-	9,402
Bank borrowings	14,229	3,809	15,043	45,873	-	78,954
Debt securities in issue	-	-	41,215	-	-	41,215
Subordinated liabilities	-	-	-	-	257,118	257,118
Deferred income tax liabilities	-	-	-	-	2,959	2,959
Retirement benefit obligations	-	-	-	-	3,958	3,958
Other liabilities	-	-	-	-	5,872	5,872
TOTAL LIABILITIES	4,576,857	635,201	972,177	340,687	269,907	6,794,829
NET LIQUIDITY GAP	(2,304,330)	(87,621)	90,616	1,608,830	1,628,400	935,895
CUMULATIVE	(2,304,330)	(2,391,951)	(2,301,335)	(692,505)	935,895	-

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

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of 31 December 2009	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
Due to banks	2,469,490	2,062	16,441	96,562	-	2,584,555
Due to customers	2,716,275	734,081	934,656	185,406	-	4,570,418
Bank borrowings	61,993	-	15,611	19,179	-	96,783
Subordinated liabilities	3,870	1,245	5,803	27,617	294,374	332,909
Deferred income tax liabilities	-	-	-	-	2,308	2,308
Retirement benefit obligations	-	-	-	-	4,569	4,569
Other liabilities	-	-	-	-	6,169	6,169
TOTAL LIABILITIES (contructual maturity dates)	5,251,628	737,388	972,511	328,764	307,420	7,597,711

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

b) Interest rate risk analysis

As of December 31, 2009	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS							
Cash and balances with Central Bank							
Loans and advances to banks	-	-	-	-	-	1,129,446	1,129,446
Loans and advances to customers, net	87,043	-	-	-	-	21,035	108,078
Financial assets at fair value through profit or loss	6,135,041	12,985	76,499	36,323	19,133	224,299	6,504,280
Investment securities available for sale	26,046	39	496	49,761	43,902	3	120,247
Investments in subsidiaries and associates	7,671	28,501	25,945	12,661	38,811	8,346	121,935
Other assets	-	-	-	-	-	8,719	8,719
TOTAL FINANCIAL ASSETS	-	-	-	-	-	137,501	137,501
	6,255,801	41,525	102,940	98,745	101,846	1,529,349	8,130,206
LIABILITIES							
Due to banks	2,347,595	31,781	114,473	-	-	5,049	2,498,898
Due to customers	2,078,765	746,645	1,244,952	169,112	-	4,555	4,244,029
Bank borrowings	50,139	16,516	30,128	-	-	-	96,783
Subordinated liabilities	117,745	137,200	-	-	-	-	254,945
Other liabilities	-	-	-	-	-	13,255	13,255
TOTAL FINANCIAL LIABILITIES	4,594,244	932,142	1,389,553	169,112	-	22,859	7,107,910
NET INTEREST RATE GAP	1,661,557	(890,617)	(1,286,613)	(70,367)	101,846	1,506,490	1,022,296

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

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

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

c) Effective average interest rate by major currency

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

As of December 31, 2009	EUR	USD	BGN	Other
	%	%	%	%
ASSETS				
Due from banks	-	0.16	1.88	-
Loans and advances to customers	7.05	5.61	10.03	-
Financial assets at fair value through profit and loss	5.55	2.03	5.13	-
Financial assets available for sale	5.87	7.05	6.94	-
LIABILITIES				
Due to banks	3.67	0.25	3.04	-
Due to customers	4.47	2.58	3.57	1.23
Bank loans	1.95	-	5.16	-
Subordinated liabilities	1.34	-	-	-

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of December 31, 2008	EUR	USD	BGN	Other
	%	%	%	%
ASSETS				
Due from banks	1.35	0.03	3.64	-
Loans and advances to customers	6.23	4.29	10.43	-
Financial assets at fair value through profit and loss	5.48	3.67	5.05	-
Financial assets available for sale	8.21	5.63	3.03	-
LIABILITIES				
Due to banks	7.50	0.66	4.14	-
Due to customers	3.64	2.50	3.59	1.16
Bank loans	4.19	-	8.98	-
Bonds issued			6.63	
Subordinated liabilities	5.58	-	-	-

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE

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

The following table summarizes information about the fair value of financial assets and liabilities for 2009 and 2008:

2009	Carrying amount	Fair value	LEVEL 1: Quoted market price	LEVEL 2: Valuation techniques- market observable inputs	LEVEL 3: Valuation techniques- non market observable inputs	Fair value not available
ASSETS						
Financial assets at fair value through profit or loss	120,247	120,247	120,247	-	-	-
Derivative financial instruments	2,129	2,129	2,129	-		-
Financial assets available for sale	121,935	121,935	83,929	36,908	-	1,098
TOTAL ASSETS	244,311	244,311	206,311	36,908	-	1,098
LIABILITIES						
Derivative financial instruments	208	208	208	-	-	
TOTAL LIABILITIES	208	208	208	-	-	-

All amounts are in thousand Bulgarian Levs, except otherwise stated

38. FAIR VALUE INFORMATION (CONTINUED)

2008	Carrying amount	Fair value	LEVEL 1: Quoted market price	LEVEL 2: Valuation techniques-market observable inputs	LEVEL 3: Valuation techniques-non market observable inputs	Fair value not available
ASSETS						
Financial assets at fair value through profit or loss	106,477	106,477	106,477	-	-	-
Derivative financial instruments	5,475	5,475	5,475	-	-	-
Financial assets available for sale	112,829	112,829	99,881	-	-	12,948
TOTAL ASSETS	224,781	224,781	211,833	-	-	12,948
LIABILITIES						
Derivative financial instruments	9,402	9,402	9,402	-	-	-
TOTAL LIABILITIES	9,402	9,402	9,402	-	-	-

Management has estimated that the fair value of certain financial instruments is not materially different from their recorded values. The fair value of floating rate loans and advances to customers approximate their carrying amount. The expected cash flows on fixed rate loans are discounted at current rates to determine fair value. The fair value of debt securities issued, which are traded on the secondary market, is calculated based on quoted market prices. The funds borrowed from different international financial institutions are at floating rates and the fair values approximate their carrying amount.

39. CAPITAL. CAPITAL BASE

The Bank determines its risk-taking capacity on the basis of the capital resources, available for covering losses, generated by the Bank's risk profile. Capital has been classified into capital-at-risk levels according to its capacity for covering losses and its stability.

In accordance with the regulatory framework the Bank allocates capital for covering the capital requirements for credit risk, market risk and operational risk. In 2009 and 2008 UBB applied the standardized approach in relation to credit and market risk and the basic indicator approach in relation to operational risk.

During the management of its capital-at-risk, the Bank observes the regulatory instructions, as well as its own objectives. The minimum requirements, applicable to Bulgaria, include maintaining of total capital adequacy not less than 12% and tier-one capital adequacy of not less than 6%. The Bank has complied with the regulatory requirements of minimum capital adequacy for 2009 and 2008.

In response to the raving global financial crisis, BNB has officially recommended to Bulgarian banks to reach not later than 30 June 2009 a tier-one capital ratio of minimum 10%. UBB has fulfilled this additional requirement of the regulator.

In accordance with the Bank's risk strategy, the 'risk-return' ratio is managed in such a way, that the tier-one capital adequacy ratio does not fall below 8% in a normal business environment and below 6 % under stress-test scenarios (once in a 100 years, 1% probability).

In a long-term perspective, the Bank plans to establish an internal capital adequacy assessment process, which to be subsequently supported by a framework for economic capital management. The established capital-at-risk will be the key to the development of a risk-weighted framework for assessment of the activity, as well as a risk-weighted pricing and client profitability.

All amounts are in thousand Bulgarian Levs, except otherwise stated

39. CAPITAL. CAPITAL BASE (CONTINUED)

Capital base (own funds)

The capital base (own funds) includes Tier-one and Tier-two capital, in accordance with the requirements of the Bulgarian National Bank.

	As of 31.12.2009	As of 31.12.2008
Share capital	75,964	75,964
Statutory reserve	867,486	658,103
Total capital and reserves	943,450	734,067
Deductions		
Unrealized loss on available-for-sale financial instruments	-	5,791
Intangible assets	14,877	16,877
Total deductions	(14,877)	(22,668)
TOTAL TIER I CAPITAL	928,573	711,399
Subordinated long-term debt	254,258	254,258
TOTAL TIER II CAPITAL	254,258	254,258
Additional deductions from Tier I and Tier II Capital	(231,327)	(39,707)
TOTAL CAPITAL BASE	951,504	925,950

The additional reductions of the capital base are related to participations of the Bank into not fully consolidated companies, representing 10% or more of their registered capital and to the amount of the specific provisions for credit risk, as defined in accordance with Ordinance 9 of the Bulgarian National Bank. For regulatory purposes these are equally subtracted from the Tier–one and Tier-two capital.

The subordinate term debt includes provided long-term loans by National Bank of Greece with initial value of EUR 130 million (see note 16).

Capital requirements

As of 31 December 2009 and 31 December 2008 the capital requirements for credit, market and operational risk are, as follows:

	As of 31.12.2009	As of 31.12.2008
Capital requirements for credit risk		
Exposures to:		
Central Government and Central Banks	1,310	1,148
Regional Governments or local authorities	728	40
Institutions	2,026	668
Corporates	278,534	303,398
Retail	146,611	159,105
Exposure secured on real estate property	45,907	52,133
Past dues positions	17,989	-
Categories of exposures at high risk	-	-
Other exposures	10,579	10,125
Total capital requirements for credit risk	503,684	526,617
Capital requirements for market risk	3,216	2,994
Capital requirements for operational risk	55,319	44,935
Total capital requirements for credit risk, market risk and operational risk	562,218	574,546
Additional capital requirements subject to National Discretions from the Regulator	281,109	287,273
TOTAL REGULATORY CAPITAL REQUIREMENTS	843,328	861,819
Capital base	951,504	925,950
There of Tier I	928,573	711,399
Free equity	108,176	64,131
TOTAL CAPITAL ADEQUACY RATIO	13,54%	12,89%
TIER I RATIO	11,57%	9,63%

All amounts are in thousand Bulgarian Levs, except otherwise stated

39. CAPITAL. CAPITAL BASE (CONTINUED)

The capital requirements for credit risk cover the credit risk and the risk of dispersion in the bank's portfolio, the counterparty risk for the overall activity and the settlement risk for the trading portfolio.

Capital requirements for market risk include market risk in a trading portfolio, currency risk for the overall activity and commodity risk for the overall activity.

Capital requirements for operational risk cover the risk of losses, originating from inadequate or ill-functioning internal processes, people and systems or external events, as it also covers legal risk.

40. RELATED PARTY TRANSACTIONS

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

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

As of 31 December 2009 and 2008 The Banks has deal with following related parties:

List of related parties	Type of relation
NBG S.A.	Parent company
Interlease A.D.	Entity under control of Parent company
Stopanska Banka A.D.	Entity under control of Parent company
Finansbank A.S. (Group)	Entity under control of Parent company
Ethnoplan S.A.	Entity under control of Parent company
UBB Asset Management	Subsidiary
UBB Insurance Broker	Subsidiary
UBB Factoring EOOD	Subsidiary
UBB ALICO Life Insurance Company AD	Associate company
UBB AIG Insurance Company AD	Associate company
DKU AD	Associate company
UBB Balanced Fund	Mutual funds manage by Subsidiary
UBB Premium Shares Fund	Mutual funds manage by Subsidiary
UBB Platinium Bonds Fund	Mutual funds manage by Subsidiary

As of December 31, 2009 and 2008 the Bank has balances as follows:

Related parties	Type of transaction	As of 31.12.2009	As of 31.12.2008
Parent company	Due from other banks	878	817
Parent company	Due to banks	2,244,994	2,182,040
Parent company	Subordinated liabilities	254,945	257,118
Parent company	Derivative financial instruments	-	347
Entities under control of Parent company	Due from other banks	135	134
Entities under control of Parent company	Loans and advances to customers, net	16	3 813
Entities under control of Parent company	Other assets	338	-
Entities under control of Parent company	Derivative financial instruments	1	-
Entities under control of Parent company	Due to customers	153,972	18,913
Entities under control of Parent company	Contingent liabilities	13,691	9,895
Subsidiaries	Due to customers	2,336	854
Associate companies	Due to customers	9,386	13,323

All amounts are in thousand Bulgarian Levs, except otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Bank during 2009 and 2008 from deals with related parties are as follows:

Related parties	Type of transaction	As of 31.12.2009	As of 31.12.2008
Parent company	Interest expense	89,079	112,897
Entities under control of Parent company	Interest income	17	237
Entities under control of Parent company	Commission income	157	323
Entities under control of Parent company	Interest expense	2,990	540
Entities under control of Parent company	Other income	38	33
Subsidiaries	Interest expense	50	36
Associate companies	Interest expense	68	140

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

The total amount of remuneration for 2009 is BGN 387 thousand. (2008: BGN 806 thousand).

Total amount of deposits and current accounts of members of Board of Directors and their close members of family (domestic partner, children and dependants),is BGN 7,548 thousand and the amount of loans is BGN 234 thousand.

The positions in Income Statement are as follows: Interest and commission income – BGN 10 thousand, Interest and commission expenses – BGN 377 thousand.

Subsidiary and associated companies. Transactions between UBB, its subsidiaries (UBB Factoring EOOD, UBB Asset Management and UBB Insurance Broker), associated companies (UBB AIG Insurance Company AD, UBB AIG ALIKO Life Insurance Company AD and Drujestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management (UBB Balanced Fund, UBB Premium Shares Fund and UBB Platinium Bonds Fund) are related to maintaining deposits and current accounts.

The Bank has shares in Mutual funds managed by its subsidiary UBB Asset Management as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management as of December 31, 2009	As of 31.12.2009	As of 31.12.2008
UBB Balanced Fund	1,834	1,753
UBB Premium Shares Fund	1,439	1,334
UBB Platinium Bonds Fund	1,168	1,130

41. EVENTS AFTER THE REPORTING PERIOD

There are no events which have occurred subsequent to December 31, 2009 that require consideration as adjustments to or disclosures in the financial statements.

UNITED
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BANK
A Member of NBG Group

Additional Information

ADDITIONAL INFORMATION

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