

Household wealth and debt in Q1 2012: **Debt reduction may be getting more pronounced**

Household debt dropped by nearly BGN 196 million during the first three months of this year, while financial wealth accumulation continued at a brisk pace (up by BGN 875 million), resulting in the financial leverage ratio (debt over financial wealth) dropping by 160 basis points to just above 50%. In the meantime, housing wealth continued to decline, although at a slower rate (down by BGN 706 million). Overall, total household net worth increased by BGN 365 million during the quarter, breaking a multi-quarter negative streak, although the reversal was not solid and is unlikely to be sustainable. Despite the dominant role of housing in total household wealth, financial wealth is making significant strides in what has been a meaningful structural shift, which may continue developing in the coming years. The ratio between gross housing and gross financial wealth of households peaked at over 10 in 2008. Since then, there has been significant drop in that ratio, which halved and reached just over 5 at the end of March this year (in other words housing wealth is now just five times bigger than financial wealth, compared to ten times bigger three years ago). To add further perspective, total net worth of households was down by over BGN 95 billion, or nearly 30% between 2008 and 2011, as the decline was due to housing wealth depletion by BGN 105 billion, while financial wealth went up by over BGN 10 billion during the same time.

Preference towards saving in bank deposits, and lately particularly in local currency varieties, was confirmed, as household balances with the banks increased by over BGN 734 million (deposits in the domestic currency increased by BGN 830 million, while foreign currency deposits went down by BGN 96 million). On the other hand investments related to instruments traded on the domestic stock exchange plunged further during the quarter, with investments in shares of companies dropping by BGN 110 million (and down 43% for the year). Another

BGN 16 million decline in value was registered by collective investment schemes (unlike performance of foreign invested funds, which grew by BGN 6 million). Both declines are the result of combination of price depreciation and net liquidations. Life insurance and pension fund savings are continuing to do quite well, both boasting solid double digit annual growth rates (supported by solid performance in international financial markets during the first quarter), but remain vulnerable to deterioration on international and domestic markets in the current and next quarters.

Bank issued mortgage debt to households declined for the first time since we track data, although with just BGN 42 million. With its introduction on large scale about ten years ago, mortgage debt had increased over 40 times between years 2002 and 2011. Solid growth was registered particularly during the fast real estate expansion years between 2005 and 2008, when mortgage balances increased by over BGN 6.7 billion. As maturity for significant amounts of debt issued during those times begins to factor in, more meaningful overall debt reduction by households may unfold. Consumption loans have declined for a 10th quarter in a row now, leading to cumulative reduction of total household's debt position by over BGN 940 million so far since consumption related debt reached a peak. Financial leasing on its part experienced another quarter of over 20% YoY decline, as household appetite for financing of car purchases remained subdued. **Continued household debt reduction combined with probable further declines in overall wealth due to continued house price adjustments may keep households cautious in making important financial and consumer decisions in the next few years. The behavior of households may have been significantly impacted by the experienced volatile housing cycle and the parallel fast accumulation of debt several years ago.**

Chart 1: Gross housing and financial wealth, BGN billion

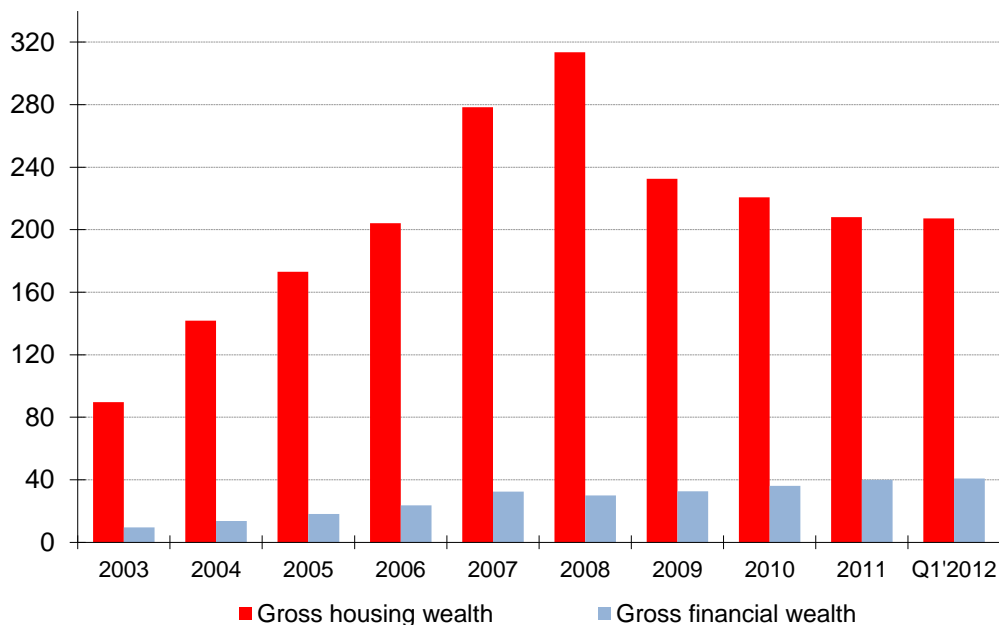
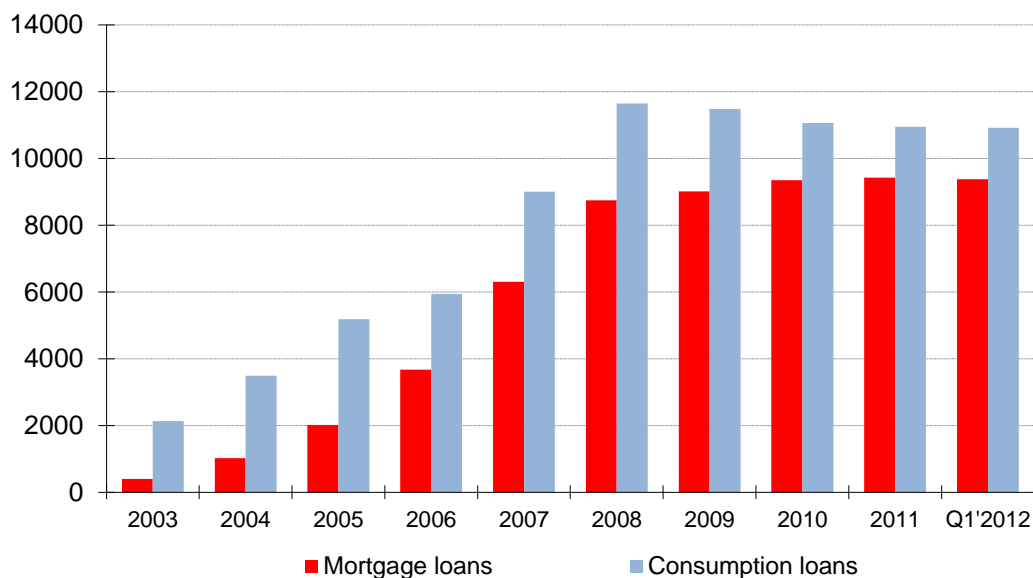


Chart 2: Mortgage and consumption loans, BGN million



Financial Assets of Households

VOLUMES (in BGN million)	2010		2011			2012	
	Dec	Mar	Jun	Sep	Dec	Mar	
1 Currency	1 839.2	1 705.8	1 743.5	1 844.7	1 948.3	1 862.9	
2 Deposits	27 344.6	27 917.5	28 421.6	29 460.6	30 887.3	31 621.7	
2a LC deposits	12 823.1	13 289.2	13 566.8	14 252.5	15 549.7	16 380.3	
2b FX deposits	14 521.5	14 628.3	14 854.8	15 208.1	15 337.6	15 241.4	
3 Securities other than shares	97.7	108.7	103.9	109.5	107.9	110.1	
3a Government securities	43.2	38.2	41.5	43.4	45.7	45.9	
3b Bonds (incl. mortgage bonds)	10.6	7.0	4.7	6.9	6.8	2.5	
3c Compensatory notes	44.0	63.5	57.7	59.2	55.5	61.7	
4 Quoted shares	1 153.1	1 340.3	1 216.4	944.5	867.9	757.5	
5 Mutual funds	444.1	416.0	396.7	363.6	369.2	359.4	
5a Open-end (managed in Bulgaria)	112.1	125.2	119.7	108.8	102.0	101.5	
5b Closed-end	149.0	155.4	153.3	147.5	154.4	138.8	
5c Open-end (managed abroad)	183.0	135.4	123.7	107.4	112.8	119.1	
6 Insurance technical reserves; pension funds	5 113.3	5 257.6	5 430.9	5 485.5	5 777.5	6 122.0	
6a Life insurance	514.6	527.6	552.1	565.5	584.7	603.8	
6b Pension funds	3 987.4	4 115.0	4 280.0	4 331.9	4 572.7	4 871.5	
6c Prepayments of insurance premiums and reserves for outstanding claims	611.3	615.1	598.7	588.1	620.0	646.8	
7 Financial assets (1+2+3+4+5+6)	35 992.0	36 745.8	37 313.0	38 208.3	39 958.1	40 833.6	

YOY CHANGE	2010		2011			2012	
	Dec	Mar	Jun	Sep	Dec	Mar	
1 Currency	-13.8%	2.4%	3.1%	4.3%	5.9%	9.2%	
2 Deposits	12.3%	11.5%	11.2%	13.5%	13.0%	13.3%	
2a LC deposits	19.3%	19.5%	19.2%	20.3%	21.3%	23.3%	
2b FX deposits	6.9%	5.1%	4.8%	7.9%	5.6%	4.2%	
3 Securities other than shares	-0.7%	17.5%	17.1%	17.2%	10.4%	1.3%	
3a Government securities	13.2%	-1.2%	8.9%	9.8%	5.8%	20.1%	
3b Bonds (incl. mortgage bonds)	-18.8%	-46.1%	-64.9%	-40.2%	-36.1%	-64.0%	
3c Compensatory notes	-6.9%	55.4%	54.9%	39.8%	26.0%	-2.9%	
4 Quoted shares	-21.9%	-8.6%	-12.1%	-31.6%	-24.7%	-43.5%	
5 Mutual funds	13.3%	-0.5%	-1.5%	-10.9%	-16.9%	-13.6%	
5a Open-end (managed in Bulgaria)	-3.0%	7.7%	11.9%	-1.5%	-9.0%	-18.9%	
5b Closed-end	-3.9%	1.3%	2.0%	-1.7%	3.6%	-10.7%	
5c Open-end (managed abroad)	50.6%	-8.8%	-14.9%	-27.4%	-38.4%	-12.0%	
6 Insurance technical reserves; pension funds	24.4%	21.3%	21.4%	15.7%	13.0%	16.4%	
6a Life insurance	18.9%	13.3%	15.7%	15.6%	13.6%	14.4%	
6b Pension funds	26.3%	24.5%	24.2%	16.3%	14.7%	18.4%	
6c Prepayments of insurance premiums and reserves for outstanding claims	16.9%	9.0%	9.2%	12.0%	1.4%	5.2%	
7 Financial assets (1+2+3+4+5+6)	10.6%	11.3%	11.1%	11.3%	11.0%	11.1%	

RELATIVE SHARE	2010		2011			2012	
	Dec	Mar	Jun	Sep	Dec	Mar	
1 Currency	5.1%	4.6%	4.7%	4.8%	4.9%	4.6%	
2 Deposits	76.0%	76.0%	76.2%	77.1%	77.3%	77.4%	
2a LC deposits	35.6%	36.2%	36.4%	37.3%	38.9%	40.1%	
2b FX deposits	40.3%	39.8%	39.8%	39.8%	38.4%	37.3%	
3 Securities other than shares	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	
3a Government securities	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
3b Bonds (incl. mortgage bonds)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
3c Compensatory notes	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	
4 Quoted shares	3.2%	3.6%	3.3%	2.5%	2.2%	1.9%	
5 Mutual funds	1.2%	1.1%	1.1%	1.0%	0.9%	0.9%	
5a Open-end (managed in Bulgaria)	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	
5b Closed-end	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	
5c Open-end (managed abroad)	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	
6 Insurance technical reserves; pension funds	14.2%	14.3%	14.6%	14.4%	14.5%	15.0%	
6a Life insurance	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	
6b Pension funds	11.1%	11.2%	11.5%	11.3%	11.4%	11.9%	
6c Prepayments of insurance premiums and reserves for outstanding claims	1.7%	1.7%	1.6%	1.5%	1.6%	1.6%	
7 Financial assets (1+2+3+4+5+6)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Financial Liabilities of Households

VOLUMES (in BGN million)	2010		2011			2012	
	Dec	Mar	Jun	Sep	Dec	Mar	
1 Mortgage loans	9 349.1	9 333.3	9 408.6	9 424.9	9 428.2	9 374.5	
1a Mortgage loans of MFI	8 709.4	8 715.6	8 765.8	8 793.3	8 807.7	8 765.7	
1a1 Mortgage loans, local currency	3 932.1	3 868.5	3 802.2	3 748.0	3 694.5	3 640.5	
1a2 Mortgage loans, foreign currency	4 777.3	4 847.2	4 963.6	5 045.2	5 113.1	5 125.1	
1b Mortgage loans of other FI	639.7	617.6	642.8	631.7	620.6	608.9	
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2 Consumption loans	11 164.0	11 084.5	11 086.0	11 075.4	11 047.5	10 920.7	
2a Consumer loans of MFI	7 554.3	7 532.2	7 577.5	7 574.5	7 503.6	7 437.4	
2a1 Consumer loans, local currency	6 175.7	6 086.1	6 015.3	5 911.2	5 766.5	5 644.2	
2a2 Consumer loans, foreign currency	1 378.6	1 446.1	1 562.3	1 663.3	1 737.1	1 793.2	
2b Consumer loans of other FI	786.5	778.9	794.5	805.3	858.4	852.3	
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2c Overdraft	1 810.9	1 781.5	1 740.3	1 708.5	1 639.6	1 611.5	
2c1 Overdraft, local currency	1 578.1	1 550.2	1 525.3	1 498.7	1 433.1	1 407.3	
2c2 Overdraft, foreign currency	232.9	231.3	214.9	209.8	206.5	204.3	
2d Other loans	909.3	893.1	881.2	893.8	948.6	919.3	
2d1 Other loans, local currency	526.1	507.6	487.6	493.8	512.5	490.8	
2d2 Other loans, foreign currency	383.2	385.5	393.6	400.0	436.1	428.5	
2e Other loans of other FI	103.0	98.9	92.4	93.3	97.2	100.1	
2d1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2d2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2f Revolving credit cards (non-bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
3 Financial leasing and hire purchase agreements	335.9	306.2	297.1	282.4	259.0	243.3	
Total Liabilities (1+2+3)	20 849.1	20 724.0	20 791.7	20 782.7	20 734.7	20 538.6	

YOY CHANGE	2010		2011			2012	
	Dec	Mar	Jun	Sep	Dec	Mar	
1 Mortgage loans	3.7%	2.1%	2.1%	1.8%	0.8%	0.4%	
1a Mortgage loans of MFI	3.8%	2.7%	2.5%	2.2%	1.1%	0.6%	
1a1 Mortgage loans, local currency	-4.1%	-5.5%	-6.1%	-6.2%	-6.0%	-5.9%	
1a2 Mortgage loans, foreign currency	11.3%	10.3%	10.1%	9.4%	7.0%	5.7%	
1b Mortgage loans of other FI	2.5%	-5.3%	-2.0%	-3.0%	-3.0%	-1.4%	
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2 Consumption loans	-3.7%	-2.5%	-2.3%	-1.5%	-1.0%	-1.5%	
2a Consumer loans of MFI	-2.8%	-2.0%	-1.0%	-0.4%	-0.7%	-1.3%	
2a1 Consumer loans, local currency	-6.9%	-6.4%	-6.0%	-6.0%	-6.6%	-7.3%	
2a2 Consumer loans, foreign currency	21.1%	22.1%	24.1%	26.8%	26.0%	24.0%	
2b Consumer loans of other FI	8.8%	12.4%	7.9%	6.2%	9.1%	9.4%	
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2c Overdraft	-10.2%	-9.6%	-11.0%	-9.6%	-9.5%	-9.5%	
2c1 Overdraft, local currency	-10.6%	-10.4%	-10.5%	-9.1%	-9.2%	-9.2%	
2c2 Overdraft, foreign currency	-6.8%	-3.7%	-14.4%	-13.2%	-11.3%	-11.7%	
2d Other loans	-5.0%	-2.1%	-2.8%	-2.2%	4.3%	2.9%	
2d1 Other loans, local currency	-13.5%	-9.8%	-9.9%	-7.7%	-2.6%	-3.3%	
2d2 Other loans, foreign currency	9.8%	10.4%	7.8%	5.5%	13.8%	11.2%	
2e Other loans of other FI	-6.8%	-0.5%	-0.3%	13.5%	-5.6%	1.3%	
2d1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2d2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
2f Revolving credit cards (non-bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
3 Financial leasing and hire purchase agreements	-21.2%	-23.7%	-20.3%	-23.8%	-22.9%	-20.5%	
Total Liabilities (1+2+3)	-0.9%	-0.9%	-0.7%	-0.4%	-0.5%	-0.9%	

Financial Liabilities of Households (continued)

RELATIVE SHARE	2010		2011			2012
	Dec	Mar	Jun	Sep	Dec	Mar
1 Mortgage loans	44.8%	45.0%	45.3%	45.4%	45.5%	45.6%
1a Mortgage loans of MFI	41.8%	42.1%	42.2%	42.3%	42.5%	42.7%
1a1 Mortgage loans, local currency	18.9%	18.7%	18.3%	18.0%	17.8%	17.7%
1a2 Mortgage loans, foreign currency	22.9%	23.4%	23.9%	24.3%	24.7%	25.0%
1b Mortgage loans of other FI	3.1%	3.0%	3.1%	3.0%	3.0%	3.0%
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2 Consumption loans	53.5%	53.5%	53.3%	53.3%	53.3%	53.2%
2a Consumer loans of MFI	36.2%	36.3%	36.4%	36.4%	36.2%	36.2%
2a1 Consumer loans, local currency	29.6%	29.4%	28.9%	28.4%	27.8%	27.5%
2a2 Consumer loans, foreign currency	6.6%	7.0%	7.5%	8.0%	8.4%	8.7%
2b Consumer loans of other FI	3.8%	3.8%	3.8%	3.9%	4.1%	4.1%
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2c Overdraft	8.7%	8.6%	8.4%	8.2%	7.9%	7.8%
2c1 Overdraft, local currency	7.6%	7.5%	7.3%	7.2%	6.9%	6.9%
2c2 Overdraft, foreign currency	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%
2d Other loans	4.4%	4.3%	4.2%	4.3%	4.6%	4.5%
2d1 Other loans, local currency	2.5%	2.4%	2.3%	2.4%	2.5%	2.4%
2d2 Other loans, foreign currency	1.8%	1.9%	1.9%	1.9%	2.1%	2.1%
2e Other loans of other FI	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%
2e1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2e2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2f Revolving credit cards (non-bank)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3 Financial leasing and hire purchase agreements	1.6%	1.5%	1.4%	1.4%	1.2%	1.2%
Total Liabilities (1+2+3)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Total Household Wealth (Housing and Financial Combined)

VOLUMES (in BGN billion)	2010		2011			2012
	Dec	Mar	Jun	Sep	Dec	Mar
Value of real estate owned	220.635	215.731	212.532	210.948	207.979	207.273
Gross financial wealth	35.992	36.746	37.313	38.208	39.958	40.834
Debt	20.849	20.724	20.792	20.783	20.735	20.539
Total net household wealth	235.778	231.753	229.054	228.374	227.202	227.568

Data sources: Bulgarian National Bank, Central Depository, Financial Supervision Commission

Milen Kassabov
 Senior Economist
 Economic Research
 UniCredit Bulbank
 Tel: +359 (2) 926 9 508
 Fax: + 359 (2) 926 9 322
 E-mail: milen.kassabov@unicreditgroup.bg

DISCLAIMER

This document is based upon public information sources, that are considered to be reliable, but for the completeness and accuracy of which we assume no liability. All estimates and opinions in the document represent the independent judgment of the analyst as of the date of the issue. We reserve the right to modify the views expressed herein at any time without notice, moreover we reserve the right not to update this information or to discontinue it altogether without notice.

This document is for information purposes only, and is not intended to and (i) does not constitute or form part of any offer for sale or subscription or solicitation of any offer to buy or subscribe for any financial instruments (ii) does not constitute an advice for solicitation of any offer to buy or subscribe for any financial instruments, or any advice in relation of an investment decision whatsoever.

The information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual investment advice. Investors must take their own determination of the appropriateness of investments referred to herein, based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial positions.

As this document does not qualify as direct or indirect investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into any contract or commitment whatsoever.

Neither UniCredit Bulbank, nor any of its directors, officers or employees shall accept any liability whatsoever vis-a-vis any recipient of this document or any third party for any loss howsoever arising from any use of this document or its contents herewith.

This document is not intended for private customers and the information contained herewith may not be disclosed, redistributed, reproduced or published for any purpose, without prior consent by UniCredit Bulbank.