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ANNUAL SEPARATE REPORT ON THE ACTIVITIES, INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS

December 31, 2013

Unofficial translation from Bulgarian

ANNUAL SEPARATE REPORT
ON THE ACTIVITIES FOR 2013

ANNUAL REPORT ON UBB'S ACTIVITIES AS OF DECEMBER 31, 2013
(In accordance with Article 33 Law of Accountancy)

I. REVIEW OF 2013 ACTIVITIES

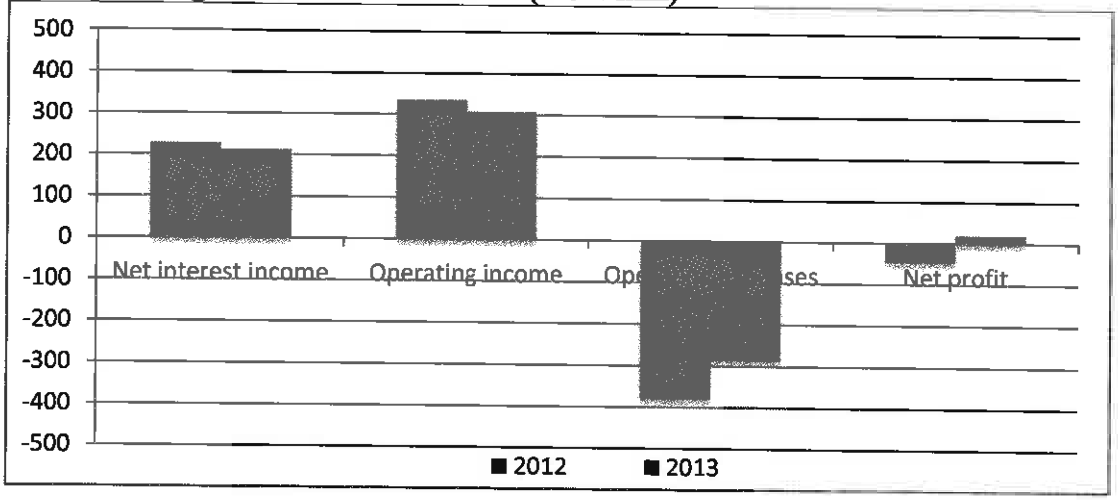
1.1. FINANCIAL PERFORMANCE

In 2013 for a fifth consecutive year the main challenges for the Bulgarian banking sector, including United Bulgarian Bank continued to be the unfavourable economic environment, the large burden of non-performing loans, the weak investor's activity and the lack of opportunities and conditions for banking growth .At the end of 2013 the percentage of non-performing and restructured loans reached 18.06% for overall banking system, including 18.07% for the corporate sector and 16.67% for loans to individuals. In addition to this unfavourable for the credit activity external environment, UBB like the largest bank in Bulgaria, representing the ownership of the Greek banking community in this country had to compensate the worst economic conditions through the creation of additional capital and liquidity buffers. In 2013 the Board of Directors focuses on two main priorities:

1) Effective and targeted work on problematic loans accompanied by the most conservative provisioning policy, and
2) Accumulation of additional liquidity from the local market by expanding the deposit base of the bank.

As a result of pursued policy in 2013, UBB shift the negative trend and recorded a profit before tax amounted to BGN 18.17 mln, versus the reported loss of BGN45.7 mln at the end of 2012. UBB's financial result for 2013 has affected by the increase in the net interest margin from 0.03% to 3.2% for one year period. In 2013 UBB recorded ROA of 0.3% and an optimal of cost / income ratio from operations by 51%.

Net Operating Income and Net Profit (BGN mln)



Net interest income

In 2013 UBB reported net interest income of BGN 211.8 mln (BGN 227.1 mln. for 2012), thus registering decline of 6.8% y/y due to the continuing negative effect from the global financial and economic crisis on the Bulgarian economy.

Net interest margin	2012 BGN '000	2013 BGN '000	Change (%, y/y)
Interest income	417,513	378,248	(9.4)
Interest expense	(190,365)	(166,492)	(12.5)
Net interest income	*227,148*	*211,756*	*(6.8)*

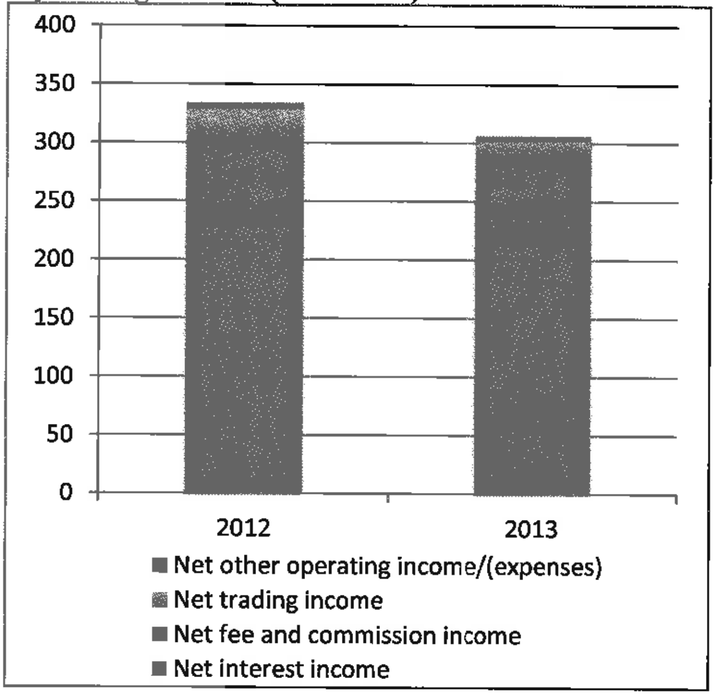
The interest income from loans to individuals decreased by 9.1% y/y and reached BGN 198.8 mln. The interest income from loans to companies amounted to BGN 151.1 mln. and decreased by 15.7% y/y. The interest income from financial institutions increased by 13.9% y/y. Thus, the total interest income from loans declined by 11.9% y/y. The interest income from money market placements grew 80.3% y/y and reached and BGN 2.574 mln at the end of 2013. Interest income from financial assets at fair value through profit or loss reached BGN 14.0 mln. and increased by 99.6% y/y. For one year period interest income from financial assets available for sale increased by 2.9% y/y and amounted BGN 8.2 mln.

The interest expense declined by 12.5% y/y and at the end of 2013 amounted to BGN 166.5 mln, due to the Group's policy focused on decrease in cost of funding as well as the deposits' base development. The interest expense on the attracted from other banks resources amounted to BGN 0.07 mln versus BGN 1.8 mln in 2012, representing 0.04% of the total amount of the interest expense and declined by 95.9% y/y. The interest expense on deposits from customers amounted to BGN 158.5 mln as compared to BGN 176.4 mln for the previous year, representing 95.2% of the total interest expense and decline by 10.2% y/y. Interest expenses on credit lines totaled at BGN 5.9 mln and presented 3.6% of total interest expense. The subordinated debt costs amounted to BGN 2.0 mln. and decreased by 41.9% y/y. The relative share of the subordinated debt costs in the total amount of expenses is 1.2%.

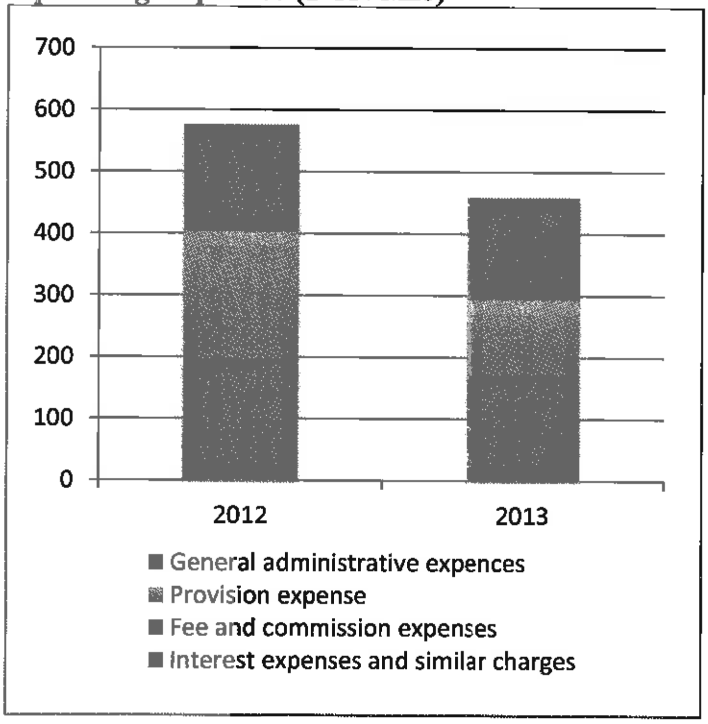
Non-interest income
The net fees and commissions income amounted to BGN 78.9 mln. compared to BGN 78.0 mln. at the end of 2012 and increased by 1.2% y/y. In structural aspect of decisive importance are the fees for servicing deposits, which represented 29.8% of the total income from fees and commissions and registered a growing of 5.1% y/y.
The fee income from debit and credit cards, which represented 26.6%, decreased by 1.7% y/y. The fees from bank transfers and cash transactions accounted for 20.0% and their decline on annual base was 4.7%. The commissions income from retail and corporate loans decreased by 5.7% y/y due to the lower number of the new loans granted during 2013. The fees and commissions collected from letters of credit and guaranties represented 3.7% and reported 58.6% y/y growth.

Net trading income
The total value of the net trading income amounted to BGN 11.1 mln. and reported decline by 52.7% y/y. The main contribution within this item belongs to net profit from currency exchange, which reached BGN 8.0 mln. and decreased by 26.9% at the end of 2013. The profit from interest bearing instruments amounted to BGN 3.1 mln and decreased by 75.2% y/y.

Operating Income (BGN Mio)



Operating Expenses (BGN Mio)



General administrative expense

During the year the UBB's general administrative expense declined by 4.2% y/y and amounted to BGN 165.1 mln. During 2013 the Bank continued exercising its program for optimizing the administrative costs. Thus for one year period the administrative expense declined as follows: by 12.1% for rents, by 30.7% for fees and remuneration to third parties, by 7.9% for tax duties, by 28.7% for subscriptions fees, by 17.9% for depreciation/amortization charge and by 11.0% for telecommunications. During the year the staff cost has increased by 2.7% y/y.

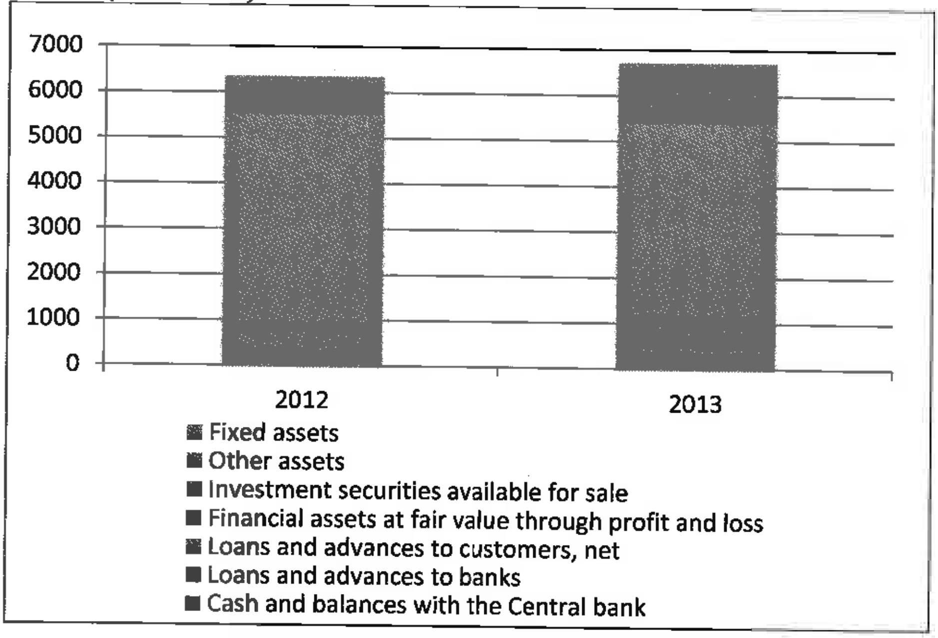
Net allowances for impairment and uncollectability

At the end of 2013 the net allowance for impairment and uncollectability decreased by 41.0% y/y to BGN 122.3 mln. as compared to BGN 207.2 mln. as at the end of 2012.

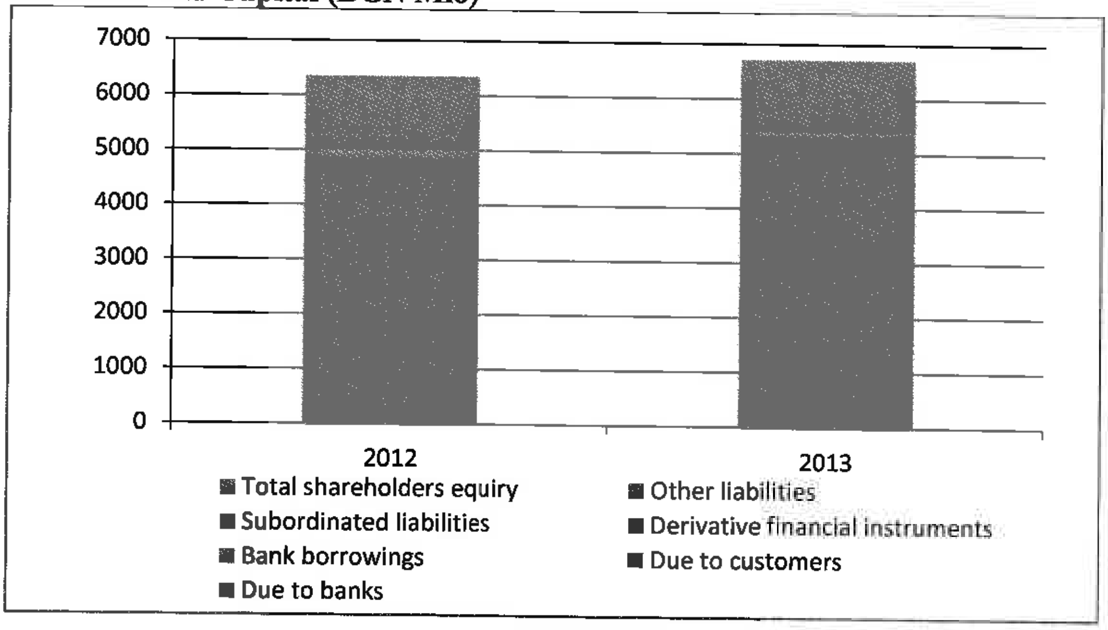
ASSETS AND LIABILITIES

In 2013 the total assets grew by 5.8% y/y to BGN 6.715 mln. as compared to BGN 6.346 mln. in 2012. 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 2013 the cash and balances with the Central bank amounted to BGN 447.1 mln, including minimum statutory reserves. The maintained required minimum statutory reserves with the BNB in percentage terms were at an optimum level during the year, as follows:

BGN mln	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Minimum Required Reserve	589	489	568	811	311
Fulfillment (monthly average)	101%	100%	100%	100%	103%

Due from banks

At the end of 2013 the net amounts due from banks amounted to BGN 720.7 mln. and increased by 225.6% y/y.

Financial assets designated at fair value through profit or loss

At the end of 2013 the financial assets designed at fair value through profit or loss amounted to BGN 946.6 mln were distributed as follows: Bulgarian government securities – 35.2% of the portfolio and other debt instruments – 64.8%.

Loans and advances to customers

Due to the conservative lending approach during 2013 the total value of the loans portfolio decreased sharply. New approvals for economic sectors with higher risk were restricted. The Bank focused on restructuring and collections on problematic exposures, increased cautiousness in lending activities and reduced exposures towards existing customers. Thus, at the end of 2013 the total amount of net loans and advances to customers was BGN 4.229 mln. (BGN 4.552 mln. as of end 2012), which represented 63.0% of the total assets. Thus the decrease of the net loan portfolio was 7.1% y/y, due to continued wide-spread negative impact of the global crises on the Bulgarian companies, as well as on the households. For one year period the retail loans decreased by 6.8%. The corporate lending segment reported decrease by 3.0% y/y. In 2013 the lending activity was realized in a difficult economic environment and the Bank continued to form provisions for loans, and their registered annual growth was 10.28% against 29.6% y/y in 2012. At the end of 2013 the classified loans without past due are 64.34%. From the total amount of loans, those with past due represented 15.37%, including past due up to 30 days – 9.58%, past due 30-60 days – 2.41%, past due 60-90 days – 3.37%. The share of impaired loans amounted 39.09%

In 2013 the loan portfolio was diversified across all industries with emphasis on retail banking, small and medium-sized businesses, as well as the dynamically developing sectors of the economy - industry, trade, construction, transportation and communication, etc.

Financial assets available for sale

At the end of 2013 the financial assets available for sale amounted to BGN 251.4 mln and registered a 27.0% y/y increase. In structural aspect they included: 72.66% government bonds, 14.67% corporate bonds, 2.17% corporate shares traded OTC, 8.34% shares in foreign companies and 2.17% shares in mutual funds and investment companies.

Attracted resources and equity

At the end of 2013 the amount of liabilities reached BGN 5.627 mln. compared to BGN 5.278 mln. at the end of 2012 registering a nominal decrease of 6.6% for a period of one year.

Deposits from banks

Funds deposited by banks increased by 63.4% y/y. At the end of 2013 the deposits from banks amounted to BGN 85.6 mln against BGN 52.4 mln. at the end of 2012. For one year period their relative share of total liabilities increased from 1.0% at the end of 2012 to 1.5% at the end of 2013.

Deposits from customers

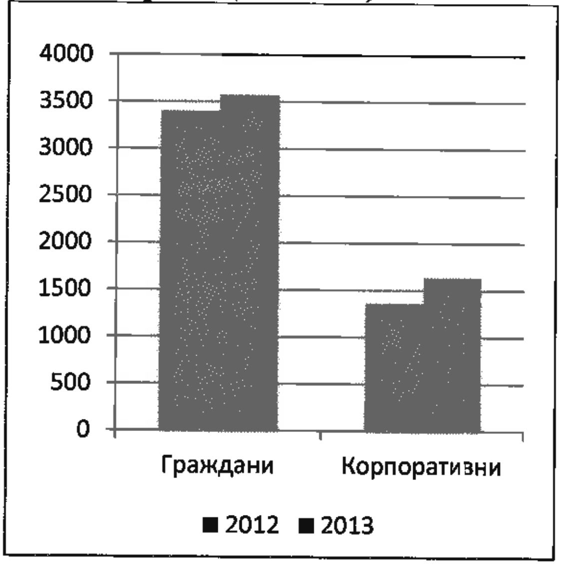
At the end of 2013 client deposits reached BGN 5.204 bn. compared to BGN 4.758 bn. at the end of 2012 and registered 9.4% y/y increase. During the year the deposits of individuals increased by 5.0% y/y due to offered promotions as well as to the attractive conditions of the individuals' segment. For the same period corporate deposits remain almost same levels and reported slight decrease by 0.01% y/y. Deposits from government institutions and agencies declined by 22.4% y/y. Deposits of non-bank financial institutions reported significant growth by 173.8% y/y.

Deposits' Structure

Deposits from clients, BGN (000)	31.12.2012	31.12.2013	Change y/y (%)
Deposits of individuals	3,397,567	3,567,918	5.01
Deposits of non-bank institutions	173,546	475,140	173.78
Corporates deposits	1,070,835	1,070,688	-0.01
Deposits from government institutions	115,856	89,935	-22.37
TOTAL	***4,757,804***	***5,203,681***	***9.37***

The deposits of individuals continued to dominate in the structure of deposits, representing 68.6% of the deposits portfolio. The dynamics of corporate deposits followed the deterioration in the economic trends and their relative share in the deposits' structure declined to 20.6%. The relative share of deposits from non-bank financial institutions grew to 9.1% and the share of deposits from government institutions and agencies declined to 1.7%.

Clients Deposits (BGN mln)



As of December 31, 2012 UBB has key market positions by holding 9.8% of retail deposits and 7.0% of the corporate deposits on the local market.

Bank Borrowings

At the end of 2013 UBB reported BGN 111.4 mln credit lines from banks, which represented 2% of the borrowed funds.

UBB has signed long-term credit facility with the European Bank for Reconstruction and Development (EBRD) for the total amount of EUR 15 million - Energy Efficiency and Renewable Energy Facility The facility is bound with EBRD Grant schemes for the Bank and its clientsTheir maturity is up to January 2014.

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

In 2009, UBB has signed a contract with the Bulgarian Development Bank for working capital financing to farmers for BGN15 million. At December 31, 2009 the entire amount of the loan is utilized. The contract is with maturity till April 2014. The obligation is secured with a pledge of receivables from ultimate borrowers, through funding provided under this Agreement, with a total principal amount of BGN 15 mln.

In 2010, UBB has signed a contract with EBRD at the amount of EUR 150 mln for financing existing or new clients of UBB, including private enterprises, firms, sole proprietors, or other legal entities formed under the laws of the Republic of Bulgaria, as well as individuals registered or otherwise recognized as entrepreneurs in accordance with such laws. As of December 31, 2013 the amount of 75 mln on of the loan is utilized. Utilization deadline is up to two years from the date of the loan contract and maturity date till December, 2014.

Subordinated debt
At the end of 2013 the Bank recorded BGN 203.7 mln subordinated debt, which presented 3.6% of the borrowed funds on the balance sheet. In October and November 2007 UBB signed two subordinated debt agreements with National Bank of Greece totaling EUR 130 mln. Subordinated debt is used as a supplement to the capital reserves in accordance with the requirements of BNB on capital adequacy. Repayment of subordinated debt is not guaranteed by the Bank in any form. Original maturity of subordinated debt is 10 years. From 2013 begins annual repayment of subordinated debt in both agreements in equal installments in the amount of BGN 50,852 thousand.

Capital and capital adequacy
The capital, owned by UBB shareholders at the end of 2013 amounts to BGN 1.088 mln (2012: BGN 1.068 mln) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy, as well as Tier 1 capital adequacy as of December 31, 2013 amounts to 14.81%.

1.2. BUSINESS DEVELOPMENT

RETAIL BANKING

Market position
In 2013 United Bulgarian Bank retained its strong and sustainable position in the banking segment for retail loans and deposits. In the retail deposits market within challenging environment, the Bank had growth of BGN 170 mln. enhancing liquidity and reaching deposit base of BGN 3.568 billion compared to BGN 3.398 at the end of 2012.

Although the promotional lending activities by the major banks, the retail loans market remained relatively flat. In 2013 UBB'stotal retail loans portfolio was BGN 2.218 mln.

UBB retained its leading position as a bank issuer of international credit and debit cards under the logo of Master Card and VISA. In terms of absolute figures, during 2013 the total portfolio of UBB's cards in circulation had constant growth in number of transactions i.e. BGN 15.6 mln on an annual basis, while the total volume of transactions surpassed BGN 2.1 billion. Thus, throughout the whole year, both the number and volume of POS transactions of our credit card and debit cards business grew with 12%.
In terms of cards servicing, UBB further expanded its POS network and as of the end of 2013, the Bank had nearly 11 000 POS terminals and 810 ATMs, located in key merchants and locations all across the country.

New products
In 2013 UBB's Retail banking continued its focus on ongoing development of innovative products and promotional campaigns in all retail categories in an environment of increased competition.

Throughout 2013, UBB's Affluent service model had been further improved at offering access to first-class banking products and services to UBB Club members and attracted new customers and volumes. As a result, of the strong and sustainable relationship between Affluent customers and the Bank, the penetration and usage of banking products recorded continuous growth.

In mortgage lending, the Bank introduced lower equal interest rates in BGN and EUR for the most demanded products, improved the existing parameters and introduced special "cash back" bonus for new loans prior the year end. In the consumer lending area, new fixed interest rate consumer loan was launched targeting mass segment and especially the walk-in customers at attractive interest rate levels. Throughout the year, the activities of the Bank were supported by constant promotional activities for both existing and new customers.

In 2013, UBB continued to improve its credit cards business in terms of both security and convenience. The Multi Merchant Rewarding scheme "UWin" is gradually growing, allowing all UBB credit cardholders to benefit from the Bank's relationship with key merchants. During the year our customers profited from a range of cash back campaigns. The start of the new web site for online services Upay (www.ubbpay.bg) was successful. As a strategic goal UBB will strive for continuous improvement in its services and the implementation of new products offers meeting and even exceeding the expectations of our customers.

Bancassurance

During 2013, UBB banc assurance business retained its continuous growth and increasing share as one of the main sources of noninterest income.

The major contribution to the growth in annual volumes was due to successfully fulfilled strategy for focus on sales of standalone insurance products and their enhancement with additional attractive insurance coverage, which lead to 27% increase in the gross premium. The most demanded specially developed products were "Quality Education" and "Second Pension" long term saving programs, "Protection" insurance coverage in case of accident, "Second Home" property insurance, Motor TPL car insurance and Auto Casco with unique possibility for UBB credit cardholders for 6 or 12 noninterest monthly installments. During the year, the portfolio of products was enlarged with new insurance program for depositors "Deposit Plus" offering the additional bonus of free protection for up to two months.

PAYMENT PRODUCTS AND SERVICES

In 2013 the number of electronic banking users reached 169 166, which represent an increase over the previous year at the rate of 10%.

In 2013 through this electronic channel are executed 60 % of all payments.

Bill payment service maintains a stable growth rate and at the end of 2013 is actively used by 89 992 customers paying 163 452 bills.

UBB's market share in terms of realized payments through money transfer Western union in 2013 is 13%.

In 2013 UBB Call Center continue to maintain the highest standard for customer service via alternative channels. At the beginning of the year successfully has been launched a new way for two-factor authentication of clients performing active operations and thus Call Centre met the modern requirements for security of payments through alternative channels.

CORPORATE BANKING

In 2013, the main objective of corporate banking was to stabilize the quality and the amount of UBB's credit exposure, in an environment characterized by high share of non-performing loans and limited liquidity of the collaterals. Furthermore, the Bank's efforts were focused on the continuation of the positive dynamics of the new loans granting process. Our approach was driven by the ongoing normalization of the processes in the global economy and by the improving economic performance of Bulgaria's major trade partners. In 2013, the gross amount of UBB's corporate loans amounted to BGN 2.807 billion, including funding of non-bank financial institutions for BGN 98.5 million, financing for corporate clients - BGN 2.682 billion and for government institutions and agencies - BGN 26.4 million. During the year the bank granted new finding to Bulgarian enterprises amounting to BGN 470 million, from which BGN 317 million to Small and Medium enterprises.

In 2013 continued the first JEREMIE program for the guarantee scheme under which UBB grants preferential loans to small and medium businesses and by the end of the year the limit agreed by the Bank was fully allocated on the basis of approved loans for the Small and Medium enterprises.

Moreover, in 2013 were signed four new agreements in support of Bulgarian business and households totaling EUR 27 million between the EBRD and UBB. Two of the agreements are for energy efficiency projects in small and medium enterprises and households, and the other two agreements are to promote the trade financing. The Agreement on financial instrument *"Energy Efficiency for Competitive Economy"* is within the *"Program for energy efficiency and green economy"*, part of the OP *"Competitiveness"*. Thanks to it the enterprises are receiving investment loans to finance the projects approved under the program. Upon successful completion, the companies may receive grants for up to 50 percent of approved project costs. The *"Program for home energy efficiency"* can benefit individuals and households to finance projects for residential renovation and repairs meant to reduce energy costs. Besides attractive financial terms the Bank's clients are receiving subsidies for up to 20% of the value of the energy-saving project that received funding.

TREASURY ACTIVITIES

In 2013, UBB's "Treasury" continued to provide an optimal liquidity by involving the government securities market, forex trading and products in the interbank market. During the year, the Treasury provided a deposit various investment tools and solutions for the large corporate clients and UBB's business. In 2013, the funds provided to banks amounted to BGN 721 million, and increased over 2.3 times for a period of one year. The recorded increase reflects the high liquidity of the local market, as well as UBB's lleading position on the interbank market in Bulgaria. In addition, UBB significantly improved its *loans / deposits ratio*, from 95.66% at the end of 2012 to 81.27% at the end of 2013. In 2013, UBB continued to maintain its status as a self-financing credit institution, independent from the parent bank liquidity.

INVESTMENT BANKING

In 2013 UBB Investment banking department was striving to meet the needs of the bank's current and potential clients through rendering investment intermediation and depository services.

UBB continued to participate actively on the corporate bond market by rendering services related to bond restructuring, as well as providing services in its capacity of a trustee of bondholders.
Investment Banking Department focused mainly on keeping its existing business and successful bond restructuring considering the unfavorable economic environment and the ability of individual issuers to overcome the financial crisis. Four of the existing bond issues were restructured in 2013 and the bank added two new corporate issues to its bond portfolio.

In 2013 UBB performed the function of a trustee bank for the bondholders of 23 bond issues.

UBB brokerage services unit succeeded in maintaining its market positions on the stock market in the context of an ongoing financial crisis and low liquidity on the stock exchange that led to outflow of institutional investors in 2013. Competing with more than 60 investment intermediaries UBB maintained its client base and booked 24 new customers in U-Broker – UBB's stock trading platform.

Depository services unit offers all services allowed under Bulgarian law to customers from all sectors of the Bulgarian capital market. Although most of the current customers limited their investment activity due to the ongoing economic crisis the unit managed to increase its customer base and attracted 11 new clients. Currently the bank has a portfolio of 82 long term contracts for depository services and its client base includes financial institutions and corporate customers, management and investment companies, mutual funds, real estate investment trusts (REIT), insurance and life-insurance companies and licensed investment intermediaries. UBB maintains foreign securities custody accounts for its clients through Clearstream Banking SA, Luxembourg.

UBB performs the services of a custodian bank for the pension funds managed by the Pension Insurance Company "Doverie", which has a leading market position among Bulgarian pension fund management companies. Total assets of the three pension funds under management are over BGN 2 billion as at the end of 2013. The structure of the pension insurance market remains unchanged in terms of number of licensed pension companies and total number of pension funds.

INFORMATION TECHNOLOGIES

Implementation of the new telecom infrastructure (Data and Fixed telephony) has been completed in 2013, thus significant reduction of expenditures for telecom services will be achieved.

Following additional BNB requirements, UBB and NBG have successfully completed a project for near on-line core banking data replication between ADC and UBB Data Center in Sofia thus significantly reducing the time needed for UBB to start operating independently.

A new UC4 Workload Automation tool for UBB core banking COB operations has been successfully completed in 2013.

HUMAN RESOURCES MANAGEMENT

In 2013 the process of harmonization of UBB rules and policies with those of NBG Group continued. UBB Remuneration Policy was updated in compliance with the model applied by the Group as well as the UBB Employee' Dress Code Standards.

Practical guidelines for performance appraisal of employees in the bank were developed and presented in order to explain the benefits of the appraisal and to enhance the engagement of all participants in the process. Methods for the induction of newly recruited employees in the branch network were put into practice.

In 2013 the UBB employees repeatedly took part in various forms of training. In the training programme for Head Office staff emphasis was put on specialized training.

In 2013 in the training programme for Branch network employees emphasis was put on the trainings for managers in corporate and retail segment. Managers from the corporate segment (83 employees in total) went through three modular specialized training that started in late 2012. The purpose was to strengthen the teams and increase the efficiency and quality of work.

For new managers of retail segment in Branch Network a pilot project was developed for 10 young managers from Sofia West Region who underwent a long-term 10 - month training. During the project the employees went through 9 attendance modules; assessment and self-assessment tests; many case studies and tasks for self-preparedness. In their way of acquiring new knowledge the colleagues were assisted by a personal mentor (a manager from the Head Office or Branch Manager) as well as external consultants. The project aim was the participants - young managers and employees with potential - to develop their managerial skills.

All BN employees engaged with sales and service of affluent and mass customers went through a training "Care for the customer" presented by Retail Banking Sales Department. Managers of branches type 1 and 2 went through a specialized internal training titled "Management and successful sales".

During the year all staff in the branches, who provide cash services participated in a training on "Rules for cash activity, armed robberies, internal and external fraud," presented by colleagues from the Security and Guarding Department and Cash Centre, Operations Department.

In 2013 the e-learning system was officially implemented and presented on a regional basis to all Regional Managers and Branch Managers. In March 2013 all BN employees were given access to courses which refer to the position they occupy. The time and efforts invested in this project were mainly by the HR Management Department and we are convinced that the use of this resource for self-training by the BN employees will be extremely valuable for maintaining the necessary theoretical knowledge and ensuring independence (for each employee) in organizing a self-help process.

In 2013 the active participation of representatives of HRM Department in various career fairs continued with the aim of presenting UBB as a dependable and reliable employer. Our activity to promote employment opportunities at the bank to Bulgarian students and young professionals in the UK interested in returning to Bulgaria and working in banking sector continued as well.

Throughout the year the active development of UBB Traineeship programme continued and 180 out of more than 1100 candidates conducted traineeship in different structures and 30 of them were hired at different positions in Branch Network and Head Office.

The Programme for long-term traineeship in the corporate segment was extended, aiming at a more thorough initial practical training for young people with economic education, interested in corporate banking to start working in this segment at the bank.

BANKING REGULATORY CONTROL

As part of its long-term objectives, UBB is committed to the principles and implementation of good corporate governance. The Group recognizes the valuable contribution that strong corporate governance makes to business prosperity and to ensuring accountability to its stakeholders, especially in view of the events on the international financial markets during the past 4-5 years.

The Board of Directors ensures that the bank is managed in a way which maximizes long-term shareholders' value and which takes into account the interests of all stakeholders.

In accordance with the Corporate Governance Programme, approved during 2003, the Group has established an active and transparent process of strategic decision making. On the basis of this a new Corporate Governance Framework was developed and currently is in the process of discussions and coordination.

The Code of Ethics of UBB, as well as its policies and working procedures clearly define and handle the prevention of conflicts of interest. In 2013 the Group invested additional efforts and resources to ensure the effective management of any potential or real conflict of interests. Amendments of the Code of Ethics were approved by the Board of Directors, in force since 1 October, 2013, and the annual review of questionnaires on potential conflicts of interest of executives and employees was finalized.

In 2013 the Audit Committee, whose members are independent experts in finance, banking and law continued its activity. The Committee assessed the control systems and control processes within the bank on a monthly basis.

The Board of Directors

Directors of the bank play an essential role in the strategic decision making processes in the bank. During 2013 Mr. Dimitrios Anagnostopoulos resigned as the CEO and member of the Board of Directors. New members were elected, namely Mr. Pavlos Konstantinos Mylonas and Mr. Panagiotis George Karandreas, with a mandate of 3 years. In addition Mr. Teodor Marinov was reelected as a member of the Board of Directors, also for a period of 3 years. Mr. Stilian Vatev was elected as a CEO of the bank. Currently he is also Chairman of the Board.

Communication with Shareholders

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

The bank believes that full disclosure and transparency in its operations are in the interest not only of its own good governance, but also in the interest of a sound and stable banking sector.

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

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

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

Financial Control, Data Processing and Monitoring
The bank works with financial and other authorization limits and procedures for approving capital expenditure. The Board approves strategic plans and detailed annual budgets and reviews monthly performance against these budgets.

The Internal Audit monitors the internal financial control system across all branches and departments of the bank and reports directly to the Board of Directors.

A functioning procedure through which all bank employees can raise issues concerning incorrect representation of accounting information or information on the basis of which the independent financial audit takes place or reports to the supervisory bodies are established.

SPONSORSHIP AND CORPORATIVE SOCIAL RESPONSIBILITY
In 2013 UBB continued to develop its policy in the field of sponsorship and corporative social responsibility in line with the overall strategy, which is determined to both encourage and promote the culture, art, science and sports, as well as to support the vulnerable groups of the society. UBB also developed a substantial regional sponsorship program.

UBB's 2013 sponsorship and CSR overall expenses amount to €140 000. The main fields of CSR activities during the year were directed toward:

- **Cultural projects**
  - **"March Music Days", Rousse:** UBB celebrated 10 years as a partner of one of the oldest festivals in Bulgaria. The event, which is being held annually and incessantly since 1961, once again drew significant interest among the connoisseurs of classic and modern music and some of the brightest artists from all over the world.
  - **Partnership with Sofia Opera and Ballet with "Opera in the park" and "Opera in Kavala":** In 2013 UBB resumed its partnership with Sofia Opera and Ballet to accomplish two key with regards to their value cultural events –

the summer festival "Opera in the park" and the participation of the Opera's ensemble in the Philippi Festival in Kavala. The first event was held in the park of the National Military Academy - G. S. Rakovski and provoked substantial interest, marking the 200th anniversary from the birth of Giuseppe Verdi. The second event was realised with the joint support of UBB and NBG on the stage of the Ancient Theatre in Kavala.

- **International Theatre Festival "Varna Summer":** In 2013 UBB once again was a pillar of strength to the Festival by supporting its marketing positioning with unique milk graffiti, which marked the partnership across Varna. The Festival gave the floor not only to classic stage performances, but also to impressive interpretations and interactive shows, which left behind the boundaries of the theatre halls and turned Varna into a city-festival during the event.
- **"Apolonia" Festival:** Again, UBB was the general partner of the Festival of Arts in Sozopol, welcoming guests at its traditional UBB club for jazz fans and its youngest followers and musicians. Furthermore, UBB again gave its annual prize to a successful Bulgarian artist and organized a photography weekend school for the youngest guests of "Apolonia".
- **International Festival "Crossroad Scene":** After a nearly 5-year pause, UBB returned to the "sponsorship societe" of the Festival, which is being held annually for 17 years in Plovdiv. The Bank not only supported the realization of an international event but also took an active part in its popularization. In addition to that, UBB honoured with a prize the closing act – "The people from Oz" – performance, which was played under the auspices of the Bank.
- **National Academy of Theatre and Film Arts:** In 2013 the young NATFA actors once again received the support of UBB, while in this year the Bank expanded its support and patronized the whole program of the Academic Drama Theatre.
- **Photo contest "The World in a Flag":** In collaboration with „National Geographic Bulgaria", UBB organized a contest, entitled "The World in One Flag", dedicated to the National Geographic Society's 125th anniversary. Over 6000 photos took part in the race for the prize – a trip to the headquarters of the Society in the United States, and the finalists' photos were displayed at three exhibitions in Sofia, Veliko Tarnovo and Burgas. The winner received his prize at a special ceremony, preceding the opening of the first exhibition and the photos, which applied for the contest, were incorporated in the UBB's Christmas materials.
- **Children's photo school "Photography for the little":** In 2013, for the first time UBB supported the photo school "Photography for the little" – an initiative for the children, who are interested in photo shooting. The project, which was led by the photographer Alberto Staikov, followed the understanding of the open communication format through lections and practical courses held during the whole year, whereas the children who have passed the photo courses received master certificates photography, which were served in the presence of a UBB representative. The Bank, on its turn, was honoured with a certificate for key sponsor of the project.

▪ **Sports**

- **Bulgarian Biathlon Federation:** In 2013 UBB continued its partnership with the Bulgarian Biathlon Federation by supporting the European Biathlon Championship in Bulgaria as general partner. In its effort to encourage the good performance of the Bulgarian athletes UBB awarded with a special prize Krasimir Anev for his bronze medal from the event.

- **Bulgarian Football Federation:** In 2013 UBB supported the TV broadcasting of the Bulgarian Football Championship's A Group spring season. Thanks to the Bank's support the football fans were able to watch their favourite teams and the teams themselves – to improve their base with the granted money.
- **Tennis tournaments for children:** UBB actively directed its attention to the support of three tennis tournaments for children – a tournament for the private schools, a regional tournament for children under the age of 12 and Masters Tournament for all the winners in the Regionals. The events took place under the motto "For the prizes of UBB" and were widely covered by the national media, whereas the children, who demonstrated impressive sports achievements, were awarded by the Bank's representative. Moreover, UBB used the opportunity to highlight its responsibility and care as a responsible member of the society for the children's healthy development and the necessity of active sports.

- **Support for Science**
  - **National Museum of Natural Studies:** In 2013 the National Museum of Natural Studies accomplished two projects with the financial support of UBB – the Museum finalized the renovation of its mineral hall and enriched its mammal exposition with the Usuri tiger from the diorama of the Siberian taiga. Both projects were announced properly in the academic society and UBB was recognized as one of the leading patrons of the museum.

- **Regional sponsorships**
  - In 2013 UBB supported financially almost 30 regional events with significant local importance. Among them there were anniversary celebrations of many Bulgarian towns, such as Pazardzhik, Asenovgrad, Belovo, as well as cultural events, such as dance competitions, music festivals etc.

- **Charity**
  - **"United for Charity":** In 2013 "United for Charity" continued to fulfil its noble mission and reported extremely good results – the funds raised by membership fees and employees' donations amounted to over €55 000. The Society had an extraordinary successful campaign - competition for art works by employees and their children, the results from which were presented at a charity exhibition in the National Museum of Natural Studies. The works of the contestants and calendars with the reproductions of the winners were announced for charity sale.

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

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

III. UBB's FUTURE GROWTH AND DEVELOPMENT IN 2014

I. Macroeconomic assumptions

- 1.6% economic growth with recovery in export and moderate increase in domestic demand
- Still limited credit expansion - up to 2.2% for the retail loans and 3.1% for corporate loans,
- Deposits growth of retail deposits of 9% y/y and corporate deposits increase of 6% y/y
- Average CPI of 0.6%
- No material changes in spreads over benchmark interest rates (1000--800 bps for loans and 400-300 bps negative spread on deposits);
- Currency Board in place, fixed exchange rate BGN/EUR

II. Key business targets:

Given the continuing macroeconomic adversity in Greece that negatively affects the NBG Group's access to the international markets UBB's attention in 2014 will be placed on:

1. **Liquidity and strong capital position.** In this challenging climate the retention and further expansion of our customer deposit base is of paramount importance. The Bank will be focused to provide the NBG Group adequate liquidity through individual and corporate customer funds.
2. **Asset Quality.** On the lending side the Bank will put all efforts on assets quality, collections and restructuring.
3. **Expenses.** Cost containment remains a top priority of the bank. The Bank will aim to identify opportunities to further reduce its cost base compared to 2013.
4. **Restore the Bank's market positions.** UBB will be more active in the credit market in course gradually to recover its leading position in the Bulgarian banking sector.

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

<u>Information under Art. 187 "d"</u>

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 31.12.2013, no ordinary registered voting shares had been transferred according to the Central Depository.

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

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

As of 31.12.2013, the shareholders capital is allocated into 75,964,082 ordinary registered voting shares, with nominal value of BGN 1 each.

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

Information under Art. 247

1. **Total remunerations received by Board of directors members during the year:**

The remuneration of the executives - members of the Board of Directors during the year consists of short-term labor remuneration such as salaries and payments, related to social and health insurance contributions, paid annual leave, paid sick-leave. The total amount of remuneration for 2013 was BGN 590 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	31.12.2012	31.12.2013
Stilian Petkov Vatev	150 shares	210 shares
Total:	***150 shares***	***210 shares***

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

3. **The rights of the Board members to acquire shares and bonds of the Bank;**

Board members have no rights related to acquisition of shares and bonds of the Bank.

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

Stilian Petkov Vatev
Bankservice AD Board of Directors' member
Interlease Board of Directors' Chairman
Interlease Auto Board of Directors' Chairman
UBB – Alico Life Insurance Company (UBB – METLIFE), Chairman of the Board of Directors
UBB – AIG Insurance and Reinsurance Company (UBB - AIG), Chairman of the Board of Directors
Insurance Broker Board of Directors' member

Representative of the Association of Banks in Bulgaria in European Payment Council

Radka Ivanova Toncheva
Cash Services Company's Board member
Member of the Board of Association of Commercial Banks in Bulgaria
Member of the Board of Fondation "Atanas Burov"

Agreements under Art. 240 "b", signed during the year:
The members of the Board of Directors and related to them parties have not signed agreements with the Bank that go beyond the usual activity or significantly deviate from market conditions.

Payment of dividends and interest

UBB 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.

V. BRANCH NETWORK

In 2013 the total number of UBB branch network structural units is 199, including:

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

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

VI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) The targets and policy of the Bank related to Risk management

UBB actively manages the risks, inherent to its activity, in order to achieve optimal ratio between profitability from operations and the risk that goes along with them. The Bank has approved and applies Risk Strategy, developed in compliance with the NBG Group Risk Strategy, the requirements of all effective laws, BNB regulations and the most recent Basel Standards framework.

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

The Bank's risk governance framework takes into account all relevant guidelines and regulatory requirements and comprises a number of different constituents. In particular, the Board of Directors has set up a Risk Committee overseeing all risk management functions. It is complemented by the Risk Management Division. A separate Compliance function is in charge of all internal and external compliance matters, such as standards, laws and regulations. The Internal Audit function, which reports directly to the Board of Directors level, through the Audit Committee, complements the risk management framework acting as the independent review layer, focusing on the effectiveness of the risk management framework and control environment.

Risk management activities broadly take place at the following levels:

- Strategic – performed by UBB Board of Directors who approves the Risk strategy and appoints the Risk Management Committee, and UBB Audit Committee. UBB RM Committee is responsible for maintaining the Bank's activities in compliance with the approved Risk strategy.
- Tactical - it encompasses risk management functions, performed by UBB Senior Management. These include the approval of policies per separate risks and procedures for managing risks, the establishment of adequate systems for control of different types of risks, ensuring acceptable levels of the risk-return ratios.
- Operational – it encompasses the different types of business lines and business units and includes managing risks at their points of creation. Risk management at this level is performed through appropriate control systems, included in the main procedures and instructions.

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

b) The Bank's exposures to credit, liquidity, market and operational risk

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

Credit risk

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

The main source of credit risk for the Bank are the loans to customers, which, as of 31.12.2013 amounted to BGN 5.024 mln. As of the same date, the total value of depreciation (IFRS provisions) was BGN 795 mln. or 16% of the credit portfolio. The specific provisions (under BNB Ordinance № 9) amounted to BGN 569 mln.

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

UBB has adopted and follows Corporate Credit Policy and Retail Credit Risk Policy Manual, which regulate implementation of strict procedures for corporate and retail lending, maintaining adequate credit administration and adequate credit risk monitoring and control.

Corporate Credit Policy contains updated framework for credit risk management, including approval levels, early warning system and 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 recovery actions to be taken on time. An application is developed, which significantly facilitates the whole process.

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

Additionally, detailed procedures are developed and applied in the process of lending, concerning analysis of the economic justifiability of each project, collateral assessment, loans quality control and administration.

Depending on their size, loans are approved by credit centers and credit committees for corporate and retail portfolios, according to their competence levels. Above a certain level Risk Management Division is directly involved in the credit approval process with veto rights. The approval process for the retail portfolio is fully integrated within the Risk Management Division.
Regarding the retail portfolio the Bank has set limits for approval of credit parameters as overrides to the Retail Risk Credit Policy Manual and monitors their observation.

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

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

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

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

Liquidity risk

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

UBB manages its assets and liabilities in a manner, guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay, both in a normal environment and under stress conditions. The Bank invests mainly in liquid assets and maintains an average of 29% ratio of liquid assets to total liabilities and 32% ratio of liquid assets to customer deposits due to accumulated increase in attracted funds from customers and the reduced lending activity.

UBB have a solid funding structure as far as loan portfolio is largely funded by customer deposits. Additionally the Bank has attracted subordinated debt from the parent bank, as well as established long term credit lines from BDB and EBRD provided for energy efficiency projects and agriculture producers' lending. UBB's funding strategy is to develop a diversified funding base by depositor type and maintain access to a variety of alternative funding sources, to provide protection against unexpected fluctuations and minimize the cost of funding.

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

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

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

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

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

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

Market risk

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

The Bank's total exposure to market risk is relatively small and the daily total VaR as of 31.12.2013 amounted to BGN 0.827 mln or 0.13% of the regulatory capital. The largest market risk exposure is related to interest rate risk resulting from positions in bonds.

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

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

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

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

Currency risk

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

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

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

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

Interest rate risk in the banking book (IRRBB)

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

The Bank's exposure to interest rate risk in the banking book is relatively small and as of December 2013 amounted to 1.7 % of the regulatory capital.

UBB recognizes the importance of IRRBB management in effectively managing its balance-sheet, its capital and its earnings stream and has adopted and follows the Policy for the Management of Interest Rate Risk in the Banking Book. The Bank manages the interest rate risk in the banking book by evaluating the sensitivity of the economic capital to a parallel shift of the interest rates by 200b.p.

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

Operational risk

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

The Operational risk Management in UBB is based on approved Operational Risk Management Framework. The ORMF is compatible with the best practices and complies with the regulatory requirements, and is an integral part of the overall risk management framework.

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

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

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

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

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

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

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

Business Continuity Plan

United Bulgarian Bank AD is operating in a fast growing and changing environment, and acknowledges its exposure to different risks (reputational, strategic, financial, operational, legal and technology) which may influence on the business continuity.

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

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

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

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

VII. ACTIVITY OF UBB's SUBSIDIARIES AND ASSOCIATE COMPANIES AS OF 31.12.2013

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

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

The Bank participates in mutual funds managed by its subsidiary UBB Asset Management as follows:

Shares in mutual funds, managed by subsidiary UBB assets Managencbt	31.12.2012	31.12.2013
UBB balanced fund	1,876	2,221
UBB Platiniun Shares Fund	1,403	1,774
UBB Platinum Bond Fund	1,310	1,460

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

No reported important events that have occurred in subsidiaries and associates of the Bank after the date of the annual report.

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

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

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

Name: UBB - ALICO Life Insurance Company
Location: Sofia
Head Office address: Bulgaria, Sofia, Triaditza region, postal code 1404, 75 Bulgaria blvd.
Number and batch of entry in the commercial register: No 108941 v. 1469, reg. I, p.143, under company file No 10677 of Sofia City Court according to the inventory dated 29.09.2006.
Capital: BGN 7,000,000
Participation in the company: 30% or BGN 2,100,000 nominal value of participation

Name: UBB – **AIG** Insurance & Reinshurance Company
Location: Sofia
Head Office address: Sofia 1000, Oborishte region, 4, Iskar Str.
Number and batch of entry in the commercial register: No 108888, v. 1469, reg. I, p. 179, under company file No 10676 of Sofia City Court according to the inventory of 2006.
Capital: BGN 7,000,000
Participation in the company: 30% or BGN 2,082,000 nominal value of participation

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

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

Participation in the company: 20% or BGN 2,500,523 nominal value of participation.

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

Used financial instruments

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

In 2013 UBB Asset Management and UBB Balanced Fund, UBB Premium Fund, UBB Platinum Fund and the associated with UBB - UBB AIG Insurance Company, UBB Alico Life Insurance Company, UBB Factoring, Cash Services Company maintaining current accounts and deposits, used no derivatives for hedging purposes.

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

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

Stilian Vatev
Chief Executive Officer

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД * гр. СОФИЯ *

Radka Toncheva
Executive Director

31.03.2014

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL SEPARATE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Deloitte.

Deloitte Audit OOD
UIC 121145199
103, Al. Stambolijski Blvd.
1303 Sofia
Bulgaria

Tel: +359 (2) 80 23 300
Fax: +359 (2) 80 23 350
www.deloitte.bg

Делойт Одит ООД
ЕИК 121145199
бул. „Ал. Стамболийски" 103
София 1303
България

Тел: +359 (2) 80 23 300
Факс: +359 (2) 80 23 350

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

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, 2013, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the Bank as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Report on Other 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, 2013, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual separate report on the activities of the Bank, dated March 31, 2014.

Deloitte Audit OOD

Deloitte Audit OOD

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

Vasko Raichev
Registered Auditor
Proxy of the Statutory Manager Assen Dimov

Sofia
March 31, 2014

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE STATEMENT OF FINANCIAL POSITION
As of December 31, 2013
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	As of 31.12.2013	As of 31.12.2012 As restated
ASSETS			
Cash and balances with the Central Bank	4	447,059	739,171
Loans and advances to banks	5	720,695	221,364
Loans and advances to customers, net	6	4,229,193	4,551,581
Financial assets at fair value through profit or loss	7	946,600	470,848
Derivative financial instruments	8	49	1,750
Financial assets available for sale	9	251,406	197,924
Investments in subsidiaries and associates	10	8,719	8,719
Intangible assets	11	5,586	7,472
Property and equipment	11	49,246	61,496
Deferred tax assets	12	526	2,402
Other assets	13	56,112	83,473
TOTAL ASSETS		6,715,191	6,346,200
LIABILITIES			
Due to banks	14	85,590	52,389
Due to customers	15	5,203,681	4,757,804
Derivative financial instruments	8	72	1,575
Bank borrowings	16	111,355	188,127
Subordinated liabilities	17	203,741	254,668
Retirement benefit obligations	18	7,719	7,958
Other liabilities	19	15,244	15,329
TOTAL LIABILITIES		5,627,402	5,277,850
NET ASSETS		1,087,789	1,068,350
SHAREHOLDERS' EQUITY			
Share capital	20	75,964	75,964
Retained earnings	22	1,000,428	983,401
Revaluation reserve	23	12,470	10,688
Defined benefit obligations		(1,073)	(1,703)
TOTAL SHAREHOLDERS' EQUITY		1,087,789	1,068,350
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,715,191	6,346,200
Contingent liabilities and commitments	24	832,512	589,872

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 31, 2014

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

Vasko Raichev
Registered Auditor
Date: March 31, 2014

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

UNITED BULGARIAN BANK AD, SOFIA

SEPARATE INCOME STATEMENT
For the year ended December 31, 2013
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2013	Year ended 31.12.2012 As restated
Interest and similar income		378,248	417,513
Interest expenses and similar charges		(166,492)	(190,365)
Net interest income	26	211,756	227,148
Fee and commission income		84,080	83,976
Fee and commission expenses		(5,216)	(6,010)
Net fee and commission income	27	78,864	77,966
Dividend income		1,971	3,240
Net trading income	28	11,125	23,502
Net gains from financial assets available for sale transfered to P&L		-	20
Other operating income, net	29	2,374	2,005
Net allowances for impairment and uncollectability	30	(122,253)	(207,164)
General administrative expenses	31	(165,129)	(172,412)
PROFIT/ (LOSS) BEFORE TAXATION		18,708	(45,695)
Income taxes	32	(1,678)	5,004
PROFIT/ (LOSS) FOR THE YEAR		17,030	(40,691)
Earnings per share – basic	21	0.22	(0.54)

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 31, 2014

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

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

Vasko Raichev
Registered Auditor
Date: March 31, 2014

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2013
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Year ended 31.12.2013	Year ended 31.12.2012 As restated
PROFIT/ (LOSS) FOR THE YEAR	17,030	(40,691)
Other comprehensive income, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available for sale financial assets, net of tax	(1,816)	3,206
Imairment of Investment securities available for sale	3,598	3,238
Net gains transfered to P&L	-	(20)
Other	(3)	(2)
Items that will not be reclassified to profit or loss		
Gains / (losses) on defined benefit plans, net of tax	630	(1,418)
Total other comprehensive income, net of tax	2,409	5,004
TOTAL COMPREHENSIVE INCOME, net of tax	19,439	(35,687)

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 31, 2014

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

Vasko Raichev
Registered Auditor
Date: March 31, 2014

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

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2013
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share capital	Retained earnings	Defined benefit obligations	Revaluation reserve	Total
BALANCE AS OF JANUARY 1, 2012					
As reported	75,964	1,024,094	-	4,264	1,104,322
Restatement due to changes in IAS 19	-	-	(285)	-	(285)
BALANCE AS OF JANUARY 1, 2012					
As restated	75,964	1,024,094	(285)	4,264	1,104,037
Loss for the period	-	(40,691)	-	-	(40,691)
Other comprehensive income for the period	-	(2)	(1,418)	6,424	5,004
BALANCE AS OF DECEMBER 31, 2012	75,964	983,401	(1,703)	10,688	1,068,350
Profit for the period	-	17,030	-	-	17,030
Other comprehensive income for the period	-	(3)	630	1,782	2,409
BALANCE AS OF DECEMBER 31, 2013	75,964	1,000,428	(1,073)	12,470	1,087,789

Retained earnings as of December 31, 2013 include an undistributable part amounting to BGN 1,000,428 thousand.

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 31, 2014

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

Vasko Raichev
Registered Auditor
Date: March 31, 2014

SEPARATE STATEMENT OF CASH FLOWS

For the year ended December 31, 2013
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2013	Year ended 31.12.2012 As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ (loss) after taxation		17,030	(40,691)
Adjustments to reconcile profit before taxation to net cash provided by operating activities:			
Allowances for impairment and uncollectability charge for the period		122,253	207,164
Depreciation of property and equipment		14,155	16,575
Amortization of intangible assets		3,237	4,606
Accruals of staff obligations		387	475
Net loss/ (gains) on financial assets available for sale		11,058	(6,854)
Net (gains)/ (loss) on disposal of fixed assets		(219)	1,459
Interest expense on financing activities		271	3,475
Accrued income tax expense/ (benefit)		1,698	(4,160)
Income from dividends from subsidiaries and associates		(1,376)	(2,698)
		168,494	179,351
Change in operating assets:			
Decrease in loans and advances to customers		195,933	103,345
(Increase) in financial assets at fair value through P/L		(475,752)	(342,068)
Decrease/ (increase) in derivatives		1,701	(172)
Decrease/(increase) in other assets		29,915	(13,899)
Change in operating liabilities:			
Increase /(decrease) in amounts due to other banks		33,201	(731,385)
(Decrease) in derivatives		(1,503)	(5)
Increase in amounts due to other customers		445,877	430,125
(Decrease) / increase in other liabilities		(85)	11,504
Income taxes paid		(1,772)	(1,256)
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES		396,009	(364,460)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(3,319)	(9,333)
Purchases of intangible assets		(1,491)	(3,468)
Purchase of financial assets available for sale		(70,268)	(98,870)
Income from sale fixed assets		1,773	4,287
Proceeds from sale and redemption of financial assets available for sale		10,514	21,056
Interest received and dividens from financial assets available for sale		595	8,518
Income from dividends from subsidiaries and associates		1,376	2,698
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(60,820)	(75,112)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		-	14,669
Repayments of bank borrowings		(76,772)	(38,958)
Repayments of subordinated liabilities		(51,198)	(4,145)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(127,970)	(28,434)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		207,219	(468,006)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		960,535	1,428,541
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	1,167,754	960,535

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 31, 2014

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

Vasko Raichev
Registered Auditor
Date: March 31, 2014

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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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 is managed by Board of Directors which as of 31.12.2013 comprises of the following members:

1) Stilian Petkov Vatev, Chairman of the Bord of Directors and Chief Executive Director of UBB AD
2) Radka Ivanova Toncheva, Executive Director of UBB AD and Board Member
3) Panagiotis Georgios Karandreas, Board Member
4) Pavlos Konstantinos Mylonas, Board Member
5) Anastasios Nikiforos Lizos, Board Member
6) Konstantinos Antonios Bratos, Board Member
7) Theodor Valentinov Marinov, Board Member

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

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

In 2013 the Bank's operations were conducted through a Head Office located in Sofia and 181 branches and 19 offices throughout Bulgaria.

Full-time equivalent of employees as of December 2013 was 2,475 (2012: 2,615).
These separate financial statements have been approved for issue by the Board of Directors on March 31, 2014.

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 and applicable in the Republic of Bulgaria.

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

At 31 December 2013, there were no unendorsed standards effective for the year ended 31 December 2013, which might affect these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Bank. Accordingly, UBB'separate financial statements for the year ended 31 December 2013 are prepared in accordance with IFRSs as issued by the IASB.

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

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 deemed cost, as modified by the revaluation of available for sale securities, financial assets and liabilities held for trading, all derivative contracts measured at fair value.

2. BASIS OF PRESENTATION (CONTINUED)

The Bank holds interest in subsidiaries and associates and according to IAS 27 "Consolidated and separate financial statements" prepares consolidated financial statements, approved by Board of Directors on March 31, 2014.

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 and 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, open tax years and litigation. These estimates and assumptions are based on the information available as of the date of the separate 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 3.18.

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 effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IAS 1 "Presentation of Items of Other Comprehensive Income" (Ammendments) (effective for annual periods beginning on or after 1 July 2012). The adoption of the above amendment by the Bank had no financial impact; the amendments to IAS 1 change the grouping of the items presented in Other Comprehensive Income ("OCI"). Items that would be reclassified (or recycled) to profit or loss in the future are presented separately from those in which subsequent reclassification is not allowed. The amendments do not change the nature of the items that are recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods.
  Additionally the amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as the 'statement of profit or loss'. The Bank has not adopted the new terminology and has continued to use the term 'income statement' and 'statement of comprehensive income'.
- IAS 19 (revised) "Employee Benefits" ("IAS 19R") (effective for annual periods beginning on or after 1 January 2013). The amendments:
  - eliminate the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach). As revised, amounts recorded in profit or loss are limited to service cost (current and past service costs (including curtailments) and gains or losses on settlements) and net interest on the net defined benefit liability/(asset). The defined benefit obligation net of plan assets is recorded on the statement of financial position, with changes resulting from remeasurements (comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan asset (excluding interest)) are recognized immediately in OCI, with no subsequent recycling to profit or loss.
  - modify the accounting for termination benefits including distinguishing benefits provided in exchange for service and benefits provided in exchange for termination of employment and affect the recognition and measurement of termination benefits.

2. BASIS OF PRESENTATION (CONTINUED)

- IAS 19 requires retrospective application and the impact from its adoption is presented on the following pages of this note.

- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
  - defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. exit price);
  - sets out in a single IFRS a framework for measuring fair value; and
  - requires disclosures about fair value measurements.

IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value disclosures about those measurements), except in specified circumstances. IFRS 13 does not change when fair value is used, but rather describes how to measure fair value when fair value is required or permitted by IFRS.

The adoption of the above standard resulted in additional disclosures which are presented in Note 38.

- Amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" (Effective for annual periods beginning on or after 1 January 2013). Amends the disclosure requirements in *IFRS 7 Financial Instruments: Disclosures* to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of *IAS 32 Financial Instruments: Presentation*. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The above disclosures did not have impact on the separate financial statements of the Bank.

- Annual Improvements to IFRSs 2009-2011 Cycle (effective for annual periods beginning on or after 1 January 2013), which clarified:
  - the requirements for comparative information in IAS 1 and IAS 34;
  - the classification of certain types of equipment as property, plant and equipment in IAS 16;
  - the accounting for the tax effect of distributions to holders of equity instruments in IAS 32; and
  - the requirements in IAS 34 on segment information for total assets and liabilities.

The Bank has applied these amendments, but they did not have an impact on the separate financial statements.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

- *IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 "Separate Financial Statements"* (Amendment), *IAS 28 "Investments in Associates and Joint Ventures"* (Amendment) (effective for annual periods beginning on or after 1 January 2013, as issued by the IASB or after 1 January 2014 as endorsed by the EU).

  - IFRS 10 provides a single consolidation model and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replaces the consolidation requirements in IAS 27 "Consolidated and Separate Financial Statements" which now only deals with the requirements for separate financial statements and SIC-12 "Consolidation—Special Purpose Entities".

2. BASIS OF PRESENTATION (CONTINUED)

- IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-monetary Contributions by Venturers". It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures. Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.
- IAS 28 "Investments in Associates and Joint Ventures" (2011) supersedes IAS 28 "Investments in Associates" and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The Bank will adopt the above standards on 1 January 2014 in accordance with the EU Regulation 1254/11.12.2012.

- *IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities" (Amendment),* (effective for annual periods beginning on or after 1 January 2013, as issued by the IASB or after 1 January 2014 as endorsed by the EU). The amendments clarify the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The Bank will apply these amendments simultaneously with the adoption of IFRS 10, IFRS 11 and IFRS 12.

- *IAS 32 "Financial Instruments: Presentation" (Amendment)* (effective for annual periods beginning on or after 1 January 2014). The amendment provides clarifications on the application of the offsetting rules.
- *IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 "Separate Financial Statements" (Amendment),* (effective for annual periods beginning on or after 1 January 2014). These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
- *IFRS 9 "Financial Instruments" (No stated effective date).* IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended (a) in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and (b) in November 2013 and introduces a new chapter to IFRS 9 on hedge accounting. Key requirements of IFRS 9:
  - all recognised financial assets that are within the scope of IAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. BASIS OF PRESENTATION (CONTINUED)

  - with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
  - Put in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- *IFRIC "Interpretation 21 Levies" (IFRIC 21)* (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- *IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments)* (Applicable to annual periods beginning on or after 1 January 2014). Amends IAS 36 "Impairment of Assets" to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.
- *IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (Amendment),* (effective for annual periods beginning on or after 1 January 2014). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
- *Annual Improvements to IFRSs 2010-2012 Cycle* (effective for annual periods beginning on or after 1 July 2014). Makes amendments to the following standards:
  - *IFRS 2* - Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'
  - *IFRS 3* — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
  - *IFRS 8* — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
  - *IFRS 13* — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
  - *IAS 16 and IAS 38* — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
  - *IAS 24* — Clarify how payments to entities providing management services are to be disclosed
- *Annual Improvements to IFRSs 2011-2013 Cycle* (effective for annual periods beginning on or after 1 July 2014). Makes amendments to the following standards:
  - *IFRS 1* — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
  - *IFRS 3* — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
  - *IFRS 13* — Clarify the scope of the portfolio exception in paragraph 52
  - *IAS 40* — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. BASIS OF PRESENTATION (CONTINUED)

The amendments that are relevant, to the Bank are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when (i) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and (ii) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Bank has applied a number of new and revised IFRSs (see above), which has resulted in material effects on the information in the separate statement of financial position as at 1 January 2012. In accordance with the amendments to IAS 1, the Bank has not presented a third statement of financial position as at 1 January 2012.

Restatement and reclassification of Financial statements for 2012

As of 1 January 2013 the amended IAS 19 "Employee benefits" is retrospectively applicable. Based on the Bank assessment, the Loss for the period ended 31 December 2012 was reduced by BGN 4 thousand, and other comprehensive income for the year then ended reduced by BGN 1,420 thousand with the corresponding adjustments recognised in the retirement benefit obligation and deferred income tax liabilities/assets. This net effect mainly related to the following adjustments a) full recognition of actuarial losses through other comprehensive income and increase in the net liability; b) immediate recognition of past service costs in profit or loss and a decrease in the net liability and c) reversal of the difference between the gain arising from the expected rate of return on pension plan assets and the discount rate through other comprehensive income.

The Bank chose to present the deffered tax positions as of 31 December 2013 on net basis in the the statement of financial position.

Therefore, the separate statement of financial position, the separate income statement, the separate statement of comprehensive income and the separate statement of changes in equity were restated as follows:

Statement of financial position	As previously reported 2012	Restatements & Reclassifictions	As restated 2012
Deferred tax assets	3,944	1,542	2,402
Total assets	6,347,742	1,542	6,346,200
Deferred tax liabilities	1,542	1,542	-
Retirement benefit obligations	6,259	(1,699)	7,958
Total liabilities	5,277,693	(157)	5,277,850
Retained earnings	983,397	(4)	983,401
Defined benefit obligations	-	1,703	(1,703)
TOTAL SHAREHOLDERS' EQUITY	1,070,049	1,699	1,068,350
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6,347,742	1,542	6,346,200

All amounts are in thousand Bulgarian Levs, except otherwise stated

2. BASIS OF PRESENTATION (CONTINUED)

Income statement	As previously reported 2012	Restatements & Reclassifictions	As restated 2012
General administrative expenses	(172,416)	(4)	(172,412)
LOSS BEFORE TAXATION	(45,699)	(4)	(45,695)
LOSS FOR THE YEAR	(40,695)	(4)	(40,691)

Statement of comprehensive income	As previously reported 2012	Restatements & Reclassifictions	As restated 2012
LOSS FOR THE YEAR	(40,695)	(4)	(40,691)
Gains / (losses) on defined benefit plans, net of tax	-	1,418	(1,418)
Other	-	2	(2)
Total other comprehensive income, net of tax	6,424	1,420	5,004
TOTAL COMPREHENSIVE INCOME, net of tax	(34,271)	1,416	(35,687)

Statement in changes of shareholders' equity	As previously reported 2012	Restatements & Reclassifictions	As restated 2012
Retained earnings	983,397	(4)	983,401
Defined benefit obligations	-	1,703	(1,703)
Total	1,070,049	1,699	1,068,350

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 proportionate basis, using effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

For loans originated by the Bank 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.

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Fee and commission income and expenses

Fees and commissions consist mainly of fees received, respectively paid, for cash and non-monetary transactions, loans, guarantees and letters of credit, and intermediary commissions. Fees and 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 are translated into BGN at the exchange rates set by the Bulgarian National Bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date using the closing rates of exchange of the Bulgarian National Bank.

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

Translation differences on non-monetary financial assets are a component of the change in their fair value.

Significant exchange rates are as follows:

Currency	31.12.2013	31.12.2012
EUR	1.95583	1.95583
USD	1.41902	1.48360

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

3.4 Financial instruments

(a) Financial assets

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

The management determines the classification of the financial assets of the Bank upon their initial recognition in the statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

(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 the following categories: 'financial liabilities at fair value through profit or loss' or 'other financial liabilities' carried at amortized cost. The classification depends on the nature of the financial liabilities and purpose set by the Bank 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 include foreign exchange contracts, forward agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased) and other. Derivative financial instruments are initially recognised in the statement of financial position at fair value and subsequently are re-measured also at their fair value. Derivatives are presented in financial assets when favorable to the Bank and in financial liabilities when unfavorable to the Bank. Fair values are obtained depending on the type of instrument from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models, as appropriate. Where the Bank 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 open risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes, i.e. fair value gains and losses are 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, it becomes a party to the contractual provision of the instrument.

(e) Regular way purchases and sales of financial assets

"Regular way" purchase and sale of financial assets or liabilities based on contract are those that require delivery within the time frame established by regulation or market convention.

Financial instruments that arise by such contracts are 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 only 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 hierarchy of the inputs to the valuation technique, as discussed below fair values reflecting the significance of the valuation elements.

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

The hierarchy of the fair value has the following levels:

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

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

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price times the number of units of the instrument held. Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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

This category has the following two sub-categories:

Trading 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 trading securities are not reclassified into the trading securities category while they are held.

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

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 of the group is provided internally on that basis to key management personnel, for example the board of directors and chief executive officer.
- The financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments and would have to be separated if not in this category.

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

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 the payment is established.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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

(k) Loans and receivables

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

Loans and 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 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 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 costs 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 as interest income over the life of the loan by using the effective interest rate method.

(l) Financial assets available for sale

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

Measurement

Financial assets available for sale are initially recognised at fair value, including transaction costs, and subsequently re-measured at fair value based on quoted bid prices on active markets, dealer price quotations or discounted expected cash flows. Fair values for unquoted equity investments are determined by applying 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 securities are reported in the equity through the other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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 acquisition 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 equity 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 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 Bank about the following loss events:

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

An allowance for loan impairment is reported as a decrease of the carrying amount of a claim in the statement of financial position, whereas for an off-balance sheet item such as a commitment, an allowance for impairment loss is reported in other liabilities. Increase of allowances for loans impairment are made through impairment losses on loans and advances in the 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 amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Financial instruments (continued)

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 of loans.

Financial assets available for sale
Available for sale financial assets are impaired if there is objective evidence that show a significant and prolonged decline in the fair value of the respective assets or group of assets or with regard to financial assets (equity instruments) measured at acquisition cost – when there is evidence that the carrying amount is higher than the expected recoverable amount. In case such evidence is identified, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously 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 in 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

3.6. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank for provision of services or for administrative purposes.

Property and equipment are presented in the financial statements at historical acquisition cost except those acquired before December 31, 2003, which are presented at deemed cost for purpose of first time adoption of IFRS, less accumulated depreciation and impairment loss.

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

Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Property and equipment (continued)

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 5
POS Terminals	Not exceeding 5
Equipment	Not exceeding 5
Servers and personal computers	Not exceeding 4
Furniture and related equipment	Not exceeding 7
Cars	Not exceeding 5
Leasehold improvements	Residual lease term, but not more than 10 years
ATM	Not exceeding 7

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

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

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

3.7. Intangible assets

Intangible assets include computer software and other intangible assets that comprise separately identifiable intangible items. Intangible assets are presented in the financial statements 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 is added to the original cost of the software.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is 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;
- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Intangible assets (continued)

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 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. Leases

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

Operating lease
Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases. The payments made under operating leases are charged to the 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 under lease contracts is recognised on a straight-line basis over the lease term and are presented as 'other operating income/expenses' in the income statement.

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the resulting losses can be made.

3.11. Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and companies, whereby it manages assets or invests funds received in various financial instruments in customer's favour. The Bank receives fees and commissions 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 related to such placements, as it does not guarantee these investments.

3.12. Employee benefits

The employment and social security relations to the employees of the Bank are based on the provisions of the Labour Code (LC) and the effective social security legislation in Bulgaria.

Short-term employee benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms) are recognized as an expense in the 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 post-employment benefit plan that defines an amount of benefit to be provided, determined using a number of economic and demographic assumptions. The most significant assumptions include age, years of service or compensation, life expectancy, the discount rate, expected salary increases and pension rates. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets. The defined benefit obligation and the related costs are calculated by independent actuaries on an annual basis using the projected unit credit method. The present value of the defined obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid and, which have terms to maturity approximating the terms of the related liability, or estimates of rates which take into account the risk and maturity of the related liabilities where a deep market in such bonds does not exist. Service cost (current and past service costs (including curtailments) and gains or losses on settlements) and net interest on the net defined benefit liability/(asset) are charged to the income statement and are included in staff costs. The defined benefit obligation net of plan assets is recorded on the statement of financial position, with changes resulting from remeasurements (comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan asset (excluding interest)) are recognized immediately in OCI, with no subsequent recycling to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Employee benefits

Defined contribution plans

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

3.13. Income taxes

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

Deferred income taxes are provided using the liability method of accounting, under which deferred tax consequences are recognised as a difference between the tax base of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the 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 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 is reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary difference will occur in the same period, from which they can be deducted.

3.14. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 includes share capital, retained earnings from previous years, defined as reserves, undistributed profits formed from first time 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).

3.17. 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 arm's 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 of the Bank. Management believes that the judgments, estimates and assumptions used in the preparation of the Bank's financial statements are appropriate given the factual circumstances as of 31 December 2013.

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 depend 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 33.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Critical judgments and estimates (continued)

Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and are periodically reviewed by Risk Management Department thereafter. Wherever possible, the Bank 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.

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 or in the statement of comprehensive income are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

Allowance for impairment losses on loans and advances

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

This methodology has two primary components: individual allowances and collective allowances and is described in note 3.4. The applied methodology is in accordance of NBG's Group policy, to 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 allowances for impairment losses on loans and advances, management considers factors such as type of loan, credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the calculations and allowances depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgement, management believes that the allowances for impairment losses on loans and advances are reasonable and supportable.

Net current retirement benefit costs

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Critical judgments and estimates (continued)

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

Useful lives of depreciable assets

The Bank'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 decreases the net book value or writes off technically obsolete assets.

Impairment of available-for-sale financial assets

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

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 31.12.2013	As of 31.12.2012
Cash in hand	136,272	150,267
Mandatory reserve with the Central Bank	29,337	19,558
Current account with the Central Bank	281,450	569,346
TOTAL	447,059	739,171

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

Mandatory reserve is part of the required reserves in the Central Bank, which also include the current account with BNB. 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 2013, cash in hand amounting to 50% of their carrying amount is recognized by BNB as part of the required reserves for regulatory purposes.

All amounts are in thousand Bulgarian Levs, except otherwise stated

5. LOANS AND ADVANCES TO BANKS

	As of 31.12.2013	As of 31.12.2012
Nostro accounts	24,005	32,849
Interbank placements	630,410	137,731
Securities purchased under agreements to resell	-	46,736
Other loans and advances to banks	66,280	4,048
TOTAL	720,695	221,364
Included in cash equivalents (note 25)	720,695	221,364

6. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	As of 31.12.2013	As of 31.12.2012
Individuals		
Overdrafts	22,970	26,066
Credit cards	166,678	174,973
Mortgages	1,152,325	1,225,854
Consumer loans	875,614	953,473
	2,217,587	2,380,366
Corporate entities		
Non-bank financial institutions	98,529	104,280
Corporate customers	2,681,603	2,777,931
Government and agencies	26,432	9,862
	2,806,564	2,892,073
TOTAL LOANS AND ADVANCES, GROSS	5,024,151	5,272,439
Less: allowance for impairment and uncollectability	(794,958)	(720,858)
LOANS AND ADVANCES TO CUSTOMERS	4,229,193	4,551,581
Including loans pledged under bank loans (note 16)	45,192	46,267

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

Finance lease receivables are as follows;

	As of 31.12.2013	As of 31.12.2012
Not later than 1 year	38,905	-
Later than 1 year but not later than 5 years	53,647	-
Later than 5 years	1,435	-
Gross investment in finance leases, receivable	93,987	-
Less: Unearned future finance income on finance leases	(7,714)	-
Net investment in finance leases	86,273	-

The net investment in finance leases may be analyzed as follows:	As of 31.12.2013	As of 31.12.2012
Not later than 1 year	34,952	-
Later than 1 year but not later than 5 years	49,967	-
Later than 5 years	1,354	-
Finance lease receivables	86,273	-
Allowance for uncollectible minimum lease payments receivable included in the provision for loan losses amounts to:	(110)	-

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

In 2013, the Bank has entered into an agreement to contribute funding Interlease AD on receivables under financial leases granted to third parties in the amount of BGN 116,236 thousand on the date of transfer of risk on these receivables.

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

	BGN'000
BALANCE AS OF JANUARY 1, 2012	(557,568)
Allowances for impairment and uncollectability charge (Note 34)	(212,255)
Effect from expected cash flows from interests on non-performing loans	5,518
Loans and advances written off as unrecoverable	43,447
BALANCE AS OF DECEMBER 31, 2012	(720,858)
Allowances for impairment and uncollectability charge	(125,664)
Effect from expected cash flows from interests on non-performing loans	6,397
Loans and advances written off as unrecoverable	45,167
BALANCE AS OF DECEMBER 31, 2013	(794,958)

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of 31.12.2013	As of 31.12.2012
Government securities	333,652	246,039
Foreign government securities listed on official stock markets	93,769	3,746
Debt securities of foreign issuers listed on official stock markets	519,173	221,059
Shares listed on official stock markets	6	4
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	946,600	470,848

Total financial assets at fair value by type of currency and interest rate are as follows:

As of 31.12.2013

Currency	Fixed interest	Floating interest	Non Interest bearing	Total
BGN	207,770	25	-	207,795
USD	131,530	23,200	-	154,730
EUR	509,798	48,565	-	558,363
GBP	25,712	-	-	25,712
TOTAL	874,810	71,790	-	946,600

As of 31.12.2012

Currency	Fixed interest	Floating interest	Non Interest bearing	Total
BGN	145,525	29	-	145,554
USD	90,376	25,279	-	115,655
EUR	179,261	13,644	-	192,905
GBP	16,734	-	-	16,734
TOTAL	431,896	38,952	-	470,848

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

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, 2013 securities amounting to BGN 138,954 thousand (2012: BGN 76,472 thousand) are 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.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2013			31.12.2012		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives, incl.:						
Currency forward agreements	75,413	14	32	372,602	1,393	1,463
Currency swaps	8,784	35	26	67,715	357	112
Interest rate derivatives - OTC	3,129	-	14	-	-	-
TOTAL	87,326	49	72	440,317	1,750	1,575

The concluded contracts for derivative financial instruments include short-term currency forwards and currency swaps. During 2013 and 2012 the Bank has not used derivatives for hedging purposes.

9. FINANCIAL ASSETS AVAILABLE-FOR-SALE

Debt securities available for sale - at fair value	As of 31.12.2013	As of 31.12.2012
Bulgarian government securities	182,668	143,991
Corporate bonds		
Listed on official stock markets	31,097	19,226
Unlisted	5,779	6,568
	36,876	25,794
Equity securities available for sale - at fair value		
Equity securities in local entities		
Unlisted	5,447	5,436
	5,447	5,436
Equity securities in foreign entities		
Listed on official stock markets	8,747	5,599
Unlisted	12,213	12,336
	20,960	17,935
Equity shares in mutual funds and investment companies	5,455	4,768
TOTAL FINANCIAL ASSETS AVAILABLE-FOR-SALE	251,406	197,924

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Total financial assets available for sale by type of currency and interest rate are as follows:

As of 31.12.2013

Currency	Fixed interest	Floating interest	Non Interest bearing	Total
BGN	66,096	-	16,298	82,394
USD	70,951	-	8,607	79,558
EUR	68,676	13,821	6,957	89,454
TOTAL	205,723	13,821	31,862	251,406

As of 31.12.2012

Currency	Fixed interest	Floating interest	Non Interest bearing	Total
BGN	14,301	-	10,433	24,734
USD	78,346	-	3,379	81,725
EUR	57,913	19,225	14,327	91,465
TOTAL	150,560	19,225	28,139	197,924

Securities available for sale include medium-and long-term securities, with no significant concentrations in terms of maturities and securities issues.

Movements in financial assets available-for-sale

	Financial assets available for sale
BALANCE AS OF JANUARY 1, 2012	115,352
Exchange differences on monetary assets	(911)
Additions	98,870
Sold/matured during the period	(21,056)
Net change in accrued interest	1,364
Increase changes in fair value	4,305
BALANCE AS OF DECEMBER 31, 2012	197,924
Exchange differences on monetary assets	(3,248)
Additions	59,754
Sold/matured during the period	-
Net change in accrued interest	(1,406)
Decrease changes in fair value	(1,618)
BALANCE AS OF DECEMBER 31, 2013	251,406

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, 2013 (December 31, 2012, respectively) of the securities reclassified in 2008, the fair value gain that would have been recognized in the income statement in 2008, if those securities were not reclassified, and the interest income recognized in the income statement.

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2013	Fair value at December 31, 2013	Fair value gain that would have been recognised in P&L in 2013 if not reclassified	Interest income/dividends recognised in P&L in 2013	Impairment (loss) recognised in P&L in 2013
Government securities	33,055	32,815	32,815	(958)	305	-
Corporate bonds	32,449	12,738	12,738	42	1,494	(3,598)
Equity shares in mutual funds	6,664	5,455	5,455	686	-	-
	72,168	51,008	51,008	(230)	1,799	(3,598)

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Type of instrument	Amount reclassified (fair value at date of reclassification)	Carrying amount at December 31, 2012	Fair value at December 31, 2012	Fair value gain that would have been recognised in P&L in 2012, if not reclassified	Interest income/ dividends recognised in P&L in 2012	Impairment (loss) recognised in P&L in 2012
Government securities	33,055	39,841	39,841	692	267	
Corporate bonds	32,449	19,032	19,032	(804)	990	(3,066)
Equity shares in mutual funds	6,664	4,768	4,768	350	-	(172)
	72,168	63,641	63,641	238	1,257	(3,238)

10. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

In 2013 there are not any changes in Investments in subsdiaries and associates owned by the Bank.

11. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of December 31, 2013 are as follows:

	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
COST					
As of January 1, 2013	49,140	161,048	210,188	53,965	264,153
Additions	653	2,666	3,319	1,491	4,810
Disposals	(28)	(7,973)	(8,001)	(756)	(8,757)
Transfers	-	-	-	(1)	(1)
Impairment	-	-	-	-	-
As of December 31, 2013	49,765	155,741	205,506	54,699	260,205
Including assets with low cost	-	1,928	1,928	-	1,928
DEPRECIATION/ AMORTIZATION					
As of January 1, 2013	30,989	117,703	148,692	46,493	195,185
Charge for 2013	2,727	11,428	14,155	3,237	17,392
Depreciation charged on disposals	(4)	(6,583)	(6,587)	(617)	(7,204)
As of December 31, 2013					
Including assets with low cost	33,712	122,548	156,260	49,113	205,373
NET BOOK VALUE	16,053	33,193	49,246	5,586	54,832

All amounts are in thousand Bulgarian Levs, except otherwise stated

11. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of December 31, 2012 are as follows:

COST	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets	Total
As of January 1, 2012	47,979	164,589	212,568	57,727	270,295
Additions	1,161	8,172	9,333	3,468	12,801
Disposals	-	(11,384)	(11,384)	(6,669)	(18,053)
Transfers	-	-	-	(561)	(561)
Impairment	-	(329)	(329)	-	(329)
As of December 31, 2012	49,140	161,048	210,188	53,965	264,153
Including assets with low cost	-	1,928	1,928	-	1,928
DEPRECIATION/AMORTIZATION					
As of January 1, 2012	28,248	110,403	138,651	48,550	187,201
Charge for 2012	2,703	13,872	16,575	4,606	21,181
Depreciation charged on disposals	38	(6,572)	(6,534)	(6,663)	(13,197)
As of December 31, 2012	30,989	117,703	148,692	46,493	195,185
Including assets with low cost	-	1,928	1,928	-	1,928
NET BOOK VALUE	18,151	43,345	61,496	7,472	68,968

12. 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 31.12.2013	As of 31.12.2012
Deferred tax assets:		
Tax loss carried forward	369	2,755
Retirement benefit obligations	665	626
Other liabilities unused paid leave	556	510
Provisions for contingent liabilities	1	53
	1,591	3,944
Deferred tax liabilities:		
Securities – available for sale	(524)	(524)
Fixed assets depreciation	(541)	(1,018)
	(1,065)	(1,542)
DEFERRED TAX ASSETS, NET	526	2,402

13. OTHER ASSETS

	As of 31.12.2013	As of 31.12.2012
Assets acquired against debt	38,205	32,152
Receivables from sale of asset	-	29,972
Income tax to be recovered	1,950	8,400
VAT recoverable	1,402	603
Prepaid expenses	2,202	3,388
Other assets	12,353	8,958
TOTAL	56,112	83,473

All amounts are in thousand Bulgarian Levs, except otherwise stated

13. OTHER ASSETS (CONTINUED)

Assets acquired against debt	As of 31.12.2013	As of 31.12.2012
Land	7,513	3,941
Buildings	30,153	27,334
Machinery and equipment	525	842
Other	14	35
	38,205	32,152

14. DUE TO BANKS

	As of 31.12.2013	As of 31.12.2012
Sight deposits	36,015	10,276
Term deposits	22,050	13,366
REPOS with banks	27,250	27,360
Other due to banks	275	1,387
TOTAL	85,590	52,389
Incl. term deposits of the Parent Company (NBG S.A.)	35,919	18,749

15. DUE TO CUSTOMERS

Analysis by customers

	As of 31.12.2013	As of 31.12.2012
Individuals		
Current/demand accounts	407,896	358,449
Saving accounts	1,366,269	1,020,565
Term deposits	1,793,753	2,018,553
	3,567,918	3,397,567
Non-bank financial institutions		
Current/demand accounts	367,658	121,375
Term deposits	107,482	52,171
Repo	-	-
	475,140	173,546
Corporate entities		
Current/demand accounts	659,416	566,326
Term deposits	411,272	504,509
	1,070,688	1,070,835
Government entities		
Current/demand accounts	81,129	97,235
Term deposits	8,806	18,621
	89,935	115,856
TOTAL	5,203,681	4,757,804

All amounts are in thousand Bulgarian Levs, except otherwise stated

16. BANK BORROWINGS

UBB has signed long term credit facilities with the European Bank for Reconstruction and Development (EBRD) for amount of EUR 15 million for Energy Efficiency and Renewable Energy Facility. All facilities are bound with EBRD Grant schemes for the Bank and its clients. As of December 31, 2013 these loans have a fluctuating interest rate plus margin and their maturity is up to January 2014.

In December 2010, UBB has signed a contract with EBRD for financing existing or new clients of the UBB, including private enterprises, firms, sole proprietors, or other legal entities formed under the laws of the Republic of Bulgaria, as well as individuals registered or otherwise recognised as entrepreneurs in accordance with such laws for EUR 150 million. As of December 31, 2013 the amount of EUR 75 million of the loan is utilized. The contract is with floating interest rate plus percentage, utilization deadline up to two years from the date of the loan contract and maturity date till December 2014.

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

In 2009, UBB has signed a contract with the Bulgarian Development Bank for working capital financing to farmers for BGN 15 million. At December 31, 2009 the entire amount of the loan is utilized. The contract is with fixed interest rate and maturity till April 2014. The obligation is secured with a pledge of receivables from final borrowers, through funding provided under this Agreement, with a total principal amount of BGN 15 million.

	As of 31.12.2013	As of 31.12.2012
Credit lines from banks		
In Bulgarian Levs	45,192	45,192
In EUR	66,163	142,935
TOTAL	111,355	188,127

Analysis by utilization

Facilities	Currency	As of 31.12.2013	As of 31.12.2012
Energy efficiency			
Corporate/municipalities	EUR	7,922	26,184
		7,922	26,184
Agriculture	BGN	15,188	15,188
		15,188	15,188
SME finance	BGN	30,004	30,004
	EUR	58,241	116,751
		88,245	146,755
TOTAL		111,355	188,127

All amounts are in thousand Bulgarian Levs, except otherwise stated

17. SUBORDINATED LIABILITIES

Subordinated loans	Carrying amount 2013	Carrying amount 2012	Fair value 2013	Fair value 2012
In EUR	203,741	254,668	203,741	254,668
TOTAL	203,741	254,668	203,741	254,668

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 and the contractual repayment schedule contains five equal annual payments amounting to BGN 50,852 thousand for the period 2013-2017.

18. RETIREMENT BENEFIT OBLIGATIONS

	As of 31.12.2013	As of 31.12.2012
Amount recognized in statement of financial position		
Present value of unfunded obligations	7,719	7,958
Net liability in BS	7,719	7,958

Amount recognized in Profit and Loss	As of 31.12.2013	As of 31.12.2012
Service cost	403	295
Net interest on the net defined benefit liability	317	361
Regular P&L Charge	720	656
Settlement/ Curtailment/ Termination (gain)	(39)	(1)
Total P&L Charge	681	655

Reconciliation of benefit obligation	As of 31.12.2013	As of 31.12.2012
DBO at start of period	7,958	6,066
Service cost	403	295
Interest cost	317	361
Benefits paid directly by the company	(290)	(181)
Settlement/ Curtailment/ Temimation gain	(39)	(1)
Actuarial gain - financial assumptions	(313)	1,828
Actuarial gain - experience	(317)	(410)
DBO at the end of period	7,719	7,958

	As of 31.12.2013	As of 31.12.2012
Cumulative amount recognized in the OCI	(1,073)	(1,703)

All amounts are in thousand Bulgarian Levs, except otherwise stated

18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Remeasurements	As of 31.12.2013	As of 31.12.2012
Liability gain/ (loss) due to changes in assumptions	313	(1,828)
Liability experiance gain arising during the year	317	410
Total actuarial gain/ (loss) recognised in OCI	630	(1,418)
Other adjustments recognised in OCI	-	-
Total amount recognised in OCI over the period	630	(1,418)

Movements in Liabilityin statement of financial position	As of 31.12.2013	As of 31.12.2012
Net Liability in statement of financial position at the beginning of the period	7,958	6,066
Benefits paid directly	(290)	(181)
Total expense recognised in the income statement	681	655
Total amount recognised in the OCI	(630)	1,418
Net Liability in statement of financial position	7,719	7,958

Cash flows	As of 31.12.2013	As of 31.12.2012
Expected contribution to the plan for the next financial year		
Expected benefits paid by the plan for the next financial year	143	74

Assumptions	As of 31.12.2013	As of 31.12.2012
Discount rate	3.60%	4.00%
Price inflation	2.30%	3.00%
Rate of compensation increase	4.30%	5.00%
Rate of pension increase	0.00%	0.00%
Plan duration	13.68	14.28

Expected P&L	
Service cost	382
Net interest on the net defined benefit liability/(asset)	276
Expected P&L Charge for the next year	658

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 31.12.2013	As of 31.12.2012
Amounts due to related paries under Funded participation agreement	5,538	8,267
Creditors and suppliers	4,792	5,116
Payroll related accruals	3,640	124
Amounts due to government agencies	695	64
Other provisions	490	490
Deferred income	44	59
Provisions for issued letters of guarantees	9	44
Other	36	1,165
TOTAL	15,244	15,329

All amounts are in thousand Bulgarian Levs, except otherwise stated

20. SHARE CAPITAL

The total authorized number of ordinary shares at December 31, 2013 and 2012 is 75,964,082 shares with a par value of BGN 1 per share. All issued shares are fully paid, ranked equally and have one voting right each.

21. EARNINGS PER SHARE

	As of 31.12.2013	As of 31.12.2012
Profit/ (loss) for the year	17,030	(40,691)
Weighted average number of ordinary shares outstanding	75,964,082	75,964,082
EARNINGS PER SHARE	0.22	(0.54)

22. RETAINED EARNINGS

	As of 31.12.2013	As of 31.12.2012
Accummulated prior years' earnings at beginning of period	983,401	1,024,094
Other movements	(3)	(2)
Net profit/ (loss) for the period	17,030	(40,691)
TOTAL	1,000,428	983,401

Components of retained earnings are:

	As of 31.12.2013	As of 31.12.2012
General reserves	976,640	1,016,434
Net profit/ (loss) for the period	17,030	(40,691)
Other	6,758	7,658
TOTAL	1,000,428	983,401

23. REVALUATION RESERVE

	As of 31.12.2013	As of 31.12.2012
Revaluation reserve - AFS investments		
At the beginning of the period	10,688	4,264
Changes in fair value of AFS investmets, net of tax	5,380	3,206
Impairment (loss)/ gain on AFS investments	(3,598)	3,238
Net gains transferred to statement of income statement	-	(20)
TOTAL	12,470	10,688

All amounts are in thousand Bulgarian Levs, except otherwise stated

24. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As of December 31, 2013 there were several outstanding legal proceedings against the Bank. Management took a decision based on the existing information, that it exists a probability for one of them to suffer losses and the net present value of the probable future cash outflow is amounting to BGN 490 thousand.

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 credits to customers:

	As of 31.12.2013	As of 31.12.2012
Undrawn credit commitments	599,335	438,328
Guarantees, documentary and commercial letters of credit	233,177	151,544
TOTAL	832,512	589,872

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 31.12.2013	As of 31.12.2012
Up to 1 year	65	4,725
More than 1 year and less than 5 years	830	1,466
More than 5 years	105	-
TOTAL	1,000	6,191

25. CASH AND CASH EQUIVALENTS

	As of 31.12.2013	As of 31.12.2012
Cash in hand	136,272	150,267
Current account with the Central Bank	281,450	569,346
Mandatory reserve with the Central Bank	29,337	19,558
Loans and advances to banks	720,695	221,364
TOTAL	1,167,754	960,535

26. NET INTEREST INCOME

	Year ended 31.12.2013	Year ended 31.12.2012
A. Interest and similar income		
Loans and advances to banks	2,574	1,428
Loans and advances to customers		
Loans and advances to individuals	*198,814*	*218,828*
Loans and advances to enterprises	*151,113*	*179,177*
Loans and advances to financial institutions	*3,498*	*3,070*
Financial assets at fair value through profit or loss	14,038	7,034
Investment securities – available for sale	8,211	7,976
TOTAL INTEREST INCOME	378,248	417,513
B. Interest expenses and similar charges		
Due to banks	(72)	(1,769)
Deposits of customers		
Deposits of individuals	*(124,107)*	*(134,963)*
Deposits of enterprises	*(24,627)*	*(25,181)*
Deposits of financial institutions	*(9,755)*	*(16,256)*
Bank borrowings	(5,913)	(8,720)
Subordinated liabilities	(2,018)	(3,476)
TOTAL INTEREST EXPENSES	(166,492)	(190,365)
NET INTEREST MARGIN	211,756	227,148

All amounts are in thousand Bulgarian Levs, except otherwise stated

27. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2013	Year ended 31.12.2012
A. Fee and commission income		
Transfer of funds and cash transactions	16,850	17,672
Deposits accounts fees and commissions	25,057	23,838
Credit and debit cards related fees and commissions	22,337	22,724
Loans and advances to customers	7,362	7,804
Guarantees and letters of credit	3,081	1,943
Other fees and commissions	9,393	9,995
	84,080	83,976
B. Fee and commission expenses		
Credit and debit cards related fees and commissions	(3,845)	(4,600)
Transfer of funds	(506)	(593)
Other fees and commissions	(865)	(817)
	(5,216)	(6,010)
NET FEE AND COMMISSION INCOME	78,864	77,966

28. NET TRADING INCOME

	Year ended 31.12.2013	Year ended 31.12.2012
Gains on Foreign exchange		
Foreign exchange contracts	10,616	13,555
Position in foreign assets/liabilities	(2,594)	(2,587)
	8,022	10,968
Gains on Interest rate instruments		
Government securities	2,938	12,400
Corporate debt securities	179	134
Interest rate swaps	(14)	-
	3,103	12,534
NET TRADING INCOME	11,125	23,502

29. NET OTHER OPERATING INCOME

	Year ended 31.12.2013	Year ended 31.12.2012
Loss on disposal of fixed assets, net	(392)	(892)
Gain/ (loss) on disposal of intangible assets	611	(567)
Rental income	742	514
Other income, net	1,118	2,950
IT Service fees	295	-
TOTAL	2,374	2,005

All amounts are in thousand Bulgarian Levs, except otherwise stated

30. NET ALLOWANCES FOR IMPAIRMENT AND UNCOLLECTABILITY

The net charge of allowances for impairment and uncollectability for the year ended December 31, 2013 and 2012 is as follows:

	Year ended 31.12.2013	Year ended 31.12.2012
Loans and advances to customers	(168,446)	(213,716)
Recoveries of written off debts	45,167	9,790
Collection expenses	4,624	-
Impairment of Investment securities available for sale	(3,598)	(3,238)
TOTAL	(122,253)	(207,164)

In 2013 the Bank made a decision to impair corporate bonds with net book value BGN 3,598 thousand as of December 31, 2013 due to non-compliance with the obligations and actions taken to enforce repayment. In 2012 the Bank impaired corporate bonds available-for-sale with net book value BGN 3,238 thousand as of December 31, 2012.

31. GENERAL ADMINISTRATIVE EXPENSES

	Year ended 31.12.2013	Year ended 31.12.2012
Personnel costs	58,333	56,791
Deposit Insurance Premium	22,294	20,840
Occupancy expenses	17,448	16,127
Depreciation/Amortization charge	17,391	21,181
Rentals	13,397	15,238
Duties and Taxes	10,090	10,957
Third party remuneration and fees	7,143	10,312
Marketing and advertisement	4,124	4,005
Telecommunications	3,023	3,398
Insurance costs	2,763	2,880
Stationary - other consumables	2,606	3,205
Services related to T24 and SAP	2,356	-
Business trips	1,409	1,504
Impairment of assets	207	3,901
Subscriptions - Contributions	67	94
Provision for legal cases	-	490
Provision charges for forfeiture of letters of guarantee	(35)	(501)
Other (Audit, consulting, legal fees etc.)	2,513	1,990
TOTAL	165,129	172,412

Personnel costs consists of:	Year ended 31.12.2013	Year ended 31.12.2012
Wages and Salaries	47,299	46,959
Social security costs	7,334	6,926
Accrued bonuses / reintegrated	910	287
Other staff costs	1,113	1,035
Pension costs - defined contribution plans	996	928
Pension costs - defined benefit plans	681	656
Current service cost	403	295
Interest cost	317	361
Loss on curtailment	(39)	-
TOTAL	58,333	56,791

All amounts are in thousand Bulgarian Levs, except otherwise stated

31. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

The expense incurred for external audit services for 2013 was as follows: BGN 214 thousand for audit of the annual financial statements and BGN 221 thousand for other audit-related services.

32. INCOME TAXES

	Year ended 31.12.2013	Year ended 31.12.2012
Current tax expense	2,538	(2,755)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(707)	(1,879)
Tax effects from previous periods	(153)	(370)
TOTAL	1,678	(5,004)

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

	Year ended 31.12.2013	Year ended 31.12.2012
Profit/ (loss) before taxation	18,708	(45,695)
Prima facie tax calculated at an applicable tax rate (10% for 2013 and 2012)	1,871	(4,570)
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	(40)	(64)
Tax effects from previous periods	(153)	(370)
TOTAL	1,678	(5,004)
Effective income tax rate	8.97 %	10,95%

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, 2013 and as of December 31, 2012 are calculated using the tax rate of 10%, enacted as of that date to be effective for 2014 and 2013.

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 activity:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Risk related to the Greek crisis and the European debt crisis

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

In terms of risk management the Bank aims to implement and maintain practices consistent with the relevant guidelines and regulations established by the Basel Committee on Banking Supervision Committee of European Banking Supervisors, the Bulgarian National Bank, and all decisions of the competent authorities supervising the Bank and Group companies.

Framework for Risk Management of the Bank is performed by several different bodies. In particular:

- Board of Directors - determines the strategy for managing the different types of risks;
- Risk Management Committee - approves the capital strategy, risk profile and tolerance (appetite), changes in the definitions of the Bank for various types of risk and risk-return. Management Committee approves credit risk policies, policies for managing market risk, interest rate, liquidity and operational risk. The Committee for Risk Management establishes a system of internal limits for the Bank to manage the various types of risks - market, credit, operational, interest rate, liquidity.
- Audit Committee of the Bank - provides independent external review and evaluation of control systems and risk management;
- The Committee for managing the assets and liabilities (ALCO) - coordinates the management of assets and liabilities and the exercise of centralized control over the liquidity of the bank. The governance role of ALCO is associated with risky situations arising from the structure of the balance sheet.
- Executive Credit Committee - approves credit procedures, internal rules and policies for credit risk of the specialized business units in the bank, including the system of internal limits for credit risk control.
- Specialized Internal Audit Service - apply subsequent independent monitoring of all control systems of various types of risks;
- Risk Management Department - monitors current structure of assets and liabilities of the bank to comply with the predetermined limits by type of risk, assesses the risks identified, implements early warning systems and conducts regular stress tests, assesses capital adequacy for internal and regulatory purposes, regarding the risks undertaken by the Bank risks;
- Regulatory Compliance Department - observe from the Bank of legislation and regulatory requirements.

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 counterparty 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 to which banks are required to provide relevant information. Regarding the scoring of retail clients, the Bank generally uses quantitative criteria as well as information supplied by the Central Loan Register.

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 from Risk Management Department together within the Risk Management Department of NBG, Athens are charged with the development of internal rating and other models under Basel II. The Bank anticipates the new models to be validated by Central Bank at the next reporting periods.

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

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Bank monitors credit risk concentration on an aggregate basis (i.e., in respect of all on and off balance sheet items). 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.

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 repricing 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.

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

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 fulfill 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.

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.

Operational risk

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

Framework for operational risk management is a set of policies and procedures to monitor, measure and reduce exposure to operational risk of the Bank, including management Strategy for operational risk, Policy and methodology for operational risk management and Riles for their implementation. The Bank has established a special functional structure for operational risk management within the Risk Management Department that is independent of the business and operating units as well as the function of specialized internal audit unit. The unit's responsibility is to determine assessment methods and perform measurement and analysis of operational risk. The responsibility for collecting and reporting information on lost and taking measures to reduce and prevent risks is in the functions of the heads of the operational and functional units within the Bank.

Risk related to the Greek crisis and the European debt crisis

As disclosed in Note 1, the Bank is part of NBG Group. Although the NBG Group's deposits in Greece increased by EUR 4.8 billion in 2013, the crisis in the Greek economy, in conjunction with the strict international supervisory rules, continue to restrict the NBG Group's access to liquidity from other financial institutions and therefore the Eurosystem remains a major source of liquidity for the NBG Group.
Despite the negative global trends in the financial services industry, UBB remained well-capitalized, highly liquid, and primarily funded by domestic deposits. The Bank has no significant exposure to any foreign European government debt. UBB has no significant placements or significant financial commitments with its Parent company. As disclosed in Note 40, as of December 31, 2013 the Bank has received deposits due to its Parent amounting to BGN 35,919 thousand with a maturity of up to 3 months. The recent stress test for internal purposes, performed under strict criteria set by the BNB, demonstrated that the Bank is adequately capitalized and sufficiently liquid, and management believes that any eventual withdrawal of the deposits by the Parent would not affect significantly the liquidity of UBB. In addition, as disclosed in Note 17 and Note 40, the Bank has received a subordinated loan from its Parent amounting to BGN 203,741 thousand as of December 31, 2013 (representing 3.62% of the total liabilities of the Bank). The subordinated term debt is used as supplementary capital reserves to meet the requirements of the Bulgarian National Bank regulations on capital adequacy. The maturity of this debt is until November 2017 and the contractual repayment schedule contains five equal annual payments amounting to BGN 50,852 thousand for the period 2013-2017. The loan cannot be withdrawn by the Parent without the prior consent of the Bulgarian National Bank. The capital base with a capital adequacy ratio of 14.81%, as disclosed in Note 39, enables the Bank to face any reasonably foreseeable adversity. Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

34. LOANS AND ADVANCES – CREDIT RISK ANALYSIS

Loans and advances are summarised as follows:

	As of 31.12.2013		As of 31.12.2012	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Without past due	2,721,164	720,695	2,945,106	221,364
Past due	649,946	-	663,270	-
Past due up to 30 days	405,285	-	415,989	-
Past due 30-60 days	101,929	-	153,594	-
Past due 60-90 days	142,732	-	93687	-
Impaired	1,653,041	-	1,664,063	-
GROSS LOANS	5,024,151	720,695	5,272,439	221,364
Less: allowance for impairment	(794,958)	-	(720,858)	-
NET LOANS	4,229,193	720,695	4,551,581	221,364

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

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 31.12.2013			As of 31.12.2012		
	Past due up to 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	2,184	159	343	2,252	536	117
Credit cards	6,174	1,053	545	3,505	1,257	1,408
Consumer loans	53,670	16,798	18 508	68,552	23,697	19,878
Mortgages	86,734	38,760	26 281	103,347	50,437	41,005
	148,762	56,770	45 677	177,656	75,927	62,408
Corporate loans						
Large customers	148,716	8,982	3 273	102,002	36,430	5,523
SMEs	107,688	35,986	31 964	136,192	41,237	25,655
Micro	119	191	217	139	-	101
	256,523	45,159	35,454	238,333	77,667	31,279
TOTAL	405,285	101,929	81,131	415,989	153,594	93,687

Loans and advances to customers according to the allowed past due status and impairment estimating method as of December 31, 2013 and 2012 are as follows:

As of 31.12.2013	Loans and advances to customers						
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor individually impaired	137,539	581,592	755,498	705,125	604,901	2,784,655	720,695
Past due but not individually impaired	29,139	316,992	202,869	483,630	233,352	1,265,982	-
Individually impaired	-	-	193,958	379,783	399,773	973,514	-
TOTAL Gross	166,678	898,584	1,152,325	1,568,538	1,238,026	5,024,151	720,695
Less: allowance for individually impaired loans	-	-	*(94,336)*	*(232,819)*	*(190,156)*	*(517,311)*	-
Less: allowance for collectively impaired loans	(20,022)	(155,563)	*(8,653)*	*(92,543)*	*(866)*	*(277,647)*	-
TOTAL Allowance for impairment	(20,022)	(155,563)	(102,989)	(325,362)	(191,022)	(794,958)	-
TOTAL NET LOANS	146,656	743,021	1,049,336	1,243,176	1,047,004	4,229,193	720,695

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

As of 31.12.2012	Loans and advances to customers						
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	Due from banks
Neither past due nor impaired	140,196	632,130	783,923	612,772	776,085	2,945,106	221,364
Past due but not impaired	34,777	347,409	251,677	517,964	273,787	1,425,614	-
Individually impaired	-	-	190,254	372,068	339,397	901,719	-
TOTAL Gross	174,973	979,539	1,225,854	1,502,804	1,389,269	5,272,439	221,364
Less: allowance for individually impaired loans	-	-	*(84,031)*	*(196,085)*	*(161,725)*	*(441,841)*	-
Less: allowance for collectively impaired loans	*(27,747)*	*(155,290)*	*(11,973)*	*(83,228)*	*(779)*	*(279,017)*	-
TOTAL Allowance for impairment	(27,747)	(155,290)	(96,004)	(279,313)	(162,504)	(720,858)	-
TOTAL NET LOANS	147,226	824,249	1,129,850	1,223,491	1,226,765	4,551,581	221,364

Loans neither past due, nor individually impaired according to their credit quality as of December 31, 2013 and 2012:

Rating As of 31.12.2013	Loans and advances to customers						Due from banks
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	
Satisfactory risk	136,843	574,768	748,158	672,021	581,296	2,713,086	720,695
Watch list	600	5,531	3,973	29,892	23,605	63,601	-
Substandard	66	378	559	1,143	-	2,146	-
Unrated	30	915	2,808	2,069	-	5,822	-
Total loans	137,539	581,592	755,498	705,125	604,901	2,784,655	720,695

Rating As of 31.12.2012	Loans and advances to customers						Due from banks
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans	
Satisfactory risk	139,123	62, 764	763,401	576,455	704,009	2,805,752	221,364
Watch list	922	6,922	5,656	29,660	67,084	110 244	
Substandard	113	593	475	2,888		4,069	
Unrated	38	1,851	14,391	3,769	4,992	25,041	
Total loans	140,196	632,130	783,923	612,772	776,085	2,945,106	221,364

Ageing analysis of loans past due but not individually impaired as of December 31, 2013 and 2012 is presented in the tables below:

Time band As of 31.12.2013	Loans and advances to customers					
	Credit Cards	Consumer	Mortgage	Small business loans	Corporate loans	Total Loans
Past due up to 30 days	6,174	55,854	86,734	107,800	140,002	396,564
Past due 31-60 days	1,053	16,957	38,760	36,171	8,234	101,175
Past due 61-90 days	545	18,851	25,836	32,181	-	77,413
Past due 91-180 days	1,698	12,981	15,175	40,083	33,261	103,198
Past due 180 days- 365 days	1,528	16,102	8,335	20,006	5,616	51,587
Past due 1-2 years	5,994	24,954	1,445	62,788	9,137	104,318
Past due over 2 years	12,147	171,293	26,584	184,601	37,102	431,727
TOTAL	29,139	316,992	202,869	483,630	233,352	1,265,982

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Time band As of 31.12.2012	Loans and advances to customers					
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	3,505	70,943	103,347	136,101	88,119	402,015
Past due 31-60 days	1,257	24,233	50,437	30,777	36,430	143,134
Past due 61-90 days	1,408	20,096	40,656	21,967	5,523	89,650
Past due 91-180 days	1,762	16,767	13,969	38,848	21,440	92,786
Past due 180 days- 365 days	1,825	19,587	8,746	56,941	23,892	110,991
Past due 1-2 years	4,340	14,760	3,397	70,525	36,093	129,115
Past due over 2 years	20,680	181,023	31,125	162,805	62,290	457,923
TOTAL NET	34,777	347,409	251,677	517,964	273,787	1,425,614

Ageing analysis of loans past due and individually impaired as of December 31, 2013 and 2012 is presented in the tables below:

Time band As of 31.12.2013	Loans and advances to customers					
	Credit Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	-	-	-	41	8,714	8,755
Past due 31-60 days	-	-	-	6	748	754
Past due 61-90 days	-	-	445	-	3,273	3,718
Past due 91-180 days	-	-	19,768	55	-	19,823
Past due 180 days- 365 days	-	-	13,364	2,077	-	15,441
Past due 1-2 years	-	-	4,476	96,138	31,569	132,183
Past due over 2 years	-	-	155,905	281,466	355,469	792,840
TOTAL	-	-	193,958	379,783	399,773	973,514

Time band As of 31.12.2012	Loans and advances to customers					
	Cards	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
Past due up to 30 days	-	-	-	481	13,883	14,364
Past due 31-90 days	-	-	-	10,460	-	10,460
Past due 61-90 days	-	-	349	3,688	-	4,037
Past due 91-180 days	-	-	22,379	7,345	-	29,724
Past due 180 days- 365 days	-	-	13,175	1,238	-	14,413
Past due 1-2 years	-	-	6,378	85,284	68,677	160,339
Past due over 2 years	-	-	147,973	263,572	256,837	668,382
TOTAL	-	-	190,254	372,068	339,397	901,719

Analysis of forborne loans broken down by type of products is presented in the tables below:

Movement of forborne loans 2013	Cards	Consumer	Mortgage	Small business loans	Large corporate loans	SME's	Public sector	Total
Opening balances	75	160,960	83,168	30	42,621	94,586	-	381,440
New forborne assets	40	175,079	56,821	1,312	87,675	217,165	-	538 092
Repayments (partially or totally)	-	(188,612)	(50,715)	(1,253)	(87,166)	(223,861)	-	(551,607)
Write - offs	(59)	-	(893)			(129)	-	(1,081)
Closing balance	56	147,427	88,381	89	43,130	87,761	-	366,844

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

Movement of forborne loans 2012	Cards	Consumer	Mortgage	Small business loans	Large corporate loans	SME's	Public sector	Total
Opening balances	137	150,134	72,113		61,354	106,004	-	389,742
New forborne assets	82	258,879	103,928	30	3,418	163,267	-	529,604
Repayments (partially or totally)	-	(247,658)	(90,836)	-	(22,151)	(174,540)	-	(535,185)
Write - offs	(144)	(395)	(2,037)			(145)	-	(2,721)
Closing balance	75	160,960	83,168	30	42,621	94,586	-	381,440

Maximum exposures to credit risk before collateral and other credit enhancements

	As of 31.12.2013	As of 31.12.2012
Assets		
Loans and advances to banks	720,695	221,364
Financial assets at fair value through P/L	946,595	470,844
Derivative financial instruments	49	1,750
Loans and advances to customers, net	4,229,193	4,551,581
Investment securities available for sale	219,544	169,785
Financial guarantees	151,222	145,399
Standby letters of credit	16,536	4,333
Commitments to extend credit	599,335	438,328
MAXIMUM EXPOSURES TO CREDIT RISK	6,883,169	6,003,384

Collateral held against loans and advances not impaired

In thousands of BGN	As of 31.12.2013	As of 31.12.2012
Loans and advances not past due		
Mortgage	1,110,582	1,158,859
Cash collateral	32,296	15,297
Other types of collateral	2,294,147	1,707,231
	3,437,025	2,881,387
Loans and advances past due		
Mortgage	2,721,976	2,955,473
Cash collateral	21,716	22,595
Securities	-	-
Other types of collateral	2,027,376	1,906,711
	4,771,068	4,884,779
TOTAL	8,208,093	7,766,166

Collateral held against impaired loans and advances:

In thousands of BGN	As of 31.12.2013	As of 31.12.2012
Mortgage	1,547,599	1,867,627
Cash collateral	3,281	3,308
Other types of collateral	754,509	792,503
TOTAL	2,305,389	2,663,438

35. LOANS AND ADVANCES – INDUSTRY ANALYSIS

Industry Concentration risk - Loans and advances to customers

	As of 31.12.2013		As of 31.12.2012	
Individuals	2,217,587	44%	2,380,366	44%
Construction and real estate development	502,545	10%	582,848	11%
Trade and services (excl. tourism)	668,172	13%	880,040	17%
Industry and mining	419,171	8%	418,988	8%
Small scale industry	444,942	9%	414,799	8%
Transportation and telecommunications	80,291	2%	186,415	4%
Property Brokerage	217,956	4%	53,684	1%
Tourism	101,923	2%	115,094	2%
Energy	44,744	1%	80,143	2%
Services	44,756	1%	37,100	1%
Financial institutions	98,529	2%	104,280	2%
Government	26,432	1%	9,863	-
Micro Loans	22,573	-	-	-
Leasing companies	86,273	2%	3,623	-
Other	48,257	1%	5,196	-
Total loans and advances, gross	5,024,151	100%	5,272,439	100%
Less: allowance for impairment	(794,958)		(720,858)	
Loans and advances to customers, net	4,229,193		4,551,581	

The next table presents the information of the large exposure of the Bank as for 31 December 2013 and 2012:

	As for December 31, 2013		As for December 31, 2012	
	Amount	*% of Equity*	*Amount*	*% of Equity*
The largest total exposure	69,080	6.35%	73,840	6.89%
Total amount of five largest exposures	369,761	33.99%	377,318	35.19%

36. CURRENCY ANALYSIS

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31, 2012 and 2011. Included in the table are the Bank's assets and liabilities at carrying amounts in thousands BGN, categorized by currency.

As of December 31, 2013	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	112,640	7,452	317,084	9,883	447,059
Loans and advances to banks	602,343	72,223	23,703	22,426	720,695
Loans and advances to customers, net	2,345,095	12,022	1,872,075	1	4,229,193
Financial assets at fair value through profit or loss	558,366	154,727	207,790	25,717	946,600
Derivative financial instruments	-	-	49	-	49
Financial assets available for sale	94,711	79,558	66,095	11,042	251,406
Investments in subsidiaries and associates	-	-	8,719	-	8,719
Intangible assets	-	147	5,439	-	5,586
Property and equipment	342	-	48,904	-	49,246
Deferred tax assets	-	-	526	-	526
Other assets	7,786	707	47,618	1	56,112
TOTAL ASSETS	3,721,283	326,836	2,598,002	69,070	6,715,191

All amounts are in thousand Bulgarian Levs, except otherwise stated

36. CURRENCY ANALYSIS (CONTINUED)

As of December 31, 2013	EUR	USD	BGN	Other	Total
LIABILITIES					
Due to banks	5,879	12,803	53,234	13,674	85,590
Due to customers	1,737,868	323,916	3,096,356	45,541	5,203,681
Derivative financial instruments	14	-	58	-	72
Bank borrowings	66,163	-	45,192	-	111,355
Subordinated liabilities	203,741	-	-	-	203,741
Retirement benefit obligations	-	-	7,719	-	7,719
Other liabilities	6,801	119	7,825	499	15,244
TOTAL LIABILITIES	2,020,466	336,838	3,210,384	59,714	5,627,402
TOTAL EQUITY	-	-	1,087,789	-	1,087,789
NET BALANCE SHEET POSITION	1,700,817	(10,002)	(1,700,171)	9,356	-
CONTINGENT LIABILITIES AND COMMITMENTS	230,168	1,092	601,252	-	832,512

As of December 31, 2012	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with the Central Bank	310,196	5,113	415,928	7,934	739,171
Loans and advances to banks	65,233	101,762	39,637	14,732	221,364
Loans and advances to customers, net	2,563,272	21,002	1,964,435	2,872	4,551,581
Financial assets at fair value through profit or loss	192,906	115,653	145,556	16,733	470,848
Derivative financial instruments	-	-	1,750	-	1,750
Financial assets available for sale	89,351	83,945	24,628	-	197,924
Investments in subsidiaries and associates	-	-	8,719	-	8,719
Intangible assets	1,548	70	5,854	-	7,472
Property and equipment	342	-	61,154	-	61,496
Deferred tax assets	-	-	2,402	-	2,402
Other assets	32,828	709	49,912	24	83,473
TOTAL ASSETS	3,255,676	328,254	2,719,975	42,295	6,346,200
LIABILITIES					
Due to banks	3,122	16,096	33,053	118	52,389
Due to customers	1,647,515	316,119	91,674	2,702,496	4,757,804
Derivative financial instruments	-	-	1,575	-	1,575
Bank borrowings	142,935	-	45,192	-	188,127
Subordinated liabilities	254,668	-	-	-	254,668
Retirement benefit obligations	-	-	7,958	-	7,958
Other liabilities	9,141	120	6,045	23	15,329
TOTAL LIABILITIES	2,057,381	332,335	185,497	2,702,637	5,277,850
TOTAL EQUITY	-	-	1,068,350	-	1,068,350
NET BALANCE SHEET POSITION	1,198,295	(4,081)	1,466,128	(2,660,342)	-
CONTINGENT LIABILITIES AND COMMITMENTS	113,456	7,890	(119,336)	-	2,010

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. 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, 2013	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	447,059	-	-	-	-	447,059
Loans and advances to banks	90,285	630,410	-	-	-	720,695
Loans and advances to customers, net	458,544	123,750	647,957	647,958	2,350,984	4,229,193
Financial assets at fair value through profit or loss	275,812	153,119	117,247	240,543	159,879	946,600
Derivative financial instruments	49	-	-	-	-	49
Investment securities available for sale	31,861	1,705	51,829	133,909	32,102	251,406
Investments in subsidiaries and associates	-	-	-	-	8,719	8,719
Intangible assets	-	-	-	-	5,586	5,586
Property and equipment	-	-	-	-	49,246	49,246
Deferred tax assets	-	-	-	-	526	526
Other assets	-	-	-	-	56,112	56,112
TOTAL ASSETS	1,303,610	908,984	817,033	1,022,410	2,663,154	6,715,191
LIABILITIES						
Due to banks	85,159	401	-	30	-	85,590
Due to customers	2,129,673	542,109	2,259,883	272,016	-	5,203,681
Derivative financial instruments	72	-	-	-	-	72
Bank borrowings	8,047	15,000	58,308	30,000	-	111,355
Subordinated liabilities		335	50,850	152,556		203,741
Retirement benefit obligations	-	-	-	-	7,719	7,719
Other liabilities	-	-	-	-	15,244	15,244
TOTAL LIABILITIES	2,222,951	557,845	2,369,041	454,602	22,963	5,627,402
NET LIQUIDITY GAP	(919,341)	351,139	(1,552,008)	567,808	2,640,191	1,087,789
CUMULATIVE	(919,341)	(568,202)	(2,120,210)	(1,552,42)	1,087,789	

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of December 31, 2012	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	739,171	-	-	-	-	739,171
Loans and advances to banks	221,364	-	-	-	-	221,364
Loans and advances to customers, net	471,874	323,597	488,677	351,908	2,915,525	4,551,581
Financial assets at fair value through profit or loss	3	202,157	15,003	101,746	151,939	470,848
Derivative financial instruments	1,750	-	-	-	-	1,750
Investment securities available for sale	28,135	5,680	14,625	122,271	27,213	197,924
Investments in subsidiaries and associates	-	-	-	-	8,719	8,719
Intangible assets	-	-	-	-	7,472	7,472
Property and equipment	-	-	-	-	61,496	61,496
Deferred tax assets	-	-	-	-	2,402	2,402
Other assets	-	-	-	-	83,473	83,473
TOTAL ASSETS	1,462,297	531,434	518,305	575,925	3,258,239	6,346,200
LIABILITIES						
Due to banks	38,460	12,445	1,484	-	-	52,389
Due to customers	1,911,152	698,550	1,910,209	237,893	-	4,757,804
Derivative financial instruments	1,575	-	-	-	-	1,575
Bank borrowings	10,916	-	66,472	110,739	-	188,127
Subordinated liabilities	-	410	50,852	173,406	30,000	254,668
Retirement benefit obligations	-	-	-	-	7,958	7,958
Other liabilities	-	-	-	-	15,329	15,329
TOTAL LIABILITIES	1,962,103	711,405	2,029,017	522,038	53,287	5,277,850
NET LIQUIDITY GAP	(499,806)	(179,971)	(1,510,712)	53,887	3,204,952	1,068,350
CUMULATIVE	(499,806)	(679,777)	(2,190,489)	(2,136,602)	1,068,350	-

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 according to the 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 arise losses in of case unexpected movements.
A maturity analysis of financial liabilities that shows the contractual maturities including the interest due over the contracts based on the effective interest rates.

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of 31 December 2013	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	85,356	401	-	30	-	85,787
Due to customers	2,140,068	557,885	2,309,215	277,622	-	5,284,790
Bank borrowings	9,145	15,000	67,431	39,094	-	130,670
Subordinated liabilities	-	335	52,470	156,204	-	209,009
Retirement benefit obligations	-	-	-	-	7,719	7,719
Other liabilities	-	-	-	-	15,244	15,244
TOTAL LIABILITIES (contructual maturity dates)	2,234,569	573,621	2,429,116	472,950	22,963	5,733,219

As of 31 December 2012	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	38,463	13,026	1,491	-	-	52,980
Due to customers	1,932,605	732,033	1,978,494	243,879	243,879	5,130,890
Bank borrowings	11,773	11,844	75,695	89,833	31,500	220,646
Subordinated liabilities	241	170	52,372	207,459	-	260,241
Deferred tax liabilities	-	-	-	-	1,542	1,542
Retirement benefit obligations	-	-	-	-	6,259	6,259
Other liabilities	-	-	-	-	15,329	15,329
TOTAL LIABILITIES (contructual maturity dates)	1,983,082	757,073	2,108,052	541,171	298,509	5,687,887

b) Interest rate risk analysis

As of December 31, 2013	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	-	-	-	-	-	447,059	447,059
Loans and advances to banks	327,588	393,107					720,695
Loans and advances to customers, net	2,790,740	488,798	26,609	27,021	15,089	880,936	4,229,193
Derivative financial instruments	49	-	-	-	-	-	49
Financial assets at fair value through profit or loss	284,450	162,735	139,268	226,164	133,983	-	946,600
Investment securities available for sale	-	12,822	51,829	128,569	26,324	31,862	251,406
Investments in subsidiaries and associates	-	-	-	-	-	8,719	8,719
TOTAL FINANCIAL ASSETS	3,402,827	1,057,462	217,706	381,754	175,396	1,368,576	6,603,721
LIABILITIES							
Due to banks	85,159	401	-	30	-	-	85,590
Due to customers	2,129,673	542,109	2,259,883	272,016	-	-	5,203,681
Derivative financial instruments	72	-	-	-	-	-	72
Bank borrowings	8,047	73,308	-	30,000	-	-	111,355
Subordinated liabilities	-	145,094	58,310	-	-	337	203,741
TOTAL FINANCIAL LIABILITIES	2,222,951	760,912	2,318,193	302,046	-	337	5,604,439
NET INTEREST RATE GAP	1,179,876	296,550	(2,100,487)	79,708	175,396	1,368,239	999,282

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of December 31, 2012	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	-	-	-	-	-	739,171	739,171
Loans and advances to banks	221,364	-	-	-	-	-	221,364
Loans and advances to customers, net	3,188,492	337,225	24,888	35,632	12,412	952,932	4,551,581
Derivative financial instruments	1,750	-	-	-	-	-	1,750
Financial assets at fair value through profit or loss	194,296	16,535	41,051	97,881	121,085	-	470,848
Investments in subsidiaries and associates	10,734	9,354	7,576	114,912	27,209	28,139	197,924
Investment securities available for sale	-	-	-	-	-	8,719	8,719
TOTAL FINANCIAL ASSETS	3,616,636	363,114	73,515	248,425	160,706	1,728,961	6,191,357
LIABILITIES							
Due to banks	26,797	12,445	1,484	-	-	11,663	52,389
Due to customers	1,911,152	698,550	1,910,209	237,893	-	-	4,757,804
Derivative financial instruments	1,575	-	-	-	-	-	1,575
Bank borrowings	22,180	10,043	155,904	-	-	-	188,127
Subordinated liabilities	117,459	137,209	-	-	-	-	254,668
TOTAL FINANCIAL LIABILITIES	2,079,163	858,247	2,067,597	237,893	-	11,663	5,254,563
NET INTEREST RATE GAP	1,537,473	(495,133)	(1,994,082)	10,532	160,706	1,717,298	936,794

The Bank's interest rate exposures are, amongst other methods, monitored and managed, using interest rate sensitivity reports, however the interests on monetary assets and liabilities can be 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, 2013	EUR	USD	BGN	Other
	%	%	%	%
ASSETS				
Loans and advances to banks	1.44	0.03	0.01	1.25
Loans and advances to customers	6.28	5.67	9.72	-
Financial assets at fair value through profit and loss	1.76	0.59	3.70	0.65
Financial assets available for sale	4.71	7.82	1.31	-
LIABILITIES				
Due to banks	0.10	0.42	0.05	1.48
Due to customers	2.84	2.28	2.62	0.80
Bank loans	2.83	-	5.00	-
Subordinated liabilities	-	-	-	-

All amounts are in thousand Bulgarian Levs, except otherwise stated

37. MATURITY ANALYSIS (CONTINUED)

As of December 31, 2012	EUR	USD	BGN	Other
	%	%	%	%
ASSETS				
Loans and advances to banks	0.028	0.184	0.004	0.228
Loans and advances to customers	6.51	5.37	10.33	-
Financial assets at fair value through profit and loss	2.028	0.403	4.262	0.529
Financial assets available for sale	5.651	7.499	4.709	-
LIABILITIES				
Due to banks	0.1	0.42	0.01	-
Due to customers	3.83	2.95	3.5	1.31
Bank loans	2.96	-	5	-
Subordinated liabilities	0.81	-	-	-

38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE

Financial instruments not measured at fair value

The table below summaries the carrying amounts and fair value of those financial assets and liabilities, not presented on the Bank's statement of financial position at fair value and their fair value is materially different from the carrying amount.

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Loans and advances to customers, net	4,229,193	4,318,522	4,551,581	4,551,581
LIABILITIES				
Due to customers	5,203,681	5,215,926	4,757,804	4,757,804
Bank borrowings	111,355	112,316	188,127	188,127
Subordinated liabilities	203,741	200,242	254,668	254,668

The following methods and assumptions were used to estimate the fair values of the above financial instruments at 31 December 2013:

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

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

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

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities recorded on the Bank's statement of financial position at fair value by fair value measurement level at 31 December 2013.

As of 31 December 2013	Fair value measurement using			
	Level 1	Level 2	Level 3	Total assets/ liabilites at fair value
Assets				
Financial assets at fair value througt profit and loss	38,670	907,930	-	946,600
Derivative financial instruments	49			49
Available-for-sale investment securities	14,061	205,134	26,659	245,854
Total Assets	52,780	1,113,064	26,659	1,192,503
Liabilities				
Derivative financial instruments	72	-	-	72
Total liabilities	72	-	-	72

No transfers of financial instruments from Level 1 to Level 2 occurred for the period ended 31 December 2013.

Level 3 financial instruments at 31 December 2013 include:

(a) available-for-sale securities, which are price-based and the price is subject to liquidity adjustments or credit value adjustments and

(b) available-for-sale non-marketable equity securities, which are valued by independent valuers based on inputs such as earnings forecasts comparable multiples of Economic Value to EBITDA and other parameters which are not market observable.

The Bank conducts a review of the fair value hierarchy classifications on a quarterly basis.

The table below presents a reconciliation of all Level 3 fair value measurements for the period ended 31 December 2013, including realized and unrealized gains/(losses) included in the "income statement" and "statement of the comprehensive income".

No transfers into or out of Level 3 occurred for the period ended 31 December 2013.

Reconciliation of fair value measurements in Level 3

2013	Available-for-sale investment securities
Balance at 1 January	22,403
Gain / (losses) included in income statement	(3,598)
Gain / (losses) included in OCI	1,854
Transfer into/ (out of) level 3	6,000
Balance at 31 December	26,659

Valuation Process and Control Framework

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

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

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

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

Generally, fair values of debt securities, including significant inputs on the valuation models are independently checked and validated by Risk Management function on a systematic basis.
Fair value of derivatives is determined using widely accepted valuation models which include discounted cash-flow models or other appropriate models. Adequate control procedures are in place for the validation of these models, including the valuation inputs, on systematic basis. Risk Management function provide the control valuation framework necessary to ensure that the fair values are reasonably determined, reflecting current market circumstances and economic conditions.

Market Valuation Adjustments

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

Financial Instrument	Fair Value	Valuation Technique	Significant Unobservable Input	Range of Inputs Low	High
Investment Securities - Available-for-Sale BONDS	2,207	*Based on the latest prices available*		-	-
	7,485	*Based on collateral valuation*	- Collateral valuation	5,811	8,935
			- Collateral value	13,745	13,745
			- Adjustment factor	42%	65%
Investment Securities - Available-for-Sale SHARES	4,860	*Based on acquisition price*		-	-
	12,108	*Comparable Multiples*	Multiples EV/EBITDA	-	-

Sensitivity of Fair Value Measurements to Changes in Unobservable inputs

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

All amounts are in thousand Bulgarian Levs, except otherwise stated

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 observing the capital requirements for credit risk, market risk and operational risk. In 2013 and 2012 UBB applied the standardized approach in relation to credit, market and 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 2013 and 2012.

In response to the raving global financial crisis, BNB has officially recommended to Bulgarian banks to reach not later than June 30, 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.

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 31.12.2013	As of 31.12.2012
Share capital	75,964	75,964
Statutory reserve	983,398	983,397
Total share capital and reserves	1,059,362	1,059,361
Deductions		
Intangible assets	5,586	7,472
Total deductions	(5,586)	(7,472)
TOTAL TIER I CAPITAL	1,053,776	1,051,889
Subordinated term debt	152,554	203,406
TOTAL TIER II CAPITAL	152,554	203,406
Additional deductions from Tier I and Tier II Capital	(582,827)	(646,802)
TOTAL CAPITAL BASE	623,503	608,493

The additional reductions of the capital base are related to participations of the Bank into non-consolidated companies, representing 10% or more of their registered capital and to the amount of the specific provisions for credit risk, as defined in 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 17).

All amounts are in thousand Bulgarian Levs, except otherwise stated

39. CAPITAL. CAPITAL BASE (CONTINUED)

Capital requirements

As of December 31, 2013 and December 31, 2012 the capital requirements for credit, market and operational risks are, as follows:

	As of 31.12.2013	As of 31.12.2012
Capital requirements for credit risk		
Exposures to:		
Central Governments and Central Banks	2,838	3,134
Regional or local authorities	552	674
Institutions	12,980	3,625
Corporates	132,257	140,074
Retail	60,988	63,651
Exposure secured by real estate property	26,805	28,120
Past dues positions	24,663	30,237
Other exposures	10,829	13,939
TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK	271,912	283,454
Capital requirements for market risk	13,217	7,914
Capital requirements for operational risk	51,632	58,014
Total capital requirements for credit risk, market risk and operational risk	336,761	349,382
Additional capital requirements subject to National Discretions from the Regulator	168,380	174,691
TOTAL REGULATORY CAPITAL REQUIREMENTS	505,141	524,073
Capital base	623,504	608,493
There of Tier I	1,053,776	1,051,889
Free equity	118,362	84,420
TOTAL CAPITAL ADEQUACY RATIO	14.81%	13.93%
TIER I RATIO	14.81%	13.93%

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 over the trading portfolio.

Capital requirements for market risk include market risk over 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 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 subsidiaries and associates and the other companies within NBG Group. A number of banking transactions are performed with related parties in the normal course of business. These include mostly loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

All amounts are in thousand Bulgarian Levs, except otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2013 and 2012 the Banks has performed transactions with the following related parties:

Related parties	Type of relation
National Bank of Greece	Parent company
Interlease AD	Entity under control of Parent company
Stopanska Banka AD	Entity under control of Parent company
Finansbank A.S. (Group)	Entity under control of Parent company
Ethnodata S.A.	Entity under control of Parent company
NBG Management Services LTD	Entity under control of Parent company
ARC Management Two EAD	Entity under control of Parent company
UBB Asset Management AD	Subsidiary
UBB Insurance Broker AD	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 managed by Subsidiary
UBB Premium Shares Fund	Mutual funds managed by Subsidiary
UBB Platinium Bonds Fund	Mutual funds managed by Subsidiary

As of December 31, 2013 and 2012 the Bank outstanding balances are as follows:

Related parties	Type of transaction	As of 31.12.2013	As of 31.12.2012
Parent company	Loans and advances to banks	644	6,113
Parent company	Deposits received	35,919	18,748
Parent company	Derrivatives	14	1
Parent company	Subordinated term debt	203,741	254,668
Parent company	Amounts receivable on sale of assets	2,674	29,972
Parent company	Other payments	998	634
Entities under control of Parent company	Loans and advances to banks	743	394
Entities under control of Parent company	Loans granted	77,042	84,134
Entities under control of Parent company	Other payments	5,779	8,267
Entities under control of Parent company	Deposits received	415,054	82
Entities under control of Parent company	Other receivables	5,112	-
Subsidiaries	Loans granted	15,086	11,900
Subsidiaries	Deposits received	1,766	2,056
Associate companies	Deposits received	14,744	12,249

All amounts are in thousand Bulgarian Levs, except otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Bank during 2013 and 2012 from deals with related parties are as follows:

Related parties	Type of transaction	As of 31.12.2013	As of 31.12.2012
Parent company	Income from fees and commissions	93	-
Parent company	Interest expense	2,063	4,862
Parent company	Other income	2,793	-
Parent company	Other operating expenses	1,950	-
Parent company	Revenue from selling an asset	-	29,792
Entities under control of Parent company	Interest income	4,628	2,401
Entities under control of Parent company	Income from fees and commissions	183	208
Entities under control of Parent company	Interest expense	321	771
Entities under control of Parent company	Other income	2,303	18
Entities under control of Parent company	Other operating expenses	505	49
Subsidiaries	Interest income	392	44
Subsidiaries	Interest expense	82	223
Associate companies	Commission income	7,619	7,325
Associate companies	Interest expense	260	561
Associate companies	Cash Service costs	1,845	2,177
Associate companies	Third party remuneration and fees	599	4,932
Associate companies	Other operating expenses	421	421

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

The total amount of remuneration for 2013 is BGN 590 thousand (2012: BGN 811 thousand).

Total amount of deposits and current accounts of BD members and their close family members (domestic partner, children and dependants), is of BGN 6,624 thousand and the amount of loans is BGN 337 thousand.

The positions in income statement are as follows: Interest and commission income – BGN 23 thousand, Interest and commission expenses – BGN 411 thousand.

Subsidiary and associated companies. Transactions between UBB, its subsidiaries (UBB Factoring, UBB Asset Management and UBB Insurance Broker), associated companies (UBB AIG Insurance Company AD, UBB ALICO 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 Platinum Bonds Fund) are related to maintaining of deposits and current accounts.

The Bank participates in the Mutual funds managed by its subsidiary UBB Asset Management as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management	As of 31.12.2013	As of 31.12.2012
UBB Balanced Fund	2,221	1,876
UBB Premium Shares Fund	1,774	1,403
UBB Platinum Bonds Fund	1,460	1,310

41. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the end of the reporting period which require additional adjustments and/or disclosures in the separate financial statements of the Bank.