DISCLOSURES 2013

Pursuant to Art. 335-339 of Ordinance № 8 of the BNB on the capital adequacy of credit institutions

CONTENT

UNITED BULGARIAN BANK AD is registered in the Republic of Bulgaria, with head office – the city of Sofia, 5 Sveta Sofia Str.

Main shareholder of UBB AD is National Bank of Greece, holder of 99.9% of the registered capital. The Bank holds a full license for performing banking and financial operations in this country and abroad.

1. Scope and Consolidation Methods

This disclosure report has been prepared on non-consolidated basis with data as of December 31, 2013. UBB do not provide disclosure report on consolidated basis because the assets of the subsidiaries are below 1% of UBB total assets and the subsidiaries do not have significant impact over the bank's risk profile (in compliance with BNB Ordinance №12 – art. 8.(1), p. 2.).

2. Risk Management Policies and Rules

The risk management organizational structure in United Bulgarian Bank AD provides a clear allocation of responsibilities and prevention of conflict of interests on all possible levels.

Risk management functions are allocated at the following three levels:

- *Strategic* – it is performed by the Board of Directors of UBB, which approves the risk strategy of the Bank and implements the principles embedded in it through the BoD Risk Management Committee.

The authorities of the Risk Management Committee (RMC) include defining and approving the risk and capital strategies, risk profile and tolerance (appetite), changes in the definitions of UBB for various types of risks, the risk/reward ratio. The RMC approves the related policies and establishes the internal limits system for management of different types of risks. The Board of Directors of UBB also appoints an Audit Committee that ensures an independent external verification and assessment of the risk management and control systems.

- *Tactical* – performed by the Senior Management through specialized collective bodies, and includes the approval of policies and procedure manuals for managing risk and establishing adequate systems for control of the risks undertaken.

At this level an important role is performed by the Risk Management Division, which identifies, assesses and controls risks, develops appropriate methodologies for that purpose, reports the level of the undertaken risk to the respective managing bodies of the Bank and if necessary offers measures for its limitation. A senior representative from Risk Management Division is a member of all collective management bodies. The Country Risk Manager is directly subordinated both to the executive management of the Bank and to the Head of NBG Group Risk Management.

- *Operational* – performed by the business units and involves risk management in the risk origination point.

The main activities are performed by the individuals who undertake risk on the Bank`s behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines established by the Senior Management.

Risk Management Division monitors the levels of the undertaken by the Bank credit, market, liquidity and operational risks separately and jointly through its employees in Corporate Credit Risk and Classification Department, Retail Banking Risk Management Department, Market Risk and Capital Planning Department, Risk Modeling Unit and Operational Risk Unit.

Risk Management Division manages and coordinates the overall process on the implementation of the Basel Accord standards at UBB in full coordination with the respective program at NBG Group level. All strategies, policies and procedures for management and analysis of the main types of risk, including that of the capital adequacy, have been developed and reconciled with NBG Group. The Bank has taken appropriate action for implementation of the new regulatory requirements according to Basel III (CRD IV).

Risk management policies handle the definition and analysis of risks, which the Bank undertakes, and determine appropriate limits and control procedures. The policies and the procedures are regularly reviewed to reflect the occurred changes in the market conditions and the offered products and services.

Risk measurement and assessment is performed through utilization of methods based on best banking practices; the accepted methodologies and procedures are being regularly reviewed and updated from the involved units/bodies.

There is an ongoing and effective monitoring of the risks undertaken by the Bank, of which the Risk Management Division informs the Executive management through regular and ad hoc reports to the RMC, ALCO.

The Specialized Internal Audit Division performs regular reviews of the adequacy and quality of the adopted mechanisms for internal control on risk.

UBB has developed and implemented key policies and rules for risk management including:

- Risk Management Strategy;
- Corporate Credit Policy;
- Retail Risk Credit Policy;
- Market Risk Management Policy and Stop Loss Limit Policy;
- Liquidity Risk Policy;
- Framework for Operational Risk Management;
- Policy for the Management of Interest Rate Risk in the Banking Book;
- Policy on Assessment and Classification of Risk Exposures and Allocation of Specific Provisions for Credit Risk for the purposes of Ordinance №9 of the BNB
- Rules and Procedures on Bank Counterparty Credit Risk;
- Internal Rules for the Corporate Credit Activity Collaterals' Assessment, Insurance and Management;
- Internal Capital Adequacy Assessment Process (ICAAP) and Rules and Procedures on Capital Adequacy Assessment

The overall and effective risk management is also facilitated by the standing internal rules, procedures, methodologies and instructions, such as: Rules for Investments in Securities and

Portfolio Assessment; Financial Assets Impairment Provision and Write-off policy; Internal Rules on Disclosure and Prevention of Conflicts of Interest, etc.

In order to minimize the consequences from possible problems including extreme situations, calamities and failures and in order to ensure business continuity, the Bank has developed the following plans:

- UBB Contingency Funding Plan and
- UBB Business Continuity Plan

The plans are developed in accordance with the principles and requirements incorporated in the regulatory framework and the good practice and are consistent with the organizational structure and business of the Bank.

3. Regulatory Capital and Capital Adequacy

3.1. Structure and Elements of Own Funds

The regulatory capital (own funds) includes Tier-I and Tier-II capital, according to the definitions of the Bulgarian National Bank. The table below provides detailed information on the capital position of United Bulgarian Bank.

BGN Thousand

Registered and paid-in capital	**75 964**
Reserves	**983 398**
Financial loss for the current year (Not-audited)	**0**
Capital Base Deductions	
Intangible assets	**(5 586)**
Investments in subsidiaries and associated companies	**(14 174)**
73% of the amount of the specific provisions for credit risk	**(416 098)**
TIER I CAPITAL	**623 504**
Reserves from revaluation of real estates	**0**
Subordinated debt	**152 555**
Capital Reductions	
27% of the amount of the specific provisions for credit risk	**(152 555)**
TIER II CAPITAL	**0**
OWN FUNDS (CAPITAL BASE)	**623 504**

3.2. Capital Requirements

The Bank fully complies with the supervisory requirements of BNB, according to which Tier-one capital and of the Total capital adequacy ratios should be no less than 6 % and 12 % respectively (Ordinance №8 as of December 2013).

UBB applies the standardized approach for its capital adequacy report under Ordinance №8 of the BNB for credit, market and operational risk.

The capital requirements by exposure classes as of December 31, 2013 are as follows:

BGN Thousand

FOR CREDIT RISK, COUNTERPARTY CREDIT RISK, DILUTION RISK AND SETTLEMENT RISK ENTAILED IN FREE DELIVERIES	**271 912**
Central governments and central banks	2 838
Regional governments or local authorities	552
Institutions	12 980
Corporates	132 257
Retail exposures	60 988
Exposures secured by real estate property	26 805
Past due items	24 663
Other items	10 829
FOR POSITIONAL, FX AND COMMODITY RISKS	**13 218**
Debt instruments	13 217
Capital instruments	0
FX position	0
FOR OPERATIONAL RISK	**51 632**
OTHER CAPITAL REQUIREMENTS according to Art.7of Ordinance № 8 of the BNB	**168 380**
GENERAL CAPITAL REQUIREMENTS	**505 141**
Surplus (+) / Deficit (-) of own funds	**118 362**
Total Capital Adequacy Ratio (%)	**14.81%**
Tier-one Capital Adequacy Ratio (%)	**14.81%**

The structure of the required capital by types of risk is the following:

Credit risk	80.74%
Market risk	3.92%
Operational risk	15.33%

3.3. Internal Capital Adequacy Assessment Process (ICAAP)

As part of the established ICAAP Framework and following the NBG Group's methodologies, the Bank is assessing its individual risk profile on a regular basis.

The main goals of the Internal Capital Adequacy Assessment Process are:

- Identification, measuring and control of all material risks to the Bank;
- Development of appropriate systems for measuring and management of these risks;
- Internal assessment of the capital necessary for covering all these risks (internal capital calculation)

Within the ICAAP process and apart from the regulatory requirements for credit, market and operational risks, the Bank calculates additional capital requirements for credit risk concentration and interest rate risk in the banking book.

BGN Thousand

Internal assessment of the capital	**535 375**
incl. regulatory required	505 141
credit risk concentration	19 893
interest rate risk in the banking book	10 341

4. Exposure to Counterparty Credit Risk

The counterparty credit risk originates from deals with derivatives, repo deals, deals of lending/ borrowing of securities or commodities, transactions with extended settlement and represents the risk that the counterparty under a particular deal would default prior to the final settlement of the cash flows under the deal.

The Bank has adopted rules and procedures for assessment, management and control of the counterparty risk by countries and banks. All counterparties receive a risk rating category according to its official rating or the derived internal rating. Based on it and the accepted methodology, risk limits are set by counterparty, both for total exposure and by products. Risk Management monitors limit utilization on a daily basis.

The receivables from local and foreign banks, the receivables or liabilities for repurchase of securities, and the FX deals are assigned risk weight in accordance with Ordinance №8. The Bank allocates capital for counterparty credit risk purposes originating under derivatives and repo deals by utilizing the mark-to-market method, pursuant to Art. 238 of Ordinance №8.

Capital requirements for counterparty risk BGN Thousand

Exposure Class	Repos Deals	Derivatives	TOTAL:
Exposures to institutions	0	1	1
Exposures to companies	0	8	8
Retail exposures	0	0	0
TOTAL:	**0**	**9**	**9**

5. Exposure to Credit Risk and Dilution Risk

The Bank is exposed to credit risk, which represents the risk that a particular counterparty will not be able to pay in full its obligations when they become due.

The Bank estimates credit risk to corporate and retail obligors by using internal ratings and scoring models. These models take into account specific qualitative and quantitative criteria and internal information, as well as such provided by the Central Credit Register. The models facilitate decision-making both for granting new loans and, for retail customers, collections strategies.

Within the lending process, specific and detailed procedures are applied for monitoring the economic solvency of each project and client or the type and value of any collateral. Dependent on the counterparty type and the amount of their total credit exposure with the Bank, the loans are approved by strictly defined Bank bodies or Committees, in accordance with established credit authority levels.

The Bank supervises the concentration of the credit risk on aggregate basis (i.e. with regards to all balance sheet and off-balance sheet positions). More specifically, the Bank monitors the concentrations of credit risk by industries and by groups of related parties. Regarding the related parties, the Bank monitors the ratio of the groups' credit exposures to the Bank's capital, in accordance with the Credit Institutions Act and Ordinance №7 of BNB.

The Bank classifies its receivables in accordance with the requirements of Ordinance №9 of the BNB and the Corporate Credit Policy of the Bank. These classifications are being reviewed and updated on a monthly basis.

The eligible collaterals and corporate or/and personal guarantees to secure credit risk exposures are well defined. The exposures' management includes regular analyses of the borrowers' creditworthiness and ability to repay the obligations, through which, the borrowers' exposure's limits could be changed.

All financial assets classified as "loans and advances", "financial assets held to maturity" and "financial assets available for sale" are subject to review for impairment. The Bank makes assessment on each balance sheet date whether there is objective evidence justifying the impairment of a financial asset or a group of financial assets.

Loans impairment provisioning should be preformed if there is evidence that the Bank will not be able to recover its claims according to the original contractual terms. "Claim" means a loan, granted deposit, commitment such as letter of credit, letter of guarantee or commitment to extend credit.

Such objective evidence may be known to the Bank facts or events including:

(a) considerable financial difficulty of the issuer or the debtor;
(b) A breach of contract, such as a default or delinquency in interest or principal payments;
(c) granting allowances to the borrower due to economic or legal grounds resulting from his/her/its difficulties;
(d) there is a possibility that the borrower will become bankrupt;
(e) the disappearance of an active market for the financial asset; 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, or
- national or local economic conditions that correlate with defaults on the assets in the group.

UNITED BULGARIAN BANK
NBG Group

The provisions for impairment of loans are reported as a decrease in the balance sheet value of a specific claim, while for the off-balance sheet items, as for example commitments and bank guarantees, the provisions are reported in other liabilities. The increase in the provisions is made through recognition of expenses for impairment and uncollectability in the income statement.

The Bank identifies whether there is objective evidence for individually impairment of loans, assessed as significant and collective impairment of loans not assessed as individually significant. If there is an objective evidence for the impairment of loans the amount of the loss is measured as the difference between the balance sheet value of the loans and the present value of the projected future cashflows (less future losses from loans which are yet to originate) discounted with: a) the original effective interest rate on the loan, if the loan has a fixed interest rate; or b) the currently effective interest rate if the loan has a variable/floating interest rate. Cashflows that may originate from the liquidation of the collateral are also taken into account.

For the purposes of determining the losses from impairment on a portfolio basis (collective impairment), loans and advances are being grouped based on similar credit risk characteristics. Corporate loans are being grouped based on days of delay (past due), credit product type, economic sector, size of business, type of collateral, or other similar characteristics. Mortgage and consumer loans are grouped by days of delay (past due) or by credit product type. These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due and together with the loss-related historical experience of loans with risk characteristics, simillar with these of the group form the base for calcualtion of the provisions from loans losses.

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

All impaired loans are reviewed and analyzed as of the date of each financial report and the changes in the assumptions for the projected cash flows against preceding periods are reflected as an increase/decrease in the provisions for losses from impairment. The methodology for measuring the impairment of loans and advances is reviewed by the Bank on a regular basis in order to minimise any differences between the assessed and the actual loss.

A loan considered to be non-collectable or such which will not be collected due to expense reasons is written off against the accumulated provisions for impairment. Subsequently recovered amounts under written-off loans are recognised as a reduction of the current expenses for impairment of loans, reported in the income statement.

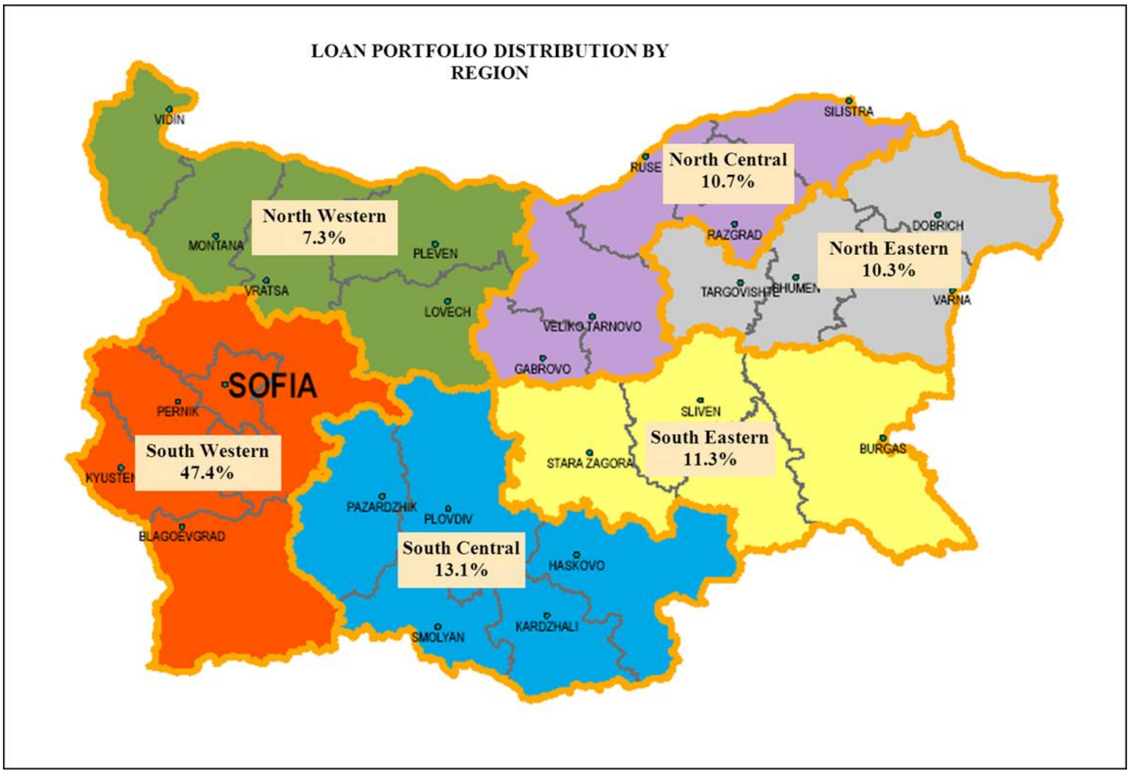
Provided that during a subsequent reporting period the impairment amount decreases and the latter is due to objective circumstances, which have originated after the period of performing the impairment, the impairment amount is adjusted by reducing the corrective account in which the provisions for impairment are being reported and by modifying accordingly the income statement in "net expenses for impairment and uncollectability" of loans and advances.

5.1. Total exposures after accounting adjustments and without taking into account the effects of credit risk mitigation.

BGN Thousand

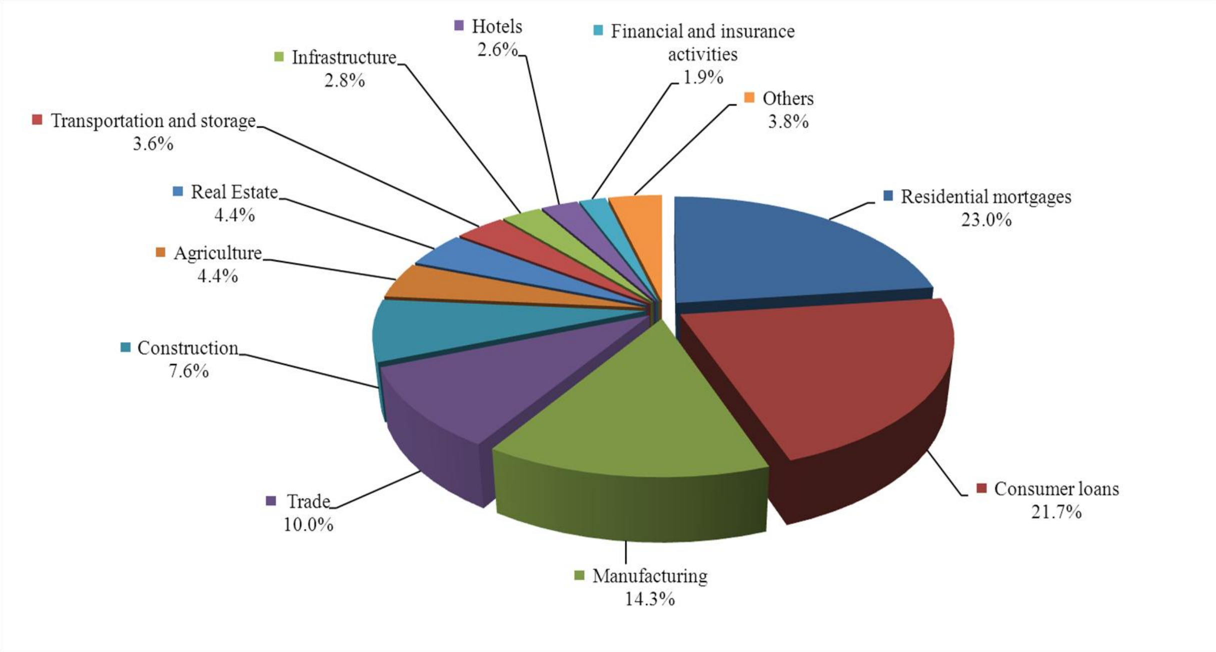
Exposure classes	Average value of the balance sheet exposures	Balance sheet items before credit risk mitigation		Average value of the off balance sheet exposures	Off-balance sheet items before credit risk mitigation
		Exposure net of impairment before provisions under Ordinance 9	Exposure net of impairment and provisions under Ordinance 9		Exposure after impairment before credit risk mitigation
Central Governments and Central Banks	167 333	501 998	501 998	83	250
Regional Governments or Local Authorities	4 473	17 892	17 892	-	0
Institutions	18 966	720 693	720 693	1 731	8 657
Corporates	324	1 596 308	1 578 629	142	431 040
Retail	4	866 824	866 082	2	320 921
Exposures Secured by Real Estate Property	48	872 001	871 734	62	6 235
Past-due Items	34	899 195	349 231	-	0
Other Items	17 904	268 562	268 562	-	0
Total	**-**	**5 743 473**	**5 174 820**	**-**	**767 103**

5.2. Loan portfolio distribution by regions



The loan portfolio's regional distribution is highly correlated to that of the country's GDP.

5.3. Loan portfolio distribution by industry



5.4. Exposure distribution by residual maturity

BGN Thousand

Exposure classes	Remaining maturity			Total
	up to 1 year	from 1 to 5 years	over 5 years (and without fixed maturity)	
Central Governments and Central Banks	362 616	105 517	33 864	501 998
Regional Governments or Local Authorities	18	6 818	11 056	17 892
Institutions	720 693	-	-	720 693
Corporates	814 999	574 923	211 661	1 601 582
Retail	143 905	413 046	314 683	871 635
Exposures Secured by Real Estate Property	16 599	64 596	797 240	878 435
Past-due Items	526 497	1 034 963	116 173	1 677 634
Other Items	200 884	-	67 678	268 562
Total	**2 786 194**	**2 199 864**	**1 518 491**	**6 538 431**

6. Information about recognized External Credit Assessment Institutions (ECAI) and Export Insurance Agencies (EIA) related to the application of the standardized approach to credit risk

In accordance with Art. 27, para.2 p.2 and Art. 49, para.5 of Ordinance №8 of BNB, UBB utilizes ratings assigned by the rating agencies Standard & Poor’s, Moody’s, and Fitch Ratings.

The credit ratings by recognized ECAIs are equalized to the EU levels of credit quality approved by BNB and the supervisory bodies of the EU member states and are used for risk weights determination in the process of Capital adequacy calculation. If credit assessments are available from two ECAIs and they correspond to different risk weights, the Bank applies the more conservative one.

Ratings of nominated ECAI are used mainly for exposures to central governments and central banks and institutions. The largest share as of December 31, 2013 is for the class “Exposures to institutions”. The table below indicates the allocation of exposures to institutions according to the risk weight and the respective credit quality step.

BGN Thousand

Exposure classes	Credit quality step	Remaining maturity	Risk weight	Exposure before impairment and credit risk mitigation	Exposure after impairment and credit risk mitigation
Institutions	1	up to 3 months	20%	10 217	10 217
	2	up to 3 months	20%	141 307	141 307
	3	up to 3 months	20%	87 786	87 786
	4	up to 3 months	50%	20 167	20 167
	5	up to 3 months	50%	374	374
	6	up to 3 months	150%	5 519	5 519
	non-rated	up to 3 months	20%	455 186	455 186
	non-rated	up to 3 months	100%	137	137
Total				**720 693**	**720 693**

7. Capital requirements for position risk from instruments in the trading book, and capital requirements for FX, commodity and settlement risk for the overall activity

Position risk refers to the risk of change in the prices of debt and equity instruments in the trading book. It contains two components: specific risk and general position risk. The specific risk represents a risk of a change in the price of a financial instrument as a result of factors related to its issuer or the issuer of the underlying instrument. General position risk is the risk of a change in the price of a financial instrument as a result of factors that are not contingent on the specific characteristics of the instruments, e.g. equity markets or interest rates movements.

With regards to the net positions in debt instruments, capital requirements for specific risk are calculated by currency and in accordance with the position’s category based on the issuer’s credit rating and the residual maturity in compliance with Art. 276 of Ordinance №8 of BNB.

The Bank applies a maturity-based approach to calculating the general position risk in accordance with Art. 278 of Ordinance №8, by distributing the debt instruments with fixed interest rate according to their residual maturity, and those with floating interest rate, to the next repricing date.

As of December 31, 2013 the Bank has allocated BGN 10.9 million in capital for general position risk and BGN 2.2 million in capital for specific risk. The distribution by risk weight and currency is as follows:

Capital requirements for position risks according to risk weights

BGN Thousand

	BGN		EUR		USD		Risk weights	Capital requirements
	Long	Short	Long	Short	Long	Short		
General position risk. Maturity based approach								
0 ≤ 1 month	360	27 250	210 212	6 718	54 741	1 369	0.00%	0
> 1 ≤ 3 months	145	0	117 366	0	45 370	142	0.20%	326
> 3 ≤ 6 months	25	0	44 480	0	51 703	0	0.40%	385
> 6 ≤ 12 months	0	0	43 060	0	0	0	0.70%	301
> 1 ≤ 2 (1.9 for coupon of less than 3%) years	5 150	0	25 761	0	1 597	0	1.25%	406
> 2 ≤ 3 (>1.9≤ 2.8 for coupon of less than 3%) years	11 016	0	35 352	0	0	0	1.75%	811
> 3 ≤ 4 (>2.8≤ 3.6 for coupon of less than 3%) years	34 922	0	20 521	0	0	0	2.25%	1 247
> 4 ≤ 5 (> 3.6 ≤ 4.3 for coupon of less than 3%) years	85 656	0	4 033	0	2 156	0	2.75%	2 526
> 5 ≤ 7 (>4.3 ≤ 5.7 for coupon of less than 3%) years	38 648	0	27 977	0	1 428	0	3.25%	2 212
> 7 ≤ 10 (>5.7 ≤ 7.3 for coupon of less than 3%) years	32 373	0	0	0	0	0	3.75%	1 214
> 10 ≤ 15 (>7.3 ≤ 9.3 for coupon of less than 3%) years	0	0	33 551	0	0	0	4.50%	1 510
Общо	**208 295**	**27 250**	**562 313**	**6 718**	**156 994**	**1 511**		**10 939**
Specific position risk								
Debt instr. I category, table 1 App. IX (0% cap. requir.)	***207 790***		***186 412***		***0***		***0.00%***	***0***
Debt instr. II category, table 1 App. IX			***371 954***		***154 727***		***0.00%***	***2 215***
With remaining maturity ≤ 6 months			312 150		126 348		0.25%	1 096
With remaining maturity > 6 months and ≤ 24 months			47 173		1 597		1.00%	488
With remaining maturity > 24 months			12 631		26 782		1.60%	631
Debt instr. III category, table 1 App. IX (8% capital requirement)			***0***				***8.00%***	***0***
Debt instr. IV category, table 1 App. IX (12% capital requirement)							***12.00%***	***0***
Total	**207 790**		**558 366**		**154 727**	**0**		**2 215**

Capital requirements for position risk by currency

BGN Thousand

	General position risk	Specific risk	TOTAL:
BGN	5 869	0	5 869
EUR	4 646	1 454	6 101
USD	423	760	1 183
TOTAL:	**10 938**	**2 215**	**13 153**

The specific risk for capital instruments is calculated by multiplying the total gross position by 4% in accordance with Art. 281 of Ordinance №8, whereas the general risk, respectively, by multiplying the total gross position by 8% pursuant to Art. 282 of Ordinance №8. The Bank does not allocate capital for specific risk from capital instruments due to the insignificant volume of such instruments in the Bank's trading book.

8. Capital requirements for Foreign Exchange Risk

The Bank calculates capital requirements for FX risk resulting from the both the banking and the trading book, according to the standardized approach, described in Chapter 12 of Ordinance №8, but it has not allocated capital for FX risk, since the amount of the total net open FX position does not exceed 2% of the Bank's own funds.

Capital requirements for foreign exchange risks

BGN Thousand

	All positions		Net positions	Capital requirements*
	Long	Short		
Total positions in currencies, other than BGN and EUR	**401 991**	**401 060**	**931**	-
Currencies in second stage of EMU	1 022	1 014	8	
All other currencies (including CIUs treated as different currencies)	400 969	400 046	923	
Currency positions				
EUR**	3 354 012	2 038 774	1 315 238	
DKK	1 022	1 014	8	
GBP	42 268	42 110	158	
SEK	1 190	1 188	2	
CHF	5 705	5 678	27	
USD	339 345	338 588	757	
CAD	839	831	8	
AUD	8 968	8 966	2	
JPY	90	90	0	
Other currencies (non EU currencies)***	2 564	2 595	-31	

* when Net positions exceed 2% of Total Own Funds

** EUR positions are not included in Net Positions

*** NOK, TRY и NZD

The Bank has no commodity and settlement risk exposures.

9. Internal Models for Market Risk

As per December 31, 2013 UBB does not apply any internal models approach for the calculation of capital requirements for market risk.

UBB uses a VaR model for market risk assessment, on the basis of which it has established a framework of limits to manage FX risk, interest rate risk and equity risk. For the daily calculation of the value at risk (VaR), the Bank has adopted the internationally recognized variance/covariance methodology, developed by RiskMetrix/ J.P.Morgan with a 99% confidence interval and a 1-day holding period.

The following VaR values were estimated at December 31, 2013 and during the year:

BGN Thousand

Diversified VaR	VaR Limit	30.12.2013	2013		
			min	max	average
Equity	300	194	117	256	168
FX	300	1	0	19	3
Interest Rate	4 000	837	615	3 075	1 068
Total	4 000	827	570	3 169	1 079

The Bank uses a specialized software product for valuation of the market risk. The system allows the execution of valuations and detailed analyses, including not only the main calculation model – value at risk (VaR), but also detailed analyses of the Trading Book sensitivity towards different risk factors. The usage of appropriate software is a part of the migration preparation towards an internal models based approach in the calculation of the market risk capital requirements.

10. Operational Risk

Operational risk is the risk of losses resulting from inadequate or dysfunctional internal processes, people, systems or external events, including the inherent legal risk.

The Bank has adopted a framework for operational risk management and applies the standardized approach for calculating the capital requirements for operational risk, which amounted to BGN 52 million as of December 31, 2013.

The framework for operational risk management is compatible with best practices and conforms to the regulatory requirements. It is an integral part of the overall framework for risk management. All activities and processes that are exposed to operational risk are determined and documented in a standardized list according to the Bank's standards and structure. This allows both for the allocation of risks by processes, and for the distribution of the Bank's activities by regulator-defined business lines.

The Bank requires accurate knowledge of the losses associated with operational risk and creates appropriate management of operational events and the process of loss data collection.
Operational risk events and any losses stemming from them are being identified, recorded and classified in a specialized database.

Operational events register of the Bank is active since 2007. The Bank utilizes multitude of detailed rules, procedures and forms to fill in the operational events register, with the latter being maintained by "Operational Risk" unit within Risk Management Division of the Bank.

The Bank takes special care to minimize the operational risk in its activities, including by:

- enhancing on a regular basis the operational standards and procedures for control and reduction of operational risks, as well as its Business Continuity Plan and Disaster Recovery Plan;
- utilizing insurance policies against operational risks where appropriate;
- offering to its employees training on operational risk, IT security, fraud and money-laundering, etc.
- establishing appropriate Business Continuity Plan and Disaster Recovery Plan, which are being periodically updated to cover extreme events, concerning significant activities throughout the Bank, and to minimize losses in case of business interruption.

The process of implementation of specialized software for operational risk management has been finalized. Together with this, transition to advanced approach for operational risk management is under preparation, the latter being applied by the mother-company and some of the larger subsidiaries of the Group.
By implying such a complex and detailed approach, it is expected that operational events and resulting losses, shall be reduced significantly.

11. Capital instruments in the Banking Book

The capital instruments in the banking book are recognized at fair value (including transaction costs), and subsequently re-measured at fair value. Unrealized gains and losses due to changes in the fair value of these financial assets are reported as changes to equity.
Investments in shares of subsidiaries and associated enterprises are reported at acquisition cost.

The Bank's equity participations were as follows as of December 31, 2013:

BGN Thousand

Capital instruments in the banking book	Balance sheet value
Units in mutual funds	5 455
Shares	26 407
Shares in subsidiaries and associated companies	8 719
TOTAL:	**40 580**

The total amount of investment in shares is reported with 100% risk weight in the "Other items" exposure class. Investments in subsidiaries and associated enterprises, including the owned by the Bank units in three mutual funds (UBB Balanced Fund, UBB Platinum Bonds and UBB Premium Equity Fund) are stated as reduction to the own funds as of December 31, 2013, in accordance with the requirements of Art. 6, Para 1 of Ordinance №8.

12. Interest Rate Risk in the Banking Book

Interest rate risk relates to the eventual unfavourable impact from changes in market interest rates on the Bank's profit or capital. UBB manages interest rate risk and maintains it within acceptable parameters by striving to maintain an adequate structure of its interest-sensitive assets and liabilities and minimizing any mismatches between those.

The Bank has set a limit on its total exposure to interest rate risk in the banking book and allocates additional internal capital for this risk within the ICAAP.

To accurately assess interest rate risk in the banking book the Bank applies a model based on the change in the economic value of assets, liabilities and off-balance sheet items, in accordance with the amount and the average duration of currency mismatches, resulting from a change in the interest rate levels by 200 basis points.

The interest rate risk is measured, separately for each of the main currencies used by the Bank and as total exposure. The calculation is based on a gap analysis of the interest-sensitive assets and liabilities over standardized time intervals. All items in the banking book are distributed over such time intervals based on their interest characteristics. The larger portion of the loan portfolio has a floating interest rate and, respectively, falls within the shortest time intervals. Savings and current accounts are generally distributed over the time interval up to 1 month.

The table below shows the sensitivity of the economic value to a parallel shift of the yield curve in all currencies by 200 basis points (per currency in its BGN equivalent) as of December 31, 2013.

BGN Thousand

BGN	9 743
EUR	1 052
USD	-454
ОБЩО	**10 341**

The bank has adopt limit for the maximum exposure amount to this risk type and allocate internal capital for Interest rate risk in banking book within the ICAAP.

13. Securitisation

There has been no securitization of the Bank’s assets.

14. Internal Ratings Based Approach

The Bank utilizes an internal rating model for corporate obligors developed by the Risk Modelling Unit of Risk Management Division and approved by NBG Group. The models are applied for assessing the creditworthiness of borrowers and for the purpose of ICAAP. In 2013 the corporate rating model was entirely revised and is in process of implementation within 2014.

Currently the bank has not applied for permission to use the corporate rating model for calculation of the capital requirements as per Ordinance №8. In accordance to Basel II (Basel III) the banks are allowed to use their internal models for capital requirements calculation after approval by the regulatory authorities.

15. Techniques for Credit Risk Mitigation

The Bank expects repayment of its loan claims primarily from the operational cash flows of the obligors. The collateral is considered as a secondary source for repayment of credit exposures in case the Bank initiate legal actions against the Obligors.

The collaterals must fulfil the following conditions in order to be accepted by the Bank:
1. Legal substance – existence of the proper legal and other documentation, proving the ownership right and the fulfilment of the special requirements of the law;
2. Clear identification – the collateral, as supported by its documentation, to be clearly identifiable;
3. Exclusivity of collateral rights – the Bank to be the undisputable holder/bearer of the specific collateral rights;
4. Sufficiency – Sufficient in terms of amounts, ideally exceeding the respective credit exposure in order to cover possible reduction in their realization price, the expenses and time needed for their realization;
5. Liquidity – the collaterals must be possible to be liquidated within a reasonable time in the current market conditions.

The Bank accepts all collaterals that can be used as an alternative source for the repayment of the Bank's lending claims. However, the Bank has a higher appetite for and accepts that only some of them have the qualitative characteristics (secondary market, short liquidation horizon, easily assessed market price, legal processes allowing to the creditor to possess and liquidate them, slow amortization, etc.) permitting to the Bank to assume and calculate a securing value for them. And these are:

1. Pledge of deposits ("born receivables under deposit" as per the legal term) with UBB and other Banks;
2. Transfer agreement of born receivables (special deposits kept in the Bank's name provided as collateral by the collateral provider) under the Law on Financial Collateral Arrangements;
3. Pledge of receivables under direct, unconditional, irrevocable and full guarantee, issued by first-class local or foreign financial institutions, government and municipalities;
4. Pledge of Multinational bank bonds /investment grade only/;
5. Pledge of local government bonds and other local governmental debt titles;
6. Pledge of municipalities bonds;
7. Mortgage on real estate properties and real estate related rights with a recognized market value;
8. Pledge of movable tangible assets – machines, vehicles, equipment, aircrafts, etc.;
9. Pledge of living stock that is fully insured against all risks, the insurance policy is assigned in favour to the Bank and the Bank is referred as loss payee;
10. Marine mortgage;
11. Pledge of non-sensitive goods based on public licensed warehouses titles;
12. Pledge of shares of companies /investment grade only/ and in SE /stock exchange/;
13. Pledge of corporate bonds /investment grade only/ and in stock exchanges;
14. Pledge of shipping documents /only sea and railway transport/;
15. Pledge of born trade receivables under a contract, by counterparties/payers;
16. Pledge of subsidies and grants by governmental or EU entities, provided that the Bank is in a position to check and has verified in advance that all preconditions set by same entities for the disbursement of the subsidy or grant have been fully met.;

The Bank, as a matter of principle, encourages the undertaking of fully collateralized credit risks. A credit risk is considered as fully collateralized when the securing value of the collaterals is at least equal to the corresponding risk. Securing value is defined as the outcome of the multiplication of the market value of a collateral with the corresponding to every collateral co-efficient. The securing value calculated in this way cannot however exceed the liquidation value and the legal right of the Bank over the asset.

Total credit exposures, net of provisions and risk mitigates, and adjusting off-balance sheet positions by risk conversion factors, was as follows at December 31, 2013:

BGN Thousand

Exposure classes	Balance sheet items	Off-balance sheet items
Central Governments and Central Banks	501 998	125
Regional Governments or Local Authorities	17 892	-
Institutions	720 693	4 067
Corporates	1 498 518	154 602
Retail	860 294	156 168
Exposures Secured by Real Estate Property	871 734	2 732
Past-due Items	348 289	-
Other Items	355 402	17 623
TOTAL:	**5 174 820**	**335 316**

16. Staff Remuneration Policy and Practices, pursuant to Ordinance №4 of BNB

The remuneration policy encompasses the staff categories under Art.2 of BNB's Ordinance №4, whose remuneration is related to responsibilities and functions that can affect the Bank's risk profile. It defines the objectives, principles and requirements for determining the remuneration of such personnel and is designed in accordance with the applicable national and European regulators and the remuneration policy of NBG Group.
The policy covers all forms of remuneration /fixed and variable/ as salary and other financial and material incentives, including benefits related to retirement.

The following staff categories refer to the positions within the range of Art. 2 of Ordinance №4 of BNB:

1. Senior management – includes all positions in the list of the Bank's administrators.
2. Risk-takers – includes employees who can affect the Bank's risk profile and can make decisions on risk undertaking – members of Credit Committee, ALCO, Risk Management Committee, etc.
3. Employees, engaged in control functions – includes employees who are in charge of and are responsible for the Bank's controlling activities and work in Specialized Internal Audit Division (SIAD), Compliance Department, Risk Management Division and Financial Control Department.

4. All employees whose remunerations are in the same remuneration bracket as staff referred to in Item 1 and 2 and whose activities have a significant material impact on the Bank’s risk profile. There are no such employees in the Bank.

5. Other persons whose professional activities have significant impact on the risk profile of the Bank.

The UBB Board of Directors determines the general principles of the Policy and is responsible for its implementation and periodical review.
The Board of Directors establishes UBB Remuneration Committee and approves its composition, rights and responsibilities.
The Remuneration Committee is an independent body whose aim is to assist the Board of Directors during the performance of their obligations of implementation and development of the policy.

The Remuneration Committee is comprised in such way so as to ensure a possibility to make competent and independent decisions on the remuneration policies and practices, as well as on the thus established incentives for management of risk, capital and liquidity.
The Remuneration Committee consists of three non-executive BoD members.

In accordance with the functions and responsibilities, assigned to them in the Policy, the Specialized Internal Audit Department, Risk Management Division, Human Resources Management Department, Compliance Department and the CFO assist and monitor the correct implementation of the Policy.

The Policy is based on principles which ensure reliable and effective risk management and discourage undertaking of excessive risk; support to the long-term interests of the Group and the Bank; measures for avoiding conflict of interests; compliance with the set normative requirements for the variable remunerations; independence of the employees, executing control functions; harmonization of employees' individual interests with the business targets of the Bank.

The employees’ remunerations are bound to performance and their total amount is based on a combination of the performance appraisal of the individual employee, that of the structural unit, where she/ he works, as well as of the overall results of the Bank, while financial and non-financial criteria shall be taken into consideration upon the individual performance appraisal. The performance results shall be appraised in a multi-year framework, in order to ensure that the assessment process is based on long-term performance.

The Bank ensures a suitable proportion between the fixed and the variable components of the remunerations.
A substantial portion, and in any event at least 50% of any variable remuneration shall comprise an aggregate of/ shall consist of an appropriate balance of:

a) shares (e.g. NBG shares or equivalent ownership interests, or share-linked instruments), other instruments, relating to shares, in case the bank is not a publicly-listed company – and equivalent non-cash instruments;
b) instruments within the meaning of Art. 3a of Ordinance № 8 dated 2006 of the BNB that reflect in an appropriate manner the credit quality of the Bank as a going concern (e.g. hybrid instruments).

Upon payment of variable remuneration a proper performance evaluation shall be ensured within a multi-year period and evaluation of long term results shall be guaranteed within a period in which the main cycle of economic activity and business risks can be considered.

In the event that variable remuneration is provided, payment of at least 40% of such remuneration shall be deferred for at least 3 to 5 years, so as to align such remuneration with the nature and the risks involved in the Bank's activities, as well as the activities of the employee concerned.
With regard to the Executive directors and senior management with remunerations in the same bracket, the ratio shall be at least 60%.

Summary information on the remunerations in the Bank in 2013, detailed per activity type.

Type of activity	Remunerations - %
Branch network	48,27
Operations	15,05
Retail banking	2,73
Corporate banking and Treasury	12,04
Risk management	6,49
General banking management	15,42
Total	100,00

Summary information on the remunerations to the persons under Art.2 of Ordinance №4

a) Amount of the annual remunerations per staff categories and type /fixed and variable/:
In percentage

Staff category	Number of payees	Remunerations-% of the total paid remunerations in the Bank	Of these fixed-%	Of these variable - %
1. Persons under Art.2, Item 1 of Ordinance 4 of the BNB	9	3,12	100,00	0
2. Persons under Art.2, Item 2 of Ordinance 4 of the BNB*/	23	4,03	99,95	0,05

*/ Excl. the persons falling into this category that are specified in Item 1

b) In 2013 have been determined variable remunerations/ bonuses in cash amounted to 0.05% for the persons under Art.2 of Ordinance №4.

c) Amount of payments upon recruitment and termination of agreements during the reporting year – no.

Upon request, the Bank may provide the disclosed information on hard copy or other data storage device for further review.