One Bank, One UniCredit.

2018

Annual Report and Accounts

Banking that matters. | UniCredit Bulbank

UniCredit Bulbank

Contents

Financial Highlights (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2018	2017	CHANGE
Net interest income	400 709	435 950	(8.1%)
Net fee and commission income	232 214	216 758	7.1%
Net income from trading and hedging derivatives, investments and dividends	239 684	98 765	142.7%
Other operating income/expenses, net	(58 818)	(53 299)	10.4%
Operating income	813 789	698 174	16.6%
Operating expenses	(256 192)	(244 517)	4.8%
Gross operating profit	557 597	453 657	22.9%
Impairment losses on financial assets	(57 000)	(150 241)	(62.1%)
Provisions for risk and charges	(43 206)	14 010	(408.4%)
Income from PPE	7 972	13 650	(41.6%)
Profit before tax	465 363	331 076	40.6%
Net profit	430 039	297 653	44.5%

Volume Figures

	YEAR 2018	2017	CHANGE
Total assets (eop)	19 413 598	19 096 088	1.7%
Net customer loans (eop)	10 488 474	9 436 559	11.1%
Customer deposits (eop)	15 808 075	15 520 709	1.9%
Shareholders' equity (eop)	2 829 276	2 853 255	(0.8%)
RWA (eop)	10 578 210	9 162 205	15.5%

Key Performance Indicators (%)

	YEAR 2018	2017	CHANGE
Return on average assets (ROA)	2.23	1.58	0.66 pp
Return on average equity (ROE)	15.1	10.7	4.4 pp
Cost/Income ratio	31.5	35.0	(3.5 pp)
Net profit margin	52.8	42.6	10.2 pp
Capital/Asset ratio (eop)	14.6	14.9	(0.4 pp)
Total capital adequacy ratio (eop)	22.9	27.3	(4.4 pp)
Tier 1 capital ratio (eop)	22.5	26.9	(4.4 pp)
CET 1 capital ratio (eop)	22.5	26.9	(4.4 pp)
Risk weighted assets/Total assets ratio (eop)	54.5	48.0	6.5 pp
Non-performing loans/Gross loans	6.0	8.9	(2.9 pp)
Net Loan/Deposit ratio	66.3	60.8	5.5 pp

Resources (number) – (eop)

	YEAR 2018	2017	CHANGE
Employees	3 555	3 559	(4)
Branches	166	168	(2)

Financial Highlights (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2018	2017	CHANGE
Net interest income	562 143	593 045	(5.2%)
Net fee and commission income	247 265	229 767	7.6%
Net income from trading and hedging derivatives, investments and dividends	124 390	98 717	26.0%
Other operating income/expenses, net	(53 687)	(53 354)	0.6%
Operating income	880 111	868 175	1.4%
Operating expenses	(290 379)	(274 344)	5.8%
Gross operating profit	589 732	593 831	(0.7%)
Impairment losses on financial assets	(75 611)	(142 813)	(47.1%)
Provisions for risk and charges	(42 608)	(6 026)	607.1%
Income from PPE	8 128	13 721	(40.8%)
Profit before tax	479 641	458 713	4.6%
Net profit	431 484	412 242	4.7%

Volume Figures

	YEAR 2018	2017	CHANGE
Total assets (eop)	20 215 404	20 260 347	(0.2%)
Net customer loans (eop)	11 297 096	10 629 087	6.3%
Customer deposits (eop)	15 824 661	15 512 999	2.0%
Shareholders' equity (eop)	3 177 072	3 199 746	(0.7%)
RWA (eop)	11 008 451	9 986 483	10.2%

Key Performance Indicators (%)

	YEAR 2018	2017	CHANGE
Return on average assets (ROA)	2.1	2.0	0.1 pp
Return on average equity (ROE)	13.5	13.4	0.1 pp
Cost/Income ratio	33.0	31.6	1.4 pp
Net profit margin	49.0	47.5	1.5 pp
Capital/Asset ratio (eop)	15.7	15.8	(0.1 pp)
Total capital adequacy ratio (eop)	25.1	27.3	(2.3 pp)
Tier 1 capital ratio (eop)	24.7	26.9	(2.3 pp)
CET 1 capital ratio (eop)	24.7	26.9	(2.3 pp)
Risk weighted assets/Total assets ratio (eop)	54.5	49.3	5.2 pp
Non(performing loans/Gross loans	6.2	8.7	(2.5 pp)
Net Loan/Deposit ratio	71.4	68.5	2.9 pp

Resources (number) – (eop)

	YEAR 2018	2017	CHANGE
Employees	4 138	4 147	(8)
Branches	175	177	(2)

Chairman's message

> "In UniCredit Bulbank, the main transformational pillars remain the focus for creating a positive customer experience as well as focus on innovations in all areas and particularly digitalization of product services and processes"

Levon Hampartzoumian
Chairman

Dear Shareholders,

In 2018 the **Bulgarian economy** recorded GDP growth of roughly 3.5% y/y. Consumption continued to be one of the main growth drivers, together with investments, whose growth accelerated to its strongest level in a decade. The unemployment rate further decreased to 5.2% in the end of 2018, reaching the lowest level posted since pre-crisis times. **In the banking sector**, in line with the positive economic activity, banking system recorded a positive y/y lending growth of 8.6%, supported by excellent performance in Retail and moderate growth in Corporate. Assets quality improvement continued and non-performing exposures further decreased reaching 11.1% from gross loans. Deposit expansion registered even higher growth (8.0% y/y) when compared to 2017 (6.6% yoy) as a result of the stabilization of the gross savings rate at very solid level (roughly 25% in 2018) along with the stronger credit growth. In terms of financial performance, banking sector recorded solid Net Profit, supported by the strong acceleration of lending volumes and the sharp drop in impairments.

In 2018 **UniCredit Bulbank reconfirmed its position of indisputable leader on the Bulgarian Banking Market** topping the rankings in all key indicators for another year in a row: Total Assets, Gross Customer Loans, Customer Deposits, Revenues and Net Profit. The Bank's total assets grew by 1.7% y/y, to BGN 19.4 bln at the end of 2018, accounting for 18.4% from the assets of the Bulgarian banking sector. On the Lending market, UniCredit Bulbank confirmed its position of **top market lender** with a market share of 18.7% (19.4% if including the business, generated mainly through the Bank's subsidiary, specialized in consumer financing - UCFin) thanks to its outstanding reputation, strong business model and customer centric approach oriented to long-term relations. Moreover, the Bank remained a major partner of households and companies and continued to support the development of the real economy in Bulgaria.

On the Deposits market, UniCredit Bulbank continued to be **the most trusted bank** with market share of 18.8%. The Bank's strong liquidity position was further improved and the net loans-to-deposits ratio reached 66.3%. **Capitalization was confirmed at the very solid levels** well above the regulatory minimums: CET 1 ratio reached 22.5% and was very close to the total capital adequacy ratio of 22.9%, thus proving the high quality of the capital instruments – i.e. mainly CET 1 eligible ones.

The Bank achieved **BGN 813.8 mln in Revenues**, thus improving its market share to 20.7%. Targeting an increase in the value proposition of our customers, the bank continued to focus on business re-design which resulted in further transformation of the revenues structure. **Net Fee and Commission income** continued to be one of the key growth drivers increasing by 7.1% y/y, thanks to the strong positioning in traditional fee-generating banking services, combined with focus on their digitalization. **Trading revenues** recorded further increase of 12.7% y/y, mainly thanks to strong markets activities as well as treasury services to our core customers, fully plugged into the commercial banking. All these helped to offset 8.1% drop in **Net interest income** (as a result of shrinking loan-to-depo interest rate spread and decreasing yield of fixed income portfolio). **Operating expenses** (BGN 256.2 mln) registered growth of 4.8% y/y driven by labor market trends and investments in strategic operational and business projects.

Thanks to the improvement in asset quality, **loan loss impairment charges** decreased by 62% y/y to BGN 57.0 mln.

As a result of the above developments, **Net profit after tax reached** BGN 430.0 mln (+44.5% y/y), representing more than 25% from the Net profit of the Bulgarian banking system. **Profitability generation capacity remained above the one of the market average** with Return on Equity of 15.1% compared to 13.6% for the market. **The remarkable improvement in asset quality** of UniCredit Bulbank's portfolio continued in 2018. Thanks to dedicated focused actions, NPE ratio declined by another 290 bps to 6.0%, while at the same time the NPE coverage increased by 487 bps to a comfortable level of 73.0%.

In 2018 the strategic orientation of UniCredit Bulbank remained, further strengthening the leadership position and creating value for all its stakeholders. It was supported by various transformation initiatives under the umbrella of Group Transform 2019 Plan, mainly in the area of maximizing the commercial banking value. In UniCredit Bulbank, the **main transformational pillars remain the focus for creating a positive customer experience** as well as **focus on innovations in all areas** and particularly digitalization of product services and processes. Digital solutions and innovative systems continue being implemented across all business lines.

Mobile baking was enriched with new features, like simplification of registration process, introducing foreign payments, analytics enhancement, etc. Besides mobile banking, online banking also remained in focus. It was enhanced by adding new utility services providers as well as launch of complete on-line process for sale of POS loans. **The share of digital customers** reached 39.1% from the active customers' base in Retail. Trade finance module and "eFactoring.bg" application continue being actively used by the corporate customers. The evolution of the digital service model and platforms was supported by the respective ICT investments in service oriented architecture, core system upgrade and OMNI channel concept.

UniCredit Bulbank puts the **customer in the center of all activities,** delivering relevant solution to their real needs. **In Retail banking**, the main focus remained on sustainable business growth through improving customer satisfaction and strengthening the position of preferred client's partner. As part of the overall approach for customer experience improvement, Customer Experience Governance model was successfully implemented throughout branch network, pursuing to enhance the service quality level. The focus on investment products was re-affirmed with the set-up of a dedicated team of investment product experts. In addition, the improvement in several main processes, like new front-end for debit cards, annual review of SME exposures, accounts' servicing etc., ensured high level of efficiency as well as increased satisfaction of customers. **In Corporate Banking** new business intelligence tools were added to the existing ones, providing in-debt analysis of complex business trends, proposing business opportunities for specific products in the area of global transactions and markets operations. International Customers continued to be in the focus, leveraging on the full potential of UniCredit Group unique geographical footprint in order to foster acquisition, reduce attrition and better address customers' needs. Internal lending processes were optimized, aiming at shortened response time to customers. **In Private banking**, the main focus was put on service model optimization, focusing on client needs by clusters. In addition, private banking product offer was diversified by new investment products and assets allocation proposals.

Concentrating on the development of its **corporate social responsibility program**, during the year the Bank kept the strong focus on already defined key priority areas of education, development of innovations and social entrepreneurship. UniCredit Bulbank supported numerous initiatives of NGOs, institutions, organizations, universities, schools as well as individual causes. As a leader in terms of innovations and digitalization, the Bank became a natural partner of the most respected forums in the country, dedicated to the development of technologies. In 2018 UniCredit Bulbank proved its position as a valued partner by organizing many high profile initiatives and conferences of the business chambers in Bulgaria and actively participated in social and charity events, gathering the business, political and diplomatic elite of the country. In addition, the national volunteering network developed numerous projects around the country, involving colleagues and partners.

Thanks to the strong brand of UniCredit, the good image of a stable and reliable organization and the extensive participation in different career events, UniCredit Bulbank continued to be considered as a stable and **reliable employer and an excellent place for career development**. UniCredit people are our main competitive advantage. While supporting a well-balanced work life, we want to create the conditions to allow our people to contribute, grow and learn. We strongly believe that our continuous investment in people development will make the difference.

UniCredit Bulbank remains firmly grounded on UniCredit Group values and principles. We enter 2019 as a robust institution, well positioned for further growth, with outstanding reputation and capable to deliver value-added solutions to customers and society. I would like to thank our shareholders for their strong support and commitment and our clients for their trust. Also, I would like to express my gratitude to the management team and all our employees for their hard work and dedication.

Levon Hampartzoumian

Chairman

ETHICS AND RESPECT: DO THE RIGHT THING!

UniCredit's Board and Senior Management consider that the way in which results are achieved is as important as the actual results. Therefore, the following Group Principles[1] should guide all employees' decisions and behaviors irrespective of seniority, responsibility and geographical area:

"Ethics and respect: Do the right thing!"

Group Principles are designed to help all UniCredit employees, to guide their decision-making and their behaviours towards all stakeholders in their day to day activities.

In particular, such Principles require:

- compliance with the highest ethics standards – beyond banking regulation and beyond the law – in relationships with clients, colleagues, environment, shareholders and any other *stakeholders*;
- fostering a respectful, harmonious and productive workplace;

to best protect the Bank, its reputation and to be an employer and a counterparty of choice.

Group Principles underpin a set of core guidelines that further clarify expectations about the way to work as **One Team, One UniCredit** and support employees in the fulfillment of UniCredit *Five Fundamentals*. The spirit of each of these principles is extremely important and it will be the subject of more detailed policies that will be developed or updated in the coming months.

Group principles in day to day activities

- **Ethics as a guiding principle of fairness and respect towards all stakeholders in order to achieve sustainable results.**
  UniCredit colleagues, irrespective of seniority, responsibility and geographical area, are expected to do the right thing in their daily activities and to be fair towards all stakeholders to gain and retain their trust.

- **"Ethics and respect" is a guiding principle which applies to all Group policies.**
  The "Ethics and respect" principle is based on a long term view of the Group business activities and relationships with stakeholders as well as a comprehensive view of the internal and external working environment. Business policies require care to ensure that responsible sales approach work in harmony with balanced, fair and respectful customer interactions, enabling the achievement of sustainable business success and long-term targets. Targets and other business results are not considered achieved if they are not met in compliance with the Group Principles, related policies and the requirements that flow from them.

[1] Which substitute the former group values.

- **“Ethics and respect” is a guiding principle for interactions amongst all Group employees.**
  UniCredit colleagues are expected to contribute in their daily activities toward creating and maintaining a work environment that is as respectful and harmonious as possible, eliminating intimidating, hostile, degrading, humiliating or offensive behaviors and words. UniCredit must contribute to assuring the respect for the rights, value and dignity of people and the environment. All forms of harassment, bullying and sexual misconduct are unacceptable.

- **“Ethics and respect” is a guiding principle for the promotion of diversity and work life balance which are considered valuable assets.**
  UniCredit colleagues are expected to assure a workplace where all kinds of diversity (e.g. age, race, nationality, political opinions, religion, gender, sexual orientation) are not only respected, but also proactively promoted as well as to contribute to an environment in which respect for, and attention to, colleagues’ needs, health, work-life balance and well being are deemed essential to achieving sustainable results.

- **“Ethics and respect” is a guiding principle underpinning the reinforcement of a “Speak-up culture” and anti-retaliation protection.**
  UniCredit is firmly committed to promoting an environment in which colleagues and third parties feel comfortable engaging in open and honest communication. UniCredit encourages colleagues and third parties to speak up and raise promptly good-faith concerns without fear of retaliation relating to any situation that may involve unethical or illegal conduct or inappropriate interactions with others.

The Principles will be consistently enforced at all levels throughout the Group, starting with a proper and focused communication to all employees.

Supervisory Board and Management Board[2]

Supervisory Board (SB)

Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Silvano Silvestri Ivan Vlaho Luca Rubaga	**Members**

Management Board (MB)

Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Enrico Minniti	**Deputy Chairman and General Manager**
Jasna Mandac Antoaneta Curteanu Tsvetanka Mincheva Teodora Petkova Giacomo Volpi	**Members**

[2] As of December 31st, 2018

ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW
(1 Jan. 2018 - 31 Dec. 2018)

Members of the Supervisory Board

Robert Zadrazil
- SCHOELLERBANK AG – Chairman of SB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – Member and Chairman of SB (from 17 December 2018)
- UNICREDIT BANK AUSTRIA AG – Chairman of MB and CEO
- UNICREDIT SERVICES GMBH – Chairman of SB
- CARD COMPLETE SERVICE BANK AG – Chairman of SB
- UNICREDIT S.p.A – Member of the Executive Management Committee and representative in the Permanent Establishment in Vienna

Alberto Devoto
- Does not participate in the management of any other entities

Dimitar Zhelev
- STADIS EAD – Member of the Board of Directors (BD), majority control through BULLS AD – until 5 February 2018 (merger of the company)
- REAL ESTATES DEVELOPMENT EAD – Chairman of BD and Executive Director (100% ownership of BULLS AD)
- BULLS AD – Member of BD, 51% ownership (49% owned by SHIPPING AND INSURANCE FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA – 49.5% ownership through both BULLS AD and DZH AD
- DZH AD – Member of BD, 50% ownership
- ALLIANZ BULGARIA HOLDING AD – Chairman of BD and Executive Director, 34% ownership directly and through BULLS AD
- ALLIANZ BANK BULGARIA AD – Chairman of SB
- ZAD ALLIANZ BULGARIA – member of SB
- ZAD ALLIANZ BULGARIA LIFE – member of SB
- AEGIAN BULLS Ltd/over 25% ownership through controlled companies/

Heinz Meidlinger
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – Deputy Chairman of SB
- UNICREDIT BANK S.A. – Deputy Chairman of SB
- MEIDLINGER INVESTMENT&CONSULTING GMBH – 99% ownership and managing partner
- WIENER PRIVATBANK SE, WIEN – Member of SB

Silvano Silvestri
- UNICREDIT BANK HUNGARY ZRT. – Deputy Chairman of SB
- UNICREDIT SERVICES GMBH – Deputy Chairman of SB
- BARN BV – Member of board of directors
- RN BANK – Member of SB, until 28 November 2018
- UNICREDIT BANK SERBIA JSC – Member of SB

Ivan Vlaho
- UNICREDIT BANK HUNGARY ZRT. – Member of SB
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S. – Member of SB
- UNICREDIT CONSUMER FINANCING ROMANIA – Member of SB

Luca Rubaga
- UNICREDIT BANK SERBIA JSC – Member of SB
- UNICREDIT BANK S.A. – Member of SB
- UNICREDIT SERVICES GMBH – Procurator

Members of the Management Board

Levon Hampartzoumian
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- BORICA AD – Member of BD
- UNICREDIT LEASING EAD – Member of SB

Enrico Minniti
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB

Jasna Mandac
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB

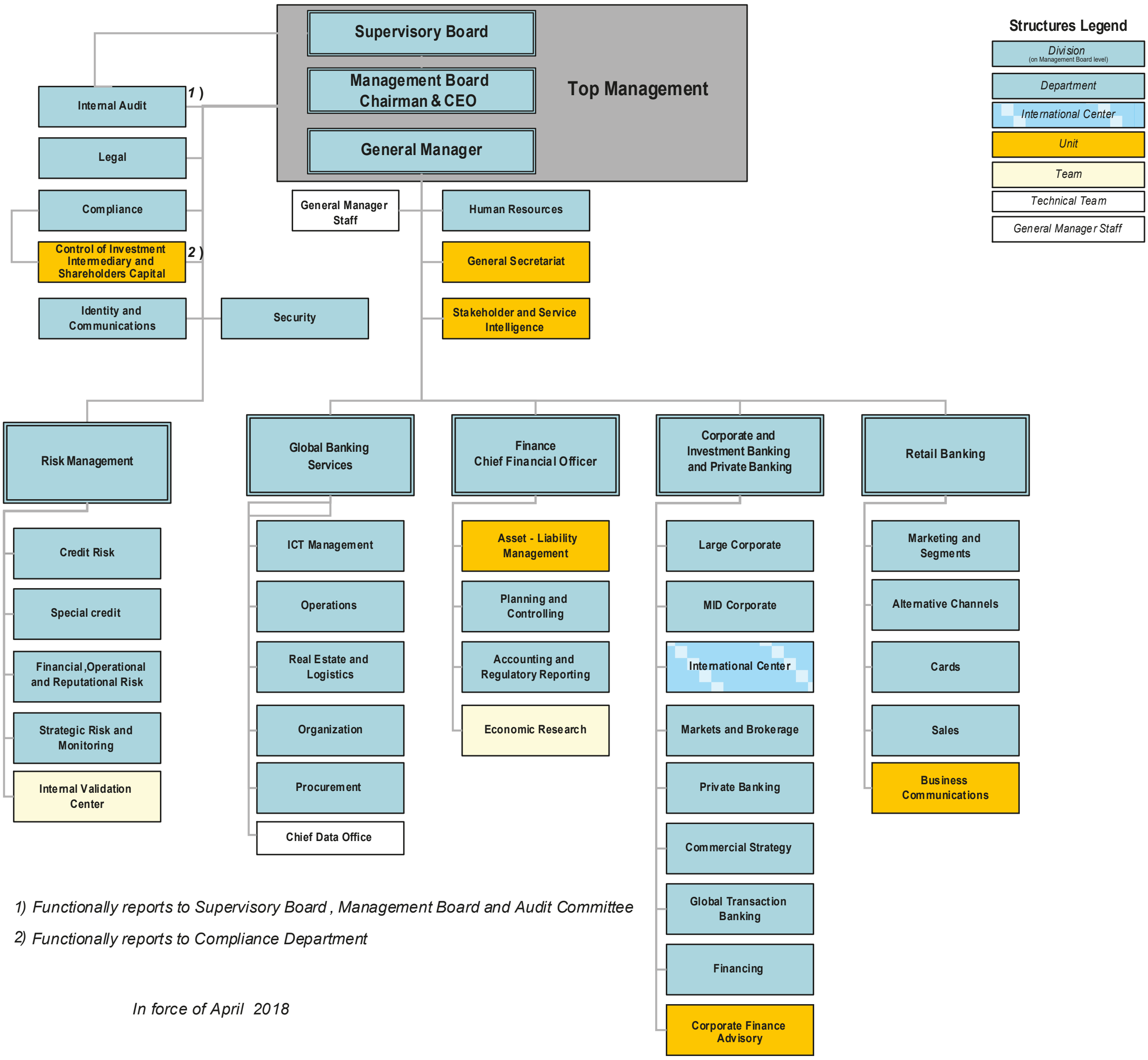
Antoaneta Curteanu
- UNICREDIT FACTORING EAD – Member of BD
- UNICREDIT LEASING EAD – Member of SB

Tsvetanka Mincheva
- UNICREDIT CONSUMER FINANCING EAD – Member of MB, until 2 March 2018
- CASH SERVICE COMPANY AD – Member of BD

Teodora Petkova
- UNICREDIT CONSUMER FINANCING EAD – Member of SB

Giacomo Volpi
- UNICREDIT CONSUMER FINANCING EAD – Member of MB – since 09 March 2018

Organisation Chart[3]



[3] As of December 31, 2018

Credit rating

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

Long-term	**BBB-**
Short-term	**F3**
Outlook	**Negative**

2018 AWARDS

- Top Employer in Bulgaria – Top Employers Institute
- Top Employer Europe – Top Employers Institute
- Best Bank in Bulgaria – Euromoney
- Best Bank in Bulgaria – Global Finance
- Best Trade Finance Provider in Bulgaria – Global Finance
- Best Services in Bulgaria for Trade Finance – Euromoney
- Market Leader for Trade Finance in Bulgaria – Euromoney
- Best Sub-custodian Bank – Global Finance
- Most Innovative Company in Bulgaria – b2b Media
- Largest market share – Association Bank of the year
- Best in Internal Communications – Bulgarian Public Relations Association
- Best PR Team in Bulgaria Largest Market Share – Bulgarian Public Relations Association
- Best Employer Branding Video – b2b Media

One Bank, One UniCredit.

Our strategy is clear and long-term. We are transforming the Group to build the bank of tomorrow for our extensive client franchise. Everything we do is designed to make UniCredit a true pan-European winner.

Highlights

UniCredit is a simple successful pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 26 million clients.

UniCredit offers both local and international expertise providing its clients with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide.
UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[3]

Operating income
€ 19,723 m

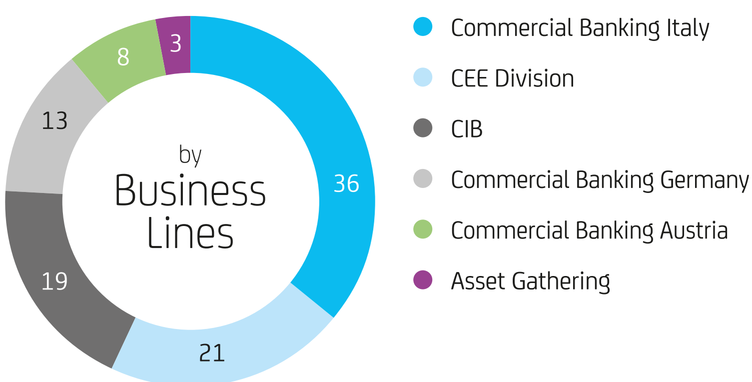
Net profit (loss)
€ 3,892 m

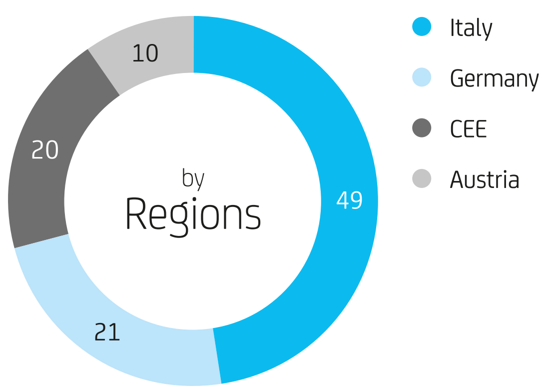
Shareholders' equity
€ 55,841 m

Total assets
€ 831,469 m

Common Equity Tier 1 ratio*
12.07%

Revenues[4] (%)





[3] Data as at December 31, 2018.
[4] Fully loaded CET1 ratio.

A pan-European winner

European banks must continue to focus on their clients, supporting European companies aiming for international growth. Achieving both reach and scale is important, to provide customers with efficient products at the best possible price.

UniCredit is a successful pan-European banking group. **We deliver the best products and services to our 26 million clients in 14 core markets, responding to their concrete needs.** Our geographically diversified reach provides all our shareholders, clients and colleagues with greater security. And our **"One Bank, One UniCredit"** strategic approach combines central guidance with local implementation,
to keep making our Group a pan-European winner.

Achievements 2018

Top Employers Institute: Top employer Europe 2018

Awarded thanks to local certification achieved in Bulgaria, Croatia, Germany, Italy and Russia

- **The Banker: Bank of the Year in Italy 2018**
- **The Banker: Bank of the Year in Bosnia 2018**

Euromoney: Trade Finance Survey 2019

#1 across 28 categories
Global Best Service Provider for: "All Services", "Advisory", "Financing/payments", "Overall Execution" and "Products"

Digital Partnerships

Key transaction partnerships

- Apple Pay
- Samsung Pay
- Alipay
- Google Pay

Digital innovation for customers

- Alexa in Austria, to bank through Amazon's voice assistant
- U-days in Italy, to promote knowledge of digital payments and payment apps: **Apple Pay, Samsung Pay, Alipay, Google Pay**

Business Growth

Our positive overall financial performance proves our good progress in **strengthening the Group through strategic business initiatives and a focus on digitalisation and process simplification, leveraging on best practices across the Group**. This is already driving significant growth. As the banking industry continues to evolve, we will maintain our focus on changing customer needs, ensuring the future sustainability of our business.

In UniCredit, building the bank of tomorrow means:

- Constant focus on customer satisfaction and consistent service quality
- Continued review of processes to improve the customer experience and optimise cost, with a strong focus on risk management
- Further revenues growth

Key Asset Quality Metrics

	FY 2017	FY 2018	FY 2019
Cost-Income Ratio	56.9%	54.2%	52-53%
Group Gross NPEs Ratio	10.33%	7.67%	7.5%
Revenues	19.9%	19.7%	19.8%

Transform 2019 Milestones

Through Transform 2019 – our strategic plan – we are building the bank of tomorrow.

Our strategy is clear and long-term: we are One Bank, One UniCredit – a simple, successful pan-European commercial bank with a fully plugged in CIB delivering a unique Western, Central and Eastern European network to our extensive client franchise. We are and we will remain a pan-European winner.

2018

Improve Asset Quality – **07.02**

PROJECT FINO

Completion of final phase of Project Fino

Adopt Lean but Steering Corporate Center – **13.04**

CORPORATE GOVERNANCE

New Chairman appointed (Fabrizio Saccomanni) based on the Board presenting its own list of candidates

Transform Operating Model – **23.05**

GROUP CHIEF TRANSFORMATION OFFICER

Group Chief Transformation Officer appointed (Finja Carolin Kütz)

Strengthen and Optimise Capital – **02.11**

EBA STRESS TEST

EBA stress test results: third highest CET1 ratio among systemic banks in the Eurozone

Maximise Commercial Bank Value – **31.12**

NEW CLIENTS ACQUISITION

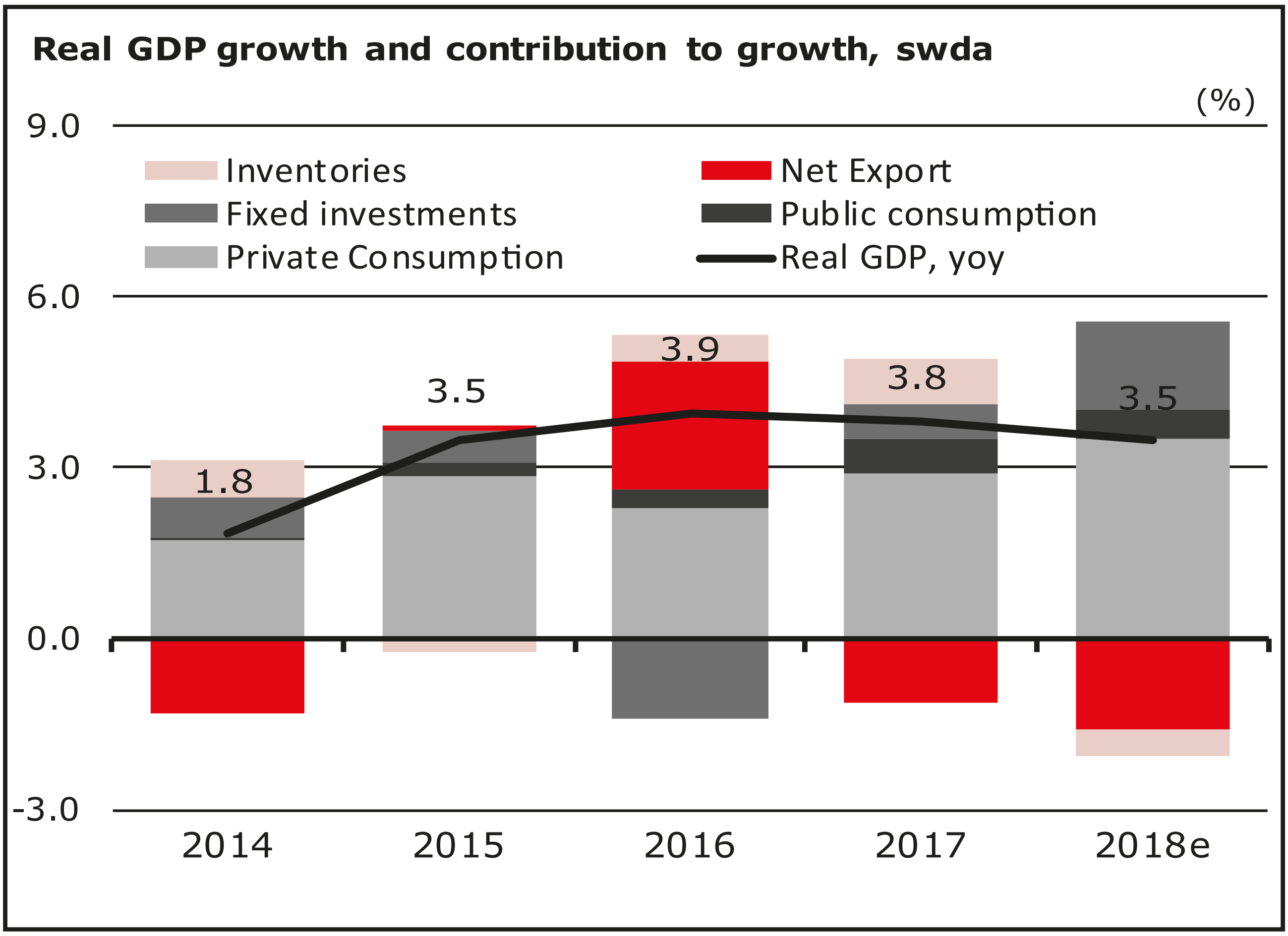
Over **1.9 million** gross new clients acquired

Transform 2019

Banking that matters.

We are dedicated to creating tangible value for all our clients, employees and stakeholders by providing real solutions to real needs. Everything we do is grounded on ethics and respect.

Bulgarian Economy in 2018[5]



Source: National Statistical Institute, Bulgarian National Bank, UniCredit Bulbank

In 2018 the ongoing economic expansion posted its fourth consecutive year. However, the pace of economic expansion lost some traction, with annualized real GDP growth likely to have reached 3.5%, after 3.8% posted in 2017. Consumption remained the main growth driver. At the same time, the structure of growth slowly shifted from consumption towards investments, as investments growth in 2018 accelerated to its strongest pace in a decade. Also importantly 2018 was the first year in the present economic expansion period when investments growth was stronger than consumption growth. This transformation in the pattern of growth of the economy is very positive and should be welcomed, as it helped **growth to become more broadly based and therefore more resilient.** Also it provided evidence that the economy has entered in a more advanced stage of its expansion phase, where growth is driven not only by export and consumption but also by investments.

Growth **could have been stronger in 2018** if it was not for **three specific one-off** factors which were behind the growth deceleration in the second half of the year. First, crude oil prices rose by roughly one third y/y which subtracted some 0.4% of growth, as higher energy prices reduced household disposable income and pushed corporate expenses higher. Second, agriculture output was hit by the summer draught which decimated some crops including wheat, corn and sunflower output. This cutback export by BGN 1 bln which is equivalent to around 1pp of country's GDP. And third, Turkish crisis hit exports. The hit was significant initially, as Turkey is among the largest partner of Bulgarian economy on the export side, but eased toward the end of the year driven by some one-off factors.

The unemployment rate went down to 5.2% in the end of 2018. This is the lowest level posted since the start of transition, which added to the evidence that the economy is on track to reach full employment for a first time in its modern history. Opposite to the past when employment gains were mostly driven by low-paid jobs in labor intensive manufacturing sector and construction, today large

[5] Data cut-off as of November 2018.

part of the new jobs are created in some of the sectors with the highest average wages, such as information and communications and business processes outsourcing.

Current account posted another sizeable surplus last year which helped gross foreign debt to go down further to an estimated 62% of GDP. The latter helped the net international investment position[6] to improve in 2018 to a level slightly below – 35% of GDP after peaking at unsustainably high – 92% of GDP in 2010. This is important because after a prolonged period of more than a decade it finally helped Bulgaria to deliver performance which is in line with the threshold set in the macroeconomic imbalance procedure of the European Commission. FDI stabilized at circa 3% of GDP, but unlike in the past, when most of the flows financed acquisition of already existing assets, today capital inflows fund new projects, which is positive for both job creation and investments, thereby boosting the capacity of the economy to produce more goods and services. These very positive developments on the external front helped **BNB's FX reserves to rise by 6% y/y to a record high 46% of country's GDP**, which further highlighted the presence of significant buffers that will mitigate the negative impact of new external shocks, if such are to materialize in the years to come.

CPI rose to 2.8% on average last year**,** mostly on the back of significantly higher energy prices and stronger labor market, while it is on track to remain broadly unchanged in the course of 2019. At the same time, **fiscal policy** remained growth neutral in 2018 for a third consecutive year, with budget ending the year with a small surplus on a cash basis equivalent to around 0.1% of GDP.

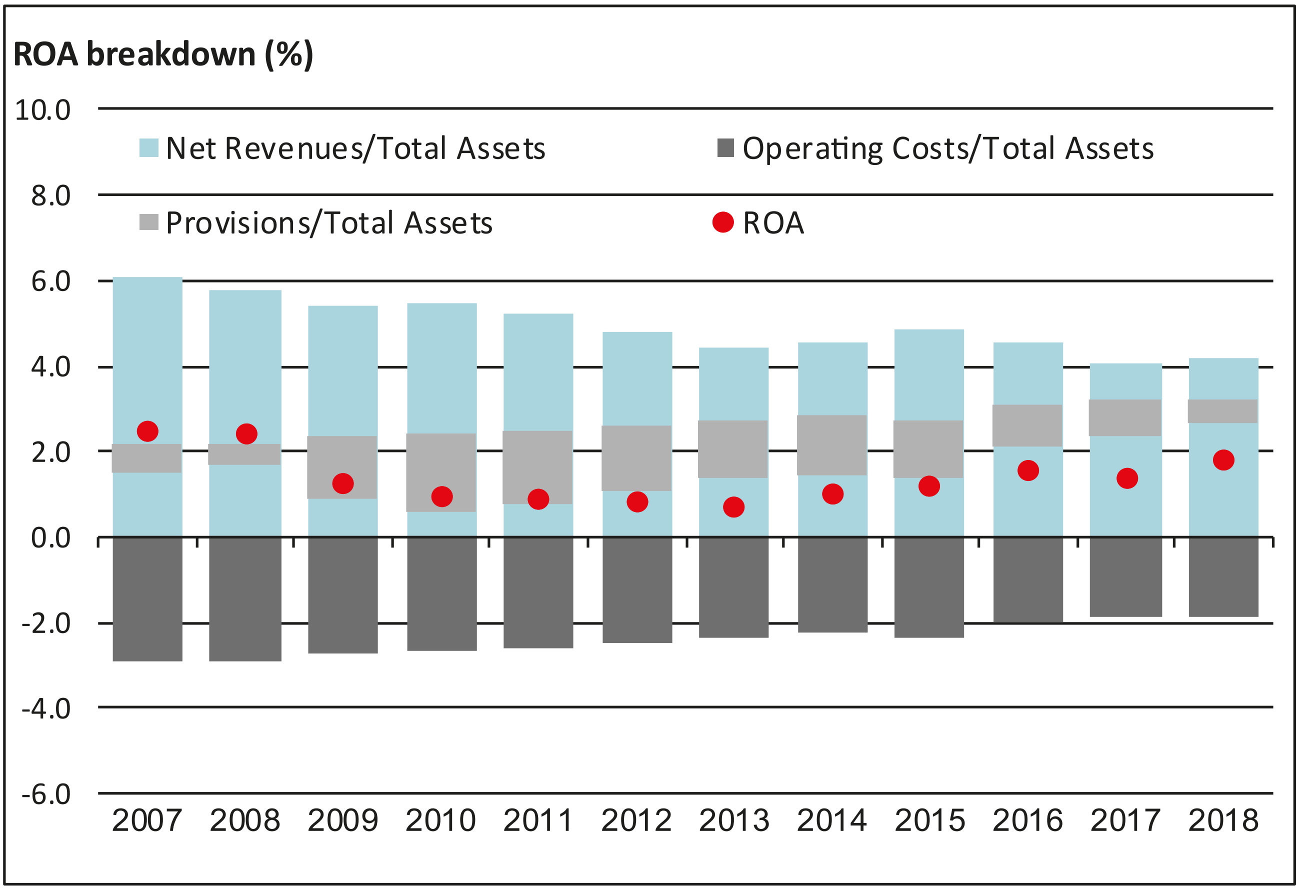
MACROECONOMIC INDICATORS	2018	2017	2016	2015	2014	CHANGE 2018/2017
Nominal GDP[1] (BGN million)	107 418	101 043	94 130	88 575	83 756	6.3%
GDP per capita[1] (BGN)	15 315	14 332	13 254	12 382	11 629	6.9%
Real GDP growth[1], swda (%)	3.5	3.8	3.9	3.5	1.8	(0.3 pp)
Basic Interest Rate, avg (%)	(0.50)	(0.29)	(0.16)	0.01	0.03	(0.2 pp)
Inflation, eop (%)	2.7	2.8	0.1	0.1	(0.4)	(0.1 pp)
Inflation, avg (%)	2.8	2.1	(0.8)	(0.8)	(0.1)	(0.8 pp)
Unemployment rate[2], SA, eop (%)	5.2	6.2	7.6	9.1	11.4	(1.0 pp)
Official exchange rate, eop (BGN/USD)	1.71	1.63	1.86	1.79	1.61	4.7%
Official exchange rate, avg (BGN/USD)	1.66	1.74	1.77	1.76	1.47	(4.5%)
Current account balance[2] (BGN millions)	5 197	6 587	2 433	(30)	1 038	(27.2%)
Current account balance[2]/GDP[1] (%)	4.8	6.5	2.6	0.0	1.2	(2.2 pp)
Net foreign direct investments[2] (BGN millions)	1 009	2 110	1 204	4 383	286	(50.7%)
Net foreign direct investments[2]/GDP[1] (%)	0.9	2.1	1.3	4.9	0.3	(1.1 pp)
Gross foreign debt[2], eop (BGN millions)	66 101	65 146	66 927	65 507	76 939	1.8%
Gross foreign debt[2]/GDP[1] (%)	61.5	64.5	71.1	74.0	91.9	(2.7 pp)
Public debt[2], eop (BGN millions)	23 895	25 616	26 954	22 762	22 102	(6.7%)
Public debt[2]/GDP[1] (%)	22.2	25.4	28.6	25.7	26.4	(3.1 pp)
BNB FX reserves (BGN millions)	49 037	46 279	46 742	39 675	32 338	6.0%
Budget balance/GDP[1] (%)	0.1	0.9	1.6	(2.8)	(3.6)	(0.7 pp)

Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] UniCredit Bulbank forecast for 2018.
[2] Data as of November 2018.

[6] The balance between international investment assets and liabilities held by a nation's government, the private sector and citizens.

Bulgarian banking sector in 2018

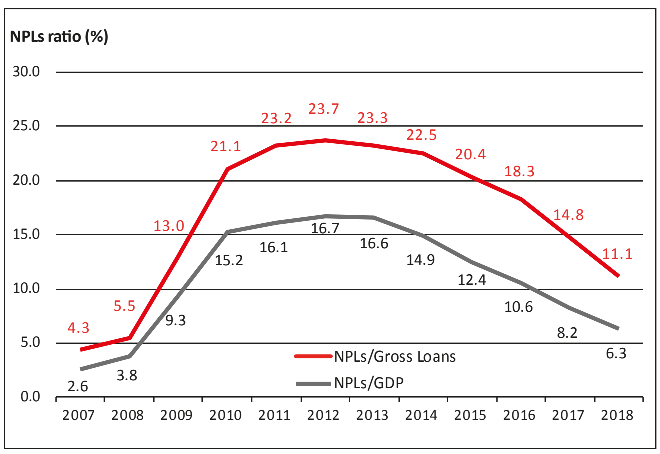
Operating conditions continued to improve last year, as growth posted another solid performance, while labor market improvement helped the number of jobs to rise to their highest level in almost a decade. The average nationwide house price index posted 6.3% y/y rise in September 2018, which reconfirmed **the trend of housing prices deceleration**, after peaking at 9% y/y in September 2017. This provided a welcomed normalization in the pace of housing prices expansion, after a prolonged period of four consecutive years in which prices grew faster than household incomes.



Source: National Statistical Institute, Bulgarian National Bank, UniCredit Bulbank

Marked increase in demand helped **lending growth to accelerate to 8.6% y/y**, spearheaded by the retail segment. The latter also drew support from the inclusion of BNP Pariba's consumer finance business into the scope of the monetary statistics. If adjusted with the recycling of NPL exposures, lending growth would have been even stronger last year. Depending on what assumptions are made, regarding how many of the NPL sales transactions that were in the pipeline were actually completed in 2018, adjusted credit growth would have been between 10% and 11% in annualized terms.

Deposit growth was also stronger (8.0% y/y) last year when compared to 2017 (6.6% y/y), due to the stabilization of the gross savings rate at very solid level (estimated at around 25% in 2018). Stronger credit growth was also among the factors which helped the pace of deposits expansion to accelerate. Some one-offs, such as BGN 500 mln set aside from the state budget (to finance the reconstruction of state owned dams) and transferred to BDB's balance sheet also boost deposit growth.



Source: National Statistical Institute, Bulgarian National Bank, UniCredit Bulbank

Bulgarian Economy in 2018 (continued)

Intensified competition pushed the spread between interest rates on loans and deposits further downward last year. The spread contraction in 2018 (33 bp) was smaller than in 2017 (48 bp), but we should bear in mind that the inclusion of BNP Paribas into the monetary statistics has mitigated the contraction dynamics, as it increased the weight controlled by expensive consumer finance loans.

NII was 2.5% up y/y. Though consolidated full year data are not available yet, the sales of distressed assets are likely to have reached record high proportions. The latter helped **NPLs** (BGN 6.8 bln) **drop to its lowest level since 2009**, which was also less than half of the peak posted back in 2013 (BGN 13.7 bln). NPLs provisions coverage rose to 60% (from 53% in 2017), at the same time, despite sharp drop in cost of risk last year to just half of its long-term average (0.9% vs. 1.8%) calculated since 2005.

After tax profit rose to its highest level reported ever. This was mostly attributable to the strong acceleration of lending volumes and the sharp drop in provisions. Profitability of the banking sector also drew support from some one-offs such as BNP Pariba inclusion in the monetary statistics (which added some BGN 45 mln to the sector's profit on a consolidated level), the transfer of dividends from banks' subsidiaries and revenues from land leasing.

BANKING SYSTEM KEY FIGURES	2018	2017	2016	2015	2014	CHANGE 2018/2017
INCOME STATEMENT (BGN MILLION)						
Operating income	4 223	3 886	4 080	4 198	3 905	8.7%
incl. Net interest income	2 742	2 675	2 805	2 771	2 632	2.5%
incl. Net non-interest income	1 480	1 212	1 274	1 427	1 272	22.2%
Operating costs	1 893	1 789	1 762	2 022	1 924	5.8%
Operating profit	2 330	2 098	2 317	2 176	1 981	11.1%
Provisions (net)	529	805	911	1 169	1 161	(34.2%)
Pre-tax profit	1 800	1 292	1 406	1 007	820	39.3%
Net profit	1 678	1 174	1 262	898	745	42.9%
BALANCE SHEET (BGN MILLION)						
Total assets	105 557	97 808	92 095	87 524	85 135	7.9%
Loans to customers (incl. non-residents)	60 908	56 084	54 467	54 121	55 590	8.6%
thereof: Non-performing loans	6 790	8 288	9 956	11 021	12 495	(18.1%)
Deposits from customers (incl. non-residents)	84 571	78 406	74 129	69 276	63 710	7.9%
Shareholders' equity	13 858	12 597	12 133	11 523	10 839	10.0%
KEY PERFORMANCE INDICATORS (%)						
Loans-to-Deposits ratio (on residents)	72.3	71.9	73.2	77.0	85.7	(0.4 pp)
Cost/Income ratio	44.8	46.0	43.2	48.2	49.3	(1.2 pp)
NPLs ratio	11.1	14.8	18.3	20.4	22.5	(3.6 pp)
Cost of Risk[1]	0.9	1.5	1.8	2.3	2.2	(0.6 pp)
ROAE (after tax)	13.6	9.5	10.7	8.0	6.8	(4.1 pp)
ROAA (after tax)	1.7	1.2	1.4	1.0	0.9	(0.4 pp)
RESOURCES (NUMBER, EOP)						
Acting commercial banks at the end of the period	25	27	27	28	28	(2)

Source: Bulgarian National Bank

[1] Provisions flow/Avg gross loans

Transformations in the ownership structure of the sector continued last year. While consolidation until 2017 was mostly driven by the withdrawal of Greek lenders from their local subsidiaries, more recently it focused on expanding local players' size, thus eventually leading to improved efficiency. As part of this Hungarian OTP Group completed the acquisition of SG Expressbank, thereby creating the largest local bank in terms of total assets. At the same time, Investbank finally completed the acquisition of the small local player CB Victoria. More M&A are expected this year, as improved fundamentals of the banking sector are likely to encourage more players to embark on acquisitions.

Market Positioning

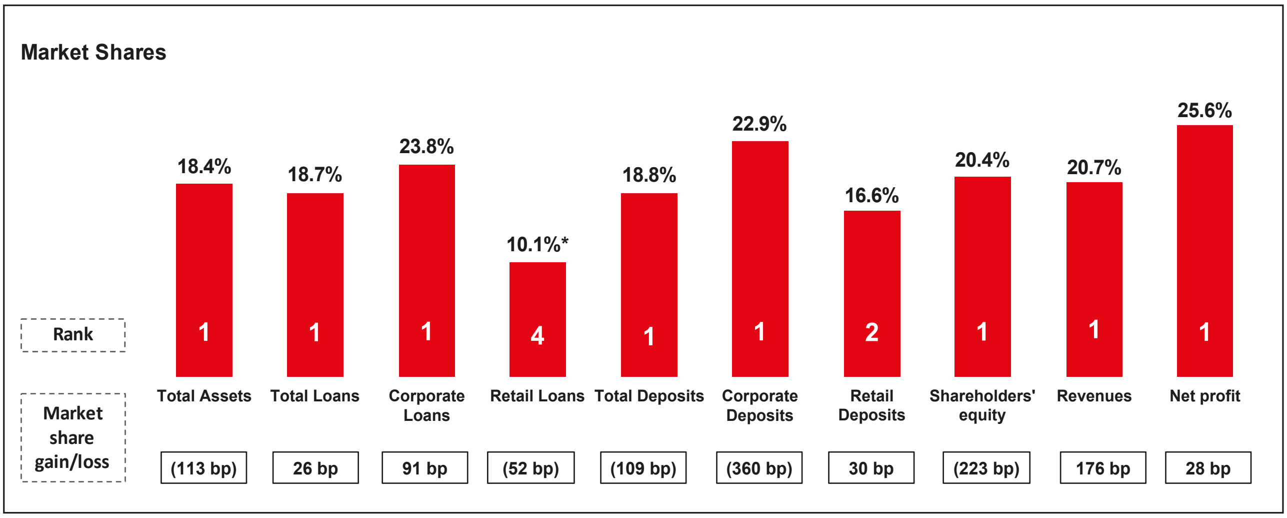
In 2018 UniCredit Bulbank reaffirmed its position of a **distinguished leader** on the Bulgarian Banking Market closing the year as **NUMBER ONE BANK** in terms of both SIZE (Total Assets), CUSTOMER FRANCHISE (Customer Loans and Customer Deposits) and PERFORMANCE (Revenues and Net Profit) for another year in a row, **accumulating more than ¼ from Banking System's 2018 Net Profit.**

The Bank **not only topped the rankings in all key indicators**: Total Assets, Gross Customer Loans, Customer Deposits, Shareholders' Equity, Revenues, Gross Operating Profit and Net Profit. In addition, in **all profitability indicators, UniCredit further improved** its positive variance vs. main peers.

The strong market position has been achieved thanks to the Bank's **outstanding reputation, sustainable strategy and stable business model of the bank.** It involves constant focus for creating a positive customer experience as well as focus on innovations in all areas and particularly digitalization of products, services and processes.

Serving more than one million customers through a branch network of 166 units UniCredit Bulbank is part of UniCredit, a Pan-European commercial bank with inherent competitive advantages servicing more than 25 mln clients. It provides unique commercial banking model throughout Western, Central and Eastern European network to extensive Retail and Corporate client franchise. The UniCredit Bulbank **synergies with its parent** are very strong thus building another competitive advantage especially in terms of robust positioning in international businesses.

In 2018 UCB recorded **18.4% market share in terms of total assets**, keeping its leading position vs. the second largest competitor with positive gap of 4.7 pp.



Source: Regulatory financial statements and Monetary Statistics of UniCredit Bulbank and Bulgarian National Bank.
*15.6 market share or second position if including the business, generated mainly trough the Bank's subsidary, specialized in consumer finansing UCFin.

Although 100% of Net Profit for fiscal 2017 has been paid in 2018 as a dividends, UniCredit Bulbank **continued to hold the highest market share in Shareholders' Equity** (triggered by strong growth in current year Net Profit) at 20.4% followed by the second largest bank with 19.3% market share. UCB's **CET1 capital ratio** remained much higher (22.5% as of Dec'18) than the minimum BNB requirement of 10.5% (including applicable capital buffers).

In 2018 UniCredit Bulbank remained the most important institution among the financial intermediators keeping leading position in all lending products – bond's and customer loans.

The bank **reinforced its leader's position in Bonds** increasing its market share by 0.46 pp to 28.1%. Thus the unfavorable impact of negative market interest rates and pressure on loan margins has been counterbalanced by streamlined liquidity optimization policy of the bank, including investment of excess liquidity in bonds.

Thanks to UCB's customer centric approach, oriented to establishing a long-term relation with customers, the Bank confirmed its position of the **top market lender** with a market share of 18.7% in total gross loans (19.4% if including the business, generated mainly through the Bank's subsidiary, specialized in consumer financing UCFin).

In line with the economic activity gaining momentum with real GDP growth stabilizing at around 3.5% y/y, Banking System recorded a positive y/y lending growth of 8.5% vs. growth of 10.0% for UniCredit Bulbank, improving the market share by 0.26 pp y/y.

In **Corporate Loans sector** UCB continues to be **absolute market leader** with 23.8% market share adding another 0.91 pp (mainly in the sector of Non-Monetary Financial Institution). The bank remained the main partner of companies operating in Bulgaria as indicated by the indisputable leadership position in the sector of non-financial corporations, where the bank holds about 1/5 of total exposure in the banking system (20.3% market share as of Dec'18).

In Retail Loans, UniCredit Bulbank registered another year of sustainable growth. Thanks to its strong focus on products specialization, simplification of processes and enhancement of the service models, the bank achieved remarkable results in both Consumer and Mortgage Lending. Retail Loans market share (when considering UCFin-UniCredit Consumer Financing's banking business contribution and adjusting for the inclusion of BNP Pariba's consumer finance business into the scope of the monetary statistics[7]) increased by 0.46 pp reaching 15.6%.

UCB continues to be market leader and **the most trusted bank on the Deposit market** with market share of 18.8% (1.1 pp decrease y/y).

Based on its image of reliable and reputable business partner UCB continues to be preferred bank outperforming the market average within the **Retail sector**. UCB recorded growth of 9.8% y/y vs. growth of 7.7% for the Banking System, thus market share improved by 0.3 pp to 16.6%.

Within **Corporate segment** UCB remains **indisputable market leader** with market share of 22.9%, keeping 12.9 pp distance from the second largest peer.

In an environment of lowest ever offer rates on new loans contracts and shrinking net interest spreads, UniCredit Bulbank **reconfirmed its NUMBER ONE POSITION** in Total Revenues, Gross Operating Profit and Net Profit.

The strong market position contributed to enhanced revenues generation. UniCredit Bulbank recorded 18.8% y/y growth in **revenues**, achieving 20.7% market share, supported by a dividend received from a subsidiary as well as by a very strong growth in Non-interest income (+20.7% y/y growth to 26.9% market share). In particular in Net fees and commission income the bank recorded 7.1% y/y growth reaching 21.8% market share.

With a Net Profit of BGN 430.0 mln, the bank **accumulated about ¼ from Banking System's 2018 Net Profit** and achieved 25.6% market share, **outperforming the Market** Average in terms of all the fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio.

[7] BNP Personal Finance S.A. is icnluded in the banking system data since Apr`18 folloeing the merger of the former financial corporation specialized in lending into the newly established banking institution BNP Paribas Personal Finance S.A., Bulgaria Branch.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

Despite the pressure coming from banking market conditions of declining margins, excess liquidity and intensified competition in lending, UniCredit Bulbank successfully managed to protect its profitability announcing growth of 44.5% y/y in Net Profit and strengthening its market leadership position.

Focus on creating positive customer experience, digitalization, diversifying the product and service's offer, building lean processes along with its excellent reputation helped **UniCredit Bulbank to mark another year of success.**

In 2018 **Operating Income stayed substantially high, amounting to BGN 813.8 mln**. It increased by 16.6% over 2018 supported by higher dividend income from subsidiaries. Excluding the dividends' income, operating revenues marked 0.5% increase. The growth in Non-Interest components more than offsets the drop in Interest Income, driven by market conditions.

During the year the **Net interest income** was characterized by the reduction of interest income on lending to customers, mainly as an effect of the rates decline. It was partially mitigated by the optimization of the average cost of funding from customers. The drop in Net interest income (8.1% y/y) was partially offset by an increase in **Fees and commission income** (BGN 232.2 mln) by 7.1% y/y triggered by growth in fees from transactional services (collections and payments services as well as account services) thanks to increased economic activity in the country.

Net gains on financial assets held for trading and hedging derivatives (BGN 96.9 mln) also performed positively marking growth of 12.7% y/y due to gain in FX trading.

Net other operating income/expenses (BGN -58.8 mln) deteriorated by 10.4% due to increase in the contribution of systemic charges for Deposits Guarantee and Resolution Funds, in line with the growing volumes of funds from customers.

Income from property, plant and equipment decreased by BGN 5.7 mln to BGN 8.0 mln as 2017 result includes a non-recurring income of BGN 12.9 mln from the sale of the former HO building.

In 2018 **Operating expenses** (BGN -256.2 mln) increased by 4.8% y/y due to increased staff and other administrative expenses.

In line with the trend in Operating income, **Gross Operating Profit** increased by 22.9% y/y.

Impairment losses on financial assets recorded a drop of 62.1% y/y thanks to remarkable improvement in assets quality.

Provisions for risk and charges increased to BGN (43.2 mln) driven by allocated provisions on credit risk on commitments and financial guarantees.

The above developments contributed to the notable growth of **44.5% y/y in Net Profit to BGN 430.0 mln**.

In thousands of BGN

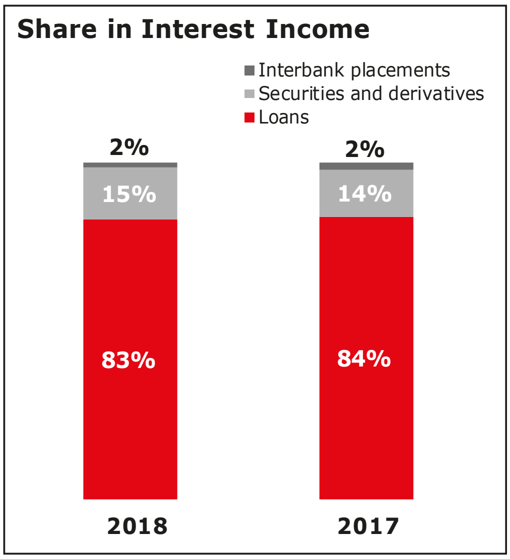
OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2018	2107	%	AMOUNT
Net interest income	400 709	216 758	(8.1%)	(35 241)
Net fee and commission income	232 214	85 950	7.1%	15 456
Net gains on financial assets and liabilities held for trading and hedging derivatives	96 902	12 815	12.7%	10 952
Net result from investment securities and dividend	142 782	(53 299)	1014.2%	129 967
Other operating income/expenses, net	(58 818)	698 174	10.4%	(5 519)
OPERATING INCOME	**813 789**	**(244 517)**	**16.6%**	**115 615**
Operating expenses	(256 192)	453 657	4.8%	(11 675)
GROSS OPERATING PROFIT	**557 597**	**(150 241)**	**22.9%**	**103 940**
Impairment losses on financial assets	(57 000)	14 010	(62.1%)	93 241
Provisions for risk and charges	(43 206)	13 650	(408.4%)	(57 216)
Income from property, plant and equipment	7 972	(33 423)	(41.6%)	(5 678)
Income tax expense	(35 324)	297 653	5.7%	(1 901)
NET PROFIT	**430 039**	**291 438**	**44.5%**	**132 386**

In 2018 the strong operating performance of the Bank was further confirmed by the **best in class cost/income ratio** at 31.5% which is significantly better than the market average of 45%. Moreover, 2018 was another successful year in which UniCredit Bulbank recorded significantly **better profitability indicators** compared to the ones for the banking system.

Return on equity (ROE) reached 15.1% (vs. 13.6% for the banking system), Return on assets (ROA) reached 2.2% (v.s 1.7% for the market) and Net profit margin improved notably by 10.2 pp to 52.8% (vs. 39.7% for the system).

Unconsolidated Financial Results (continued)

Net interest income (BGN 401 mln) decreased by 8.1% y/y. Although the optimization of cost of funding and the management of excess liquidity have been successfully performed throughout 2018, the shrinking rates on loans (as a result of the intensified competition) affected negatively the interest revenues of UniCredit Bulbank, similar to the trend in the banking system. Still the Net Interest Income remained the **major item in revenues composition for** UniCredit Bulbank with a share of 49.2% in 2018 (57.4% if excluding the dividend income) vs. 62.4% in 2017.



Interest income (BGN 437.6 mln) is primarily earned from the lending business, which accounted for 83% of total interest income, affirming the Bank's strategic focus on commercial banking and the commitment to the local economy. On annual basis interest income decreased by 9.1% as a result of falling interest income from loans and interbank placements. **Interest income from customer loans** (BGN 364.2 mln) dropped by 9.9% y/y triggered by general decline in loans rates and competition driven margin compression. **Interest income from securities and derivatives** (BGN 67 mln) recorded 2% y/y drop and account for 15% from interest revenues (compared to 14% in 2017). **Interest income from interbank placements** (BGN 6.6 mln) decreased by 29.9% y/y impacted by lower interest rates.

Interest expenses (BGN 36.9 mln) decreased significantly by 19.1% y/y following the common market trend. Although Deposit volumes increased by 1.9% y/y, cost of customer deposits further decreased which contributed to lower interest expenses. In particular, **interest expenses on customer deposits** (BGN 3.6 mln) dropped substantially by 68.6% y/y and account for 10% of total interest expenses (from 25% in 2017). **Interest expenses on derivatives used for hedging** (BGN 19.6 mln) recorded a decrease of 3.1% y/y, achieving a share in total interest expenses of 53% (from 44% in 2017). **Interest expenses on deposits from banks** (BGN 13.6 mln) decreased by 1.0% y/y (37% share in total interest expenses in 2018 and 30% in 2017).

In 2018 UniCredit Bulbank successfully preserved its leader market position in traditional **banking services**, achieving 21.8% market share in fees and commission revenues. The Bank continued its activities for deeper penetration while at the same time putting special focus on digitalization. Partnership programs in the area of investment products, adding new functionalities to the digital channels and further enhancements of cards business were the main initiatives for enlarging fee-generating product portfolio. All this, along with the traditional strong synergy with the external product factories for consumer financing, leasing and factoring made the Net fees and commissions income again a key driver of revenues growth.

Net fee and commission income (BGN 232.2 mln) accounts for 29% of Total operating income and recorded solid growth of 7.1% y/y, mainly in fees from collection and payment services (10% growth y/y) thanks to increased turnover of customers supported by positive macro-economic trends, in fees for account services (3% growth y/y) thanks to growing volumes and in other fees (20.6% y/y).

REVENUE STRUCTURE	YEAR	
	2018	2017
Net interest income	49%	62%
Net fee and commission income	29%	31%
Net result from trading, securities, dividends and other income	22%	7%
OPERATING INCOME	100%	100%

Net gains on financial assets held for trading and hedging derivatives (BGN 97 mln) further grew marking growth of 12.7% y/y triggered by higher revenues from FX operations (13.1% y/y).

Net result from investment securities and dividend (BGN 142.8 mln) boosted by 1014% y/y, driven by higher dividend income from subsidiaries and gains from the sale of bonds (FVTOCI portfolio).

Unconsolidated Financial Results (continued)

Other operating income/expenses, net (BGN 58.8 mln) increased by 10.4% y/y, mainly due to higher contributions to the Deposit Guarantee and Resolution Funds (systemic charges) in line with increased volumes of attracted funds.

Operating expenses (BGN -256.2 mln) increased by 4.8% y/y, driven by staff and general and administrative expenses. **Personnel costs** reported an annual growth of 5.8% reaching BGN 127.5 mln, in line with the labor market trends. **Non-personnel costs** (BGN 128.7 mln) increased by 3.8% y/y. General and administrative expenses upturned by 3.9% y/y, mainly driven by IT costs, related to the implementation of strategic business and operational projects. **Expenses for depreciation and impairment on non-current assets** grew by 3.5% y/y to BGN 32.8 mln, due to investments in new projects.

Impairment losses on financial assets (BGN 57.0 mln) decreased by 62% y/y, thanks to the remarkable improvement in asset quality. At the end of 2018 NPL ratio decreased to 6.0%, 2.9 pp better vs. a year ago (8.9%). In 2018 COR (on net loans) decreased by 1.1 pp to 0.6% and NPL coverage ratio increased at 73.0% (68.2% in 2017).

Profit before tax marked positive development of 40.6% y/y reaching BGN 465.4 mln and respectively the income taxes went up by 5.7% y/y to BGN 35.3 mln as of December 2018. As a result of the above developments, **Net profit after tax** reached BGN 430.0 mln (+44.5% y/y), which represents more than 25% from the Net profit of the Bulgarian banking system.

Unconsolidated Assets and Liabilities (continued)

Despite the banking sector consolidations in 2018, UniCredit Bulbank kept its leadership position on the market in terms of **total assets** which reached BGN 19 414 mln. In 2018 the balance sheet trends were driven by the bank's strategy for liquidity optimization. Total assets grew moderately by 1.7% y/y (BGN 318 mln y/y) supported by the increase in customer deposits (+1.9% y/y). However, on the assets side a significant increase of customer loans was recorded (+11.1%) while cash, balances with central banks and with other banks decreased (-11.4% y/y).

Net loans and advances to customers increased by 11.1% y/y to BGN 10 488 mln, driven by Corporate lending (mainly the sector of non-monetary financial institutions), while the production of the consumer lending to individuals was performed via the bank's specialized subsidiary – UniCredit Consumer Financing. As a result of this strong growth, **net loans and advances to customers** already constitute more than half (54%; +4.6 pp y/y) from the total assets of the bank, confirming its strategic commitment on **sustainable development of traditional commercial banking**.

Securities portfolio remained almost flat at BGN 3 769 mln, (-0.5% y/y), which is reflected into a stable share in total assets of 19.4% (19.8% in 2017). Almost the entire portfolio (88%) comprised of Bulgarian government bonds.

Customer deposits reached BGN 15 808 mln and kept the very high share in total liabilities (excl. equity) of 95%. Thus the bank confirms its self-funding profile. Taking advantage of the banking system liquidity, its steady market position and impeccable reputation, UniCredit Bulbank achieved a growth in **customer deposits** (1.9% y/y) mainly in Retail sector. In 2018 Retail deposits already constitute 56% from the total volume acquiring additional 4.0 pp y/y thus showing the potential which the Bank could unroll among individual customers along with maintaining its pronounced corporate profile.

The **net loans/deposits ratio** increased y/y to 66.3% in 2018. It is better than the market average of 67.8% and positions the Bank favorably for successful exploitation of further growth opportunities.

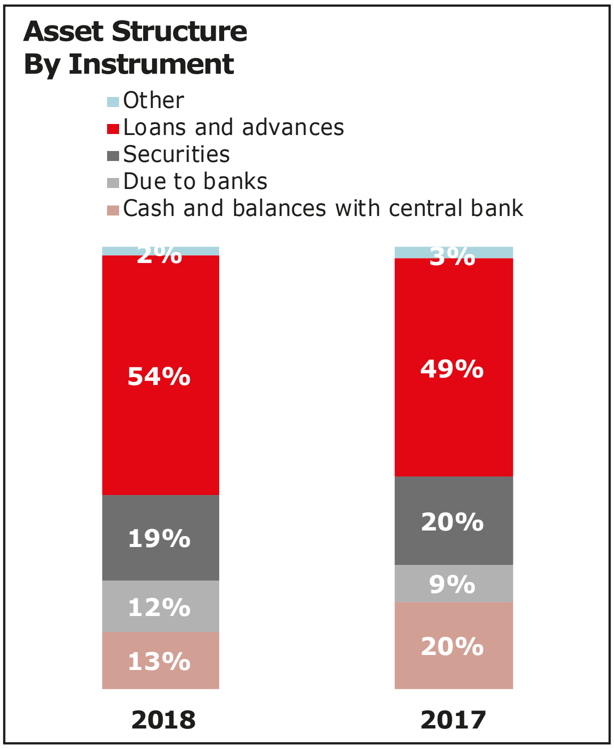
Deposits from banks reached BGN 478 mln remaining with insignificant share in total liabilities (2.9%). The increase of 5.7% y/y mainly relates to business volumes with banks operating in the country.

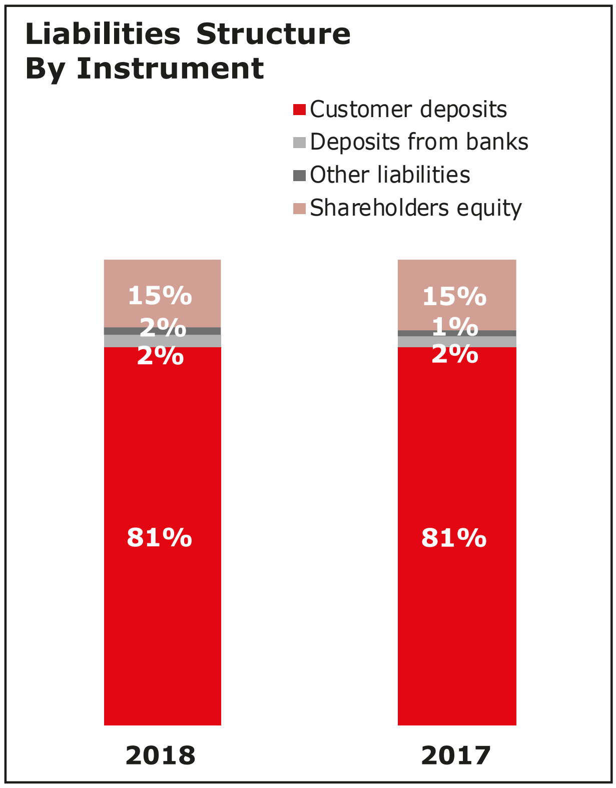
Shareholders' equity reached BGN 2 829 mln, keeping its share to 15% of total assets. The slight decline of 0.8% y/y is influenced by the first time adoption bookings on IFRS 9 impacts.

In thousands of BGN

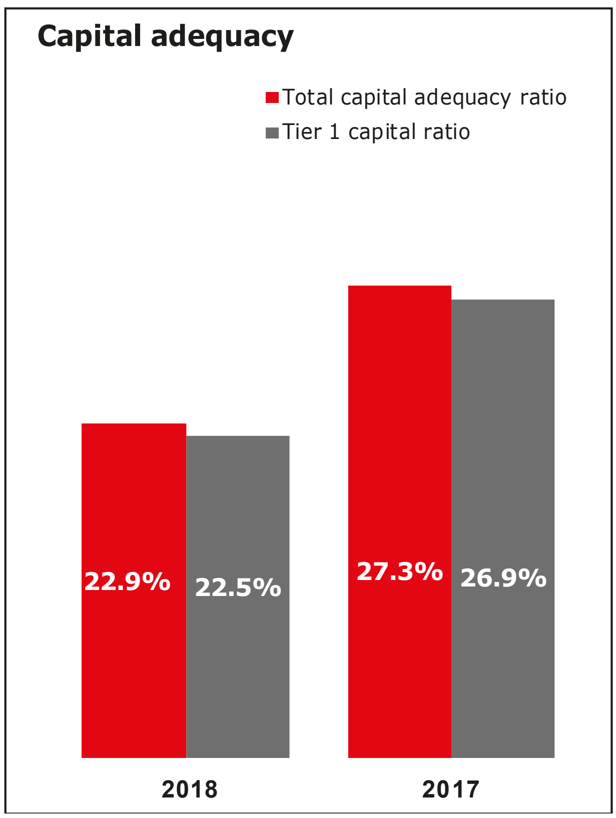
BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2018	2017	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	2 457 234	3 729 631	(34.1%)	(1 272 397)
Loans and advances to banks	2 286 612	1 626 697	40.6%	659 915
Securities	3 768 695	3 786 720	(0.5%)	(18 025)
Loans and advances to customers	10 488 474	9 436 559	11.1%	1 051 915
Property, plant, equipment and investment properties	144 003	181 364	(20.6%)	(37 361)
Other assets, net	268 580	335 117	(19.9%)	(66 537)
TOTAL ASSETS	**19 413 598**	**19 096 088**	**1.7%**	**317 510**
LIABILITIES AND EQUITY				
Customer deposits	15 808 075	15 520 709	1.9%	287 366
Deposits from banks	478 028	452 276	5.7%	25 752
Other liabilities	298 219	269 848	10.5%	28 371
TOTAL LIABILITIES	**16 584 322**	**16 242 833**	**2.1%**	**341 489**
SHAREHOLDERS' EQUITY	**2 829 276**	**2 853 255**	**(0.8%)**	**(23 979)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**19 413 598**	**19 096 088**	**1.7%**	**317 510**

Unconsolidated Assets and Liabilities (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2018 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 14.0% for total capital adequacy ratio and 12.0% for Tier 1 ratio. The **total capital adequacy ratio marked 22.9%** (27.3% in 2017) and **Tier 1 ratio reached 22.5%** (26.9% in 2017). For both ratios the y/y trend is driven by the growth in RWAs associated with higher customer loans. The comparable levels of total and Tier I capital adequacy indicates the **high quality of the capital instruments – i.e. mainly Tier I eligible ones**.



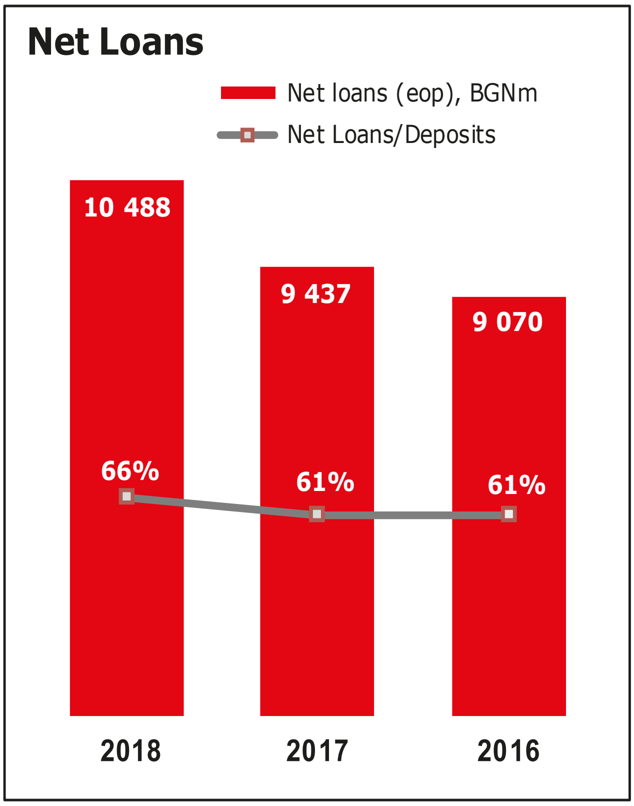
Unconsolidated Assets and Liabilities (continued)

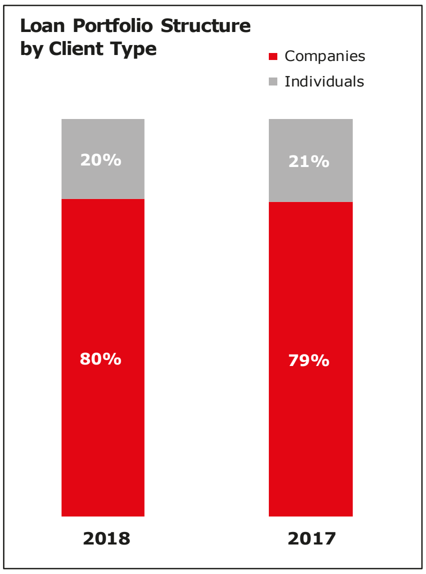
Customer Loans

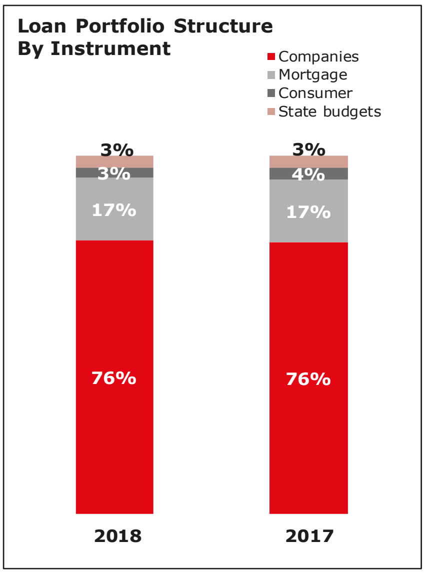
In 2018 the Bulgarian economy continuous to expand backed by supportive fiscal policy, increased consumption and stronger investments. Backed by it, lending growth also accelerated while at the same time lending conditions were improving, helped also by a favorable combination of abundant liquidity and the falling cost of borrowings. In this environment UniCredit Bulbank successfully retained its existing clients and further focused on new businesses. **The commercial initiatives were addressed to providing a comprehensive range of financing products** tailored for the specific needs of the customer and covering the full range of not only banking services but also leasing, factoring and consumer financing decisions.

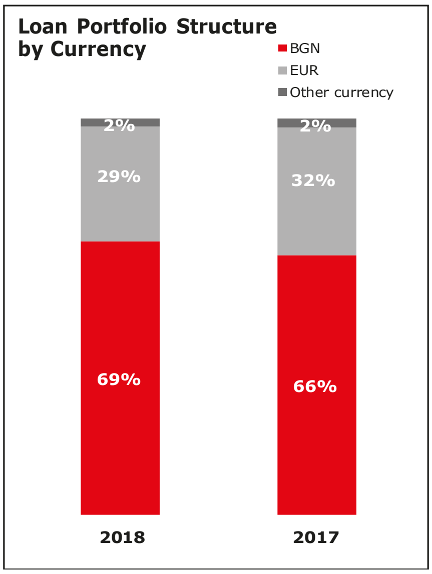
UniCredit Bulbank consolidated its leading market position with **net customer loans** at the amount of BGN 10 488 mln and **gross customer loans** amounting to BGN 11 051 mln. The Bank continued to be the biggest player in the Bulgarian lending market with a share of 18.7% (18.4% in 2017).

Loans to companies and government represented the largest portion (80%) of the Bank's loan portfolio and amounted to BGN 8 820 mln. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. The growth in volumes by 10.5% y/y was supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. **Loans to individuals** amounted to BGN 2 231 mln, keeping a 20% share of total volume. In 2018 mortgage loans marked a positive trend of 10.0% y/y, reflecting the revival of the real estate market. Their share in loans to individuals increased to 86% (17% share in total loans) from 83% in 2017. As in the prior year, the strategic decision to transfer the new consumer loans production to Bank's subsidiary specialized in consumer financing led to decrease in its stand-alone consumer loans portfolio by 15.5% to BGN 302 mln, which represent 3% share of total loans (14% share in loans to individuals vs 17% in 2017).









Unconsolidated Assets and Liabilities (continued)

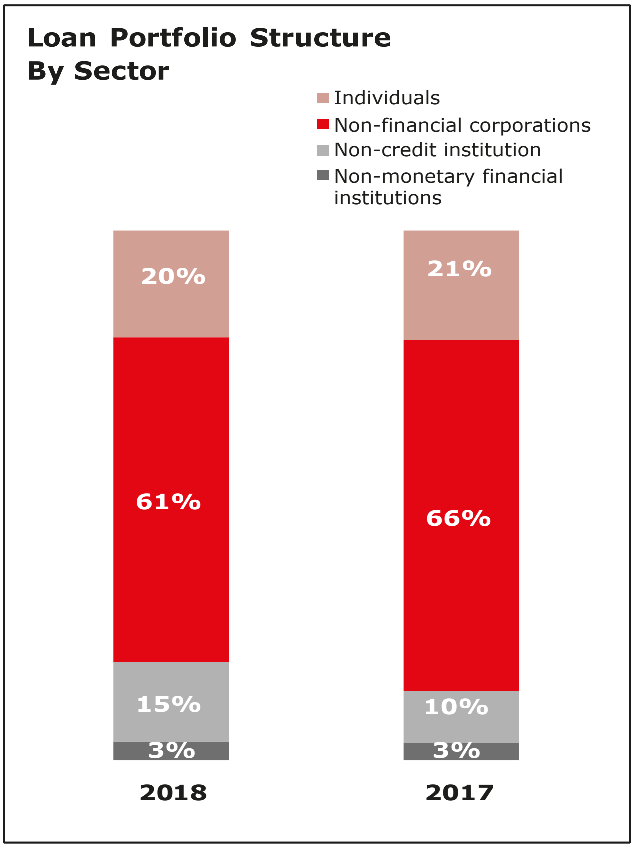
If adding the banking consumer loans produced via UniCredit Consumer Financing, the growth of consolidated consumer loans portfolio approached 16.6% y/y which is above the market average annual growth of 11.2% (adjusting for the inclusion of BNP Pariba's consumer finance business into the scope of the monetary statistics).

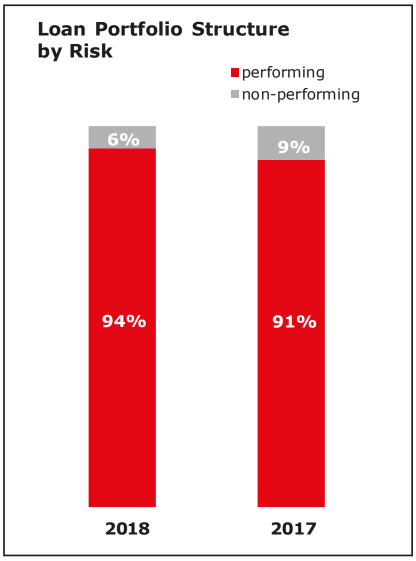
At the end of 2018 the share of loans in EUR shrank to 29% (32% in 2017) of Bank's gross loan portfolio and amounted to BGN 3 205 mln. Loans in BGN grew by 15.1% y/y, offsetting the EUR loan portfolio, and took a share of 69% (66% in 2017). Loans in other currencies remained immaterial with 2% share.

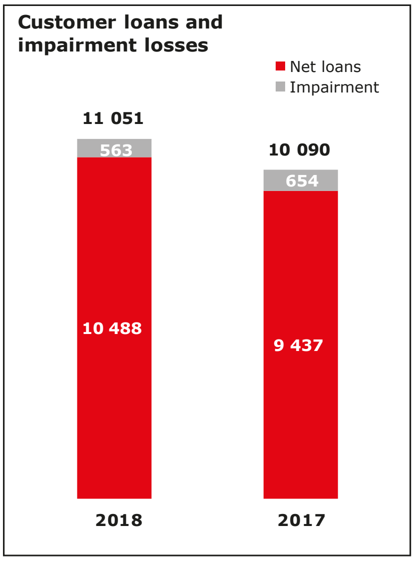
Regarding the **structure by economic sectors**, over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume. They shrank to 61% (from 66% in 2017) at the expense of share of loans to non-monetary financial institutions (15% in 2018 vs. 10% in 2017), due to direct funding provided to local financial institutions. The share of loans to individuals slightly reduced to 20% (from 21% in 2017), while the loans to central government constituted only 3% in both 2018 and 2017.

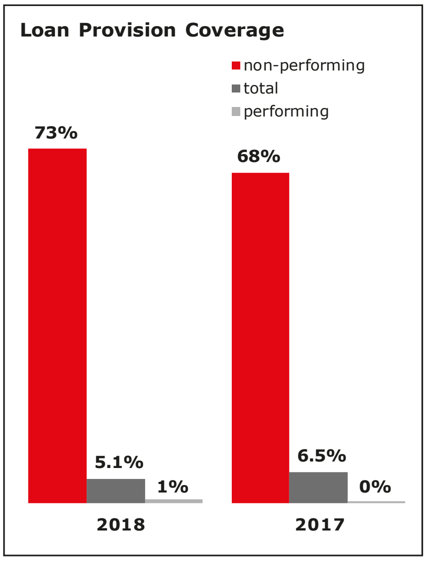
In compliance with the set strategic goals related to **assets quality** and thanks to strong recovery activities the performing loans portfolio represented 94% (+13.0% y/y growth) and amounted to BGN 10 389 mln. On the other hand, the non-performing loans marked a significant decline by 26.7% y/y to BGN 658 mln.

As of December 2018 the Bank reported NPL ratio of 6.0%. The loan loss provision coverage of non-performing exposures acquired additional 487 bp and reached 73%. Total loan loss impairments decreased by 13.9% on an annual basis and reached BGN 563 mln. Total coverage ratio reached 5.1% (6.5% for 2017).









Unconsolidated Assets and Liabilities (continued)

In terms of industry structure, in 2018 the most significant growth in share marked was achieved by Financial Services, supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. The biggest decline is recorded in the sectors of Services (decrease by 9.2% y/y), Transport and communication (decrease by 9.0% y/y) and Tourism (decrease by 5.9% y/y). In line with the Bank's strategy Housing loans registered an increase by 10.0% y/y with share of 17%. At the end of 2018 the largest areas of concentration were Manufacturing (21%), Commerce (18%) and Housing loans (17%).

Thousands of BGN

INDUSTRY STRUCTURE	2018		2017	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 273 738	21%	2 180 370	22%
Commerce	1 980 229	18%	1 892 042	19%
Financial services	1 672 059	15%	988 507	10%
Construction and real estate	1 152 842	10%	1 158 985	11%
Agriculture and forestry	476 904	4%	464 337	5%
Sovereign	373 565	3%	324 068	3%
Services	342 625	3%	377 242	4%
Transport and communication	295 328	3%	324 532	3%
Tourism	252 973	2%	268 838	3%
Retail (individuals)	**2 231 060**	**20%**	**2 111 435**	**21%**
Housing loans	1 928 599	17%	1 753 565	17%
Consumer loans	215 840	2%	259 057	2%
Other	86 621	1%	98 813	1%
TOTAL LOAN PORTFOLIO	**11 051 323**	**100%**	**10 090 356**	**100%**

Unconsolidated Assets and Liabilities (continued)

Customer Deposits

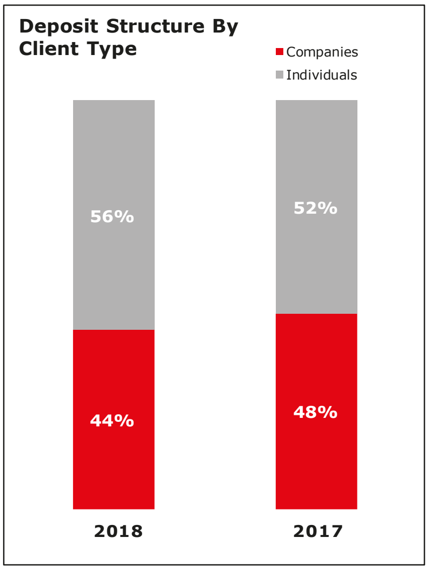
In an environment of excess liquidity and deposits offer rates close to zero, UniCredit Bulbank recorded another successful year in the field of attracting and managing funds.

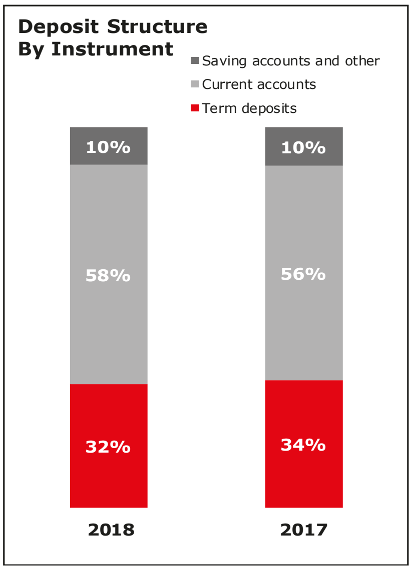
UniCredit Bulbank confirmed its Top position on the market in customer deposits with **18.8% market share** leveraging on its distinguished reliability and faithfulness.

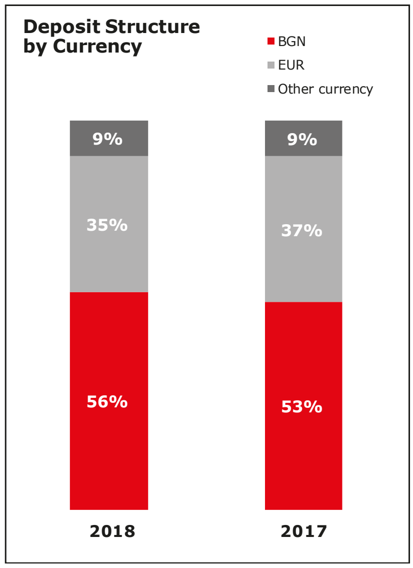
In 2018 UniCredit Bulbank's **Deposits from customers** grew by 1.9% y/y to BGN 15 808 mln triggered by Retail segment where the bank continues to be one of the most trusted and preferred banks announcing constantly increasing market share.

Furthermore, in 2018 UniCredit Bulbank outperformed the market of Retail Deposits achieving y/y growth of 9.8% vs. growth of 7.7% for the Banking System.

UniCredit Bulbank became the bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.







In terms of **clients type**, deposits of Individuals had an upward momentum of 9.8% yoy ending 2018 at BGN 8 875 mln while the company's deposits registered a decrease of 6.8% yoy to BGN 6 933 mln. Thus in 2018 deposits of Individuals reached 56% from customer deposits, compared to 44% share of deposits from companies, signaling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

With regard to the **product structure**, current accounts increased by 4.3% y/y and reached 58% share (56% in 2017). Term deposits went down resulting in decreasing share of total funds to 32% in 2018 vs. 34% in 2017. Saving accounts remain with 10% share similar to 2017.

In terms of **currency distribution** the structure of deposits remained balanced, 56% share of BGN denominated deposits vs 44% in other currencies. The growth of the Deposit base is entirely triggered by BGN denominated deposits which increased by 6.8% y/y, while those in other currencies shrank by 3.8% yoy. Thus BGN denominated deposits' share increased from 53% in 2017 to 56% in 2018.

Following customer behavior trends, the Bank continuously enriched its product portfolio. Besides the standard deposits, a variety of long-term investment and saving solutions are offered to customers, such as structured deposits, mutual funds of Amundi Investments, life insurances and pension funds of Allianz.

Consolidated Financial Results

As of 31 December 2018 UniCredit Bulbank's subsidiaries, their consolidation method and the respective participation in their equity are presented as follows:

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Consumer Financing EAD	100.0%	Full consolidation
UniCredit Leasing Group	100.0%	Full consolidation
UniCredit Factoring EAD	100.0%	Full consolidation
UniCredit Fleet Management EOOD	100.0%	Full consolidation
Cash Service Company AD	20.0%	Equity method

The trends in the consolidated financial results are defined mainly by those of UniCredit Bulbank (as already described in the previous section of the report).

The **consolidated net profit** of UniCredit Group for 2018 was at BGN 431.5 mln, increasing by 4.7% y/y, driven by better non-interest income and lower impairment losses on financial assets.

The **consolidated revenues** reported a growth of 1.8% y/y, with the strong contribution of the consumer lending channeled through UniCredit Consumer Financing. Net interest income decreased by 5.2% y/y, mainly due to competitive driven pressure on loan customer rates. Non-interest revenues reached 36% from operating income growing by 17% y/y. Net fees and commissions income increased by 7.6% y/y, mainly in transactional services and CPI, both thanks to growing business volumes. Trading income improved by 30.5% y/y, driven by higher gains from the sale of bonds and better FX result.

The **consolidated operating expenses** increased by 5.8% y/y to BGN 290.4 mln and **gross operating profit** remained almost flat y/y.

The **consolidated impairment losses on financial assets** marked a decline of 47.1% y/y to BGN 75.6 mln, thanks to improved asset quality. The consolidated NPE ratio dropped significantly to 6.2% (from 8.7% in 2017) and NPE coverage reached 74.4%, thanks to conservative provisioning policy.

Total **consolidated assets** (BGN 20 215 mln) remained almost flat y/y (-0.2%), as a result of liquidity optimization via direct funding to the subsidiaries to finance their lending activities. The **consolidated net customer loans** increased by 6.3% y/y to BGN 11 297 mln and **consolidated customer deposits** reached BGN 15 825 mln, up by 2.0% y/y.

In thousands of BGN

	YEAR		CHANGE %
	2018	2017	
INCOME STATEMENT FIGURES			
Operating income	880 111	868 175	1.4%
Operating expenses	(290 379)	(274 344)	5.8%
Gross operating profit	589 732	593 831	(0.7%)
Impairment losses on financial assets	(75 611)	(142 813)	(47.1%)
Net profit	431 484	412 242	4.7%
BALANCE SHEET FIGURES			
Total assets (eop)	20 215 404	20 260 347	(0.2%)
Net customer loans (eop)	11 297 096	10 629 087	6.3%
Customer deposits (eop)	15 824 661	15 512 999	2.0%

Risk Management

Credit Risk

In 2018 the Bank performed its credit activities in compliance with the governing rules and policies and in line with the defined risk appetite framework. During the year, in corporate segment several significant migrations from performing to non-performing portfolio we registered, while in retail segment the situation remained stable. Cost of risk ratio decreased from 144 bp to 97 bp.

The **impaired portfolio remained a major focus**. UniCredit Bulbank continued with the repossession of assets, debt collection and disposal of loan packages. The bank repeated its success from the last two years and disposed a big portfolio of overdue loans to external investor.

All circumstances mentioned above coupled with the performed write offs during the year led to a significant decrease of NPL ratio by 290 bp from 8.9% to 6.0%. The coverage of the impaired portfolio increased by 487 bp to the comfortable level of 73.0%.

The activities related to **IFRS 9 conversion project** continued and as a result the bank has full implementation of the loan loss provision model. The IFRS9 framework was enhanced with models for Exposure at Default and Loss Given Default, estimation of present value of the expected credit losses as well as Overlay Factor, based on predefined macroeconomic scenarios.

Additionally the existing Credit risk models are being modified to meet the updated **EBA guidelines** and forthcoming changes in the default definition.

In 2018, the **validation function** is assigned to a dedicated structure, separate from the ones responsible for the development of the models and from the risk reporting ones, in order to allow the objective assessment of the risk measurement systems. The Local Internal Validation function (LIV) reports directly to the Chief Risk Officer (CRO). Additionally, dedicated managerial reporting line is setup between Group Internal Validation function (GIV) and the local structure.

The **credit underwriting activity** in 2018 was performed in accordance with the adopted local Credit Risk Policies, based on UniCredit Group Credit Risk and Industry Strategies as well as Economic Sectors Outlooks. In the origination of new loans, the Bank conformed to the prescribed financing principles for probability of defaults, transactions structural features, covenants and conditions and provision of collateral.

Monitoring function in terms of both Corporate and Retail remained significantly involved in the asset quality maintenance through providing periodic collateral-related reports to the respective business/competence lines including renewal of statutory validity, market appraisal and insurance.

The focus of the monitoring team continues on streamlining the watch list process, where the efforts in 2019 are going to be invested on further optimization of reports and fine-tuning of monitoring triggers with the purpose to simplify and strengthen the overall monitoring process.

Capital adequacy is assessed both under the regulatory Pillar 1 perspective and the internal Pillar2/ICAAP view. **Regulatory capital** for credit risk is reported under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

In parallel to regulatory capital calculation, the Bank also maintains a full-scale **economic capital quantification,** reporting and stress testing as part of its Internal Capital Adequacy Assessment Process (ICAAP). Along with this process the Bank has also implemented the Group Risk Appetite Framework which explicitly defines the level of risk it is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers and shareholders as well as regulatory requirements.

Market, counterparty and liquidity risks

In the area of risk appetite and strategy, the Financial Risk management function supported **regular reassessment of market and liquidity risk limits** considering budget targets and focus on client-flow business. Market risk policies and processes were regularly adapted to ensure group-compliant risk measurement and control. In 2018 the Bank continued to implement new group reporting tools in the area of liquidity risks. During 2018 the bank participated in **SSM Liquidity stress test** and the **EBA interest rate stress test** exercises thus building upon the existing robust risk management practices. The adoption of **IFRS9 SPPI and benchmark test tools** for regular controls were another important milestone on the list with accomplished tasks.

Regarding risk control activities, the Financial Risk management function continued to supply the Bank's management with **daily limit compliance reports**. These consisted of VaR metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, combined with stop-loss and operative liquidity triggers. Within ALCO process, the Bank's management was regularly supplied with **comprehensive summary** of potential profit and loss impact of extreme shifts in FX, interest rates, credit spreads as well as market liquidity squeeze impacts on all portfolios.

In the area of market risk controls, UniCredit Bulbank makes use of the group internal model IMOD for daily managerial control and economic capital assessment, leveraging on UCI Group market risk methodology and architecture. In 2018 the bank adopted **enhanced valuation of embedded options** in customer loans and deposits to enable granular simulations of interest rate risks in the banking book. Regarding liquidity risk management systems, main efforts were focused on maintaining **sound quality of local data control processes** to facilitate reliable calculation of regulatory and managerial metrics. The system for market counterparty risk measurement and control was further upgraded to quantify enhanced

Risk Management (continued)

Funding Valuation adjustments for pricing and valuation.

Activities of Financial risk management function **in 2019** will be focused on **further adaptation of tools and processes** related to fair valuation and to the regulatory-driven Fundamental Review of Trading Book. Major step ahead in the area of interest rate risks in the banking book will be the adoption of **new managerial IRRBB stress test metrics** in line with the respective EBA Guidelines, EBA/GL/2018/02, issued in July 2018. Further refinement of the employed **behavioral models** for liquidity and interest rate risks will be another area for development. An important activity to continue in 2019 is the **further integration of subsidiaries**: Consumer Finance, Leasing and Factoring operations in terms of risk infrastructure, management and reporting tools.

Operational and Reputational Risk (OpRepRisk)

The main activities of the OpRepRisk unit in 2018 were focused on the further development of the OpRisk management, with emphasis on preventative and mitigation actions to reduce future losses. The **key activities performed in 2018** are namely: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; OpRisk Assessment for ICT Risk; OpRisk Assessment of relevant outsourcing transactions and Operational and Reputational Risk Strategies definition (including Business Syndication) and monitoring.

The **Operational Risk management** at UniCredit Bulbank AD is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. Also the independent assessments done by local Internal Audit and by the Group Internal Validation function proved that operational risk management and control system is **fully adequate and compliant with the regulatory and Group standards**. According to their reports, the governance structure is characterized by clear roles and responsibilities that ensure a proper implementation of the operational risk management and control system in the Bank.

All of the annual activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner.

Furthermore, a dedicated **Operational and Reputational Risk Committee** meets every quarter in order for key operational risk topics to be discussed, proper mitigation actions to be elaborated and timely action plans to be outlined. Focusing on prevention of emerging risks the OpRepRisk unit also took part in 2018 in several mitigation and **compliance-oriented projects** (e.g. GDPR, PSD2, KYC, etc.), as well as actively participated in the implementation of new and changed bank products and processes.

Moreover, the risk culture has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures within the Bank by the OpRepRisk unit ensure the outstanding **OpRisk awareness at Bank level**. In this regard, in October 2018 the OpRepRisk unit was part of a presentation dedicated on improving the operative control in the retail branch network of the Bank.

The OpRepRisk unit continuous to develop the **reputational risk process** in compliance with UniCredit Group principles, policies and rules for monitoring the Reputational risk exposure.

In 2019 the OpRepRisk unit will have to further develop and finalize several projects and activities started in 2018 mostly related to the **newly introduced regulatory requirements**. The OpRepRisk unit will continue monitoring the UniCredit Bulbank Operational and Reputational Risk Strategies which include different approaches to **mitigate Cyber and ICT risk, internal and external fraud, Compliance risk, etc.** A significant part of the resources of the OpRepRisk unit in 2019 will be devoted to **new Group projects and initiatives** in the OpRisk and RepRisk areas. Additional efforts will be dedicated to the operational risk mitigation actions elaboration and monitoring.

The unit will continue the **methodological support**, training and monitoring **to local subsidiaries** with regard to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards.

Corporate, Investment and Private Banking

Overview

The **GDP growth** for 2018 is estimated at **3.5%** stimulated by **synchronized recoveries in consumption**, supported by rising income **and investment**, mainly constituted by a rebound in residential construction and rise in public investment. The main areas to be further strengthened, in tight market competition and lower interest rates, are people development, business processes optimization and digitalization. Customer acquisition and retention as a main objective is driven by solution-oriented focus on clients of both relationship managers and product experts aiming at better customer experience.

The Transform 2019 Group initiative

The implementation of Transform 2019 in CEE including Bulgaria was launched in December 2016 and is expected to be successfully finalized by the end of 2019. A number of strategic initiatives with regard to international clients, processess oprimization, big data technology and digitalization are on track to further substantiate UniCredit market position.

Capital Light business model that will put additional focus on top priority customers and assess the full potential of each client as well as capital absorption optimization by prioritizing the selling of "capital-light" products.

One CIB that focuses on implementing a new service model for international groups with relevant CEE presence, by leveraging the full potential of UniCredit unique geographical footprint in order to boost acquisition, reduce the client attrition rate and achieve better understanding of client risk profile. In 2018, more new international clients were attracted and the International Center premises continues to be a driver and facilitator of both international business and also local business willing to expand abroad. The various client meetings, client events and business to business niche events during the year have deepened further the leading role of the Center. It is already a well-known hub for discovering new opportunities and meeting new/existing partners.

Big Data by building on the additional enhancements and functionalities for the web-based solutions aiming at in-debt analysis of complex business trends, building up long-term relationships and spotting market opportunities. New business intelligence (BI) tools were further introduced for management reporting purposes and sophisticated in-depth market analysis. Thus the client management system provides complete overview and information with regard to customer products, activities and respective commercial actions, based on artificially-spotted opportunities. The digital application created by CEE CIB took on a new look and feel in 2018 thus enhancing and simplifying the user experience.

In **Private Banking the Transform 2019 program** targets a further development of the service model and advisory services to focus on client needs by cluster and to provide best-in-class products, financial solutions, and services reflecting to client's individual needs.

Financial result

Profit before tax of the Division rose by 22% vs. previous year, as a result of lower risk costs given the continuous improvement in NPL and coverage ratios. CIB&PB net revenues, including the leasing, factoring and fleet management subsidiaries remained flat (-0.5% y/y in 2018), as the drop in net interest income (-6.4% y/y) was offset by the **robust growth in non-interest income** by 10.3% y/y.

The **corporate business** in 2018 was influenced by the de-leveraging resulting in lower working-capital loan utilizations, in conjunction with continued loan margin squeeze and pressure on fee business. In this highly competitive environment the revenue from international and large segments was pressured both in interest and non-interest income. The business with financial institutions had a decline in revenues, due to significant drop in interest income from loans and deposits. The banking revenues of mid-sized domestic business dropped in interest income from deposits as well as fees and commissions and trading result, compensating via loan volume growth as part of UniCredit's strategy for stimulating small and mid-sized companies. The real estate business declined in revenues, stemming mainly from the decreased portfolio already in 2017, driven by entrance of highly liquid funds from international non-banking players. Private banking noted a marginal decline vs. previous year.

On the positive side, the **Markets and Brokerage, Leasing, Factoring, and Fleet management increased in revenue**, compensating for the corporate segments performance in line with UniCredit's strategy for delivering its customers a large diversity of **capital light financial solutions**.

Deposits

As of December 31, 2018 deposits in corporate banking stand alone dropped by 12.6% y/y, following the strategy for **optimization of loan/deposit ratio**, where all corporate segments contributed for the decline. Deposits in Private Banking remained almost flat, considering the strategy to diversify the clients financial assets via investment products.

Loans

Corporate banking loan volumes increased by 1.5% y/y in 2018 (EoP), with contribution of both investment (1.7% y/y) and working capital loans (2.1% y/y). **Performing loans increased by 5.4% y/y** (all segments contributed except the large corporate), where at the same time non-performing exposures declined by 29.6% y/y, significantly improving the quality of corporate loan portfolio.

Cross-sales

The focus on cross-selling opportunities remains the most effective tool for improvement of customer experience through **offering to the clients broad range of products and services**. Leveraging on synergies, including across subsidiaries, multiple cross-sale opportunities are being originated and executed.

Corporate, Investment and Private Banking (continued)

Bulbank United Initiative

The joint initiative between "Retail banking division" and "Corporate, investment and private banking division" – Bulbank United continued in 2018. The combined commercial efforts between CIB and Retail resulted **in increase in the number of individuals with payroll accounts** at UCB and use of additional products and services.

Product/Coverage model

The CIB&PB Division differentiates itself on the local market through a service model crossing client segment coverage with product factory. The **segment coverage** delivers a personalized relationship via dedicated professionals, who follow in depth the corporate clients' business needs, while the **product owners** provide a sophisticated solution in a specific area. In 2018 the product factories remained focused on innovation and digitalization.

The Trade Finance module as part of **Bulbank Online** (functionality for accepting corporate client orders and processing trade finance deals) was actively used by corporate clients. For 2019 the aim is to enrich the applications and requests in online banking for companies.

The majority of the factoring transactions are executed through the first **electronic portal for factoring services in Bulgaria**. The web platform provides corporate customers with a solution to perform online all their factoring daily operations.

As of 2018, the **corporate branch network** consists of 10 branches established in all the major regions of the country and ensures a high-class operational service exclusively dedicated to corporate customers.

European Funds

UniCredit Bulbank is a leader on the Bulgarian market, providing a variety of financing products with preferential conditions for small and medium-sized enterprises. The products are based on **partnership with** both **international institutions** as European Investment Fund, European Bank of Reconstruction and Development, European Investment Bank and **local institutions** as the Bulgarian Development Bank, National Guarantee Fund, State Fund Agriculture, etc.

Currently, UniCredit Bulbank has more than **BGN 800 mln** in agreements (regarding Financial instruments) signed with European Investment Fund (EIF) and National Guarantee Fund (NGF). The main products are SME Initiative, InnovFin, NGF and NGF – Rural Development Programme. The **SME Initiative** (total portfolio: BGN 196 mln) provides 60% guarantee supplementing the collateral for investment and Working Capital loans (including start-ups). In 2018, due to strong market interest in the sector of wholesale trade, the limit was increased from BGN 59 mln to BGN 98 mln. The **InnovFin initiative** (total portfolio: BGN 29 mln) provides 50% paid guarantee supplementing the collateral for investment and Working Capital loans for innovative, research and development oriented to SMEs and Small Mid-caps. For 2018 UniCredit Bulbank was awarded as Partner bank-top performer in utilization for **NGF Guarantee schemes for SMEs**. The deals covered by scheme under the NGF registered 38% growth in 2018 vs. 2017. The total portfolio under the NGF schemes for SMEs had an original amount of BGN 59 mln. but due to significant interest, it was increased twice up to the total amount of BGN 98 mln. The bank continues also the activties under the **NGF programe for Rural Development.**

The focus of EU funds team for 2019 is to finalize negotiations and utilization of four new external guarantee lines: Cosme that is suitable for SMEs and StartUps (BGN 210 mln); **EBRD Risk sharing Facility** that is suitable for large companies and MidCaps (BGN 300 mln); a brand-new product for the market: **Documentary Finance Facility** (BGN 196 mln.) for SMEs and Mid Caps; **National Guarantee Fund 5** for SMEs.

Markets and Brokerage

In 2018 UniCredit Bulbank retained its leading position on the **interbank market** for local currency denominated products and was main first class liquidity provider for local and international banks**.**

The **corporate treasury sales** (CTS) provided high-quality service to the diverse. Client base, leveraging on team of experienced professionals. The unit exploited new opportunities in order to develop CTS services in a way to take advantage of digitalization and to improve customer experience. CTS related activities are expected to grow further in 2019, mainly supported by expected growth in investments, while the external environment is likely to become more challenging.

UniCredit Bulbank retained its leading position in providing **high level brokerage services** to Institutional, Private Banking and Retail Clients. The brokerage team offered quality services for equity, fixed income, and exchange traded financial instruments and derivatives, covering wide range of markets, including developed markets; CEE and Emerging markets.

Financing

The focus remains on financially sound projects in both Real Estate Financing and Project and Structured Finance. The Financing Department has continued to develop its **expertise and knowledge in providing complex financing solution** to Real Estate development companies, structured finance deals and M&A transactions in various industries, thus affirming its leading role in the market. Quality assistance has been provided to both existing clients, in their growth strategies for developing new projects, and new customers, with sound financial profile with unique and competitive projects.

Real Estate unit has a balanced mix of transactions in all sub-sectors throughout 2018, including high quality office developments, residential projects, hotel construction as well as retail park acquisitions. The portfolio has been further strengthened by closing

Corporate, Investment and Private Banking (continued)

numerous of good opportunities for new financings on a market with growing expectations. The ongoing low mortgage interest rate environment, together with near zero deposit rates and sustainable economic growth, keep the high demand for **good quality housing**. The robust demand for **IT and BPO industry** for high quality office spaces (primary Class A) and stable office rents additionally support both local and international investors' activity. The transactional volume has been driven mainly by existing well-known local clients, and professional international RE investors and developers.

In 2018 several key Real Estate assets changed ownership. The trend for big international Real Estate investors, looking to diversify their property portfolio in CEE, stepping in or expanding their presence into the Bulgarian market, which started in 2017 and continued also in 2018.

During the year, real estate team continues to share its expertize and supported the customers from other segment in Real Estate transaction. Starting in 2017, the team also formed a **hospitality knowledge hub**, which played a key role in several hotel transactions in Mid, Large and International Segments.

In 2018 the quality of the Real Estate portfolio has been substantially improved through further reduction of Non-Performing Loans via **Loan Restructuring and Asset Sale.**

Project Finance Unit affirmed its leading market position by demonstrating expertise in structuring complex, tailor-made transactions by overseeing the risk appetite of the Bank and managing market risks, associated with the local environment. The exerted focus for diversifying the portfolio by gaining knowledge and know-how in selected industries with prospects for growth proved to be efficient. Constant monitoring of the existing portfolio to respond to the changing market environment was important to maintain the revenue and sustainability of the projects. Ability to capture upcoming market opportunities was proved by **several large transactions closed in 2018**.

The strategy for 2019 is to **continue growing in selected industries** (manufacturing and electronics; agriculture, infrastructure, I&C), keeping focus on IT and BPO industries, applying Full Debt Repackaging, Corporate Solutions (including syndicated transactions) and Acquisition Financing for existing and new clients.

Corporate Finance and Advisory

The M&A activity in 2018 in Europe and particularly in CEE was on the rise. The tendency for higher-value deals from 2017 continued driven by positive economic outlook, favorable financing and investor interest from broader geographical base. The biggest deals on the Bulgarian market were dominated by the **Real Estate sector**, driven mainly by foreign investors. The other main trend observed during the year was the ongoing consolidation in **"Financial institutions group"** sector, which led to the closing of several significant transactions in 2018.

2018 was a very dinamic and successful year for the Corporate Finance Advisory (CFA) unit with the **signing of several key mandates including**: two infrastructure projects as well as a mandate in the "Energy" sector. The Bank's reputation as a leading advisor was reaffirmed along with its capability to execute swiftly, confidently and generate interest across borders backed by our Pan-European platform. CFA continued to focus on building internal and **external visibility** through a number of initiatives, including participation in investment conferences and work with universities.

As part of the leading commercial bank in Bulgaria, CFA will continue **in 2019** to leverage on existing client base, while also focusing on close cooperation with the internal network of UniCredit Group to generate new opportunities. The plan for 2019 is for to maintain a good **balance between the investment banking products**: CFA advisory, ECM and DCM. The strong UniCredit Group credentials in all main product areas, the solid know-how as well as the synergies between product factories and client segment coverage provides stable ground for pursuing and winning **new mandates in 2019**. In 2019 large deals in "Healthcare" and "TMT" sector are expected.

Global Transaction Banking

In 2018 UniCredit Bulbank confirmed its leading position in Cash Management, Trade Finance, Transactional Sales and Global Security Services segments of the transaction banking area.

Following its strategy to develop innovative and value adding products and services led to a **large number of improvements and new functionalities** in the range of electronic services that the bank offers to its domestic and international customers through online banking platforms, card and internet payments.

Even in a highly regulated environment the service quality, the ability of the dedicated product teams to provide the **best in class standardized products in combination with tailor made solutions** to the clients, leveraging on the Group know-how and geographical footprint, was again recognized by both our clients and reputable international financial sources. In 2018 UniCredit Bulbank was named as **Best Trade Finance Provider** in Bulgaria by Global Finance; **Best Services in Bulgaria for Trade Finance** by Euromoney; **Market Leader for Trade Finance** in Bulgaria by Euromoney; **Best Sub-custodian Bank** in Bulgaria – by Global Finance Magazine for fifth time.

In 2019, the bank will continue to invest in **human capital** and **the development of range of transaction products** in line with market and regulatory trends.

Private banking

Private Banking (PB) Department continues its strong focus and commitment towards core goals for 2019, stepping on the **excellence achieved in 2018: providing best-in-class products**, financial solutions, and services reflecting to client individual needs and **optimizing service model** focusing on client needs by clusters.

Corporate, Investment and Private Banking (continued)

Along with the core goals, PB aims to constantly **improve investment efficiency** by raising investment volumes and its profitability, as well as broadening investment products offered to clients. In 2018, investment products increased by more than 7% y/y. Asset under Management (mutual funds and life insurance) registered an increase of 12% y/y, while Assets under Custody grew by 21% y/y.

In the area of **Asset under Management (AuM)**, PB has started to introduce new asset allocations and diversifications via insurance and structured products, mutual funds, and tailor-made investment solutions leveraging on cooperation with external partners.

In the area of **Asset under Custody (AuC)**, PB has implemented front-end custodian service as part of the overall goal to increase the quality of AuC. It came as a response to the increasing volumes and complexity of corporate actions events, including dividend and interest payments that require extensive expertise on the different foreign market specifics, double tax treaties, and securities trading regimes.

In 2019, in Private Banking, the focus remains at **further development of business model** and service levels, supported by local and group-wide projects and initiatives. Private Banking products catalog will be further expanded with **new investment products** and **asset allocations** to cover specific clients needs.

CIB&PB Division Outlook for 2019

The GDP growth for 2019 is forecasted at 3.9% with main drivers moderate fiscal stimulus, an acceleration of investment and slightly lower energy prices. CIB&PB aims at concentrating on efficiency improvements while **expanding business, combined with a sound risk appetite**. The division continues to be a renowned market leader with strong results on **customer satisfaction** and focused on attracting **foreign investments** by leveraging on the International Center. In 2019, CIB&PB strategy is to acquire new customers and increase share-of-wallet among clients with highest potential by means of **people development, business processes optimization and digitalization**. During 2019 **new innovative products** and services are planned to be offered to the market, to include offering of EU-funds related expertise along with specially designed solutions to companies and projects with significant potential.

Retail Banking

General Overview

The Growth in clients operations more than compensated for declining interest income from loans and deposits

The growth in Retail revenues in 2018 was 2.3% y/y, supported by non-interest income (up by 12.7% y/y). The main contributors were the increased number of customers transactions (+6% y/y), further growth in consumer lending and higher volumes of FX deals. On the other side, net interest income was pushed down by (-2.5% y/y) due to overall low and negative interest rate environment as well as the increased negative effect from BNB charge on the excess liquidity.

Deposits base grew steadily, even if interest rates remain close to the zero level

As of December 31, 2018 **Retail deposits grew by 12.2% y/y**. The tendency of the **customers to recognize the Bank as a preferred choice** for their savings generated growth of attracted funds from households with +11.8%, and +13.5% from small and micro enterprises. The bank market share in attracted funds from households increased with 30 bp. The sight deposits were the preferred product increasing with 16% y/y and reaching 58% share in Retail attracted funds. The tendency of customers to save mainly in BGN is preserved.

In parallel, there was also an increase of demand for alternative investment opportunities, resulting in growth of 21% in 2018 of the **number of customers holding investment products**.

Sustainable lending growth

Retail Division managed to improve the market share in lending with risk profile lower than market and conservative pricing.

Unicredit Bulbank is leveraging on the capability and strong focus to deliver high quality of customer service and flexible products aiming to meet and even exceed client expectations. Being fast in Time to Yes and Time to Cash together with the highly-experienced advisory is making us **one of the easiest Banks to collaborate with**.

Retail loan portfolio grew with 12.0% y/y compared to 10.3% average growth in the banking system (adjusting for the inclusion of BNP Pariba's consumer finance business into the scope of the monetary statistics) as of December. The main contributor was the segment of households where the volumes increased by 17.4% compared to 11.2% growth in the market. The **consumer-lending portfolio** grew by 17% thanks to the product specialization of UniCredit Consumer Financing and its fast and simple lending process. We sustained the leading position in **mortgage lending** and the housing loan portfolio grew close to 10%. In 2018 the focus in **small business lending** continued to be on developing micro-lending, retaining the portfolio of small enterprises and facilitating access to public funds (e.g. EU funds). Our small business customers increased by 3.5% y/y.

In 2018 the **compliance and client protection related legal requirements were on strong focus**, thus ensuring the customer centric image of our business.

Main activities, initiatives and achievements

In line with the targets of the "Maximize Commercial Bank Value" pillar of Transform 2019 Group Initiative UniCredit Bulbank **focuses on the needs of our customers** and on development of new businesses to fulfill it.

The **digitalization and simplification** of main front and back-end processes were in our focus throughout the year. In addition, a lot of resources were dedicated to the ongoing upgrade of the Core banking system. A strong focus and activities were committed in the **KYC** (Know Your Customer) area aiming to fully comply with the regulatory requirements and eliminate any operational risk. Full revision of processes related to customer registration and data maintenance was conducted.

Several big **regulatory changes** were enforced in 2018: Changes in **Ordinance 3 and PSD2** which led to significant changes in the General terms and conditions for opening, servicing and closing bank accounts of individuals and for providing payment services and instruments. **Sofibor replacement** with Cost of Deposit index was done following the decision of the Bulgarian National Bank to discontinue the calculation and publication of the SOFIBOR effective from 1 July 2018.

The bank succeeded to **improve a number of main processes**, ensuring a higher level of efficiency and customer satisfaction and also lowering the manual work in the branches, like the new Debit Card front-end with a number of automations and validations. The process of yearly review and renegotiation of SME loan exposures was simplified and streamlined so to speed up the activities and respond to customers' expectations. The process for servicing SME accounts and packages was also automated.

The **insurance and investment business** during 2018 was characterized by strict compliance to national and European legal requirements as well as by entering into a long-term strategic partnership with Allianz. The whole existing investment portfolio was revised according to MIFID II requirements by providing clients with transparent and comparable information in accordance with their knowledge and competence. In order to respond to the customers' needs, the development of new insurance products kept its course and several new products along with Allianz Bulgaria's partnership were implemented in the product catalogue.

During the year we sustained our efforts to further **increase financial literacy in terms of saving and investing among our customers**. The related initiatives included a series of "Investment Days" across the country – special events with customers discussing trends, markets and investment strategies. The focus was on promoting more accessible investment products to a wider range of customers, such as saving plans, which have a very low entry amounts for long term personal investment strategy. Also, new investment sales approach was built based on the detailed analysis of the customer lifecycle.

Retail Banking (continued)

Increased focus on investment products sales and growth of client base penetration continues to be among Retail priorities. A **dedicated team of investment products experts was set up** in July '18. The team provides expertise to the sales network in the areas of investment products sales, structured post-sales service and establishing of sound client/investor relationship. In addition Investment seminars were held to discuss market trends, impact, suitable investment strategies and applicable product solutions. Employees are provided with regular market overview accompanied with follow-up web calls for discussion. With respect to high quality post sales service – the launch of up-to-date **client portfolio status information through mobile banking** is expected in Q1 2019.

The **improvement of the customer experience and relationship** was one of the main pillars of business during 2018. We managed successfully to implement the Governance model through the branch network. The main Customer Experience goals are strongly connected with the business priorities and are defined to influence the overall perception of the bank as Transparent and Responsive.

During 2018 the **synergy between Retail and Corporate remained on focus**. The on-going dedicated initiative "Bulbank United" provides more extensive particular approach towards both segments. In 2018 the companies covered by the initiative "Bulbank United" grew by 9.2%, and the individuals with regular payments in the bank increased by 5.2%. Synergy between the Bank and leasing and factoring subsidiaries to attract new active customers and to provide 360 degrees service remain with a strong focus in 2018.

In the **small business segment**, developing lending and covering the need for loans guaranteed under schemes of external institutions, continued to be part of the strategy. Together with EIF we launched two specialized initiative for our customers – SME Initiative and InnovFin. With BDB we launched NGF which provides easier access to financing. The loans granted under the schemes represent 20.44% of all of the new loans granted in 2018 (investment and working capital).

Channels overview

In 2018 we continued to follow our strategy to **increase the usage of digital channels**. Customer interactions continue to shift away from physical branch towards digital, with the role of mobile increasing. The share of operations performed through different multichannel increased to more than 81%. The Multichannel sales opportunities continue to be developed and adopted by the customers. More than 22% of the new cash loans for individuals were sold through the channels – Call Center, web site, internet.

New remote processes, features and functionalities continue to be built in a part of the Bank's dedicated program for digital channels development and mobile first initiative. The **main digitalization initiatives** throughout the year **were focused on mobile features**: simplification of registration process, introducing of foreign payments, lock and unlock bankcards, analytics enhancement, etc. In addition, the channels result was boosted by two important initiatives – adding new utility providers and increase of bill payments and introducing of complete online process for selling POS loans.

Call Center activity grew with more than 5% annually in terms of number of interactions and more than 70% in terms of number of sales. Besides the post-selling support and customer care Call Center's major focus throughout 2018 was on selling loan products for individuals such as: cash loans, credit cards, overdrafts and to increase the limit of the existing exposure.

UniCredit Bulbank continued to maintain efficient **physical presence** on the market by a **broadly ranged branch network.** At year end it consisted of 235 points of presence in the country. The bank continued to upgrade branches and to migrate transactions towards automated cash services, online and mobile banking so that customers can use the Bank's services remotely. The branch positioning in high business potential areas was strengthened by renovations and relocations, while at the same time network footprint was optimized in areas where there was less or no business engagement.

In line with the transaction migration strategy we managed **to increase the number of locations providing 24/7 self-service areas to 47** (20% of the branch network) at year end. In addition, in 2018 the network with **ATMs with deposit function was expanded to 133 machines** (57% of UCB points of presence). Thus, we ensured 6% increase in deposits made self-service on the spot.

During the year **branches refurbishments** included a range of changes with a focus on convenience, customers' service and efficient space distribution. All facilities improvements were made in line with the business model and the goal for a positive customers' experience in branches.

Besides in branches and distant working places, UniCredit Bulbank delivers its retail banking activities in **4 dedicated Business Centres**. This specific organization is intended to satisfy SMEs customers' needs in a more efficient and productive manner. For the first time in 2018 our Branches of the Future concept was applied to a Business Centre. With relocation of Business Sofia Battenberg, we managed to create a better working atmosphere and to provide 24/7 banking service for our business clients.

In 2018 the Bank continued to redesign the branch network based on the **Branch of the future concept**. Currently 31 locations in our are operating under that open and friendly layout.

Card business overview

All through the year the card business strategy was focused on developing and delivering new products, services and experience via personalized approach to its new and existing cardholders.

The **net revenue from cards** marked a record growth of over 11% y/y. Debit cards marked 2.5% y/y growth and credit cards increased 12.6% y/y. The number of transactions on our ATMs and POS devices from other banks cardholders grew by 21% y/y.

In the beginning of 2018 were introduced several **new features**

Retail Banking (continued)

aiming at simplification. A new method of activation for debit and credit cards is in place, where the proactive role is granted to the cardholder. It involves one single step via change the initial PIN on an ATM terminal within the Bank's terminal network. Additional simplification has been achieved over the year via the automated renewal of credit cards for individual customers. In addition, the administration of issued and reissued bank cards and PIN codes was improved.

Launching **cards for kids, teens and young people,** with preferential fees, was part of our strategic plan **to increase UniCredit brand awareness among young people** as potential bank customers. The new card product lines were launched in September 2018 and by this covering all eligible ages for debit card products including kids (between 10 and 14 years old), teens (between 14 and 18 years old) and youngster (between 18 and 26 years old). All these card types are defined to be limited for Internet transactions and also are generally prohibited for a use for payments within specific potentially risky merchants' categories.

In early Q4 2018 a **new Business card** with a **deposit only functionality** was presented to our legal entities as a secure and convenient way for all company managers to pass this payment instrument to their employees. The product disallows cash withdrawals, payments, balance inquiries and account funds disposal information.

The new **Application for issuing and management of debit card for Individuals and Business customers** was released also in Q4 2018. The main improvements were automatic opening of accounts, activation/blocking, automatic validation, branch change for card delivery, reissuance of PIN codes and moreover, dropping out of the manual fill in of any related document. An upgraded direct debit functionality was launched for all credit cards where the collection process was prolonged.

In cards' issuing several new initiatives were launched in order to target new potential customers: increase of admissible age without collateral; increase of limit without mandatory analysis of spouse income. Throughout the year valid offers for Business credit cards issuance attracted about 4 000 new customers and on top of it the Bank offered pre-approved business cards to selected SME companies. An intensified focus was put on the designated campaigns for popularizing our Premium Gold and Platinum credit card products with a strong value proposition, including a common initiative with Corporate Banking for owners and managers of MID companies.

At the end of the year, the Bank attained high level of **96% of contactless readings** at its POS terminal network. Moreover, every 2nd transaction with a contactless featured card is processed in a contactless way at contactless POS terminals and by this demonstrating the change of the payment landscape.

The **PLUS Program** launched during this year was reinforced in November with the enrollment of the first Corporate client – the biggest cinema brand presented at the local market. This partnership was bundled with the opportunity to promote to the kids, teens and youngsters the new Bank card types. The video with cute mascot of the Program PLUS, the so called Mr. Plus, was produced and is planned to be shown in the cinema halls in the beginning of 2019 in order to motivate and stimulate our cardholders' behavior for accumulating and spending PLUS points.

2019 Outlook

All of the above makes Retail Division comfortable to enter in 2019 strictly following the **strategy for transformation** with main initiatives focused on remote client opening and electronic signing of documents, new way of payments, mobile banking sales and branch optimization processes.

The further development of **alternative financial solutions for diversification of clients' assets** will continue to be a key focus throughout 2019. The strategic bank assurance partnership with Allianz will improve and broaden the insurance products offer. Enhancing the financial literacy of the society is among our main goals for the next year, together with investments in innovation of the **card area** (issuing & acquiring) in order to preserve the market leadership.

For **small business segment** in 2019 there will be a strong focus on simplifying the credit process for our best clients.

Other initiatives like strategic business trainings, on site coaching support and large portfolio of e-learning topics, will continue to support our **people development and engagement** also in 2019.

Our key success goals in 2019 will remain to increase the brand awareness and customer satisfaction, to affirm the leading position in terms of Reputation index and to increase the level of advocacy and net promoting score, supported by efforts for Branch Network simplification, productivity and efficiency improvement, and focusing strongly on compliance and client protection related legal requirements.

Asset and Liability Management

In 2018, UniCredit Bulbank continued performing its liquidity management activities under the conditions of robust primary sources and abundant liquidity.

The volume of **intra-group funding decreased further**, the remaining part being attributed to local subsidiaries. The aim – successfully achieved – was to decrease overall cost of funding for the bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. BASEL-3 ratios) and capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, with abundant liquidity buffers being kept against the backdrop of increasing liquidity in the local banking system. No increase of intra-group funding was planned for 2019 either as the Bank is able to take advantage of gradually increasing opportunities for a sound lending growth on its own, without deviating from the prudent liquidity management policy pursued so far.

Customer deposits remained the main funding source for the Bank. Nevertheless, the bank has intentionally held back its deposit growth below potential throughout 2018, aiming at optimizing its loan/deposit ratio in the environment of high costs of excess liquidity. UniCredit Bulbank will maintain its focus on retail and corporate deposits also in 2019, taking advantage of its excellent reputation, international franchising, variety of innovative products and service quality.

Given the excellent liquidity position of the Bank, **no bonds were issued in 2018** or planned for 2019.

Over the course of the year 2018, UniCredit Bulbank continued to pursue an active but sensible investment policy in accordance with the approved internal limits and rules and with a view of maintaining a sound short-term and structural liquidity position of the Bank. **The investment portfolio** managed by Assets and Liability unit was being structured with the aim to invest a part of the surplus liquidity, earning adequate return on an acceptable risk basis. The bond portfolio also served as liquidity cushion, being partially pledged as collateral for funds attracted from state budget entities and banking institutions. Moreover, the bonds in the investment portfolio are treated as high-quality liquid assets for the purpose of Liquidity Coverage Ratio calculation. The Bank was able to keep the volume of its investment portfolio almost unchanged – from BGN 1 182 mln to BGN 1 170 mln – in face value terms. In line with the preliminarily approved investment policy, the only bonds acquired in 2018 were issued by the Bulgarian government. Thus, the 100% share of Bulgarian government bonds (domestic and global) in the investment portfolio was kept unchanged during 2018. As at the end of 2018, the average rating of the investment portfolio was “BBB-” (as per S&P) and the average modified duration – 5.99 years.

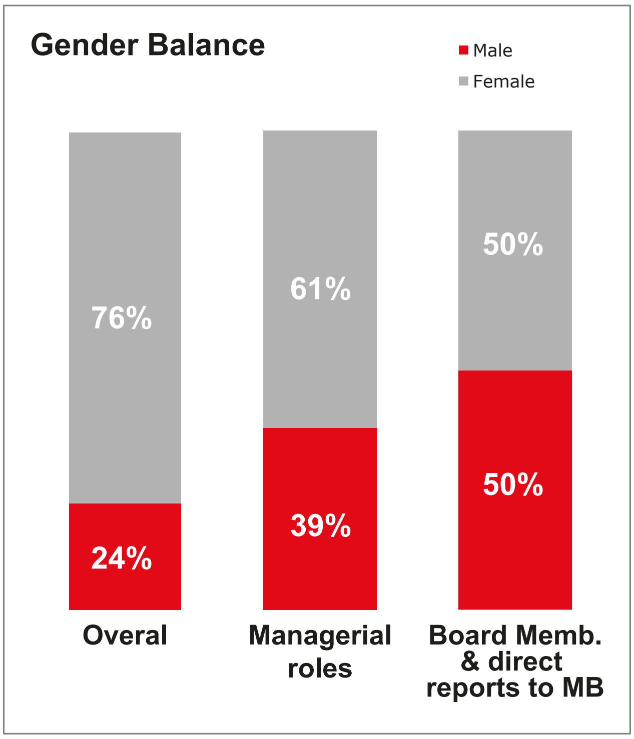
Human Resources

In 2018 HR department continued its strong focus on **human capital development and on promoting UniCredit Bulbank as best place to work, great people developer and quality rewarder company**.

At the end of last year the **number of employees** (FTEs) of the Bank remained almost unchanged 3 555 compared to 3 559 at the end of 2017. In terms of **gender distribution** the proportion of female/ male overall is ~76%/24%; the ratio for the managerial positions is relatively balanced – 61%/39%, while for the top managerial positions (board level and direct reports to executive directors) the ratio is 50%/50%. Gender diversity is one of the priorities not only of the HR team, but is part of the managerial agenda across all functions. It is implicated in various internal requirements and procedures with regards to the remuneration, succession planning, talent development etc. The **average age of the employees** is 42 years, and from **educational structure** perspective most of the bank's employees have university education (over 75%).

The **HR costs** remained under control, keeping the conservative approach, but also being at level that ensures competitive remuneration in comparison with the market, and considering the positive commercial performance. Dedicated compensation actions and initiatives were delivered in order to be aligned with the increasing dynamics of the local labour market development and the country average salary growth. The **voluntary turnover** was impacted a bit by the labor market situation and increased slightly from 7.6% to 8.3% with most areas in the bank going around 5%, thus being far below the market, and only Retail showing higher rates.

The Bank continued to be considered a good place to work and a **stable and reliable Employer**, supported by the strong brand of UniCredit. It continues its active presence in the career events, events of students' organizations and in the social media. This resulted in **sufficient number of job applications**, which supported the ability of the HR Department to provide candidates for open positions. Particularly challenging were specific segments of the labor market that are related to highly qualified banking experts and specific positions (incl. the IT sector), as well as the geographical areas with higher turnover due to the labor market specifics – the capital city and the seaside. In 2018 were hired slightly above 440 new people. The **major employer branding initiatives**, aimed at increasing the popularity and attractiveness of UniCredit Bulbank as employer and good place to work, were: the "Business MasterClass" – an initiative to spread banking knowledge among students and boost the interest for career in banking business and the scholarships for best students from economic universities. **Dedicated employer branding project** was completed for the whole UniCredit Group, aiming at analyzing the employer value proposition and defining the UniCredit brand promise as Employer. The result was our **#dowhatmatters promise** and the **4 pillars, that define our DNA** as Employer – Bringing out the best in people, Building our future together, United by international diversity and Empowering our people to grow. In the last quarter of the year a communication campaign was run both



internally and externally announcing the #dowhatmatters promise and the pillars as well as initiative started to implement these messages in all touchpoints of the HR processes lifecycle.

The Internship program as usual was one of the key priorities and affirmed its position of a very strong channel to feed the hiring pipeline. UniCredit Bulbank conducts maybe the largest Internship program on the local market with 361 participants, out of which 114 have been hired for permanent jobs *(including the subsidiary companies)*. This represents around 20% of all new hires which is making the program one of the key sources for recruiting new employees. The internship program together with the "Business MasterClass" are also an expression of the socially responsible approach of the Bank towards the society.

The compensation policy was in line with the Group approach and with the European and local legislative requirements. Market trends have been closely monitored through participation in salary survey, analyzing the results and taking the needed actions in order to provide sustainable and competitive remuneration to employees. The actions in the area of compensation proved to be efficient as they contributed to the successful management of the voluntary turnover – with only slight increase and below the market trends despite the very challenging labor market and demographic situation in the country. The **benefits portfolio was enlarged** with some best practice benefits like additional holiday for birthday, special Christmas gift, free psychological consultations for employees and for children, gift for employees' children for 1st day at school and other new ideas in the pipeline for the next year.

Human Resources (continued)

In 2018 HR Department made further steps towards fostering employee engagement by encouraging meritocratic and feedback-driven environment, sustaining a focused talent-oriented culture for growth of future leaders, increasing awareness and understanding of career development opportunities in the company and last but not least by creating various cross learning and sharing experience opportunities for our people. **Trainings and various development initiatives** devoted to foster our employees' professional and personal growth have been at the core of our people development strategy. The overall training hours increased by 26%. The Bank enlarged both the internal and external training portfolio with new and innovative learning programs, **using modern and creative instruments** like LEGO Serious Play methodology, business simulations and different kind of blended learning. Fostering the cross-divisional moves continue to be in focus and a completely **new development program** was established – highly valuable retention, engagement and succession planning instrument for high potential talents which gives accelerated professional growth by "stretching assignments" that put participants out of their comfort zone. We managed to launch a new e-learning system, which assured more flexible and accelerated learning opportunities, providing better employee experience, including distant access to e-trainings.

HR department continued with the **Career Consultation services** to employees through individual career coaching meetings available for all employees. This initiative aims to strengthen transparency in career and development opportunities; to support employees to identify the concrete steps needed to do a new career step and to explore better the career opportunities in the company and increase people engagement. The encouragement of meritocratic and feedback-driven environment has been tackled through providing **new functionalities** for cross-functional and instant feedback in **Performance Management System**. The purpose of this project was to strengthen transparency, meritocracy and objectivity in performance evaluation, career and development opportunities and foster closer communication between structures. Events from the development initiative **"LIVE Motives"** continued in 2018. It was designed to enhance the personal growth of our employees and to support their abilities to manage successfully the dynamics in their professional and personal life. It enjoyed very positive feedback and from the start of the initiative more than 2000 participants from different cultures were gathered. **Other groups of actions, facilitating the professional excellence**, practical learning and growth, were Financial analysis training for Retail & CIB&PB, "Sales skills for Retail Portfolio Managers" training for Retail Network, "Follow-up on Strategic Relationship Management" for CIB&PB, "Meet to learn" for GBS, "Risk to know" for Risk colleagues, etc. Compliance and Security related topics have been also a tangible part of training agenda for 2018. At the same time, Agile methodology has been one of the topics around which we organized different trainings activities as it is of high importance at both Bank and Group level. The onboarding process for Retail and CIB&PB was completely updated making it more flexible, easy to access key knowledge and information in order to assure structured and fast orientation for the new-comers in the Bank.

The **leadership development** was another key pillar for sustainable people and business development, represented through initiatives supporting the key people in the organization and ensuring growth of our leaders – e.g. Executive Development Plan (EDP), Talent Management Review (TMR), Local talent program, succession planning process, etc. The efficiency of these initiatives is proved through the rate of internal promotions to managerial positions, which is more than 90%.

Acknowledgment of the high quality of the HR practices is the **Top Employer award** by the Top Employers Institute based in Netherlands that was **awarded to the bank for third consecutive year**. The award is provided after thorough research of the existing strategy, practices, tools and procedures and is a great recognition for all initiatives, run by the HR department, as well as a solid base to build further our image as attractive employer, providing excellent conditions for its employees.

In 2019 HR Department will continue to act as a **trusted consultant for sustainable business and leadership growth**, to empower the positive attitude and culture and to strengthen the open communication with our colleagues and local communities. Employer branding initiatives will be continued in order to **maintain the good image as Employer**, leveraging also on the outcomes of the Employer Value Proposition project. New HR projects will be launched in order to ensure premium employee experience for our people.

UniCredit Bulbank Activity Review (continued)

Global Banking Services

Organization

Priority in 2018 remained delivering sustainable change through process redesign and through a portfolio of projects aiming at assuring innovation and business growth as well as compliance to the regulatory changes.

Some key achievements throughout 2018 on the **innovation and business growth side**, fully in line with UniCredit Group strategic program Transform 2019, were:

- **Improving customer experience through our digital channels** with a sizable amount of investments in new features in our Mobile Banking application;
- **Business analytics and data-driven** (Big Data) solutions to support delivering more **focused and tailor-made services to corporate clients**;
- **Speeding up lending process** for corporate clients.

At the same time of upmost focus was **assuring regulatory compliance** in the area of data protection (GDPR), open banking (PSD2), overall transparency (MIFID/MIFIR), as well as increased attention on delivering projects that **improve ICT Security**. In all of these initiatives besides regulatory compliance, the teams in the Bank were exploring business opportunities to improve data management and quality and start designing additional services to improve customer experience.

To assure not only a strong customer centricity but also a sustainable end-to-end process in delivering our projects we were leveraging on **Lean Six Sigma** methodology and in some cases experimenting in applying **agile methodology**. In 2019 our ambition remains in 2019 to further extend the agile way of working not only in projects but also in wider product areas.

In the area of **investment and non-HR cost management**, the execution and monitoring of which falls under responsibility of GBS managed to:

- Develop a mechanism to dynamically allocate funds between budget areas to support priority business and/or regulatory projects;
- Identify cost optimization opportunities and steer their implementation in the areas of SMS notification cost; logistics/shipping costs, energy-efficient measures (e.g. LED lighting), etc.

Chief Data Office

The **setup and development of the Data & Information Governance** has been an area of focus for the bank through the year, and will continue to be an important field in the following years with more and more efforts and investments foreseen into the area. In general, the implementation of Data & Information Governance is viewed as a long-term program, which is to be constantly developed and improved.

An important part of the internal Data & Information Governance Framework is the Roadmap, which lays out the next steps and targets for development in the field for the next years, and designates the milestones already achieved. **Important points from the Roadmap** in 2018 were related to the start of the implementation of Business Data Glossary/Dictionary, as well as the process of Definition of the data owners (at high level) based on the organization's Process Tree.

In the plans for the next year, there is a project for the implementation of the Data & Information Governance Framework through the whole organization, as well as implementation of a **Data Governance Tool**, which is to enhance the process in general and ensure its future development.

Information and Communication Technologies (ICT)

In 2018, ICT was following its strategy with focus on the **evolution of the digital platform**, through Service Oriented Architecture, modernization of Core System and Back office systems, unified presentation layer and multichannel development on the OMNI channel concept.

Redesign of the **monolithic systems** was started and developments are ongoing for ensuring PSD2 compliance and readiness for business opportunities realization. Implementation of first system based on containerization and micro services was initiated.

The Bank continued to improve its **mobile platforms**, speeding up the developments and leveraging on new technologies.

As base for adoption of new ways of working (Agile and DevOps methodologies), automation of testing was significantly enhanced, supporting execution of **huge volumes of test scenarios for the core system upgrade**.

In 2018 the Bank invested in **technological and security programs** to ensure stable and reliable backbone. Several critical infrastructure projects have been completed without service interruption. Priorities in 2018 Technological program were deployment of Power machines for new version of core banking system, Windows 10 roll out to utilize advantages of Office 365, finalization of Printing optimization initiative, Pilot implementation of Skype for Business as unified communication replacing stationary telephony.

ICT development was focused on **challenging project portfolio** with several regulatory and compliance projects and heavy business projects for systems modernization and replacement.

In parallel with the significant technological and business related changes the KPI targets for the **critical services** were kept on a very high level – **99.98% availability**, which clearly shows that Bank was operating in stable and predictable production environment.

Global Banking Services (continued)

Operations

2018 appeared to be as dynamic and challenging year as previous several ones, marked by variety of **regulative changes, ambitious business targets and fast evolving customer behavior** and expectations, which our bank and Operations department included, managed in a successful yet sustainable manner.

Aligning to the strategic goals and ambitions for 2018 Operations department contributed to Bank's growth and development by focusing on and **improving production capacity and efficiency**, operational excellence and people growth and commitment.

Main achievements during last year were clustered around areas of high quality of services, internal customer satisfaction, flexible yet risk free transaction execution thus assuring proper support to Bank's business development.

Leveraging on the high level of employees motivation and on aspirations for higher collaboration and accountability for results, **several important priorities were handled**, such as upgrading the core system, managing regulative and compliance requirements related to PSD 2, GDPR, MiFid2 and many more.

Real Estate and Logistics

In 2018, in line with the strategic priorities of the business divisions the Bank continued the process of branch conversion to the **model of the Branch of the Future**. Among the most significant projects delivered during the year were Batenberg Business Center, Plovdiv Corporate Service Center and other.

Following the understanding that people are a key asset and focusing on work-life balance, UniCredit Bulbank built **modern fitness facilities and recreation zones**.

A big step towards using **energy efficient and environment friendly technologies** was taken. A program for the renovation of the buildings infrastructure and appliances started, as part of which, a massive campaign to change lighting to LED was completed.

Procurement

A program for **full redesign of procurement process** was launched in 2018 with the aim to assure higher optimization of efforts, better transparency, precise planning and respectively execution of the tasks and projects. The result was that the Bank managed to achieve a record high budget utilization.

Strategic **alignment between the priorities of Project Portfolio and Procurement** was assured with the aim to improve project planning and respectively execution of the overall strategy of the Bank.

A **new model for contracting projects' expenditures** was deployed in order to optimize the cost spending. It resulted in achieving the optimal for the industry ratio between investments and operating costs for expenditures on new projects.

Finally, a closer **integration between Procurement and the Business Divisions** was designed in order to realize better synergies on a Bank level. This resulted in retention and acquisition of several large customers but also in optimizing the service quality and business continuity.

2019 OUTLOOK

In 2019 main priorities will be to speed up **digital transformation**, **finalization of new core banking system implementation**, GDPR related security initiatives and other strategic development projects. In infrastructure area focus will be on development of cloud capabilities (private, hybrid) with enhanced Security.

In the area of Real Estate and Logistics department will continue the **strategic initiative** of selectively implementing **Branch of the Future concept** projects in prominent locations. During the year, the Bank will implement a **new transport model**, based on shared vehicles to increase accessibility of service and efficiency. In addition, **digitalization of the archive** will be in focus, which will open the opportunity for faster further digitalization of bank services.

Customer Satisfaction Management

Client centricity remains one of the main strategic pillars and listening to the Voice of the Customer stays fundamental for our ambition to achieve excellence in Customer Experience. Stakeholder and Service Intelligence (S&SI) Unit is focused on creating and managing **listening activities and objective measurement of the perception of UCB**, its products, services and image among various groups of stakeholders – external and internal customers, prospects, community members and employees. S&SI department utilizes insights from external and internal Customer Satisfaction, Mystery Shopping, Instant Feedback and other surveys to drive innovation and support mid and long-term strategic decisions and business model development.

In 2018 S&SI was focused on **building an operational framework to monitor performance on customer's key experiences**, based on a benchmark of best practices within UniCredit Group and other industries. Our participation in several clusters of sharing best practices on Group level gives us the opportunity to direct our efforts in building full potential Customer Experience System which will help us plan strategic priorities and future vision for improvement.

External Customer Satisfaction

In **Retail Banking** nearly 1100 customers and 2000 prospects' individual customers were interviewed. The survey covered important topics such as satisfaction, preferences towards banks, recommendation, attrition risk, cross-selling, and acquisition potential.

Results for Individual customers in 2018 show satisfaction of UniCredit Bulbank customers of 65 pts (+3 pts above competitors). A high share of customers who would recommend the bank is also observed (NPS=23pts) where UniCredit Bulbank is again outperforming Competitors with +4 pts while increasing its own result with (+3 pts y/y).

In **Corporate,** UniCredit Bulbank Customer First Index result is 62 (+5 pts above competitors, increasing the gap). High level of recommendation (NPS=23 pts, +22 pts vs. competitors), good acquisition potential and cross selling opportunities provide a solid ground for a future positive growth.

Instant Feedback

In the context of an organization aiming at becoming increasingly customer centered, our ability to collect and react upon the Voice of Customer in a structured way has been identified as one of the **key enablers to excel in Customer Experience**.

In Retail, In the light of the high importance of gathering on-time feedback by customers, UniCredit Bulbank addressed more than 135 000 Customers (both online and over the phone) and received more than 15 000 valuable feedbacks about the experience of clients in UCB branches. Topics related to customer experience, overall satisfaction, NPS, politeness of employees and solving problems were covered, all **showing very positive results with an increasing trend** during the year.

In addition, in 2018 UniCredit Bulbank **launched Instant Feedback programs for Corporate Clients** and **Mobile banking users**. Within Corporate segment UniCredit Bulbank achieved high level of recommendation – NPS reached 27 at year end. Among mobile banking users the NPS is 60.

Mystery Shopping

In 2018 several scenarios for individuals (Investment products, Overdraft, Credit Card) gathered feedback about level of service provided in branch network. **Service Quality Index remains high for all scenarios (above 80 pts)** ensuring UCB customers receive a very high level of consultation.

Results are constantly monitored by all branch and regional managers as well as all the responsible managers within the Head Quarter of the bank via online platform.

Internal Client Satisfaction

As *Customer First* is among the pillars of UniCredit, delivering an excellent service quality and top products to customers requires a high level of cooperation between structures inside the bank. Therefore an Internal Customer Satisfaction Survey has been conducted for 9th consecutive year. *Cooperation and Synergies Index* measuring the level of cooperation between structures and effort they put into dealing with each other **remains stable at 67 pts confirming high level of satisfaction and engagement** into daily communication and support to colleagues within the bank.

Reputation Management

Reputation of UniCredit Bulbank remains excellent, outperforming competitors among Retail and Corporate segments. The bank is considered to be solid, innovative and strategic for the country by both customers and prospects, working in a clear and understandable manner with clients and being a trustful partner.

Complaints Management

The **Complaints management process** in UniCredit Bulbank **is structured and performed in accordance with both Group Global Policy and the local regulation** on complaint management process. It allowed a structured and transparent claim handling process as well as better understanding of the underlying core reasons.

All channels for gathering customer complaints are published on the official website of UniCredit Bulbank. They are managed with the strict observation of the use of personal data as per the Personal Data Protection Act and bank secrecy as per the Law on Consumer Credit.

All signals are being registered in **internal system application** (SRM) and received in Central complaint management team. The system gives notifications for expiring decision time on the basis of which action is taken promptly if necessary. The process includes also identification of recurring issues and system malfunctions,

Customer Satisfaction Management (continued)

and suggestions for respective correction measures. The main goal of Central complaint management team is to react in a timely manner by solving the situation on client level and at the same time undertake the needed actions for preventing such problems in the future. There is also a **post-complaint survey** where the bank monitors the satisfaction level with the result from the complaint resolution.

Customer feedback and the information for each complaint is being integrated in **reports that are regularly presented** to the Top Management and managers at different structures. In 2018, 2 879 customer complaints were received and successfully processed. The internal KPI for complaints management resolution is **at least 85% of complaints to be resolved within 3 working days** (excludes cases, subject to extensive detailed check). The target was reached again for 2018. In the cases regulated by the Law on Payment Services and Payment Systems, the Law on Consumer Credit, and the Law on Real Estate Loans to Consumers, the team observes the reply deadlines as stipulated in the legislation - one month or the set deadlines from regulatory authorities.

During 2018, the **complaints management process** in UniCredit Bulbank took part in the **"Best Practice" initiative at UniCredit Group level, where it was awarded as the winner**.

Corporate Social Responsibility and Sustainable Development

In 2018 the key priorities in the corporate citizenship program were focused on education and financial culture, development and implementation of innovations and social entrepreneurship.

The Bank supported numerous initiatives of NGOs, institutions, organizations, universities, schools as well as individual causes.

Focus on education and innovation

UniCredit Bulbank continued being actively involved in notable projects in the field of education and innovations. The Bank supported the seventh edition of the Official award ceremony **"University Ratings in Bulgaria"** – 2017. „University Ratings in Bulgaria" is conducted in collaboration with Open Society and the Ministry of Education and a national Bulgarian newspaper. The Bank supported two **TEDx events** of the ideas-worth-spreading international conference franchise TED. TEDxVitosha ("The Lucky Ones") was dedicated to the birth anniversary of the popular and beloved writer and travel writer Aleko Konstantinov, whose nickname was "The Lucky One". The second TEDx event was organized by the students of the American University in Bulgaria where it was held and was named "Distorted Realities". Around 150 people with distinguished innovative approach and social activity participated in the forum. Among other sponsors, UniCredit Bulbank participated in conducting a summer seminar for students **"Europe & Liberty"** in the summer of 2018, organized by The Institute for Market Economic (IME).

For a fourth year in a row the bank explored the opportunity to be main partner of a major event in Bulgaria, dedicated to innovation. Organized by Economedia and Innovation Starter Box, **Innovation Explorer 2018** was a conference with both international and local speakers. Another highly relevant business conference with a dedicated bank participation in the field of innovation was **IT Hub Connect** – a two-day international forum organized by the India-Bulgarian Business Chamber (IBBC) and the American Chamber of Commerce in Bulgaria under the auspices of the Bulgarian EU Council Presidency. **"DigitalK"** was among the leading European events about digital transformation, gathering of the leading movers and shakers in tech, passionate, aspiring entrepreneurs, as well as corporates looking to bring about much-needed change and partnership with innovators. UniCredit Bulbank was the official bank of the event.

Focus on art and culture

The **newly renovated** bank space for contemporary art and community venue **UniCredit Studio** was the host of numerous exhibitions and events in 2018. It was relaunched in January 2018 with the **exposition "Kosmos"** – Nora Ampova. During the year UniCredit Studio was a platform for the exhibition **"Lines to Tails"** of the young artist Radoslav Ninov – Rudi. In April UniCredit Studio hosted an exhibition as part of the fifth edition of the international festival **"Fotofabrica"** for contemporary and reportage photography. Later in 2018 Magdalena Nikolova and Sandra Stoycheva presented in the **"Balance Point"** exhibition their kinetic masterpieces and video installation, demonstrating mix art – digital collage on canvas. The exposition sponsorship was part of the **Global Women Leadership Forum**, an international women leaders' conference, proudly sponsored by UniCredit Bulbank. With relation to **"The Month of Photography"** festival of the Bulgarian Academy of Photography Yanka Kyurkchieva, UniCredit Studio hosted an exhibition as part of the **European Photography festival**. The exposition **"LightFlight"**, featuring the work of Ivaylo Hristov, closed the year with artwork that is currently featured in NASA satellite.

A strong partnership with the Italian Cultural Institute in Sofia and the Bank made possible the exhibition, presenting in the National Gallery **58 masterpieces of the Roman Baroque** related to the oeuvre of prominent figures, from Bernini to Cavaliere d'Arpino and Mattia Preti. The exhibition was under the patronage of Sofia Municipality.

For a second consecutive year, UniCredit Bulbank supported the international book & movie festival **"CineLibri",** organized by Colibri Publishing House. The festival has a national coverage in 10 cities throughout the country.

Among notable partnerships in the cultural area were also the support for **"Camerata Orphica" concert cycle**, the annual competition and a prestigious ceremony for young artists, named **"Flight to Art"**, by foundation "Stoyan Kambarev", a series of cultural events along with the Italian Embassy in Bulgaria, etc.

Focus on business and social entrepreneurship

A flagship event in 2018 was the **international Eurofi conference** in Sofia, gathering over 800 participants from the European and international public authorities and the financial industry. UniCredit Bulbank was a main local partner to the forum, which was held in association with the Bulgarian Presidency of the European Union.

Another event, part of the Bulgarian Presidency of the EU Council 2018, supported by the bank, was the conference **"Investment potential of the Western Balkans"**, organized by the Bulgarian Business Leaders Forum.

Continuing strong tradition UniCredit Bulbank kept its position as valued partner in many of the high profile initiatives and **conferences of the business chambers in Bulgaria** like Confindustria Bulgaria, business forums of the American Chamber of Commerce in Bulgaria, the German – Bulgarian Chamber, Austrian Business Circle, Bulgarian Business Leaders Forum, etc.

The Bank was also active in social and charity events, gathering the business, political and diplomatic elite of the country. Traditionally UniCredit Bulbank was main partner of the charitable **Vienna Ball in Sofia.** The proceeds from the charity in 2018 supported the Children's Homes of Family Type in Sofia and Foundation Concordia.

UniCredit Bulbank participated in finding and funding the **best program for social entrepreneurship for non-profit organizations in Bulgaria.** The annual competition is initiated by the Bulgarian Center for Not-for-profit Law (BCNL) and aims of gathering and distinguishing the best business cases prepared by foundations and associations.

Being consistent, in 2018, UniCredit Bulbank continued to support the organization of one of the most important initiatives of Council of Women in Business – **Leadership Academy.** The initiative targets ladies from SMEs and its focus is on improving leadership and managerial skills of the participants.

Focus on volunteering initiatives

In 2019 the traditional **Christmas** and **Easter Charity Bazaars** were organized by the Bank employees in several venues. The proceeds from those events went to charity to organizations, proposed by the employees. In addition the national volunteering network developed numerous projects around the country, involving colleagues and partners.

Major Subsidiaries and Associates

UniCredit Consumer Financing

2018 was another year, characterized by a flourishing private consumption and growth in consumer lending market. Operating in an environment of record low interest rates and aggressive competition, UniCredit Consumer Financing EAD (UCFin) completed another very successful year, reporting **Net Profit at a record high BGN 108.1 mln**, representing a growth of 6.8% y/y.

The revenues reached BGN 141.7 mln (+8.0% y/y) with net interest income (NII) being the usual main contributor with a share of 85.5%. The three channels (Banking, POS and CVM) kept their steady performance with NII coming from the Banking channel preserving its predominant position (70.9% from total NII for 2018). **The operating costs** of UCFin for 2018 amounted to BGN 19 mln (+3.3% y/y). Cost growth was entirely volume driven and was lower than the revenues growth, which was a clear indicator for the rigorous cost management system adopted by the Company across all areas. For another consecutive year, UCFin carried on with its prudential risk management policy, optimizing the revenues, while keeping the **risk costs unchanged**.

The great performance of the Company was facilitated by the **high quality of the loan portfolio**, resulting from methodical underwriting activities and outstanding collection performance. As of December 31, 2018 performing loans portfolio was stable, representing 98.7% of total outstanding loans.

During the year the **outstanding portfolio increased by 22.5%** driven by an overall increase in new volumes by 18.8%. **POS financing** continued to be major customer acquisition engine for the Company and the growth of new sales in that channel (+4.1% y/y) were strong enough to position again the Company as number one in the segment. In 2018 UCFin continued the **joint commercial activities with the Bank**, focused on acquisition of new clients and cross-selling, strategically promoting mobile banking and alternative channels. The latter resulted in increase of consumer loans originated through the Banking channel with 15.5% y/y. During the year the Company continued **Customer value management** (CVM) commercial activities on banking clients as well as on POS customers. Both resulted in great CVM performance (growth 62.7% y/y) with record high amount of new loans (BGN 158.3 mln).

In 2019 the growth of the economy is expected to be at a slower pace and the competition among the banking and non-banking players to remain fierce. The Company is committed to improving its internal processes and making them more efficient, where possible. In light of this, one of the focuses for 2019 will be **automation and process simplification**, engaging opportunities arising from RPA (Robotic Process Automation) and LSS (Lean Six Sigma). Completion of two major projects related to upgrade of the core system and digital sales are in the pipeline for 2019 as well.

Commercial-wise in 2019 UCFin will focus its efforts on **keeping the leading market position** and bringing sustainable profits by leveraging on its strength, being innovative, flexible and by re-enforcing the relations with UniCredit Bulbank AD. POS business will remain acquisition engine for new customers for the Group. In parallel, UCFin will keep on **acting as product factory and growth engine for the Bank**, bringing the state-of-the-art risk management for underwriting, collection as well as after-sales processes.

UniCredit Leasing

In 2018 UniCredit Leasing consolidated **Net Profit amounted to BGN 11.5 mln**, translated in 3.4% increase y/y. Total **Revenues** are stable y/y, edging up to BGN 33.7 mln. The year end figures witness solid cost management as **opex** are stable y/y.

As far as the Risk Management Area is concerned, a continuously positive trend of **Asset Quality improvement** is on track. Gross defaulted loans show 29.6% y/y reduction, reaching total volume of BGN 55.6 mln in December 2018 (vs. BGN 79 mln an year earlier).

The improvement in terms of performance and efficiency continues in 2018. The number of signed **new leasing contracts** increased by 16% and reached 4 404 new contracts, increasing the total volume of the financed amount under newly signed leasing contracts. That leads to better risk diversification and increase of the penetration of the leasing product in the client portfolio of the Bank.

UniCredit Leasing retained its leading market position. This was enhanced mainly through the excellent cooperation and cross sales with UniCredit Bulbank and the strong cooperation with international vendors of equipment and car dealers, implementation of new and improvement of existing products. The **main drivers for the good performance** were positioned in the following areas:

- **Manufacturing sector**: UCL has significantly increased its market share. This good result is supported by the positive development of the construction sector, the launched infrastructure projects and the increasing number of foreign investments especially in the export oriented sectors. UCL and UCB together provide structured solutions – leasing plus all the relevant banking products and services.
- **Transportation sector**: UCL has been traditionally strong in this sector, keeping its leading market share. UCL keeps the financed amount under newly signed leasing contracts in the transportation sector. Car dealer cooperation, attracted new clients and adequate pricing policy supported this result. New financed volumes for cars are growing by 51% vs. previous year.
- **Agricultural sector**: UCL is market leader supported by cooperation with leading vendors in the agricultural machinery cluster and flexible financial products. Additional boost in that segment was given by the product, which provides financing schemes to the customers, eligible under the EU grant programs.

2018 marked another successful stage of the **UniCredit Insurance Broker (UCIB) development**. UCIB strengthened further its position as leading provider of insurance-brokerage services on Bulgarian market. Closer cooperation with UCL, UniCredit Factoring and CIB resulted in 15.4% growth of Broker revenues and net profit increased by 17%.

Major Subsidiaries and Associates (continued)

UniCredit Factoring

In 2018 UniCredit Factoring continued the **positive trend of development**, recording a significant growth in factoring portfolio. The increase of company's outstanding debt average by 28% y/y and the strong commercial focus on boosting the utilization level were the main drivers for **sustainable interest income generation** in the challenging competitive environment and downtrend in margins. The **factoring business volumes grew by 15%,** following the company's ambitions to enlarge and diversify the client portfolio and to further penetrate the market. The local competition was driven not only by possibilities for optimizing the price conditions but also by simplification of services and the opportunities for their customization following the individual demand.

The overview of products and services in terms of the major categories shows a **significant growth in non-recourse products** (above 200%), as well as growth in higher-value added ones, such as **international factoring solutions**. The client's demand for customized approach and **reverse factoring** continued to rise, driven by the demand of flexible financial services and easy process of financing not only for the company but to its counterparties as well. In 2018 UniCredit Factoring closed successfully several reverse factoring deals providing high quality of services to the suppliers of large and reliable companies. The **export business opportunities** continued to grow, leveraging on excellent expertise, best practice within UC Group and FCI channel as a major world-wide factoring business network.

All provided services and customized solutions were **fully digitalized through eFactoring.bg**. The web-based platform still continued to be the absolute advantage for the Company compared to the local competitors on the market. During the year UCF continued to enhance the application, leveraging on customized functionalities, which allowed the full automation of the product process cycle and its varieties, making it even more useful for clients. The sophisticated services provided, influenced the client's choice of using the platform. Each new client was on-boarded in eFactoring platform, ensuring smooth, faster and easy process of servicing the factoring transactions. The factoring volumes assigned electronically has grown steadily during the last 2 years, reaching **double-digit growth in 2018 as well**. The full digitalization of all services reaffirmed UCF's position as a market maker in 2018, providing innovative solutions, which are fully focused to meet customers' needs.

The **industry focus in 2018** continued to leverage on traditionally strong industries in terms of factoring opportunities and business saturation such as commodities, trade and services, heavy and light industries, transportation and storage and etc. In 2018, UCF proceeded working with suppliers of services to public institutions, agencies, and municipalities. In terms of foreign markets, the attractive EU economies and the neighbor markets opportunities provided environment for good business generation.

During the year UniCredit Factoring continued **to meet the growing business demand and sophisticated customer needs, while keeping strong risk policy** and answering to the increasing regulatory requirements, leveraging on the synergy with the Bank. The Company offers flexibility and simplicity which is the right approach for further customer acquisition and portfolio enlargement.

The trend for customer portfolio expansion is expected to continue in the next year through penetration of the domestic market and the ongoing export growth. **In 2019**, UniCredit Factoring will continue to **leverage on its best expertise in receivables and payables financing, on product diversity and market share growth**. The tendency of increasing clients' needs of customized business solutions will continue requiring **sophisticated digital services** on every stage of the client request. UCF will continue to rely on transparency, speed and high level of services, to preserve its leadership position in 2019 as well as reaching the business goals successfully.

UniCredit Fleet Management

UniCredit Fleet Management EOOD is a non-financial company specialized in **providing full service operational leasing** to external clients, as well as transport and fleet management services to companies within UniCredit Group in Bulgaria. As of December 31, 2018 the Company operated total 536 motor vehicles.

During 2018 the company has increased its client portfolio, based on active customer targeting approach through participation in **numerous tender procedures**, as well as active targeting and **penetration within the customer portfolio of UniCredit Bulbank**. The product offers excellent opportunities for risk diversification and serves as solid ground for expanding the portfolio of offered valuable financial products and services by UniCredit Bulgaria to its customers.

Corporate Governance Declaration

UniCredit Bulbank AD (the Bank) declares that it adheres to corporate governance good practices as a basis of modern business activity. Corporate governance is a system of balanced relations between the Bank, represented by its management bodies and all relevant stakeholders – shareholders, employees, clients, business partners, creditors, potential and future investors and society as a whole.

In its activity UniCredit Bulbank AD refers to corporate governance principles approved for all companies within UniCredit Group. These principles underlie all Group rules and procedures applicable for UniCredit Bulbank AD, inasmuch as they are not contrary to the effective Bulgarian legislation.

The main documents regulating the corporate governance of UniCredit Group are available on UniCredit Group's website: *https://www.unicreditgroup.eu/en/governance/governance-system-and-policies.html?topmenu=INT-TM_GOV1_en023*

Among them (but not only) are:

- The Integrity Charter;
- Code of Conduct of UniCredit Group;
- Group Managerial Golden Rules;
- Corporate Governance Code;
- Human Rights Commitment.

UniCredit Bulbank AD declares continued commitment to applying rules and policies, which are creating the necessary conditions and enabling shareholders to exercise fully their rights.

UniCredit Bulbank AD guarantees equal treatment of all shareholders, including minority and foreign ones, as well as protection of their rights.

The Bank applies a corporate information policy and provides the necessary information in accordance with the respective legal requirements of the Republic of Bulgaria in order to meet the needs of the shareholders and stakeholders so that they can receive full, up-to-date and reliable information about the activity of the Bank.

Management

According to the Statute of UniCredit Bulbank AD, approved by the General Meeting of the Shareholders, the main management bodies of the Bank are: the General Meeting of the Shareholders, the Supervisory Board and the Management Board.

General Meeting of the Shareholders

The General Meeting of the Shareholders includes the shareholders entitled to vote who attend in person or through a lawful representative or through an explicitly authorized representative, who complies with the respective statutory requirements and whose attendance is registered with the Attendance Registration and Quorum Counting Commission.

The General Meeting of the Shareholders:

- Amends and supplements the Statute;
- Increases and decreases the capital;
- Resolves on transformation of the Bank through merger by way of incorporation and merger by way of acquisition, de-merger by way of separation and de-merger by way of dissolution of the Bank;
- Appoints and dismisses the members of the Supervisory Board and determines their remuneration;
- Appoints and dismisses specialized audit companies which are registered auditors pursuant to the Independent Financial Audit Act to audit and certify the annual financial statements of the Bank as well as the supervisory reports, identified by BNB. The Bank coordinates with BNB in advance the choice of registered auditors;
- Approves the annual financial statement certified by the auditors, resolves on the distribution of the profit after tax, resolves on making contributions to the Reserves Fund from the net profit or from other sources, resolves on the payment of dividends;
- Appoints liquidators upon dissolution of the Bank, except in the case of insolvency or compulsory liquidation;
- Exempts from liability the members of the Supervisory Board and of the Management Board;
- Resolves on the issuing of bonds, including bonds convertible into shares;
- Appoints and dismisses the management of the Internal Audit;
- Appoints and dismisses the members of the Audit Committee and determines their number, term of office and remuneration;
- Appoints and dismisses the Chairman of the Audit Committee;
- Resolves on other matters within its competence entrusted to it by law and these Statues.

Supervisory Board

The Supervisory Board is empowered to exercise preliminary, current and subsequent control over the Bank's compliance with applicable laws, the Statute and the decisions of the General Meeting of the shareholders in the interest of the Bank's clients and shareholders.

The Supervisory Board shall not take part in the ordinary management of the Bank.

The Supervisory Board consists of 3 (three) to 7 (seven) members appointed by the General Meeting of the Shareholders for a term of up to 3 (three) years. The exact number of the members of the Supervisory Board, their term of office and remuneration shall be determined by a decision of the General Meeting of the Shareholders.

A member of the Supervisory Board shall be a person who meets the statutory requirements for occupying the position, including reliability and suitability. The appointment of a member of the Supervisory Board is subject to the prior approval of the BNB.

Management Board

The Management Board shall manage the activities of the Bank by exercising its rights and obligations in accordance with the law, the Statute of the Bank, these Rules and the other internal rules of the Bank.

The Management Board is a collective management and representation body of the Bank exercising its powers under the control of the Supervisory Board.

Governance Declaration (continued)

The Management Board of the Bank shall consist of 3 to 7 (three to seven) members appointed by the Supervisory Board for a term of up to 3 (three) years. The exact number of the members of the Management Board, their term of office and remuneration shall be determined by a decision of the Supervisory Board.

A member of the Management Board shall be a person who meets the statutory requirements for occupying the position, including reliability and suitability. The appointment of a member of the Management Board is subject to the prior approval of the BNB. No member of the Management Board can be at the same time a member of the Supervisory Board or an employee of Internal Audit Department.

Every management body of UniCredit Bulbank has its own rules of procedures which describe the functions, rights and duties of the respective body and its members in detail. While performing their duties both the Supervisory and Management Board shall be governed by the law, regulatory framework of the company and UniCredit Group as well as the good practices of integrity and competence.

The Annual Report on the activity if the Bank for 2018 provides detailed information about the organizational structure of the Bank and the members of the management bodies.

Specialized bodies

Specialized committees have been set up to support the activity of the management bodies of the Bank. Permanent committees are the forums of the Bank to prepare, discuss and take decisions. The participants of the forums listed below are members of the management. Committees do not have a specific term of office since membership is not related to position.

Supervisory Board Committees

(i) Audit Committee

Pursuant to the Independent Financial Audit Act an Audit Committee shall be set up at all banks to monitor the independence of the internal financial audit. Audit Committee members are independent and are not employees of the Bank or its subsidiaries. The major functions of the Audit Committee are as follows: monitor and control the financial reporting processes of the Bank and the independent financial audit, the effectiveness of the internal control system and mechanisms as well as risk management systems; evaluate the results of the work performed by the registered auditors and examine the status of relations with them; examine the adequacy and compliance with the applicable accounting principles used in the preparation of financial statements.

(ii) Nomination and Compensation Committee

The major function of the Nomination and Compensation Committee is to nominate, evaluate and recommend candidates to be appointed as members of the Management Board. The committee's functions are in line with the provisions of Ordinance No 20 and Ordinance No 4 of Bulgarian National Bank.

(iii) Risk Committee

The Risk Committee is an independent permanent advisory body. Its major function is to assist and advise management and supervisory bodies on risk appetite and strategy of the Bank without assuming responsibility for their management and control.

Management Board Committees

(iv) Asset-Liability Committee (ALCO)

An Asset-Liability Committee (ALCO) has been set up to manage market risk and structural liquidity. Market risk management at UniCredit Bulbank comprises the activity related to all commercial and investment banking transactions as well as asset and liability management. Risk positions shall be analyzed by an independent market risk unit and compared to the risk limits approved by the Management Board and ALCO.

(v) Credit Committee and Credit Council

The Credit Committee and the Credit Council are collective bodies responsible for making decisions regarding the underwriting of credit exposures. The consideration of new credit products as well as the internal rules for the lending activity of the Bank are within the competence of the Credit Committee. Competence rules and limits of the powers of the Credit Committee and Credit Council have been established. The Credit Council has more limited powers than the Credit Committee.

(vi) Provisioning and Restructuring Committee

The credit risk of the Bank is monitored with priority by the Provisioning and Restructuring Committee (PRC). It is a specialized internal body responsible for evaluation, classification, and impairment of the risk exposures. The process of credit risk evaluation is in accordance with the Group standards and with the requirements of the Bulgarian National Bank for regulatory purposes.

(vii) Cost Committee

The Cost Committee resolves on and exercises control over operating and investment costs by the structural units of the Bank and all its subsidiaries.

(viii) Project Portfolio Committee

The main purposes of the Project Portfolio Committee are prioritization, organization and approval all strategic initiatives of the Bank. This is the highest decision-making body in relation to all existing projects and programs for UniCredit Bulbank AD and its subsidiaries.

Governance Declaration (continued)

(ix) Operational and Reputational Risk Committee

Operational and Reputational Risk Committee is an expert committee that does not make decisions. It functions as a permanent work group to which current problems and events related to operational risk are reported. It serves as a platform for discussing unresolved problems with the purpose of finding solutions for risk minimization.

(x) Quality Assurance Committee

The Quality Assurance Committee is the competent body in the field of customer satisfaction. Its purpose is to consult the management of the Bank and to offer solutions with regard to identified problem areas and possible corrective measures for customer service.

(xi) Disciplinary Committee

The Disciplinary Committee is the body that examines and analyses the collected evidence, ascertaining a breach of discipline/material liability of the defaulting employee and fault.

(xii) Credit Monitoring Commission

The Credit Monitoring Commission is an internal collective body of the Bank set up to make decisions in the process of monitoring loans of corporate clients, business clients and individuals in accordance with the regulatory requirements, internal bank regulations and respective resolutions of the Management Board and/or the Supervisory Board of the Bank. The Commission examines the quality of the credit portfolio of the Bank and regularly discusses the volume, structure and dynamics of the Watch List.

(xiii) Internal Control Business Committee (ICBC)

The Committee supports the management of the Bank in the process of assessing the Internal Control System adequacy through regular analyses of the critical topics in this field, monitoring and prioritization of the corrective actions to ensure the functioning of internal control mechanisms in line with customers' needs and the regulatory framework.

(xiv) Process Steering Committee

The role of the committee is to ensure effective management of process initiatives through prior assessment, prioritization, approval and establishing standards for monitoring and escalation.

(xv) Local Investment Committee to Private Banking Department

The Local Investment Committee is an internal collective authority of the bank set up to make decisions related to strategic allocation of the various classes of assets and to model portfolios on the basis of the Global Investment Strategy (GIS) of UniCredit Group corresponding to risk clients groups. The decisions of the Local Investment Committee assist the RM Private Banking Clients in optimizing offers.

(xvi) Business Continuity Management Committee

The Committee organizes the preparation, maintenance, monitoring and validation of the business continuity process and submits it for approval to the Management Board.

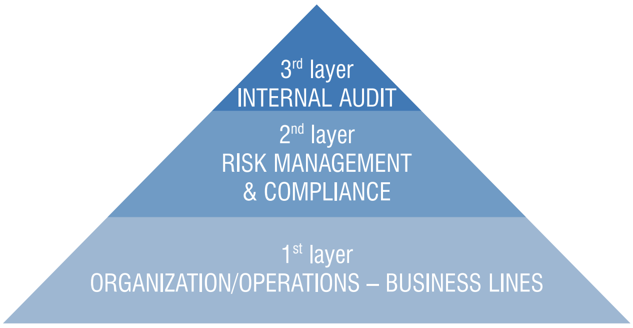
(xvii) Cyber Security Incident Response Team (CSIRT) Committee

The main purposes of this committee are cyberattacks prevention, mitigation of the Bank's vulnerability to cyberattacks and minimization of recovery time following cyberattacks.

(xviii) Real Estate Portfolio (REPC) Committee

Real Estate Portfolio Committee's generic goal is to steer the demand and change management process within the Bank and its subsidiaries, when it comes to Real estate related projects. Real Estate Portfolio Committee is the highest decision-making and escalation body of each project/program, run within UniCredit Bulbank and its subsidiaries' Real Estate project Portfolio. The core virtue of REPC is validation of Projects' conformity via transparency of their execution.

LAYERS OF THE INTERNAL CONTROL SYSTEM



Internal Control Mechanisms

The internal control system is a set of rules, procedures and organizational structures whose main purpose is:

- to ensure the application of the corporate strategy;
- to ensure the efficiency of processes;
- to ensure the proper keeping of corporate values;
- to ensure reliability and completeness of accounting data and managerial information;
- to ensure compliance of operations with the internal and external regulatory framework.

Governance Declaration (continued)

Risk Management

In its usual activity UniCredit Bulbank AD is exposed to various kinds of risks – market, liquid, credit, operational and reputational risk, as individual risks are managed and controlled by specialized bank units. The applicable policies completely meet the requirements of group risk management standards as well as the requirements of the Bulgarian bank legislation.

Details about the risk management of the Bank are provided in the annual financial statements and activity reports of the Bank.

Compliance

Compliance function is integrated in the internal control system to prevent and manage the risk of regulatory non-conformities, breaches and conflicts of interests. The end purpose is to preserve the reputation of the Bank, the confidence of the clients and contribute to its sustainable performance by introducing strategic guidelines (policies and practices) and monitoring techniques with the purpose of preventive assessment.

Internal Audit

In accordance with the currently effective organizational structure of the Bank, Internal Audit Department is a unit functionally detached from the other structural units of the bank. It directly reports to the Supervisory Board (SB) of the Bank, where a linking unit between them is the Audit Committee having in its membership two members of the SB and one independent member. The Head of Internal Audit Department is appointed by the General Meeting of the Shareholders. The principles, organization and functions laid down in the Rules and Regulations of Internal Audit Department of the Bank are aligned with the provisions of Ordinance No 10 of Bulgarian National Bank on the Internal Control in Banks.

In accordance with the rules and procedures of the Bank, the Management Board is not granted any administrative and financial instruments to influence the activity and findings of internal auditors. However, the management may request extraordinary inspections to be conducted in those areas of activity of the Bank that at its discretion show indications for an increased risk.

Information on proposals for acquisitions/ mergers in 2018

As at the end of 2018 no proposals to UniCredit Bulbank AD were made for acquisition from/merger to/with other companies.

This Corporate Governance Declaration is prepared in compliance with art.40 of the Accounting Act and shall be an integral part of the Annual Report on the activity of UniCredit Bulbank AD for 2018 on an individual and consolidated basis.

For UniCredit Bulbank AD:

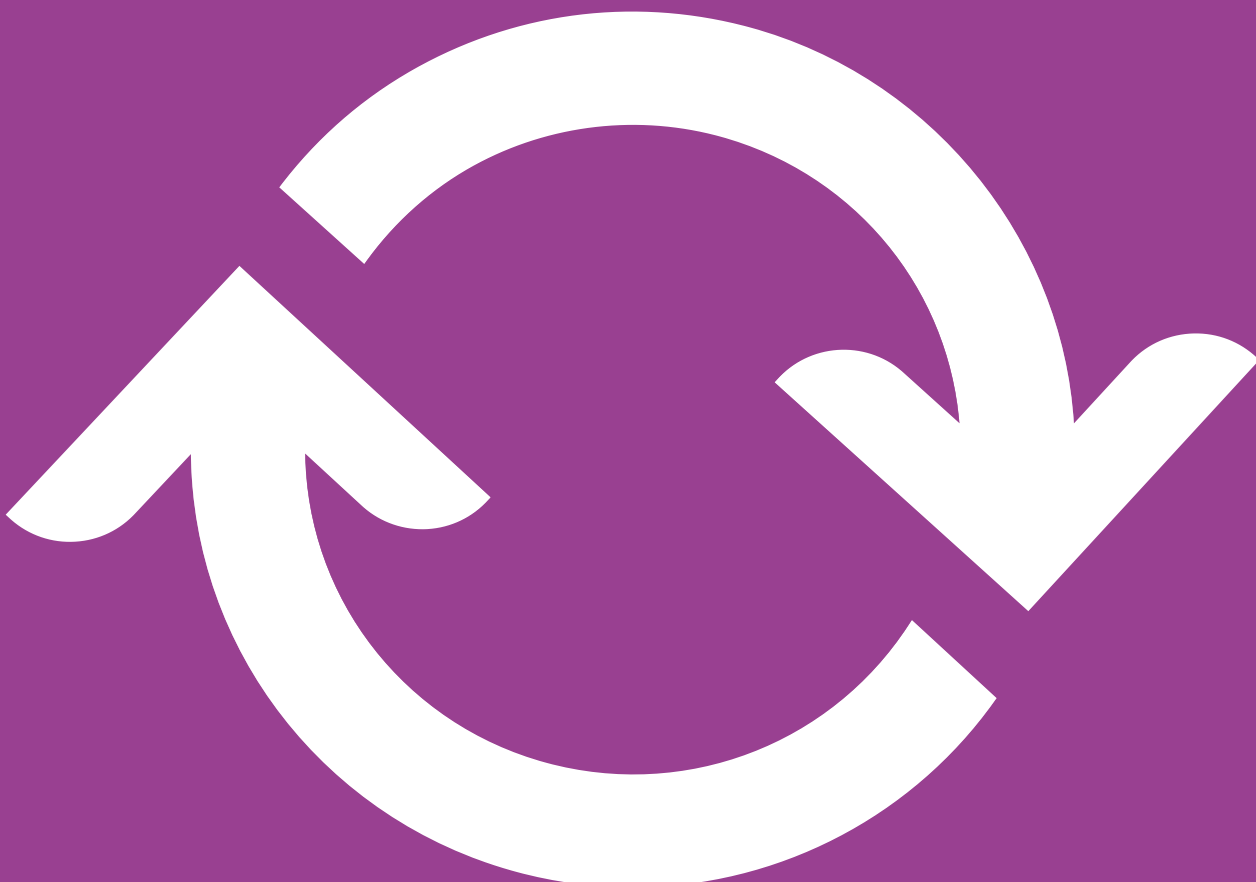
Levon Hampartzoumian
Chief Executive Officer

Enrico Minniti
General Manager

Improve asset quality.

We are continuing to improve our asset quality by de-risking our balance sheet, fully on track for the accelerated rundown of our Non Core portfolio by 2021. A disciplined risk management approach guarantees high quality origination across the Group.

Transform operating model.



We are leveraging on digitalisation to transform our operating model. We are ahead of schedule, with an improved cost reduction. The optimisation of the cost base will remain important to ensure our Group's efficiency and effectiveness.

Deloitte. bakertilly

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bulbank AD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the separate statement of financial position as at December 31, 2018, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Impairment of loans and advances to customers

The assessment of impairment allowances for loans and advances to customers requires Bank management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources.

In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank.

The assessment of classification to impairment stages is a result of combination of relative and absolute factors:

- Relative comparison between the probability of default at the original date of the receivable and the date of financial statements.
- Absolute factors such as limits set by related regulations (30 days past due),
- Other factors with internal relevance for the Bank (such as forbearance classification)

The expected credit losses are calculated using available historical data and anticipated future development determined using macroeconomic indicators.

The statistical models used are based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management.

As described in note 26 to the separate financial statements, the Bank has recorded as at December 31, 2018 impairment allowances on loans and advances to customers amounting to BGN 562,949 thousand.

How our audit addressed the key audit matter

During our audit we obtained understanding of the processes for calculation of impairment of loans applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the risks of material misstatement in this area.

We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances for the significant loan portfolios.

We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes. The testing focused on controls related to:

- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,
- regular client creditworthiness review processes,
- creation and regular review of watch-lists,
- approval of experts' collateral valuation,
- management review and approval of the impairment evaluation results.

We involved auditors' experts in the areas which required specific expertise

We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment on a sample of exposures based on the risk parameters resulted from the models

On a sample of exposures we evaluated appropriateness of impairment methodologies and their application. We formed an independent view on the levels of impairment allowances required by examining available external and internal information. We developed own expectation regarding impairment of loans and advances to customers as at December 31, 2018 and

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Key audit matter	*How our audit addressed the key audit matter*
Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	comparison of this expectation to impairment recognized by the management and reported in the financial statements. We performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.

Information Other than the separate financial statements and Auditors' Report Thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities, including the non-financial declaration, and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for performing joint audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria (ICPA) and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 8 of POSA), applicable in Bulgaria.

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Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.
- The non-financial declaration, covering the financial year for which the separate financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Information in accordance with Art. 33 of Ordinance 38/2007 and Art. 11 of Ordinance 58/2018 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries

Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 of FSC regarding the Bank's activity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2018 by the general meeting of shareholders held on April 11, 2018 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2018 represents sixth total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and second statutory audit engagement for the Bank carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our joint statutory audit refers, Deloitte Bulgaria EOOD (an entity part of the Deloitte network) solely has provided to the Bank the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Assistance in performing a review of the Bank's readiness in view of Asset Quality Review (AQR) requirements as per AQR Manual issued in June 2018 by the European Central Bank.

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- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD jointly has provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2017, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".
- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2017 and December 31, 2018. The audits were performed in accordance with ISA.
  - Attest related procedures in relation to the first time adoption of IFRS 9 – Financial Instruments by the Bank and its subsidiary UniCredit Leasing EAD.
  - Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2017 and December 31, 2018. The audits were performed in accordance with ISA.
  - Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 3 months ending March 31, 2018, the 6 months ending June 30, 2018, and the 9 months ending September 30, 2018. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

Mochchil Cherpansky
Proxy of the Statutory Manager Sylvia Peneva
Registered Auditor

103, Al. Stambolijski Blvd
Sofia Tower (Mall of Sofia)
1303 Sofia, Bulgaria

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Одиторско дружество
София
Рег. № 129

Krassimira Radeva
Statutory Manager
Registered Auditor

5, Stara Planina Str., 5th floor
1000 Sofia, Bulgaria

March 8, 2019

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Income Statement

In thousands of BGN

	Notes	2018	2017
Interest income		437 575	481 504
Interest expense		(36 866)	(45 554)
Net interest income	7	**400 709**	**435 950**
Dividend income	9	115 543	3 662
Fee and commission income		260 292	242 576
Fee and commission expense		(28 078)	(25 818)
Net fee and commission income	8	**232 214**	**216 758**
Net gains on financial assets and liabilities held for trading and hedging derivatives	10	96 902	85 950
Net gains from financial assets mandatorily at fair value	11	2 094	-
Net income from available for sale investments	12	-	9 153
Net income from financial assets measured at FVTOCI	12	25 145	-
Other operating (expenses), net	13	(58 918)	(53 293)
TOTAL OPERATING INCOME		**813 789**	**698 174**
Net income related to property, plant and equipment	14	7 972	13 650
Personnel expenses	15	(127 471)	(120 489)
General and administrative expenses	16	(95 813)	(92 332)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	(32 808)	(31 696)
Provisions for risk and charges	18	(43 206)	14 010
Net impairment loss on financial assets	19	(57 000)	(150 241)
PROFIT BEFORE INCOME TAX		**465 363**	**331 076**
Income tax expense	20	(35 324)	(33 423)
PROFIT FOR THE YEAR		**430 039**	**297 653**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 30, 2019.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minoli
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
Registered auditor
08/03/2019

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 45 are an integral part of these separate financial statements.

Separate Financial Statements (continued)

Statement of Comprehensive Income

In thousands of BGN

	Notes	2018	2017
Profit for the year		**430 039**	**297 653**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses)	37	(888)	(1 410)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		89	141
		(799)	**(1 269)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		-	144 723
Investment securities		(97 607)	-
Cash flow hedge		57	9 129
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		9 850	(15 385)
		(87 700)	**138 467**
Total other comprehensive income net of tax for the year		**(88 499)**	**137 198**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**341 540**	**434 851**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 30, 2019.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Cherganski
Registered auditor

08/03/2019

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor

08. 03. 2019

The accompanying notes 1 to 45 are an integral part of these separate financial statements

Statement of Financial Position

in thousands of BGN

	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and balances with Central Bank	21	2 457 234	3 729 631
Non-derivative financial assets held for trading	22	31 946	23 819
Derivatives held for trading	23	57 942	86 332
Derivatives used for hedging	24	496	8 339
Loans and advances to banks	25	2 276 812	1 626 697
Loans and advances to customers	26	10 498 474	9 436 559
Investment securities	27	3 736 749	3 762 901
Investments in subsidiaries and associates	28	55 004	55 004
Property, plant, equipment and investment properties	29	144 003	181 364
Intangible assets	30	45 257	35 337
Deferred tax assets	32	4 072	5 669
Other assets	33	105 609	146 435
TOTAL ASSETS		**19 413 598**	**19 096 088**
LIABILITIES			
Financial liabilities held for trading	34	31 206	82 483
Derivatives used for hedging	24	56 901	42 896
Deposits from banks	35	478 028	452 278
Deposits from customers	36	15 808 075	15 520 709
Provisions	37	97 660	41 356
Current tax liabilities	31	2 395	4 078
Other liabilities	38	110 057	99 033
TOTAL LIABILITIES		**16 584 322**	**16 242 833**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		147 627	236 380
Retained earnings		1 965 833	2 033 445
Profit for the year		430 039	297 653
TOTAL EQUITY	39	**2 829 276**	**2 853 255**
TOTAL LIABILITIES AND EQUITY		**19 413 598**	**19 096 088**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 30, 2019

Levon Hampartzoumian Chairman of the Management Board and Chief Executive Officer	Enrico Minniti Deputy Chairman of the Management Board and General Manager	Jasna Mandac Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Baker Tilly Klitou & Partners OOD

Momchil Cherganski *Registered auditor* 08/03/2019	Krassimira Radeva *Registered auditor* 08.03.2019

The accompanying notes 1 to 45 are an integral part of these separate financial statements

Statement of Changes in Equity

in thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserve	IAS 19 reserve	Total
Balance as of January 1, 2017	285 777	342 378	1 852 506	117 891	(36 248)	(2 441)	2 709 842
Profit for the year	-	-	297 553	-	-	-	297 553
Actuarial gains (losses)	-	-	-	-	-	(1 410)	(1 410)
Change of revaluation reserve on available for sale investments	-		-	144 723	-	-	144 723
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 129	-	9 129
Income tax related to components of other comprehensive income		-	-	(14 472)	(913)	141	(15 244)
Total other comprehensive income for the year net of tax	-	-	-	130 251	8 216	(1 269)	137 198
Total comprehensive income for the year net of tax	-	-	297 553	130 251	8 216	(1 269)	434 851
Dividends paid	-	-	(291 438)	-	-	-	(291 438)
Balance as of December 31, 2017	285 777	342 378	1 858 720	248 142	(28 032)	(3 710)	2 853 255
IFRS 9 First Time Adoption (FTA) effect	-	-	(87 612)	(254)	-	-	(87 866)

	Share capital	Statutory reserve	Retained earnings	Revaluation reserve on Financial Assets at Fair Value through OCI	Cash flow hedges reserve	IAS 19 reserve	Total
Balance as of January 1, 2018	285 777	342 378	1 821 108	247 888	(28 052)	(3 710)	2 765 389
Profit for the year	-	-	430 039			-	430 039
Actuarial gains (losses)	-	-	-	-	-	(858)	(858)
Change of revaluation reserve on investment securities	-	-	-	(97 607)	-	-	(97 607)
Change of revaluation reserve on cash flow hedges	-	-		-	57	-	57
Income tax related to components of other comprehensive income	-	-		9 846	(6)	89	9 929
Total other comprehensive income for the year net of tax	-	-	-	(87 761)	51	(769)	(88 499)
Total comprehensive income for the year net of tax	-		430 039	(87 761)	51	(769)	341 540
Dividends paid	-	-	(297 553)	-	-	-	(297 553)
Balance as of December 31, 2018	285 777	342 378	2 053 494	160 137	(28 001)	(4 509)	2 823 276

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 30, 2019.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD
Momchil Cherganski
Registered auditor
08/03/2019

Baker Tilly Klitou & Partners OOD
Krassimira Radeva
Registered auditor
08.03

The accompanying notes 1 to 45 are an integral part of these separate financial statements

Statement of Cash Flows

In thousands of BGN

	Notes	2018	2017
Net profit		**430 039**	**297 553**
Current and deferred tax, recognised in income statement		35 324	33 423
Adjustments for non-cash items			
IFRS 9 FTA effect on retained earnings		(67 612)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	32 808	31 696
Impairment of financial assets	19	120 013	178 581
Impairment of foreclosed properties	13	2 145	2 637
Provisions, net	37	56 111	(13 403)
Unrealised fair value losses through profit or loss, net		1 833	4 657
Unrealised fair value losses/(gains) on FX revaluation		52 622	(169 820)
Net (gains) from sale of property, plant and equipment		(9 983)	(13 650)
Net interest income		(400 708)	(435 950)
Dividend income		(115 543)	(3 662)
Increase in other accruals		38 981	57 428
Cash flows from profits before changes in operating assets and liabilities		**176 829**	**(30 430)**
Operating activities			
Change in operating assets			
Decrease/(Increase) in loans and advances to banks		(1 204 769)	153 283
(Increase) in loans and advances to customers		(1 178 535)	(579 417)
(Increase) in investment securities		(72 979)	(470 788)
(Increase)/Decrease in financial instruments held for trading and hedging derivatives		(12 742)	9 794
Decrease/(Increase) in non-current assets held for sale		-	2 015
Decrease/(Increase) in other assets		25 300	(63 098)
Change in operating liabilities			
Increase/(Decrease) in deposits from banks		16 650	(248 784)
Increase in deposits from customers		236 094	813 659
Provisions utilization		(961)	(2 143)
Increase/(Decrease) in other liabilities		8 788	(19 078)
Interest received		452 228	487 708
Interest paid		(37 276)	(51 093)
Dividends received		115 543	3 662
Taxes paid		(13 700)	(43 109)
Net cash flow from operating activities		**(1 490 489)**	**(37 909)**

Statement of Cash Flows (continued)

in thousands of BGN

	Notes	2018	2017
Cash flow from investing activities			
Cash payments to acquire tangible assets		(23 258)	(15 403)
Cash receipts from sale of tangible assets		9 983	13 650
Cash payments to acquire intangible assets		(17 835)	(18 025)
Net cash flow from investing activities		**(31 110)**	**(19 778)**
Cash flow from financial activities			
Dividends paid		(297 653)	(291 438)
Net cash flows from financial activities		**(297 653)**	**(291 438)**
Effect of exchange rate changes on cash and cash equivalents		**2 088**	**(7 478)**
Impairment of cash equivalent		**68**	
Net (decrease) in cash and cash equivalents		**(1 817 088)**	**(356 603)**
Cash and cash equivalents at the beginning of period	43	**4 392 549**	**4 749 152**
Cash and cash equivalents at the end of period	43	**2 575 461**	**4 392 549**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 30, 2019.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
Registered auditor
08/03/2019

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 45 are an integral part of these separate financial statements.

Notes to the Separate Financial Statements

1. Reporting entity

UniCredit Bulbank AD (the Bank) is a universal Bulgarian bank established upon a triple legal merger, performed on April 27th, 2007 between Bulbank AD, HVB Bank Biochim AD and Hebros Bank AD.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address city of Sofia, 7 "Sveta Nedelya" sq. and UIC 831919536 as per the Trade Register. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2018 Bank operates through its network comprising of 166 branches and offices.

2. Basis of preparation

(a) Statement of compliance

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting standards Board (IASB) and adopted by the European Union.

These separate financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act.

These separate financial statements are approved by the Management Board of UniCredit Bulbank AD on January 30, 2019. They should be read in conjunction with the consolidated financial statements which will be approved by the Management Board of the Bank in February 2019.

(b) Basis of measurement

These separate financial statements have been prepared on historical cost basis except for financial instruments measured at fair value cost depending on asset classification.

(c) Functional and presentation currency

These separate financial statements are presented in Bulgarian Lev (BGN) rounded to the nearest thousand. Bulgarian Lev is the functional and reporting currency of UniCredit Bulbank AD.

(d) Use of estimates and judgement

The preparation of financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes **4** and **5**.

3. Significant accounting policies

There have been no changes in significant accounting policies for the periods presented in these financial statements, except as described below. Whenever certain information in the current period is presented in a different way for the purposes of providing more reliable and relevant view of the financial position of the Bank, prior period information is also recalculated for comparative reasons.

Transition to "IFRS9: Financial Instruments"

As at 1 January 2018, the Bank has adopted the accounting standard "IFRS 9: Financial instruments".

The adoption of the standard is the result of a long-time project aimed at creating reporting and risk monitoring methods that ensure full compliance with the standard and at updating governance and monitoring processes in light of the new rules.

This project was organised at UniCredit Group level through specific work-streams:

- work-stream "Classification and Measurement" aimed at reviewing financial instruments classification in line with new IFRS9 criteria;
- work-stream "Impairment" aimed at developing and implementing models and methods for calculating impairment.

The entire project was developed actively involving Bank's structures, Board of Directors and Top Management.

The following should be noted with regard to the new accounting standard:

It has introduced significant changes in the principles for classifying and measuring financial instruments compared to IAS 39.

- With reference to loans and debt securities, the classification and consequent measurement of these instruments is based on the "business model" and on the characteristics of the financial instrument cash flows (SPPI criterion – Solely Payments of Principal and Interests).
- With reference to equity instruments, they will be classified as financial instruments at fair value, with differences recognised through profit or loss or in other comprehensive income in case of using FVTOCI option for such instruments. In the latter case, unlike the requirements of IAS 39 for available-for-sale financial assets, IFRS9 no longer requires to recognise impairment losses and provides that, in the event of sale of the instrument, the profits and losses on disposal must be reclassified to other shareholders' equity reserve and not to profit or loss.
- Lastly, with reference to financial liabilities designated at fair value, it modified the accounting of "own credit risk", i.e. the changes in the value of liabilities at fair value that are due to fluctuations in own credit risk. According to the new standard, these changes must be recognised in an equity reserve, rather than in the income

statement as per IAS39, thus eliminating a source of volatility in economic results.

- it has introduced a new accounting model of impairment for credit exposures based on an "expected losses" approach replacing the one based on the recognition of "incurred losses" and on the concept of "lifetime" expected loss;
- it has introduced guidelines that clarify when financial instruments shall be written off by specifying that the write-off constitutes an event of accounting derecognition;
- it has also modified the rules applicable to "hedge accounting" with regard to designating a hedging relationship and verifying its effectiveness with the aim of ensuring greater alignment between the accounting recognition of hedges and the underlying management rationale.

The UniCredit Group has exercised the option to continue applying the existing IAS 39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging.

The UniCredit Group has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous years and for UniCredit Group the first time adoption of the new standard is 1 January 2018.

In these separate financial statement the Bank presents balance sheet as at 31 December 2017 as per the IAS 39 requirements. For purposes of transition to IFRS 9 requirements, amounts impacting the separate balance sheet are as follows:

In thousands of BGN

			FTA EFFECT					
	NOTES	31.12.2017 IAS 39	FINANCIAL ASSETS AT AMORTIZED COST	FINANCIAL ASSETS MANDATORY AT FAIR VALUE	FINANCIAL ASSETS AT FVTOCI	PROVISIONS ON CREDIT RISK ON COMMITMENTS AND FINANCIAL GUARANTEES	RECLASSIFICATI-ON FROM AFS TO MANDATORY AT FV	01.01.2018 IFRS 9
ASSETS								
Cash and balances with Central Bank	21	3 729 631	(137)	-	-	-	-	3 729 494
Non-derivative financial assets held for trading	22	23 819	-	-	-	-	-	23 819
Derivatives held for trading	23	86 332	-	-	-	-	-	86 332
Derivatives held for hedging	24	6 339	-	-	-	-	-	6 339
Loans and advances to banks	25	1 626 697	(541)	-	-	-	-	1 626 156
Loans and advances to customers	26	9 436 559	(62 732)	19	-	-	-	9 373 846
Investment securities	27	3 762 901	-	-	-	-	-	3 762 901
Investments in subsidiaries and associates	28	55 004	-	-	-	-	-	55 004
Property, plant, equipment and investment properties	29	181 364	-	-	-	-	-	181 364
Intangible assets	30	35 337	-	-	-	-	-	35 337
Current tax assets	31	-	6 341	(2)	200	1 517	-	8 056
Deferred tax assets	32	5 669	-	-	-	(293)	-	5 376
Other assets	33	146 436	-	-	-	-	-	146 436
TOTAL ASSETS		**19 096 088**	**(57 069)**	**17**	**200**	**1 224**	**-**	**19 040 460**
LIABILITIES								
Financial liabilities held for trading	34	82 483	-	-	-	-	-	82 483
Derivatives used for hedging	24	42 898	-	-	-	-	-	42 898
Deposits from banks	35	452 276	-	-	-	-	-	452 276
Deposits from customers	36	15 520 709	-	-	-	-	-	15 520 709
Provisions	37	41 356	-	-	-	12 238	-	53 594
Current tax liabilities	31	4 078	-	-	-	-	-	4 078
Other liabilities	38	99 033	-	-	-	-	-	99 033
TOTAL LIABILITIES		**16 242 833**	**-**	**-**	**-**	**12 238**	**-**	**16 255 071**
EQUITY								
Share capital		285 777	-	-	-	-	-	285 777
Revaluation and other reserves		236 380	-	-	2 002	-	(2 256)	236 126
Retained earnings		2 033 445	(57 069)	17	(1 802)	(11 014)	2 256	1 965 833
Profit for the year		297 653	-	-	-	-	-	297 653
TOTAL EQUITY	39	**2 853 255**	**(57 069)**	**17**	**200**	**(11 014)**	**-**	**2 785 389**
TOTAL LIABILITIES AND EQUITY		**19 096 088**	**(57 069)**	**17**	**200**	**1 224**	**-**	**19 040 460**

Transition to "IFRS15: Revenue from Contracts with Customers"

IFRS 15, effective starting from 1 January 2018, endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the previous set of international accounting principles and interpretations on revenue recognition and, in particular, IAS18.

IFRS15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");
- a new model for the analysis of the transactions ("Five steps model") focused on the transfer of control;
- and the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard could determine (i) the reclassification between lines of income statement used for presenting revenues, (ii) a change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) a different measure of the revenue in order to reflect their variability.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS15 on current economic and financial volumes presented in the financial statements of the Bank.

(a) Interest income and expense

Interest income and expenses are recognized in the Income statement following the accruing principle, taking into account the effective yield/effective interest rate of the asset/liability in all material aspects. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments.

(b) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to "IFRS 15 Revenue from Contracts with Customers" rules.

In particular:

- if the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognized in P&L when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in P&L in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized during the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Group accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or defers it in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Group expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, depending on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Nevertheless, for the services provided by the Group such a variability is not usually foreseen.

Finally, if a contract relates to different goods/services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligations proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in P&L on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

(c) Net gains (losses) on financial assets and liabilities held for trading

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading (including derivative deals) as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Bank.

The Bank concludes derivative deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit S.p.A, UniCredit Bank Austria AG and UniCredit Bank AG). The whole realized and unrealized gains/losses on derivative related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at the official Bulgarian National Bank foreign exchange rate effective at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate effective at the date of the transaction. FX revaluation of equity investments classified in FVTOCI portfolio should be presented on FVTOCI revaluation reserve.

As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

(e) Net gains (losses) on other financial assets designated at fair value through profit or loss

Net gains (losses) on other financial assets designated at fair value through profit or loss include all realised and unrealised fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

(f) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(g) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term and so producing a constant periodic rate of interest on the remaining balance of the liability.

(h) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost. If the amount of transaction costs is clearly not material compared to the fair value of the related financial asset at initial recognition, it is possible to recognize them directly in profit or loss.

As a result of the entry into force of the new accounting standard, the Bank has reclassified financial assets and liabilities as at 1 January 2018 into the new envisaged categories.

In this regard, it should be noted that this classification is based on business model and characteristics of the contractual cash flows.

The analysis of the business model was conducted by mapping the business areas that make up the Bank's portfolio and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the new categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyse the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortised cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyse the contract features with respect to IFRS9 requirements, or by using external data providers.

In application of the aforementioned rules, the Bank's financial assets and liabilities have been classified as follows:

(ii) Classification

a) Cash and balances with the Central Bank

Cash and balances with the Central bank include notes and coins on hand and unrestricted balances held with the Central Bank. They are carried at amortised cost in the statement of financial position.

b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking.

These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

Financial assets and derivatives held for trading are carried at fair value in the statement of financial position.

After initial recognition these financial assets are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HfT) financial asset is recognised in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognised as "Financial liabilities held for trading".

c) Financial assets designated at fair value through profit or loss

Financial instruments that are not held for trading but which are part of a group of financial assets which performance is internally evaluated and reported on a fair value basis are initially designated and subsequently reported as financial assets designated at fair value through profit or loss.

A non-derivative financial asset can be designated at fair value if the abovementioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

Financial assets, designated at fair value through profit or loss are carried at fair value in the statement of financial position.

d) Financial assets mandatorily at fair value

The new portfolio **Mandatorily at fair value through P&L** (MFV) is introduced according to IFRS 9 principles.

A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realised or unrealised, are recognised in P&L as "Other financial assets mandatorily at fair value".

e) Fair value through other comprehensive income (FVTOCI) assets

Financial asset, which is debt, is classified at fair value through comprehensive income if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

FVTOCI investments are non-derivative investments whose objective is achieved by both collecting contractual cash flow and selling financial assets.

All FVTOCI investments are carried at fair value.

On initial recognition, at settlement date, a financial asset is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and revenues directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortised cost criterion as Interest income and similar revenues.

The gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves.

These instruments are tested for impairment as illustrated in the specific section. Impairment losses are recorded in the income statement.

In the event of disposal, the accumulated profits and losses are recorded in the income statement.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognised in the income statement. Only dividends are recognised in P&L.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers cost as the best estimate of fair value.

f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

UniCredit Group considers cost as a best estimate of fair value in case of Equity instruments for which all the following conditions are met: the instrument is not listed; the percentage of interests held by the Group does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognised in the income statement. Only dividends are recognised in P&L. No reclassification of gains and losses to P&L on derecognition.

g) Financial assets at amortised cost

A financial asset is classified as financial asset measured at amortised cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

On initial recognition, at settlement date, financial assets at amortised cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition assets are measured at amortised cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Such interest is recognised in P&L as Interest income and similar revenues.

The carrying amount of financial assets at amortised cost is adjusted to take into account the reductions/write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in P&L.

In the event of disposal, the accumulated profits and losses are recorded in the income statement in P&L as Gains (Losses) on disposal.

Amounts deriving from financial assets carrying amount adjustment, gross of cumulated write-downs, in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition, are recognised in P&L as Gains/Losses from contractual changes with no cancellations of the contracts.

Sales are usually not compatible with this business model. Several kinds of sales however don’t jeopardize the business model held to collect. These are sales that occur as a result of deterioration in credit standing of the financial assets, which are not significant in value (not greater than 5% of the carrying value of the relevant portfolio) or sales that are made close to the maturity. In any cases sales should be infrequent.

h) Investments in subsidiaries and associates

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control. In accordance with IFRS 10 “Consolidated Financial Statements” control is achieved when cumulatively the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

Following the above criteria, the Bank has assessed that it has control in all the investees, where it holds directly or indirectly more than 50% of the voting rights.

Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities. The Bank has assessed that it has significant influence over entities where it holds directly or indirectly 20% and more of the voting rights.

In the separate financial statements the Bank has adopted the policy of carrying all investments in subsidiaries and associates at cost.

i) Deposits from banks and customers

Deposits from banks and customers are financial instruments related to attracted funds by the Bank, payable on demand or upon certain maturity and bearing agreed interest rate.

Deposits from banks and customers are carried at amortised cost using the effective interest rate method.

Reclassifications performed as at 1 January 2018

The following tables summarise the mapping between IAS 39 and IFRS 9 portfolios effective from 01.01.2018 – the date of implementation of IFRS 9.

Debit instruments

IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
Fair Value Option (FVOP)	Designated FVTPL	FV through P&L	Fair Value Option (FVOP)	Designated FVTPL	FV through P&L
TRADING	Held to benefit from Changes in Fair Value		Fair Value through P&L (FVTPL) – TRADING	Held to benefit from Changes in Fair Value	
LOAN	Loans and receivables	Amortized Cost	Mandatory FVTPL (SPPI failed)	Mandatory FVTPL	
			Amortized Cost (AC)	Held to collect	Amortized Cost
HTM	Held to maturity	Amortized Cost	Amortized Cost (AC)	Held to collect	
AFS	Available for Sale	FV through OCI	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI

Equities instruments

IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
AFS	Available for Sale	FV through OCI	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI
AFS	Available for Sale	At cost	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI (cost is an appropriate estimate of fair value)

The following tables summarise the reclassifications performed on balance sheet (Assets and Liabilities) based on IFRS9 initial application.

INSTRUMENT	IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
Equities participation in VISA	AFS	Available for Sale	FV through OCI	Mandatorily FVTPL	Mandatorily FVTPL – residual intention	FV through PL
Equities participation in Bulgarian Stock Exchange Sofia	AFS	Available for Sale	FV through OCI	Mandatorily FVTPL	Mandatorily FVTPL – residual intention	FV through PL
Equities participation in SWIFT	AFS	Available for Sale	At cost	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI option
Loans to Strart-up companies	LOANS	Held to maturity	Amortized cost	Mandatorily FVTPL	Mandatorily FVTPL – SPPI failed	FV through PL

(iii) Derecognition

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. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. The Bank derecognises a financial asset also in case of substantial modification of the terms and conditions of the asset.

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement principles

Fair value is defined 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.

In accordance with IFRS 7 “Financial instruments: Disclosures” the Bank applies a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note **5**).

(vi) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when both the Bank and the counter party have a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(vii) Repurchase agreements

UniCredit Bulbank AD enters into purchases (sales) of financial instruments under agreements to resell (repurchase) substantially identical instruments at a certain date in the future at a fixed price. Instruments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. Financial instruments sold under repurchase agreements continue to be recognized in the statement of financial position and measured in accordance with the accounting policy. The proceeds from the sale of the investments are reported in the statement of financial position under deposits from customers or banks, respectively. The difference between the sale and repurchase consideration is recognised on an accrual basis over agreed term of the deal and is included in net interest income.

(i) Impairment

The Bank recognizes a loss allowance for **expected credit losses** on: a debt financial asset that is measured at **Amortized cost and Fair value through Other Comprehensive income,** a lease receivable, a contract asset or a loan commitment and a financial guarantee contracts.

For this purpose debt instruments have to be classified in one of the following stages:

- **Stage 1:** which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- **Stage 2:** which comprises financial assets whose credit risk has significantly increased since initial recognition;
- **Stage 3:** which comprises credit impaired financial assets.

In order to provide consistency between IFRS and regulatory definitions, it is assumed that all instruments classified as “Non performing” according to regulatory framework are considered to be instruments with an objective evidence of impairment (credit impaired).

In order to meet the requirements of the standard, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. As a matter of fact, for Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank, the Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Bank's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

Assets carried at amortised cost

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures. Loans and advances are presented net of allocated allowances for impairment. Impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances. Impairment allowances on portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on previous experience, late payments of interest, principals or penalties. Increases in the allowance account are recognized in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is directly written-off.

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in P&L.

Financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in P&L.

FVTOCI financial assets are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(j) Derivatives used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD".

Derivatives used for hedging include all derivative assets and liabilities that are not classified as held for trading. Derivatives used for hedging are designated as effective hedging instruments and are measured at fair value in the statement of financial position.

The Bank has developed hedge accounting methodology aiming at effective management of interest rate risk out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

- Since 2009 the Bank applies Cash Flow Hedge accounting.
- Since 2015 the Bank has started to apply Fair Value Hedge accounting.

In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess and measure the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis (based on Market risk Department independent assessment), as to whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent (the limits for intragroup deals are to be reduced respectively to 90% and 111.8%). The Bank also makes an assessment for each cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, fair value hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item, for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortisation starts immediately when hedge relationship no longer exists. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognised in profit and loss.

Cash flow hedge

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

As Bank's hedging strategy covers forecast cash flows as hedged items, the cumulative amount, recognized in other comprehensive income from the period when the hedge was effective, is recycled in profit or loss when the forecast transactions occur. In case the forecast transaction is no longer expected to occur, the whole balance outstanding in other comprehensive income is reclassified in profit or loss.

(k) Property, plant, equipment and investment property

All items of property, plant and equipment are carried at cost less accumulated depreciation or impairment losses.

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Investment property is measured at cost less any accumulated depreciation.

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **33**).

The gains or losses on disposal of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net in profit or loss.

Depreciation on all items of property, plant and equipment and investment property is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.

The applicable annual depreciation rates based on expected useful life on major assets categories are as follows:

	ANNUAL DEPRECIATION RATES (%)	EQUIVALENT EXPECTED USEFUL LIFE (YEARS)
Buildings	4	25
Computer hardware	20-50	2-5
Fixtures and fittings	15-20	5-7
Vehicles	25	4

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2018 and December 31, 2017 intangible assets include primarily investments in software and related licenses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate.

(m) Non-current assets held for sale

The Bank presents as non-current assets held for sale, investments in properties whose carrying amount will be recovered principally through sale transaction rather than continuing use. Items are only included in this category when the Management of the Bank has clear intention to finalize the sale and has already started looking for a buyer.

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale.

Non-current assets held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

(n) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2018 and December 31, 2017 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(o) Employees' benefits

(viii) Short-term employee's benefits

Short-term employees' benefits comprise of amounts due to personnel on the basis of unused paid leave accounted for each and single employee as of the reporting date as well as expected additional bonus payments for achieved results during the current financial year.

The amount of the unused paid-leave obligation includes the overall undiscounted amount of the obligation that the Bank has to settle should the employment contract is terminated as of the reporting date. Short-term employees' benefits are presented as other liabilities and disclosed separately in the Notes.

(ix) Defined benefit obligation

Defined benefit obligations are those agreed in the Collective Labour Agreement.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary. To determine the net amount in the statement of financial position, any actuarial gains and losses is presented separately in the Statement of other comprehensive income.

(x) UniCredit Group Short and Long-Term incentive plans

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (equity settled) granted by the ultimate parent

UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Bank.

Whenever the vesting period of the stock options or performance shares ends, UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments. Thereafter the parent effectively grants the instruments to the respective managers.

As of December 31, 2018 and December 31, 2017 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(p) Share capital and reserves

(xi) Share capital

As described in Note 1, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of UniCredit bank Austria AG and ultimately under control of UniCredit S.p.A. The merger represented a share-exchange transaction, where share-exchange ratios based on fair valuation of the net assets of the three Banks, certified by independent auditor, as required by the Bulgarian Commercial Act, were applied. The share capital of UniCredit Bulbank AD as of the date of the merger was in the amount of BGN 239 256 thousand and comprise of the share capital of Bulbank AD before the merger in the amount of BGN 166 370 thousand, increased by the newly issued ordinary shares exchanged for the ordinary shares of the merging Banks – HVB Bank Biochim AD and Hebros Bank AD (increase in the amount of BGN 72 886 thousand).

In September 2010 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 179 000 thousand through issuing 24 655 650 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2010 the share capital of the Bank amounted to BGN 263 911 thousand.

In May 2011 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 158 744 thousand through issuing 21 865 500 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2011 the share capital of the Bank amounts to BGN 285 777 thousand.

In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit S.p.A was performed thus leading to change of the Bank's main shareholder to UniCredit S.p.A.

No changes in the amount of the share capital were performed in 2018 and 2017.

(xii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on investments at FVTOCI (for 2017: on available for sale investments), cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2018 and December 31, 2017 the reserves include also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(q) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Income tax is recognized in the Income statement except to the extent that it relates to items recognized directly to other comprehensive income, in which case it is recognised in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the Income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2018 and December 31, 2017 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

(r) Segment reporting

The Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. The business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

(s) Initial application of new amendments to the existing

standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards (in particular – IRFS 9 Financial instruments) leads to recognition on First time adoption reserve (FTA) in UniCredit Bulbank AD financial statements.

(t) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.

IFRS16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract.

After the initial recognition the right-of-use will be measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS16 or by IAS40.

In this context, the Bank has launched the activities aimed to ensure compliance with this accounting principle, in particular with reference to the calculation and accounting for Right of Use and Lease Liability that represent the main discontinuity compared to the current accounting model required by IAS17. The activities therefore aimed to the identification of lease contracts and the development of rules, principles and IT systems to be used for the proper evaluation of new assets and liabilities and the subsequent calculation of the related economic effects.

In this context the Bank has decided, as allowed by the standard, explicitly not to apply IFRS 16 provisions to leases of intangible assets, short term leases, lower than 12 months, and low value assets leases.

In order to calculate the lease liability and the related right-of-use asset, the Bank proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract. To perform the mentioned calculation lease payments are discounted at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew. In particular, with regard to those contracts that allows the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonably certainty of the renewal.

The Bank, following the UniCredit Group guidelines, has decided not to restate comparatives and has chosen, for First Time Adoption purposes, to put the value of right of use equal to the lease liability as at 01 January 2019.

Taking into account the number of lease contracts within the Bank, it is expected that the adoption of IFRS 16 will determine an increase in assets and liabilities volumes, coming from the recognition of Right of Use and related Lease Liabilities, and, consequently, in RWA due to the application of regulatory rules on newly recognised assets.

In particular, the effect on CET1 ratio coming from IFRS 16 adoption, in terms of application of the new rules from the lessee's perspective, can be preliminarily estimated in the range of 5 bps.

(u) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at [January 30.2019] (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the separate financial statements of the Bank in the period of initial application.

At the same time, hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU, remains unregulated.

According to the Bank's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

4. Financial risk management

(a) General framework

UniCredit Bulbank AD is exposed to the following risks from financial instruments:

- market risk;
- liquidity risk;
- credit risk;
- operational and reputational risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

Different types of risks are managed by specialized departments and bodies within the Bank's structure. The applicable policies entirely correspond to the requirements of Risk Management Group Standards as well as all respective requirements set by Bulgarian banking legislation. The Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

Assets and Liabilities Committee (ALCO) is a specialized body established in the Bank for the purposes of market risk and structural liquidity management.

Credit risk in the Bank is specifically monitored through Provisioning and Restructuring Committee (PRC). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation. Assessment of the credit risk is in accordance with the Group standards and for regulatory purposes in accordance with Bulgarian National Bank requirements.

Management of the Bank has approved certain limits aiming to mitigate the risk impact on the Bank's result. These limits are within the overall risk limits of the banking group. The limits for credit risk depend on size of the exposure. Management Board approves the large exposure – above 10% of the capital of the Bank (requirement of Law on Credit Institutions). There is an effective procedure established in the Bank for limits monitoring, including early warning in case of limits breaches.

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk.

(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by the Market Risk function located in Financial Risk and Models Unit. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book of UniCredit Bulbank, reviewed at least annually. A product introduction process is established in which risk managers play a decisive role in approving a new product.

Market risk management in UniCredit Bulbank AD encompasses all activities in connection with Markets and Investment Banking operations and management of the assets and liabilities structure. Risk positions are aggregated at least daily, analysed by the independent Market risk management unit and compared with the risk limits set by the Management Board and ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily presentation of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.

UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level applied to cumulative results for a specific period, the stressed VaR (SVaR), the incremental default risk charge (IRC) and granular sensitivities.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined and integrated in the presentation of performance results.

During 2018, VaR (1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between EUR 6.01 million and EUR 15.85 million, averaging EUR 9.75 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2018 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.16	1.87	1.45	1.27
Credit spread	6.30	15.59	9.87	5.67
Exchange rate risk	0.01	0.03	0.02	0.01
Vega risk	-	-	-	-
VaR overall	**6.01**	**15.85**	**9.75**	**5.41**

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate/spread changes of 0.01% by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In the interest rates sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The sensitivities' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2018 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(958)	(9 556)	(42 207)	(148 508)	1 478	**(199 751)**
BGN	9 212	18 038	(39 539)	(220 563)	(2 138)	**(234 989)**
USD	(5 395)	5 173	(615)	446	-	**(391)**
CHF	(112)	218	(5)	(35)	(21)	**44**
GBP	(624)	396	1	-	-	**(228)**
Other	(123)	(255)	-	-	-	**(378)**
Total Absolute	**16 425**	**33 636**	**82 366**	**369 552**	**3 637**	**435 782**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2018 totalled EUR 893 655. Instruments issued by governments continue to account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(664)	(1 834)	(88 923)	(758 878)	-	**(850 299)**
Regional governments	-	-	-	(863)	-	**(863)**
Corporates	(1 442)	-	(775)	(40 276)	-	**(42 493)**
Total Absolute	**2 106**	**1 834**	**89 698**	**800 017**	**-**	**893 655**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2018 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

UniCredit Bulbank AD is exposed to exchange rate risk through transactions in foreign currencies. Net FX open positions in trading and banking book are monitored on daily basis and are restricted by volume overnight limits.

As of December 31, 2018 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	2 442 042	15 192	**2 457 234**
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Derivatives held for trading	51 000	6 942	**57 942**
Derivatives held for hedging	496	-	**496**
Loans and advances to banks	2 230 796	55 816	**2 286 612**
Loans and advances to customers	10 295 628	192 846	**10 488 474**
Investment securities	3 727 196	9 553	**3 736 749**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	144 003	-	**144 003**
Intangible assets	45 257	-	**45 257**
Deferred tax assets	4 072	-	**4 072**
Other assets	105 744	65	**105 809**
TOTAL ASSETS	**19 108 355**	**305 243**	**19 413 598**
LIABILITIES			
Financial liabilities held for trading	26 398	4 808	**31 206**
Derivatives used for hedging	56 901	-	**56 901**
Deposits from banks	230 267	247 761	**478 028**
Deposits from customers	14 373 426	1 434 649	**15 808 075**
Provisions	91 668	5 992	**97 660**
Current tax liabilities	2 395	-	**2 395**
Other liabilities	107 869	2 188	**110 057**
TOTAL LIABILITIES	**14 888 924**	**1 695 398**	**16 584 322**
EQUITY	**2 829 276**	**-**	**2 829 276**
Net off-balance sheet spot and forward position	**(1 382 591)**	**1 399 695**	**17 104**
Net position	**7 564**	**9 540**	**17 104**

As of December 31, 2017 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	3 717 955	11 676	**3 729 631**
Non-derivative financial assets held for trading	36	23 783	**23 819**
Derivatives held for trading	47 796	38 536	**86 332**
Derivatives held for hedging	6 339	-	**6 339**
Loans and advances to banks	1 524 567	102 130	**1 626 697**
Loans and advances to customers	9 233 187	203 372	**9 436 559**
Available for sale investments	3 755 835	7 066	**3 762 901**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	181 364	-	**181 364**
Intangible assets	35 337	-	**35 337**
Deferred tax assets	5 669	-	**5 669**
Other assets	146 354	82	**146 436**
TOTAL ASSETS	**18 709 443**	**386 645**	**19 096 088**
LIABILITIES			
Financial liabilities held for trading	45 032	37 451	**82 483**
Derivatives used for hedging	42 898	-	**42 898**
Deposits from banks	192 857	259 419	**452 276**
Deposits from customers	14 086 975	1 433 734	**15 520 709**
Provisions	35 883	5 473	**41 356**
Current tax liabilities	4 078	-	**4 078**
Other liabilities	96 856	2 177	**99 033**
TOTAL LIABILITIES	**14 504 579**	**1 738 254**	**16 242 833**
EQUITY	**2 853 255**	**-**	**2 853 255**
Net off-balance sheet spot and forward position	**(1 371 226)**	**1 362 495**	**(8 731)**
Net position	**(19 617)**	**10 886**	**(8 731)**

(c) Liquidity risk

In line with Group standards, UniCredit Bulbank AD deals with liquidity risk as a central risk in banking business by monitoring and steering short-term and medium-term liquidity requirements. In this context, liquidity situation is analysed against standard and stress scenarios. Methods of liquidity analysis, management responsibilities, as well as contingency plan and funding plan procedures are laid down in the Bank's Liquidity Management Policy.

Liquidity is operationally managed through Markets/Treasury Department and the structural liquidity through Asset-Liability Management Department. According to the Liquidity Policy, Asset-Liability Management Department monitors on a daily basis short term flows, arising from interbank activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under going concern scenario. For the purposes of liquidity management short-term limits are monitored daily, defined as function of the primary funds and liquidity stress-test results.

Structural liquidity limit ratios define minimum required coverage of long-term assets with coherent liabilities.

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2018, meaning that under extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

The following tables provide basic analysis of the financial assets expected recoverability and financial liabilities of the Bank split into relevant maturity bands based on the remaining contractual periods to repayment for items with defined maturity and model mapping for items with no defined maturity or roll over assumptions. The gross amounts include also estimated contractual interest payments. Actual outflows may materially differ from those presented in the tables as historically most of the clients' attracted deposit have economic maturity much longer than the contractual one (deposits are consistently rolled over).

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Loans and advances to banks	2 095 647	190 965	**2 286 612**
Loans and advances to customers	3 954 857	6 533 617	**10 488 474**
Investment securities	156 497	3 580 252	**3 736 749**
Other assets	54 865	50 944	**105 809**
TOTAL FINANCIAL ASSETS	**6 268 983**	**10 380 607**	**16 649 590**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	36	23 783	**23 819**
Loans and advances to banks	1 007 075	619 622	**1 626 697**
Loans and advances to customers	3 487 899	5 948 660	**9 436 559**
Available for sale investments	166 496	3 596 405	**3 762 901**
Other assets	74 668	71 768	**146 436**
TOTAL FINANCIAL ASSETS	**4 736 174**	**10 260 238**	**14 996 412**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**478 028**	(478 047)	(458 953)	-	-	(19 094)
Deposits from customers	**15 808 075**	(15 808 721)	(4 584 516)	(1 766 239)	(2 836 097)	(6 621 869)
Unutilized credit lines	**-**	(2 163 908)	(341 943)	(65 103)	(292 962)	(1 463 900)
Total non-derivative instruments	**16 286 103**	**(18 450 676)**	**(5 385 412)**	**(1 831 342)**	**(3 129 059)**	**(8 104 863)**
Derivatives held for trading, net	**26 736**					
Outflow	**-**	(3 936 564)	(2 520 511)	(1 212 012)	(48 635)	(155 406)
Inflow	**-**	3 970 730	2 530 077	1 219 244	53 259	168 150
Derivatives used for hedging, net	**(56 405)**					
Outflow	**-**	(118 810)	-	(10 321)	(9 207)	(99 282)
Inflow	**-**	62 844	-	2	-	62 842
Total derivatives	**(29 669)**	**(21 800)**	**9 566**	**(3 087)**	**(4 583)**	**(23 696)**
Total financial liabilities	**16 256 434**	**(18 472 476)**	**(5 375 846)**	**(1 834 429)**	**(3 133 642)**	**(8 128 559)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**452 276**	**(452 317)**	(425 613)	-	-	(26 704)
Deposits from customers	**15 520 709**	**(15 521 874)**	(12 094 222)	(1 204 338)	(1 819 786)	(403 528)
Unutilized credit lines	**-**	**(1 857 711)**	(27 866)	-	(343 677)	(1 486 169)
Total non-derivative instruments	**15 972 985**	**(17 831 902)**	**(12 547 701)**	**(1 204 338)**	**(2 163 463)**	**(1 916 401)**
Derivatives used for trading, net	**3 849**	**-**	**-**	**-**	**-**	**-**
Outflow	**-**	**(4 154 475)**	(2 970 017)	(864 088)	(136 461)	(183 909)
Inflow	**-**	**4 164 823**	2 964 112	863 342	138 398	198 971
Derivatives used for hedging, net	**(36 559)**	**-**	**-**	**-**	**-**	**-**
Outflow	**-**	**(134 946)**	-	(11 323)	(8 927)	(114 696)
Inflow	**-**	**99 373**	-	19	3	99 351
Total derivatives	**(32 710)**	**(25 225)**	**(5 905)**	**(12 050)**	**(6 987)**	**(283)**
Total financial liabilities	**15 940 275**	**(17 857 127)**	**(12 553 606)**	**(1 216 388)**	**(2 170 450)**	**(1 916 684)**

(d) Credit risks

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.

Bank effectively manages credit risk inherent to its trading and banking book.

Bank applies different approach and has established different departments with regard to monitoring the credit risk related to corporate clients, small and middle enterprises and individuals.

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e.g. foreign exchange and interest rate derivatives, equity/bond-related instruments, credit derivatives and commodity derivatives.

Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.

Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

Regulatory trading book includes financial assets held for trading purposes and derivatives, not held in conjunction with banking book positions.

The analysis based on client credit quality and rating (where available) as of December 31, 2018 and December 31, 2017 is as shown in the next table:

In thousands of BGN

	31.12.2018	31.12.2017
Government bonds		
Rated BBB-	3 400	36
Equities		
Unrated	3 717	-
Loan		
Rated BBB	24 829	23 783
Derivatives (net)		
Banks and financial institution counterparties	(58 746)	(92 266)
Corporate counterparties	29 077	59 556
Total trading assets and liabilities	**2 277**	**(8 891)**

Government bonds presented as of December 31, 2018 and December 31, 2017 include bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

Credit risk, inherent in the banking book, is managed as the creditworthiness of Bank's clients is assessed for the whole life of the loan, from the date of initial loan application till the date of final repayment. Issued Letters of Guarantees, Letters of Credit and all other irrevocable credit commitments fell also within the scope of Bank's credit risk monitoring. As a credit risk mitigation policy, the Bank accepts different types of collaterals depending on the product and client.

Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of Provisioning and Restructuring Committee (PRC) established in the Bank.

The Bank applies the principle of individual and collective assessment of credit risk exposures depending on existence or non-existence of objective impairment indicators and considering the adopted individually significant materiality threshold.

Objective impairment indicators are those "loss events" that have occurred after initial recognition of the exposure and which have an impact on the exposure estimated future cash flows. In order to provide consistency in the risk measurement, the Bank assumes existence of objective impairment indicators in case of occurrence of a default event as per applicable regulatory framework.

During 2018 we continued with the activities related to IFRS 9 conversion project and as a result we have full implementation of the loan loss provision model. The IFRS9 framework was enhanced with models for Exposure at Default and Loss Given Default, estimation of present value of the expected credit losses as well as Overlay Factor, based on predefined macroeconomic scenarios.

Additionally the existing Credit risk models are being modified to meet the updated EBA guidelines and forthcoming changes in the default definition.

Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as large exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2018 and December 31, 2017.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2018	2017	2018	2017	2018	2017
Biggest credit risk exposure to customers' group	271 648	312 933	271 648	306 803	11,2%	12,3%
Credit risk exposure to top five biggest customers' groups	1 002 527	1 061 644	828 611	937 011	34,2%	37,4%

The table below analyses the breakdown of loss allowances as of December 31, 2018 and December 31, 2017 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2018	2017
Cash and balances with Central Bank	55	-
Loans and advances to banks at amortised cost	631	-
Loans and advances to customers at amortised cost	562 797	653 716
Debt investment securities at amortised cost	52	81
Debt investment securities at FVTOCI	2 952	-
Loan commitments	1 688	-
Financial guarantee contracts	54 763	-
Total Loss allowance by classes	**622 938**	**653 797**

The tables below analyse the movement of the loss allowance during the year per class of assets:

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES TO BANKS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 31.12.2017	**-**	**-**	**-**	**-**	**-**
IFRS 9 FTA Effect	(541)	-	-	-	**(541)**
Loss allowance as at 01.01.2018	**(541)**	**-**	**-**	**-**	**(541)**
Changes in the loss allowance:					
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Increases due to change in credit risk	-	-	-	-	**-**
Decreases due to change in credit risk	-	-	-	-	**-**
Write-offs	-	-	-	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(568)	-	-	-	**(568)**
Financial assets that have been derecognised	478	-	-	-	**478**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2018	**(631)**	**-**	**-**	**-**	**(631)**

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 31.12.2017	(27 267)	(14 636)	(611 894)	-	**(653 797)**
IFRS 9 FTA Effect	(13 319)	(41 378)	(8 035)	-	**(62 732)**
Loss allowance as at 01.01.2018	**(40 586)**	**(56 014)**	**(619 929)**	**-**	**(716 529)**
Changes in the loss allowance:					**-**
Transfer to Stage 1	(335)	331	4	-	**-**
Transfer to Stage 2	26 485	(27 084)	599	-	**-**
Transfer to Stage 3	56 638	15 014	(71 652)	-	**-**
Increases due to change in credit risk	(80 793)	(26 816)	(81 909)	(8 228)	**(197 746)**
Decreases due to change in credit risk	24 236	31 240	39 631	-	**95 107**
Write-offs	-	-	271 920	-	**271 920**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(4 549)	(7 341)	(42 562)	-	**(54 452)**
Financial assets that have been derecognised	4 189	2 843	31 007	-	**38 039**
Changes in models/risk parameters					**-**
Foreign exchange and other movements	-	-	812	-	**812**
Loss allowance as at 31.12.2018	**(14 715)**	**(67 827)**	**(472 079)**	**(8 228)**	**(562 849)**

The tables below analyse the movement of the customers portfolio at amortised cost in terms of quality and respective movements of the gross carrying amounts during 2018 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	YEAR ENDED 2018					YEAR ENDED 2017
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	4 319 567	42 721	-	-	**4 362 288**	**2 659 366**
Grades 4-6: Monitoring	4 975 995	1 040 903	-	-	**6 016 898**	**6 521 674**
Substandard	-	-	63 770	-	**63 770**	**105 099**
Grade 9: Doubtful	-	-	234 586	19 375	**273 337**	**231 094**
Grade 10: Impaired	-	-	339 923	-	**339 923**	**561 555**
Total gross carrying amount	**9 295 562**	**1 083 624**	**638 279**	**19 375**	**11 036 840**	**10 078 788**
Loss allowance	(14 663)	(67 827)	(472 079)	(8 228)	**(562 797)**	**(653 716)**
Carrying amount	**9 280 899**	**1 015 797**	**166 200**	**11 147**	**10 474 043**	**9 425 072**

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTISED COST					YEAR ENDED 2018	YEAR ENDED 2017
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	9 866	-	-	-	**9 866**	**11 568**
Grades 4-6: Monitoring	-	-	-	-	**-**	**-**
Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**9 866**	**-**	**-**	**-**	**9 866**	**11 568**
Loss allowance	(52)	-	-	-	**(52)**	**(81)**
Carrying amount	**9 814**	**-**	**-**	**-**	**9 814**	**11 487**

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Gross carrying amount as at 31.12.2017	8 492 397	700 215	897 744	-	**10 090 356**
IFRS 9 FTA Effect	(3 296)	-	-	-	**(3 296)**
Gross carrying amount as at 01.01.2018	**8 489 101**	**700 215**	**897 744**	**-**	**10 087 060**
Changes in the gross carrying amount					
Transfer to Stage 1	116 304	(115 051)	(1 253)	-	**-**
Transfer to Stage 2	(553 386)	564 184	(10 798)	-	**-**
Transfer to Stage 3	(87 048)	(30 952)	118 000	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	2 737 326	87 985	56 120	19 375	**2 900 806**
Financial assets that have been derecognised	(1 048 789)	(58 255)	(175 147)	-	**(1 282 191)**
Write-offs	-	-	(271 920)	-	**(271 920)**
Other changes	(348 080)	(64 502)	25 533	-	**(387 049)**
Gross carrying amount as at 31.12.2018	**9 305 428**	**1 083 624**	**638 279**	**19 375**	**11 046 706**

The breakdown of the fair value of physical and cash collaterals pledged in favour of the Bank on loans and advances to customers is as follows:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS	31.12.2018	31.12.2017
Defaulted exposures		
Cash collateral	2 830	3 487
Property	901 324	1 026 808
Debt securities	-	-
Other collateral	428 764	492 415
Performing exposures		
Cash collateral	96 749	126 360
Property	10 994 796	10 344 299
Debt securities	11 064	7 330
Other collateral	9 311 541	8 811 012
Total	**21 747 068**	**20 811 711**

Other collaterals include mostly pledges on non-real estate long-term assets, going concerns and inventories.

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2018 and December 31, 2017.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Concentration by sectors						
Sovereign	373 565	324 068	-	-	3 317 798	3 479 519
Manufacturing	2 273 738	2 180 370	-	-	135 880	-
Commerce	1 980 229	1 892 042	-	-	-	-
Construction and real estate	1 152 842	1 158 985	-	-	67	67
Agriculture and forestry	476 904	464 337	-	-	-	-
Transport and communication	295 328	324 532	-	-	-	-
Tourism	252 973	268 838	-	-	-	-
Services	342 625	377 242	-	-	655	655
Financial services	1 672 059	988 507	2 287 243	1 626 697	337 353	337 664
Retail (individuals)						
Housing loans	1 928 599	1 753 565	-	-	-	-
Consumer loans	215 840	259 057	-	-	-	-
Other	86 621	98 813	-	-	-	-
	11 051 323	**10 090 356**	**2 287 243**	**1 626 697**	**3 791 753**	**3 817 905**
Impairment allowances	(562 849)	(653 797)	(631)	-	-	-
Total	**10 488 474**	**9 436 559**	**2 286 612**	**1 626 697**	**3 791 753**	**3 817 905**
Concentration by geographic location						
Europe	11 010 193	9 999 793	2 239 293	1 617 933	3 782 200	3 810 839
North America	24 182	45 187	10 208	5 746	9 553	7 066
Asia	16 232	14 039	37 417	2 919		
Africa	25	73	294	-		
South America	16	26		-		
Australia	675	31 238	31	99		
	11 051 323	**10 090 356**	**2 287 243**	**1 626 697**	**3 791 753**	**3 817 905**
Impairment allowances	(562 849)	(653 797)	(631)	-	-	-
Total	**10 488 474**	**9 436 559**	**2 286 612**	**1 626 697**	**3 791 753**	**3 817 905**

(e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). Examples of events include compensations paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud. Such events are subject to consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital held for operational risk is based.

In UniCredit Bulbank AD the operational risk management framework is a combined set of policies and procedures for controlling, measuring and mitigating the operational risk exposure, which includes the guidelines of UniCredit Group and local documents. The Bank has a dedicated function to operational risk management, which is independent from business and operational areas. The responsibilities of the unit are in line with those envisaged by UniCredit Group. Nominated operational risk managers in the branch network and the Head Office, working on a decentralized basis, are responsible for loss data identification and reporting as well as for adoption of measures to reduce and prevent risks in their respective areas.

The established Operational and Reputational Risk Committee greatly enhanced the regular exchange of information and promotion of the operational risk awareness within the Bank. Meetings are held quarterly and are attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational and reputational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. Under the Reputational risk process, special attention is paid to the management and monitoring of the Bank's exposure towards economic sectors and transactions, such as Defence/Weapons, Nuclear energy etc.

The main activities of the Operational and Reputational Risk Unit in 2018 were focused on the further development of the operational risk management, with emphasis on preventative and mitigation actions to reduce future losses. The key activities performed in 2018 related to the operational risk management are namely: Operational Risk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; Operational Risk Assessment for ICT Risk; Operational Risk Assessment of relevant outsourcing transactions and Operational and Reputational Risk Strategies definition (including Business Syndication) and monitoring. Furthermore, a dedicated Operational and Reputational Risk Committee meets every quarter in order key operational risk topics to be discussed, aiming at proper mitigation actions to be elaborated and timely action plans to be outlined. Focusing on prevention of emerging risks, the Operational and Reputational Risk Unit also took part in 2018 in several mitigation and compliance-oriented projects (e.g. GDPR, PSD2, KYC, etc.), as well as actively participated in the implementation of new and changed bank products and processes.

Overall, the organization of operational and reputational risk management at UniCredit Bulbank AD is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible score to the local Operational and Reputational Risk management system. A Self-Assessment template issued by the Group Internal Validation (GIV) Function was filled by the Operational and Reputational Risk Unit in 2018. The outcome of these independent assessments proves the operational risk management and control system is fully adequate and compliant with the regulatory and Group standards. It was found sound and well developed, with focus on proactiveness, proposal and implementation of mitigation actions, with the active involvement of the operational and reputational risk function and all relevant units in the Bank.

(f) Basel III disclosure

In 2014, Basel III (CRD IV) regulatory framework has been effectively introduced in Bulgaria and has become mandatory for all local institutions. Under the new regulation, Bank continues to allocate capital for covering three major types of risk, namely credit risk, market risk and operational risk.

Starting from July 2016, UniCredit Bulbank reports regulatory capital for credit risk under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach (STA). Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% and from 2018 capital buffer for other systemic important institution of

0.5% (or combined buffers additional capital requirement of 6%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2018 are 10.5%, 12% and 14%, respectively.

UniCredit Bulbank AD fulfils the minimum requirements, with sufficient excess, already from the first application of the new regulatory framework (more details presented in the following paragraphs).

Securitization

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2018 is presented in the table below:

NAME		EIF JEREMIE
Type of securitisation:		First Loss Portfolio Guarantee
Originator:		UniCredit Bulbank
Issuer:		European Investment Fund
Target transaction:		Capital Relief and risk transfer
Type of asset:		Highly diversified and granular pool of newly granted SME loans
Quality of Assets as of December 31, 2018		Performing loans
Agreed maximum portfolio volume:		EUR 85,000 thousand
Nominal Value of reference portfolio:		BGN 20,852 thousand
Issued guarantees by third parties:		First loss cash coverage by EIF
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2018	BGN 0	BGN 16,681 thousand

(iii) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2018 and December 31, 2017 are as follows:

In thousands of BGN

	31.12.2018	31.12.2017
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 375 874	2 463 974
Tier 1 capital	2 375 874	2 463 974
Tier 2 capital	45 612	39 893
Total regulatory own funds	**2 421 486**	**2 503 867**
Risk Weighted Assets (RWA)		
RWA for credit risk	9 823 259	8 409 786
RWA for market risk	48 750	37 467
RWA for operational risk	701 738	713 804
RWA for credit valuation adjustments	4 463	1 148
Total Risk Weighted Assets (RWA)	**10 578 210**	**9 162 205**
CET 1 ratio	**22,46%**	**26,89%**
Tier 1 ratio	**22,46%**	**26,89%**
Total capital adequacy ratio	**22,89%**	**27,33%**
Minimum CET 1 capital requirements (4.5%)	**476 019**	**412 299**
Minimum Tier 1 capital requirements (6%)	**634 693**	**549 732**
Minimum total capital requirements (8%)	**846 257**	**732 976**
Additional capital requirements for conservation buffer (2.5%)	264 455	229 055
Additional capital requirements for systemic risk buffer (3%)	317 346	274 866
Additional capital requirements for other systemically important institution (0.5%)	52 891	-
Combined buffers additional capital requirements (6%)	**634 693**	**503 921**
Adjusted minimum CET 1 capital requirements after buffers (10% – 2017; 10.5% – 2018)	1 110 712	916 221
Adjusted minimum Tier 1 capital requirements, including buffers (11.5% – 2017, 12% – 2018)	1 269 385	1 053 654
Adjusted minimum total capital requirements after buffers (13.5% – 2017, 14% – 2018)	1 480 949	1 236 898
Free equity, after buffers	**940 537**	**1 266 969**

5. Use of estimates and judgements

For the purposes of preparation of these separate financial statements Management has used certain estimates and judgement in order to provide fair and true presentation of the financial position of the Bank. These estimates and judgement require Management to use all information available in order to assess and where possible to quantify potential impact on the Bank's financial position as a result of some uncertain events.

In general the estimates and judgement are widely used in assessing:

- Fair value determination of financial instruments;
- Fair value determination of non-financial assets;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations.

(a) Fair value determination of financial instruments

As described in note **3 (h) (vi)** the Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, various option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the fair value of the financial instrument at the reporting date that would have been determined by market participants and that represents the price that would be received to sell an asset or paid to transfer liability in an orderly transaction. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to liquidity, changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation. Management judgement and estimation are usually required for selection of appropriate valuation model, determination of probability of default and prepayment speeds and selection of appropriate discount rates.

Under IFRS 13 "Fair Value Measurement" requirements, the Bank paid specific attention on assessing and revising its valuation techniques, especially with regards to valuation of OTC derivatives and other Level 2 and Level 3 financial instruments, otherwise carried at amortized cost (loans and deposits to/from customers and banks). In doing such revision the Bank has adopted UniCredit Group valuation techniques and methodologies.

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2018 and 2017 see also Note **9**).

Loans and advances to banks and customers

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2018, whenever risk-free FV deviates by more than 2% (2% in 2017) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2018 and December 31, 2017 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2018 and December 31, 2017.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non derivative financial assets held for trading	7 083	-	23 607	8 335	1 256	15 484	**31 946**	**23 819**
Derivatives held for trading	-	-	56 648	80 651	1 294	5 681	**57 942**	**86 332**
Derivatives held for hedging	-	-	496	6 339	-	-	**496**	**6 339**
Investment securities	2 516 718	2 449 394	1 198 818	1 294 781	21 213	18 726	**3 736 749**	**3 762 901**
Loans and advances to banks	-	-	1 741 842	1 240 859	542 347	386 117	**2 284 189**	**1 626 976**
Loans and advances to customers	-	-	5 455 487	1 003 422	5 027 042	8 850 798	**10 482 529**	**9 854 220**
	2 523 801	**2 449 394**	**8 476 898**	**3 634 387**	**5 593 152**	**9 276 806**	**16 593 851**	**15 360 587**
Financial liabilities held for trading	-	-	31 206	81 086	-	1 397	**31 206**	**82 483**
Derivatives used for hedging	-	-	56 901	42 898	-	-	**56 901**	**42 898**
Deposits from banks	-	-	-	313 000	408 153	138 916	**408 153**	**451 916**
Deposits from customers	-	-	-	5 202 469	15 797 433	10 315 252	**15 797 433**	**15 517 721**
	-	**-**	**88 107**	**5 639 453**	**16 205 586**	**10 455 565**	**16 293 693**	**16 095 018**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2018 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	INVESTMENT SECURITIES
Opening balance (January 1, 2018)	**21 165**	**18 726**
Increases	**60**	**2 487**
Profit recognized in income statement	52	2 487
Profit recognized in equity	-	-
Transfer from other levels	8	-
Decreases	**(18 675)**	**-**
Redemption	-	-
Loses recognized in income statement	(2 972)	-
Loses recognized in equity	-	-
Transfer to other levels	(14 280)	-
Other decreases	(1 423)	-
Closing balance (December 31, 2018)	**2 550**	**21 213**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2018 and December 31, 2017.

In thousands of BGN

DECEMBER 2018	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	2 457 234	**2 457 234**	**2 457 234**
Non-derivative financial assets held for trading	7 117	24 829	-	-	-	**31 946**	**31 946**
Derivatives held for trading	57 942	-	-	-	-	**57 942**	**57 942**
Derivatives held for hedging				496		**496**	**496**
Loans and advances to banks	-	2 286 612	-	-	-	**2 286 612**	**2 284 189**
Loans and advances to customers	-	10 488 474	-	-	-	**10 488 474**	**10 482 529**
Investment securities	-	-	3 736 749	-	-	**3 736 749**	**3 736 749**
TOTAL ASSETS	**65 059**	**12 799 915**	**3 736 749**	**496**	**2 457 234**	**19 059 453**	**19 051 085**
LIABILITIES							
Financial liabilities held for trading	31 206	-	-	-	-	**31 206**	**31 206**
Derivatives used for hedging	-	-	-	56 901	-	**56 901**	**56 901**
Deposits from banks	-	-	-	-	478 028	**478 028**	**408 153**
Deposits from customers	-	-	-	-	15 808 075	**15 808 075**	**15 797 433**
TOTAL LIABILITIES	**31 206**	**-**	**-**	**56 901**	**16 286 103**	**16 374 210**	**16 293 693**

In thousands of BGN

DECEMBER 2017	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	3 729 631	**3 729 631**	**3 729 631**
Non-derivative financial assets held for trading	36	23 783	-	-	-	**23 819**	**23 819**
Derivatives held for trading	86 332	-	-	-	-	**86 332**	**86 332**
Derivatives held for hedging				6 339		**6 339**	**6 339**
Loans and advances to banks	-	1 626 697	-	-	-	**1 626 697**	**1 626 976**
Loans and advances to customers	-	9 436 559	-	-	-	**9 436 559**	**9 854 220**
Available for sale Investments	-	-	3 762 901	-	-	**3 762 901**	**3 762 901**
TOTAL ASSETS	**86 368**	**11 087 039**	**3 762 901**	**6 339**	**3 729 631**	**18 672 278**	**19 090 218**
LIABILITIES							
Financial liabilities held for trading	82 483	-	-	-	-	**82 483**	**82 483**
Derivatives used for hedging		-	-	42 898	-	**42 898**	**42 898**
Deposits from banks	-	-	-	-	452 276	**452 276**	**451 916**
Deposits from customers	-	-	-	-	15 520 709	**15 520 709**	**15 517 721**
TOTAL LIABILITIES	**82 483**	**-**	**-**	**42 898**	**15 972 985**	**16 098 366**	**16 095 018**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2018 and December 31, 2017 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **28**).

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortised cost and at FVTOCI and in In order to meet the requirements of IFRS 9, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for “regulatory” purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Bank continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(d) Provisions

Assessing the provisions, Management used estimates provided by experts in certain areas such as legal and regulatory advisors as well as credit risk specialists. Usually, more conservative approach is followed in order to protect the Bank in case of adverse development of uncertain events.

6. Segment reporting

Business segments pay and receive interest from the Asset-Liability Management Department (ALM) on arms’ length basis, through given Fund Transfer Pricing rate (FTP) to reflect the funding costs per currencies/tenors. Allocation of capital is also carried out, in proportion to respective RWA.

The Bank operates the following main business segments:

- Retail banking;
- Corporate and Investment Banking and Private Banking;
- Asset-Liability Management Dept. and other.

In thousands of BGN

DECEMBER 2018	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	200 629	223 594	(23 514)	**400 709**
Dividend income	-	-	115 543	**115 543**
Net fee and commission income	155 382	77 115	(283)	**232 214**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	23 876	47 569	25 457	**96 902**
Net gains from financial assets mandatory at fair value	-	-	2 094	**2 094**
Net income from financial assets measured at FVTOCI	-	25 145	-	**25 145**
Other operating income	(22 038)	(31 331)	(5 449)	**(58 818)**
TOTAL OPERATING INCOME	**357 849**	**342 092**	**113 848**	**813 789**
Personnel expenses	(56 918)	(17 813)	(52 740)	**(127 471)**
General and administrative expenses	(59 561)	(11 840)	(24 512)	**(95 913)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 200)	(5 204)	(10 404)	**(32 808)**
Total direct expenses	**(133 679)**	**(34 857)**	**(87 656)**	**(256 192)**
Allocation of indirect and overhead expenses	(51 238)	(30 728)	81 966	**-**
TOTAL OPERATING EXPENSES	**(184 917)**	**(65 585)**	**(5 690)**	**(256 192)**
Provisions for risk and charges	-	-	(43 206)	**(43 206)**
Net impairment loss on financial assets	(32 891)	(63 540)	39 431	**(57 000)**
Net income related to property, plant and equipment	-	-	7 972	**7 972**
PROFIT BEFORE INCOME TAX	**140 041**	**212 967**	**112 355**	**465 363**
Income tax expense	(14 004)	(21 297)	(23)	**(35 324)**
PROFIT FOR THE YEAR	**126 037**	**191 670**	**112 332**	**430 039**
ASSETS	**2 881 409**	**8 685 865**	**7 846 324**	**19 413 598**
LIABILITIES	**9 666 173**	**6 543 450**	**374 699**	**16 584 322**

In thousands of BGN

DECEMBER 2017	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	219 163	240 569	(23 782)	**435 950**
Dividend income	-	-	3 662	**3 662**
Net fee and commission income	138 095	78 824	(161)	**216 758**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	21 048	49 743	15 159	**85 950**
Net income from investments	-	9 153	-	**9 153**
Other operating income	(19 057)	(27 505)	(6 737)	**(53 299)**
TOTAL OPERATING INCOME	**359 249**	**350 784**	**(11 859)**	**698 174**
Personnel expenses	(52 599)	(16 999)	(50 891)	**(120 489)**
General and administrative expenses	(56 367)	(11 640)	(24 325)	**(92 332)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16 681)	(4 760)	(10 255)	**(31 696)**
Total direct expenses	**(125 647)**	**(33 399)**	**(85 471)**	**(244 517)**
Allocation of indirect and overhead expenses	(50 085)	(29 339)	79 424	**-**
TOTAL OPERATING EXPENSES	**(175 732)**	**(62 738)**	**(6 047)**	**(244 517)**
Provisions for risk and charges	-	-	14 010	**14 010**
Net impairment loss on financial assets	(10 378)	(117 557)	(22 306)	**(150 241)**
Net income related to property, plant and equipment	-	-	13 650	**13 650**
PROFIT BEFORE INCOME TAX	**173 139**	**170 489**	**(12 552)**	**331 076**
Income tax expense	(17 314)	(17 049)	**940**	**(33 423)**
PROFIT FOR THE YEAR	**155 825**	**153 440**	**(11 612)**	**297 653**
ASSETS	**2 740 606**	**8 344 636**	**8 010 846**	**19 096 088**
LIABILITIES	**8 617 358**	**7 201 759**	**423 716**	**16 242 833**

7. Net interest income

In thousands of BGN

	2018	2017
Interest income		
Non-derivative financial assets held for trading	227	34
Derivatives held for trading	209	13
Loans and advances to banks	6 615	9 431
Loans and advances to customers	364 153	404 060
Investment securities	66 371	67 966
	437 575	**481 504**
Interest expense		
Derivatives held for trading	(16)	(16)
Derivatives used for hedging	(19 595)	(20 218)
Deposits from banks	(13 618)	(13 751)
Deposits from customers	(3 637)	(11 569)
	(36 866)	**(45 554)**
Net interest income	**400 709**	**435 950**

For the financial years ended December 31, 2018 and December 31, 2017 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 13 150 thousand and BGN 21 429 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2018	2017
Fee and commission income		
Collection and payment services	141 911	128 782
Lending business	14 649	17 238
Account services	25 202	24 457
Management, brokerage and securities trading	7 862	8 590
Documentary business	18 933	19 240
Package accounts	21 469	19 178
Other	30 266	25 091
	260 292	**242 576**
Fee and commission expense		
Collection and payment services	(25 198)	(22 343)
Management, brokerage and securities trading	(930)	(1 476)
Lending business	(167)	(143)
Other	**(1 783)**	**(1 856)**
	(28 078)	**(25 818)**
Net fee and commission income	**232 214**	**216 758**

9. Dividend income

In thousands of BGN

	2018	2017
Dividend income from subsidiaries	115 342	-
Divident income from other equity participations	201	3 662
Dividend income	**115 543**	**3 662**

10. Net gains on financial assets and liabilities held for trading and hedging derivatives

In thousands of BGN

	2018	2017
FX trading income, net	88 590	78 353
Net income from debt instruments	465	710
Net income from equity instruments	(207)	-
Net income from derivative instruments	7 061	6 450
Net income from other trading instruments	1 046	564
Net income from hedging derivative instruments	(53)	(127)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**96 902**	**85 950**

The total CVA (net of DVA) for the years ended December 31, 2018 and December 31, 2017, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 444 thousand and BGN (1 202) thousand, respectively.

11. Net gains from financial assets mandatorily at fair value

In thousands of BGN

	2018	2017
Equity investments	2 192	-
Loans and advances	(98)	-
Net gains from financial assets mandatory at fair value	**2 094**	**-**

12. Net income from financial assets measured at FVTOCI/Net income from available for sale investments

Net income related financial assets measured at FVTOCI according to IFRS 9 (2017: Available for sale as per IAS 39) represents the net gain the Bank has realized upon disposal of debt securities. For the years ended December 31, 2018 and December 31, 2017 the gains are in the amount of BGN 25 145 thousand and BGN 9 153 thousand, respectively.

13. Other operating expenses, net

In thousands of BGN

	2018	2017
Other operating income		
Income from non-financial services	928	933
Rental income	1 430	617
Other income	3 779	3 946
	6 137	**5 496**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(60 766)	(53 546)
Impairment of foreclosed properties	(2 145)	(2 637)
Other operating expenses	(2 044)	(2 612)
	(64 955)	**(58 795)**
Other operating income, net	**(58 818)**	**(53 299)**

In 2018 and 2017 the Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

14. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2018 and December 31, 2017 the gains are in the amount of BGN 7 972 thousand and BGN 13 650 thousand, respectively.

15. Personnel expenses

In thousands of BGN

	2018	2017
Wages and salaries	(105 660)	(100 163)
Social security charges	(14 732)	(13 251)
Pension and similar expenses	(667)	(607)
Temporary staff expenses	(1 505)	(1 466)
Share-based payments	(1 709)	(1 897)
Other	(3 198)	(3 105)
Total personnel expenses	**(127 471)**	**(120 489)**

As of December 31, 2018 the total number of employees, expressed in full time employee equivalent is 3 555 (December 31, 2017: 3 559)

As described in note 3 (o) (iii) ultimate parent company UniCredit S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.

The table below analyses the costs and movement in the Bank's liability by type of instruments granted:

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2017	2018 COST (GAINS)	SETTLED IN 2018	ECONOMIC VALUE AT DECEMBER 31, 2018
Deferred Short Term Incentive (ordinary shares)	5 452	1 672	(426)	6 698
ESOP and shares for Talents	99	36	-	135
Total Options and Shares	**5 551**	**1 708**	**(426)**	**6 833**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **37**.

16. General and administrative expenses

In thousands of BGN

	2018	2017
Advertising, marketing and communication	(7 852)	(9 002)
Credit information and searches	(1 062)	(1 377)
Information, communication and technology expenses	(39 174)	(35 849)
Consulting, audit and other professionals services	(3 150)	(2 150)
Real estate expenses	(11 765)	(12 009)
Rents	(13 305)	(12 954)
Travel expenses and car rentals	(3 185)	(2 846)
Insurance	(1 192)	(1 104)
Supply and miscellaneous services rendered by third parties	(12 749)	(12 608)
Other costs	(2 479)	(2 433)
Total general and administrative expenses	**(95 913)**	**(92 332)**

For 2018 the fees for audit services provided by the auditing companies amount to BGN 870 thousand (BGN 833 thousand for 2017).

17. Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale

In thousands of BGN

	2018	2017
Depreciation charge	(32 057)	(31 696)
Impairment	**(751)**	**-**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(32 808)	(31 696)

As part of the standard year-end closure procedures, Bank performs impairment assessment of its fixed assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the year ended December 31, 2018 the impairment of fixed assets is amounting to BGN 751 thousand, while as of December 31, 2017 there is no impairment of fixed assets.

18. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **37**).

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it are presented into profit and loss.

In thousands of BGN

	2018	2017
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(73 093)	(1 838)
Legal cases provisions	(8 295)	(4 240)
Other provisions	(682)	(250)
	(82 070)	**(6 328)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	32 113	19 925
Legal cases provisions	6 751	413
	38 864	**20 338**
Net provisions charge	**(43 206)**	**14 010**

19. Net Impairment loss on financial assets

In thousands of BGN

	2018	2017
Balance 1 January		
Loans and advances to customers	653 797	852 993
IFRS 9 FTA effect	**62 732**	
Increase		
Loans and advances to customers	290 452	267 249
Decrease		
Loans and advances to customers	(170 529)	(88 688)
Recoveries from loans previously written-off	(63 881)	(28 320)
	(234 410)	**(117 008)**
Net impairment losses	56 042	150 241
FX revaluation effect on imparment allowances	811	(376)
Other movements	(2 494)	12
Written-off		
Loans and advances to customers	(271 920)	(377 393)
Balance December 31		
Loans and advances to customers	562 849	**653 797**

In thousands of BGN

	2018	2017
Balance 1 January		
Loans and advances to banks	-	-
IFRS 9 FTA effect	**541**	
Increase		
Loans and advances to banks	568	-
Decrease		
Loans and advances to banks	(478)	-
Net impairment losses	90	
Balance December 31		
Loans and advances to banks	**631**	**-**

In thousands of BGN

	2018	2017
Balance 1 January		
Balances with Central Bank	-	-
IFRS 9 FTA effect	**137**	
Increase		
Balances with Central Bank	37	-
Decrease		
Balances with Central Bank	(119)	-
Net impairment losses	(82)	
Balance December 31		
Balances with Central Bank	**55**	**-**

In thousands of BGN

	2018	2017
Balance 1 January		
Financial assets at fair value through OCI	-	
IFRS 9 FTA effect	**2 002**	
Increase		
Financial assets at fair value through OCI	1 604	
Decrease		
Financial assets at fair value through OCI	(654)	
Net impairment losses	950	
Balance December 31		
Financial assets at fair value through OCI	**2 952**	**-**

In thousands of BGN

	2018	2017
Net impairment losses on Loans and advances to customers	56 042	150 241
Net impairment losses on Loans and advances to banks	90	-
Net impairment losses on Balances with Central Bank	(82)	-
Net impairment losses on Financial assets at fair value through OCI	950	-
Total net impairment loss on financial assets	**57 000**	**150 241**

20. Income tax expense

Taxation is payable at a statutory rate of 10% on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10%, applicable for 2018.

The breakdown of tax charges in the income statement is as follows:

In thousands of BGN

	2018	2017
Current tax	(24 150)	(47 277)
Deferred tax income (expense) related to origination and reversal of temporary differences	(11 344)	13 854
(Overprovided)/underprovided prior year deferred tax	101	(434)
(Overprovided)/underprovided prior year current tax	69	434
Income tax expense	**(35 324)**	**(33 423)**

The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN

	2018	2017
Accounting profit before tax	465 363	331 076
Corporate tax at applicable tax rate (10% for 2018 and 2017)	(46 536)	(33 108)
Tax effect of non-taxable revenue	11 547	362
Tax effect of non-tax deductible expenses	(506)	(677)
Overprovided (underprovided) prior year income tax	171	-
Income tax expense	**(35 324)**	**(33 423)**
Effective tax rate	**7,59%**	**10,10%**

21. Cash and balances with Central bank

In thousands of BGN

	31.12.2018	31.12.2017
Cash in hand and in ATM	231 125	203 766
Cash in transit	140 491	104 662
Current account with Central Bank	2 085 618	3 421 203
Total cash and balance with Central Bank	**2 457 234**	**3 729 631**

22. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Government bonds	3 400	36
Equities	3 717	-
Loans	**24 829**	**23 783**
Total non-derivative financial assets held for trading	**31 946**	**23 819**

Financial assets held for trading consist of bonds that the Bank holds for the purpose of short-term profit taking by selling or repurchasing them in the near future.

Trading loans consist of prepaid forward transaction with customer.

23. Derivatives held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Interest rate swaps	33 516	37 182
Equity options	-	2 731
FX forward contracts	17 484	8 031
FX swaps	3 338	2 609
Commodity swaps	192	10 897
Commodity options	3 412	24 882
Total trading derivatives	**57 942**	**86 332**

Derivatives consist of trading instruments that have positive market value as of December 31, 2018 and December 31, 2017. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

24. Derivatives held/used for hedging

As described in Note **3 (j)** in 2009 the Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits). Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

25. Loans and advances to banks

In thousands of BGN

	31.12.2018	31.12.2017
Loans and advances to banks	2 183 013	1 276 391
Current accounts with banks	104 230	350 306
Loans and advances to banks at amortized cost	**2 287 243**	**1 626 697**
Less impairment allowances	(631)	-
Total loans and advances to banks	**2 286 612**	**1 626 697**

26. Loans and advances to customers

In thousands of BGN

	31.12.2018	31.12.2017
Companies	8 442 081	7 654 853
Individuals		
Housing loans	1 928 599	1 753 565
Consumer loans	215 840	259 057
Other loans	86 621	98 813
Central and local governments	373 565	324 068
	11 046 706	**10 090 356**
Less impairment allowances	(562 849)	(653 797)
Loans and advances to customers at amortized cost	**10 483 857**	**9 436 559**
Loans and advances to customers mandatorily at fair value	**4 617**	
Total loans and advances to customers	**10 488 474**	**9 436 559**

27. Investment securities

In thousands of BGN

	31.12.2018	31.12.2017
Securities measured at FVTOCI		
Government bonds	3 315 220	3 479 519
Bonds of other financial institutions	263 958	264 050
Corporate bonds	135 711	-
Equities	11 660	19 332
Securities mandatory measured at FV		
Equities	10 200	-
Total Investment securities	**3 736 749**	**3 762 901**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2018 are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

Equities presented comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

As of December 31, 2017 all available for sale investments were assessed for impairment. As a result of this assessment, no impairment has been recognized. As of December 31, 2018 impairments of investment securities at FVTOCI are amounting to BGN 2 952 thousand.

As of December 31, 2018 and as of December 31, 2017 there are pledged investments amounting to BGN 101 962 thousand and BGN 29 733 thousand respectively (see also Note **40**).

28. Investments in subsidiaries and associates

In thousands of BGN

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2018	SHARE IN CAPITAL DECEMBER 2017	CARRYING VALUE IN THOUSANDS OF BGN DEC 2018	CARRYING VALUE IN THOUSANDS OF BGN DEC 2017
UniCredit Factoring EAD	Factoring activities	100%	100%	3 000	3 000
UniCredit Fleet Management EOOD	Transport services	100%	100%	655	655
UniCredit Consumer Financing EAD	Consumer lending and other similar activities in line with the applicable law and regulations	100%	100%	39 238	39 238
UniCredit Leasing EAD	Leasing activities	100%	100%	9 611	9 611
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20%	20%	2 500	2 500
		Total		**55 004**	**55 004**

As described in Note **3 (h) (ii) (g)**, investments in subsidiaries and associates comprise of equity participations in entities where the Bank exercises either control or significant influence.

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost. In addition the Bank also prepares consolidated financial statements, where all entities in which the Bank has control are fully consolidated and those where the Bank exercises significant influence, are consolidated under equity method.

29. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2017	**3 591**	**151 360**	**10 374**	**65 958**	**50 462**	**67 207**	**348 952**
Additions	-	5 892	1 003	11 869	8 124	-	**26 888**
Transfers	-	-	1	(1)	-	9 923	**9 923**
Write-offs	-	(849)	(147)	(2 111)	(2 713)	(776)	**(6 596)**
Disposals	-	(138)		(231)	(1 635)	(52 952)	**(54 956)**
As of December 31, 2018	**3 591**	**156 265**	**11 231**	**75 484**	**54 238**	**23 402**	**324 211**
Depreciation							
As of December 31, 2017	-	76 973	6 492	43 921	36 663	3 539	**167 588**
Depreciation charge	-	6 983	1 840	8 141	5 616	1 562	**24 142**
Impairment	-	-	-	-	-	751	**751**
Write-offs	-	(849)	(147)	(2 111)	(2 713)	(776)	**(6 596)**
On disposals	-	(73)	-	(231)	(1 635)	(3 728)	**(5 667)**
Transfers	-	-	-	-	-	(10)	(10)
As of December 31, 2018	**-**	**83 034**	**8 185**	**49 720**	**37 931**	**1 338**	**180 208**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 046**	**25 764**	**16 307**	**22 064**	**144 003**
Net book value as of December 31, 2017	**3 591**	**74 387**	**3 882**	**22 037**	**13 799**	**63 668**	**181 364**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2016	**5 591**	**156 959**	**9 524**	**75 639**	**51 934**	**81 110**	**380 757**
Additions	-	5 133	1 082	7 737	6 928	70	**20 950**
Transfers	(2 000)	(10 125)	-	-	-	(909)	**(13 034)**
Write-offs	-	(447)	(232)	(10 669)	(8 395)	-	**(19 743)**
Disposals	-	(160)	-	(6 749)	(5)	(13 064)	**(19 978)**
As of December 31, 2017	**3 591**	**151 360**	**10 374**	**65 958**	**50 462**	**67 207**	**348 952**
Depreciation							
As of December 31, 2016	**-**	**75 554**	**5 345**	**54 986**	**37 623**	**13 328**	**186 836**
Depreciation charge	-	6 757	1 379	6 320	7 438	2 272	**24 166**
Write-offs	-	(447)	(232)	(10 669)	(8 395)	-	**(19 743)**
On disposals	-	(82)	-	(6 716)	(3)	(12 029)	**(18 830)**
Transfers	-	(4 809)	-	-	-	(32)	**(4 841)**
As of December 31, 2017	-	**76 973**	**6 492**	**43 921**	**36 663**	**3 539**	**167 588**
Net book value as of December 31, 2017	**3 591**	**74 387**	**3 882**	**22 037**	**13 799**	**63 668**	**181 364**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 179**	**20 653**	**14 311**	**67 782**	**193 921**

Items of property, plant, equipment and investment property are carried at cost less any accumulated depreciation and adjusted for impairment, if any.

As part of the year-end closing procedure, Bank has assessed all items of property, plant, equipment and investment properties for existence of any impairment indicators. For non-real estate items, impairment is usually recognized when those items are found to be obsoleted or their usage is planned to be discontinued. In such cases the recoverable amount on those items is reasonably assessed to be immaterial (close to zero), therefore the remaining carrying amount is fully impaired.

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2018 and December 31, 2017 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2018 and December 31, 2017 amount to BGN 751 thousand and BGN 0, respectively). The following table illustrates the fair value of investment properties as of December 31, 2018 and December 31, 2017. The fair values of investment properties as of December 31, 2018 and December 31, 2017 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2018	2017	2018	2017
Investment properties				
Land	8 055	10 211	8 297	10 432
Buildings	14 009	53 457	14 857	55 349
Total investment properties	**22 064**	**63 668**	**23 154**	**65 781**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2017	**105 298**
Additions	17 835
Write-offs	(148)
As of December 31,2018	**122 985**
Depreciation	
As of December 31, 2017	**69 961**
Depreciation charge	7 915
Write-offs	(148)
As of December 31,2018	**77 728**
Net book value as of December 31, 2018	**45 257**
Net book value as of December 31, 2017	**35 337**

In thousands of BGN

Cost	
As of December 31, 2016	**87 525**
Additions	18 025
Write-offs	(252)
As of December 31,2017	**105 298**
Depreciation	
As of December 31, 2016	**62 683**
Depreciation charge	7 530
Write-offs	(252)
As of December 31,2017	**69 961**
Net book value as of December 31, 2017	**35 337**
Net book value as of December 31, 2016	**24 842**

31. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2018 and as of December 31, 2017 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the years 2018 and 2017, respectively.

FTA tax effect (tax reduction) of IFRS 9 is amounting to BGN 8 056 and is considered in full in the 2018 as first year of implementation.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2018 and December 31, 2017 is as outlined below:

In thousands of BGN

	31.12.2018	31.12.2017
Property, plant, equipment, investment properties and intangible assets	5 065	3 256
Provisions	(3 208)	(3 284)
Actuarial gains (losses)	(501)	(412)
Other liabilities/Other assets	(5 428)	(5 229)
Net tax (assets) liabilities	**(4 072)**	**(5 669)**

The movements of deferred tax assets and liabilities on net basis throughout 2018 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2017	IFRS 9 EFECT	BALANCE 01.01.2018	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2018
Property, plant, equipment, investment properties and intangible assets	3 256	-	3 256	1 809	**-**	**5 065**
Available for sale investments	-	-	-	9 856	**(9 856)**	**-**
Provisions	(3 284)	293	(2 991)	(217)		**(3 208)**
Actuarial gains (losses)	(412)	-	(412)		**(89)**	**(501)**
Cash flow hedge	-	-	-	(6)	**6**	**-**
Other liabilities	(5 229)	-	(5 229)	(199)	**-**	**(5 428)**
Net tax (assets) liabilities	**(5 669)**	**293**	**(5 376)**	**11 243**	**(9 939)**	**(4 072)**

33. Other assets

In thousands of BGN

	31.12.2018	31.12.2017
Receivables and prepayments	48 280	67 905
Receivables from the State Budget	47	66
Materials, S.p.Are parts and consumables	830	924
Other assets	5 708	5 773
Foreclosed properties	50 944	71 768
Total other assets	**105 809**	**146 436**

34. Financial liabilities held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Interest rate swaps	18 979	20 906
FX forward contracts	7 738	22 532
Equity options	-	2 731
FX swaps	891	454
Commodity swaps	189	10 933
Commodity options	3 409	24 927
Total trading liabilities	**31 206**	**82 483**

35. Deposits from banks

In thousands of BGN

	31.12.2018	31.12.2017
Current accounts and overnight deposits		
Local banks	261 708	276 085
Foreign banks	54 549	60 386
	316 257	**336 471**
Deposits		
Local banks	122 674	47 715
Foreign banks	29 792	33 719
	152 466	**81 434**
Other	**9 305**	**34 371**
Total deposits from banks	**478 028**	**452 276**

36. Deposits from customers

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date.

As of December 31, 2018 and December 31, 2017 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

In thousands of BGN

	31.12.2018	31.12.2017
Current accounts		
Individuals	2 805 041	2 264 189
Corporate	6 049 763	6 225 385
Budget and State companies	269 018	261 149
	9 123 822	**8 750 723**
Term deposits		
Individuals	4 562 579	4 363 189
Corporate	508 390	779 722
Budget and State companies	52 866	62 543
	5 123 835	**5 205 454**
Saving accounts	**1 507 163**	**1 457 596**
Transfers in execution process	**53 255**	**106 936**
Total deposits from customers	**15 808 075**	**15 520 709**

37. Provisions

The movement in provisions for the years ended December 31, 2018 and December 31, 2017 is as follows:

In thousands of BGN

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2016	**21 342**	**26 776**	**7 356**	**302**	**466**	**56 242**
Allocations	1 838	4 240	607	-	250	**6 935**
Releases	(19 925)	(413)	-	-	-	**(20 338)**
Additions due to FX revaluation	143	2 116	-	-	-	**2 259**
Releases due to FX revaluation	(190)	(2 819)	-	-	-	**(3 009)**
Actuarial gains/losses recognized in OCI	-	-	1 410	-	-	**1 410**
Utilization	-	(1 580)	(361)	-	(202)	**(2 143)**
Balance as of December 31, 2017	**3 208**	**28 320**	**9 012**	**302**	**514**	**41 356**
IFRS 9 FTA efect	**12 238**	**-**	**-**	**-**	**-**	**12 238**
Balance as of January 1, 2018	**15 446**	**28 320**	**9 012**	**302**	**514**	**53 594**
Allocations	73 093	8 295	667	-	682	**82 737**
Releases	(32 113)	(6 751)	-	-	-	**(38 864)**
Additions due to FX revaluation	242	2 565	-	-	-	**2 807**
Releases due to FX revaluation	(217)	(2 324)	-	-	-	**(2 541)**
Actuarial gains/losses recognized in OCI	-	-	888	-	-	**888**
Utilization	-	(397)	(320)	-	(244)	**(961)**
Balance as of December 31, 2018	**56 451**	**29 708**	**10 247**	**302**	**952**	**97 660**

(a) Provisions on letters of guarantees and credit commitment

For 2017 provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events. As of December 31, 2017 the Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 3 208 thousand.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2018 accumulated provisions are in the amount of BGN 56 451 thousand.

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future. As of December 31, 2018 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 29 708 thousand has been recognized (BGN 28 320 as of December 31, 2017).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2018 defined benefit obligation are as follows:

- Discount rate – 0.75%;
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years, women 61 years for 2018 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2018 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2017	**9 012**
Current service costs for 2018	583
Interest cost for 2018	84
Actuarial losses recognized in OCI in 2018	888
Benefits paid	(320)
Recognized defined benefit obligation as of December 31, 2018	**10 247**
Interest rate beginning of the year	1,00%
Interest rate end of the year	0,75%
Future increase of salaries	5,00%
Expected 2019 service costs	656
Expected 2019 interest costs	72
Expected 2019 benefit payments	**1 547**

Current service cost and interest cost are presented under Personnel expenses (See note **15**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2018	2017
Sensitivity – Discount rate +/- %	0,25%	0,25%
DBO Discount rate -	10 528	9 260
DBO Discount rate +	9 979	8 776
Sensitivity – Salary increase rate +/- %	0,25%	0,25%
DBO Salary increase rate -	9 989	8 784
DBO Salary increase rate +	10 515	9 250

(d) Provisions on constructive obligation

In the course of regular business, the Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria.

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2018 and December 31, 2017 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates.

(e) Other provision

Other provisions in the amount of BGN 952 thousand as of December 31, 2018 (BGN 514 thousand as of December 31, 2017), relates to coverage of claims related to credit cards business as well as other claims.

38. Other liabilities

In thousands of BGN

	31.12.2018	31.12.2017
Liabilities to the State budget	3 762	3 692
Liabilities to personnel	24 999	26 999
Liabilities for unused paid leave	6 198	5 462
Dividends	820	706
Incentive plan liabilities	6 833	5 550
Other liabilities	67 445	56 624
Total other liabilities	**110 057**	**99 033**

Liabilities to the State Budget include current liabilities related to different tax positions of the Bank.

Liability to personnel includes accrued but not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2018 and 2017 in accordance with the defined target settings and adopted incentive programs.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

As described in note **3 (o) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **15** above.

39. Equity

(a) Share capital

As of December 31, 2018 and December 31, 2017 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years.

The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position the Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

In 2018 IFRS 9 FTA effect amounting net to BGN 67 612 thousand was booked against retained earnings of the Bank.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 "Employee Benefits".

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2018 and December 31, 2017 only reserves related to available for sale/FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 25 145 thousand and BGN 9 153 thousand, respectively, net of tax.

In 2018 IFRS 9 FTA effect amounting net to BGN 254 thousand was booked against the Revaluation reserves of the Bank.

40. Contingent liabilities

In thousands of BGN

	31.12.2018				31.12.2017
	STAGE 1	STAGE 2	STAGE 3	TOTAL	TOTAL
Letters of credit and letters of guarantee	1 627 293	61 482	58 710	**1 747 485**	**1 740 315**
Credit commitments	2 076 475	87 431	3 192	**2 167 098**	**1 857 711**
Total contingent liabilities	**3 703 768**	**148 913**	**61 902**	**3 914 583**	**3 598 026**

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As December 31, 2017 the Bank has made assessment in compliance with IAS 37 “Provisions, Contingent liabilities and Contingent assets”. Due to abnormal credit risk related to certain clients’ exposures, Bank’s Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **37**).

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

(b) Litigation

As of December 31, 2018 and December 31, 2017 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these separate financial statements as of December 31, 2018 are in the amount of BGN 29 708 thousand (BGN 28 320 thousand in 2017), (see also Note **37**).

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients’ disposal.

As of December 31, 2018 and December 31, 2017 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

41. Assets pledged as collateral

In thousands of BGN

	31.12.2018	31.12.2017
Securities pledged for budget holders' account service	49 455	-
Securities pledged on REPO deals	52 507	29 733
Loans pledged for budget holders' account service	254 886	254 886
Loans pledged on other deals	55 602	95 923
	412 450	**380 542**
Pledged assets include:		
Investment securities	101 962	29 733
Loans and advances	310 488	350 809
	412 450	**380 542**

Securities and loans pledged on other deals include those contractually pledged on long-term financing provided to the Bank by local and foreign institutions.

42. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 – UniCredit Bank Austria AG and its ultimate parent – UniCredit S.p.A (jointly referred as "parent companies"). In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit S.p.A was performed thus leading to change of the Bank's main shareholder to UniCredit S.p.A.

In addition the Bank has relatedness with its subsidiaries and associates (see also Note **27**) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2018 and December 31, 2017 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2018	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS					
Derivatives held for trading	455	-	-	15 508	**15 963**
Derivatives held for hedging	-	-	-	496	**496**
Current accounts and deposits placed	2 142 491	-	-	57 441	**2 199 932**
Extended loans	-	1 581 758	-	19 689	**1 601 447**
Other assets	4 503	16 406	-	1 966	**22 875**
LIABILITIES					
Financial liabilities held for trading	3 049	-	-	16 218	**19 267**
Derivatives used for hedging	37 960	-	-	18 941	**56 901**
Current accounts and deposits taken	2 783	33 486	-	19 196	**55 465**
Other liabilities	7 953	50		735	**8 738**
Guarantees received by the Group	**38 407**	**-**	**-**	**129 781**	**168 188**

In thousands of BGN

AS OF DECEMBER 31, 2017	PARENT COMPANIES	SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Derivatives held for trading	473		14 752	**15 225**
Derivatives held for hedging	495		5 844	**6 339**
Current accounts and deposits placed	1 116 334		202 923	**1 319 257**
Extended loans	-	884 775	11 313	**896 088**
Other assets	2 712	13 125	2 125	**17 962**
Financial liabilities held for trading	12 114		55 791	**67 905**
Derivatives used for hedging	32 712		10 186	**42 898**
Current accounts and deposits taken	1 423	42 095	16 287	**59 805**
Other liabilities	7 718	67	2 015	**9 800**
Guarantees received by the Group	**51 462**		**61 568**	**113 030**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2018	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	4 213	9 376	-	542	**14 131**
Interest expenses	(14 617)	(1)	-	(13 133)	**(27 751)**
Dividend income	-	115 342	128	-	**115 470**
Fee and commissions income	165	17 097	-	575	**17 837**
Fee and commissions expenses	(19)	-	-	(73)	**(92)**
Net gains (losses) on financial assets and liabilities held for trading	6 277	-	-	50 640	**56 917**
Other operating income	-	593	-	(329)	**264**
Administrative and personnel expenses	(2 209)	(1 765)	(898)	(9 728)	**(14 600)**
Total	**(6 190)**	**140 642**	**(770)**	**28 494**	**162 176**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2017	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	8 562	3 366	-	279	**12 207**
Interest expenses	(11 501)	(22)	-	(12 355)	**(23 878)**
Dividend income			191		**191**
Fee and commissions income	1 016	13 749	-	1 791	**16 556**
Fee and commissions expenses	(42)	-	-	(59)	**(101)**
Net gains (losses) on financial assets and liabilities held for trading	(21 384)	-	-	(151 607)	**(172 991)**
Other operating income	-	593		(428)	**165**
Administrative and personnel expenses	(1 932)	(1 660)	(914)	(9 618)	**(14 124)**
Total	**(25 281)**	**16 026**	**(723)**	**(171 997)**	**(181 975)**

As of December 31, 2018 the loans extended to key management personnel amount to BGN 25 thousand (BGN 140 thousand in 2017). For the year ended December 31, 2018 the compensation paid to key management personnel amounts to BGN 3 834 thousand (BGN 4 471 thousand in 2017).

43. Cash and cash equivalents

In thousands of BGN

	31.12.2018	31.12.2017
Cash in hand and in ATM	231 125	203 766
Cash in transit	140 491	104 662
Current account with the Central Bank	2 085 618	3 421 203
Current accounts with banks	104 230	350 306
Placements with banks with original maturity less than 3 months	13 997	312 612
Total cash and cash equivalents	**2 575 461**	**4 392 549**

44. Leasing

Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars. Summary of non-cancellable minimum lease payments as of December 31, 2018 and December 31, 2017 are presented in the tables below.

(a) Operating lease contracts where the Bank acts as a lessee

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2018	31.12.2017
Up to one year	6 198	6 123
Between one and five years	5 942	7 102
Beyond five years	2 314	3 421
Total	**14 454**	**16 646**

(b) Operating lease contracts where the Bank acts as a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2018	31.12.2017
Up to one year	170	128
Total	**170**	**128**

45. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2018 and December 31, 2017 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitative mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these separate financial statements or other mandatory reports are as follows:

In thousands of BGN

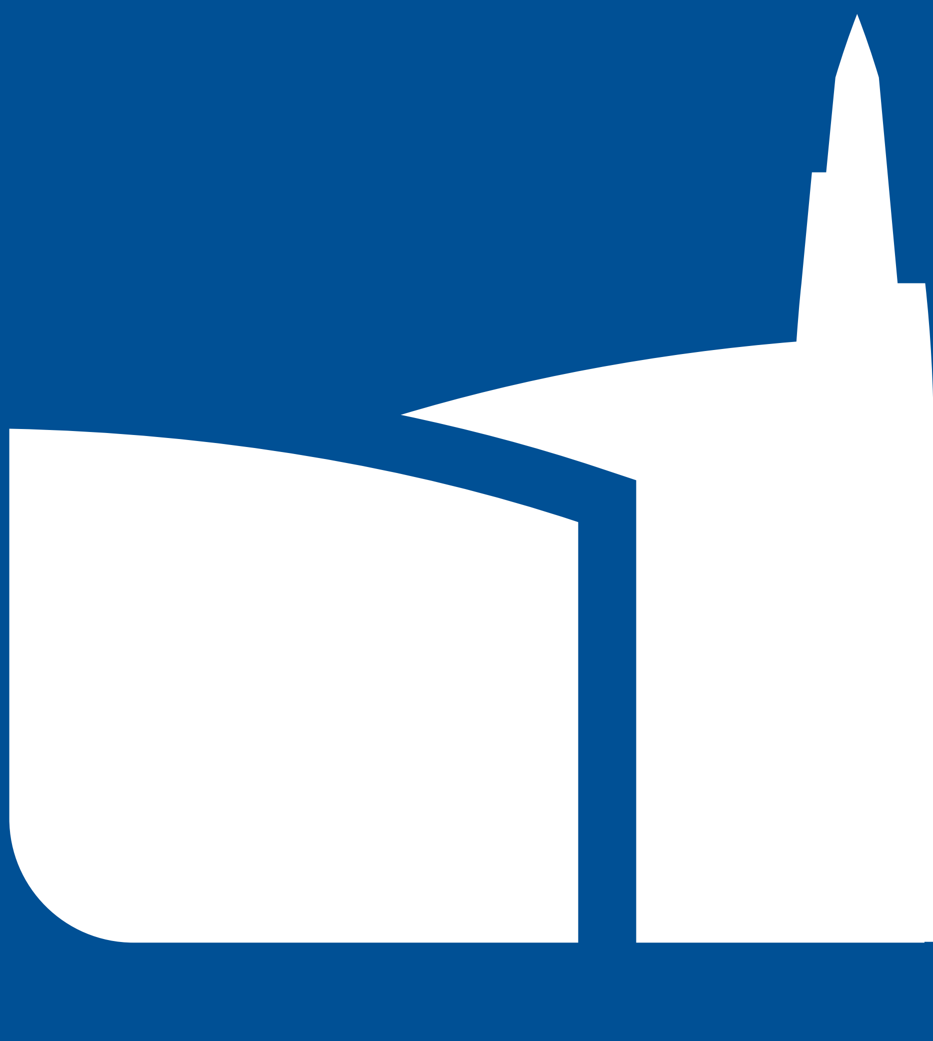
	2018	2017	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	813 789	698 174	Separate Income Statement and details in Notes 7, 8, 9, 10, 11 and 12
Profit before income tax	465 363	331 076	Separate Income Statement
Income tax expense	(35 324)	(33 423)	Separate Income Statement and details in Note 20
Return on average assets (%)	2,23%	1,58%	2018 Annual Report on Activity
Full time equivalent number of personnel as of December 31	3 555	3 559	Note 15

UniCredit Bulbank AD has never requested or been provided any state grants or subsidies.

Maximise commercial bank value.

We continue to maximise commercial bank value by successfully focusing on our clients, delivering a positive experience through our multichannel strategy and best-in-class products and services. The fully plugged in CIB leverages on the Group's strong commercial banking relationships to support the real economy.

Adopt lean but steering center.



We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and tranS.p.Arent cost allocation, we focus on efficiency and simplification.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bulbank AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD ("the Bank") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independet Auditors' Report (continued)

Key audit matter

Impairment of loans and advances to customers

The assessment of impairment allowances for loans and advances to customers requires Group management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Group applies statistical models with input parameters obtained from internal and external sources.

In accordance with the requirements of IFRS 9 Financial Instruments, the Group distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Group.

The assessment of classification to impairment stages is a result of combination of relative and absolute factors:

- Relative comparison between the probability of default at the original date of the receivable and the date of financial statements,
- Absolute factors such as limits set by related regulations (30 days past due),
- Other factors with internal relevance for the Group (such as forbearance classification).

The expected credit losses are calculated using available historical data and anticipated future development determined using macroeconomic indicators.

The statistical models used are based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Group management.

As described in note 25 to the consolidated financial statements, the Group has recorded as at December 31, 2018 impairment allowances on loans and advances to customers amounting to BGN 617,836 thousand.

How our audit addressed the key audit matter

During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the risks of material misstatement in this area.

We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances for the significant loan portfolios.

We tested the design and operating effectiveness of key controls management of the Group has established over the impairment assessment processes. The testing focused on controls related to:

- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,
- regular client creditworthiness review processes,
- creation and regular review of watch-lists,
- approval of experts' collateral valuation,
- management review and approval of the impairment evaluation results.

We involved auditors' experts in the areas which required specific expertise.

We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment on a sample of exposures based on the risk parameters resulted from the models.

On a sample of exposures we evaluated appropriateness of impairment methodologies and their application. We formed an independent view on the levels of impairment allowances required by examining available external and internal information. We developed own expectation regarding impairment of loans and advances to customers as at December 31, 2018 and comparison of this expectation to impairment recognized by the

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Key audit matter	*How our audit addressed the key audit matter*
Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	management and reported in the financial statements. We performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Group. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/ or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's financial statements with regard to the measurement of loans and advances to customers.

Information Other than the consolidated financial statements and Auditors' Report Thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities, including the non-financial declaration, and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Bank ("those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain jointly responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for performing joint audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria (ICPA) and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the consolidated financial statements and Auditors' Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 8 of POSA), applicable in Bulgaria

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Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.
- The non-financial Declaration, covering the financial year for which the consolidated financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Information in accordance with Art. 33 of Ordinance 38/2007 and Art. 11 of Ordinance 58/2018 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries

Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 of FSC regarding the Bank's activity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2018 by the general meeting of shareholders held on April 11, 2018 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2018 represents sixth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and second statutory audit engagement for the Group carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our joint statutory audit refers, Deloitte Bulgaria EOOD (an entity part of the Deloitte network) solely has provided to the Bank the following services which have not been disclosed in the Group's management report or consolidated financial statements:
  - Assistance in performing a review of the Bank's readiness in view of Asset Quality Review (AQR) requirements as per AQR Manual issued in June 2018 by the European Central Bank.

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- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD jointly has provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2017, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".
- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:
  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2017 and December 31, 2018. The audits were performed in accordance with ISA.
  - Attest related procedures in relation to the first time adoption of IFRS 9 – Financial Instruments by the Bank and its subsidiary UniCredit Leasing EAD.
  - Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2017 and December 31, 2018. The audits were performed in accordance with ISA.
  - Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 3 months ending March 31, 2018, the 6 months ending June 30, 2018, and the 9 months ending September 30, 2018. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD	Baker Tilly Klitou and Partners OOD
On behalf of Deloitte Audit OOD	On behalf of Baker Tilly Klitou and Partners OOD
Одиторско дружество София Рег. № 033 Делойт Одит ООД	Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД
Momchil Cherganski Proxy of the Statutory Manager Sylvia Peneva Registered Auditor	Krassimira Radeva Statutory Manager Registered Auditor
103, Al. Stambolijski Blvd. Sofia Tower (Mall of Sofia) 1303 Sofia, Bulgaria	5, Stara Planina Str., 5th floor 1000 Sofia, Bulgaria

March 8, 2019

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Income Statement

In thousands of BGN

	Notes	2018	2017
Interest income		607 516	653 425
Interest expense		(45 373)	(60 380)
Net interest income	7	**562 143**	**593 045**
Dividend income		**73**	**3 471**
Fee and commission income		276 120	256 290
Fee and commission expense		(28 855)	(26 523)
Net fee and commission income	8	**247 265**	**229 767**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	96 906	85 950
Net gains from financial assets mandatorily at fair value	10	2 094	-
Net income from financial assets measured at FVTOCI	11	25 317	-
Net income from available for sale investments	11	-	9 296
Other operating (expenses), net	12	(53 687)	(53 354)
TOTAL OPERATING INCOME		**880 111**	**868 175**
Net income related to property, plant and equipment	13	8 128	13 721
Personnel expenses	14	(146 118)	(138 787)
General and administrative expenses	15	(105 284)	(101 396)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(38 977)	(34 161)
Provisions for risk and charges	17	(42 606)	(6 028)
Net impairment loss on financial assets	18	(75 611)	(142 813)
PROFIT BEFORE INCOME TAX		**479 641**	**458 713**
Income tax expense	19	(48 157)	(46 471)
PROFIT FOR THE YEAR		**431 484**	**412 242**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 2[illegible], 2019

Levon Hampartzoumian Chairman of the Management Board and Chief Executive Officer	Enrico Minniti Deputy Chairman of the Management Board and General Manager	Jasna Mandac Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD	Baker Tilly Klitou & Partners OOD
Momchil Chergarsky *Registered auditor* 08/03/2019	Kressimira Radeva *Registered auditor* 08.03.2019

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements.

Statement of Comprehensive Income

In thousands of BGN

	Notes	2018	2017
Profit for the year		**431 484**	**412 242**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses)	36	(895)	(1 410)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		89	141
		(806)	**(1 269)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		-	144 723
Investment securities		(97 607)	-
Cash flow hedge		61	9 125
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		9 850	(15 385)
		(87 696)	**138 463**
Total other comprehensive income net of tax for the year		**(88 502)**	**137 194**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**342 982**	**549 436**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 21, 2019

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Baker Tilly Klitou & Partners OOD

Margarita Chergansky
Registered auditor
08/03/2019

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Statement of Financial Position

In thousands of BGN

	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and balances with Central Bank	20	2 457 235	3 729 633
Non-derivative financial assets held for trading	21	31 946	23 819
Derivatives held for trading	22	57 942	98 332
Derivatives used for hedging	23	496	6 339
Loans and advances to banks	24	2 287 077	1 629 431
Loans and advances to customers	25	11 297 096	10 629 087
Investment securities	26	3 736 749	3 762 901
Investments in associates	27	2 755	2 717
Property, plant, equipment and investment properties	28	186 699	196 345
Intangible assets	29	47 923	38 024
Current tax assets	30	368	-
Deferred tax assets	31	7 813	8 673
Other assets	32	101 304	147 046
TOTAL ASSETS		**20 215 404**	**20 260 347**
LIABILITIES			
Financial liabilities held for trading	33	31 206	82 483
Derivatives used for hedging	23	56 901	42 898
Deposits from banks	34	893 751	1 258 484
Deposits from customers	35	15 824 661	15 512 999
Provisions	36	99 135	41 948
Current tax liabilities	30	2 941	5 022
Deferred tax liabilities	31	114	59
Other liabilities	37	129 623	118 710
TOTAL LIABILITIES		**17 038 332**	**17 060 601**
EQUITY			
Share capital		285 777	285 777
Revaluation reserves		147 609	236 365
Retained earnings		2 312 202	2 265 362
Profit for the year		431 484	412 242
TOTAL EQUITY	38	**3 177 072**	**3 199 746**
TOTAL LIABILITIES AND EQUITY		**20 215 404**	**20 260 347**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 21, 2019.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

J. Mandac

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Cherganski
Registered auditor
08/03/2019

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements.

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2017	285 777	342 378	2 214 422	137 891	(36 380)	(2 492)	2 941 748
Profit for the year	-	-	412 242	-	-	-	412 242
Actuarial gains (losses)	-	-	-	-	-	(1 410)	(1 410)
Change of revaluation reserve on available for sale investments	-	-	-	144 723	-	-	144 723
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 125	-	9 125
Income tax related to components of other comprehensive income	-	-	-	(14 472)	(913)	141	(15 244)
Total other comprehensive income for the year net of tax	-	-	-	130 251	8 212	(1 269)	137 194
Total comprehensive income for the year net of tax	-	-	412 242	130 251	8 212	(1 269)	549 436
Dividends paid	-	-	(291 436)	-	-	-	(291 436)
Balance as of December 31, 2017	285 777	342 378	2 335 228	268 142	(28 056)	(3 721)	3 199 748
IFRS 9 First Time Adoption (FTA) effect	-	-	(67 749)	(254)	-	-	(68 003)

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2018	285 777	342 378	2 267 477	267 888	(28 056)	(3 721)	3 131 743
Profit for the year	-	-	431 454	-	-	-	431 454
Actuarial gains (losses)	-	-	-	-	-	(295)	(295)
Change of revaluation reserve on investment securities	-	-	-	(97 607)	-	-	(97 607)
Change of revaluation reserve on cash flow hedges	-	-	-	-	61		61
Income tax related to components of other comprehensive income	-	-	-	9 856	(5)	89	9 939
Total other comprehensive income for the period net of tax	-	-	-	(87 751)	56	(806)	(88 502)
Total comprehensive income for the period net of tax	-	-	431 454	(87 751)	56	(806)	342 862
Dividends paid	-	-	(297 550)				(297 443)
Balance as of December 31, 2018	285 777	342 378	2 401 306	180 137	(28 000)	(4 527)	3 177 072

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 21, 2019

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD
Рег. № 033

Momchil Cherganski
Registered auditor
08/03/2019

Baker Tilly Klitou & Partners OOD
София
Рег. № 129

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Statement of Cash Flows

In thousands of BGN

	Notes	2018	2017
Net profit		**431 484**	**412 242**
Current and deferred tax, recognised in income statement		48 157	45 471
Adjustments for non-cash items			
IFRS 9 FTA effect on retained earnings		(67 749)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets investment properties and assets held for sale	15	38 977	34 161
Impairment of financial assets	18	138 412	178 581
Impairment of foreclosed properties	12	2 145	2 637
Provisions, net	36	57 038	6 633
Unrealised fair value losses through profit or loss, net		1 633	4 657
Unrealised fair value (gains)/losses on FX revaluation		52 630	(189 820)
Net income from associates under equity method		(38)	(143)
Net income from sale of property, plant and equipment		(10 139)	(13 850)
Net interest income		(430 708)	(436 850)
Dividend income		(73)	(3 682)
Increase in other accruals		38 981	57 428
Cash flows from profits before changes in operating assets and liabilities		**330 748**	**119 866**
Operating activities			
Change in operating assets			
(Increase)/Decrease in loans and advances to banks		(1 206 233)	155 658
(Increase)/Decrease in loans and advances to customers		(616 318)	31 085
(Increase) in investment securities		(72 919)	(470 789)
(Increase)/Decrease in financial instruments held for trading and hedging		(12 742)	9 790
Decrease in non-current assets held for sale		-	2 015
Decrease/(Increase) in other assets		19 121	(65 826)
Change in operating liabilities			
(Decrease) in deposits from banks		(373 835)	(1 029 202)
Increase in deposits from customers		260 390	861 481
Provisions utilization		(1 008)	(2 314)
Increase/(Decrease) in other liabilities		23 507	(30 610)
Interest received		452 228	487 708
Interest paid		(37 278)	(51 093)
Dividends received		73	3 682
Taxes paid		(26 868)	(43 199)
Net cash flow from operating activities		**(1 480 140)**	**(22 089)**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2018	2017
Cash flow from investing activities			
Cash payments to acquire tangible assets		(56 478)	(27 793)
Cash receipts from sale of tangible assets		16 139	13 650
Cash payments to acquire intangible assets		(17 835)	(18 721)
Net cash flow from investing activities		**(58 174)**	**(32 864)**
Cash flow from financial activities			
Dividends paid		(297 663)	(291 438)
Net cash flows from financial activities		**(297 663)**	**(291 438)**
Effect of exchange rate changes on cash and cash equivalents		**2 088**	(7 478)
Impairment on of cash equivalent		**56**	-
Net (decrease) in cash and cash equivalents		**(1 819 823)**	**(353 868)**
Cash and cash equivalents at the beginning of period	**42**	**4 395 286**	**4 749 154**
Cash and cash equivalents at the end of period	**42**	**2 575 462**	**4 395 286**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 21, 2019

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Baker Tilly Klitou & Partners OOD

Momchil Chorgansky
Registered auditor
08/03/2019

Krassimira Radeva
Registered auditor
08.03.2019

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Notes to Consolidated Financial Statements

1. Reporting entity

UniCredit Bulbank AD (the Bank) is a universal Bulgarian bank established upon a triple legal merger, performed on April 27th, 2007 between Bulbank AD, HVB Bank Biochim AD and Hebros Bank AD.

These consolidated financial statements comprise of UniCredit Bulbank AD and its subsidiaries and associates (hereafter together referred as UniCredit Bulbank AD or the Bank).

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address city of Sofia, 7 "Sveta Nedelya" sq. and UIC 831919536 as per the Trade Register. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2018 Bank operates through its network comprising of 175 branches and offices.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting standards Board (IASB) and adopted by the European Union.

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act.

These consolidated financial statements are approved by the Management Board of UniCredit Bulbank AD on February 21, 2019.

(b) Basis of measurement

These consolidated financial statements have been prepared on historical cost basis except for financial instruments measured at fair value or at amortized cost depending on asset classification.

(c) Functional and presentation currency

These consolidated financial statements are presented in Bulgarian Lev (BGN) rounded to the nearest thousand. Bulgarian Lev is the functional and reporting currency of UniCredit Bulbank AD.

(d) Use of estimates and judgement

The preparation of financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes **4** and **5**.

3. Significant accounting policies

There have been no changes in significant accounting policies for the periods presented in these consolidated financial statements. Whenever certain information in the current period is presented in a different way for the purposes of providing more reliable and relevant view of the financial position of the Bank, prior period information is also recalculated for comparative reasons.

Transition to "IFRS 9: Financial Instruments"

As at 1 January 2018, the Bank has adopted the accounting standard "IFRS 9: Financial instruments".

The adoption of the standard is the result of a long-time project aimed at creating reporting and risk monitoring methods that ensure full compliance with the standard and at updating governance and monitoring processes in light of the new rules.

This project was organised at Group level through specific work-streams:

- work-stream "Classification and Measurement" aimed at reviewing financial instruments classification in line with new IFRS 9 criteria;
- work-stream "Impairment" aimed at developing and implementing models and methods for calculating impairment.

The entire project was developed actively involving Bank's structures, Board of Directors and Top Management.

The following should be noted with regard to the new accounting standard:

- it has introduced significant changes in the principles for classifying and measuring financial instruments compared to IAS 39.
- With reference to loans and debt securities, the classification and consequent measurement of these instruments is based on the "business model" and on the characteristics of the financial instrument cash flows (SPPI criterion – Solely Payments of Principal and Interests).
- With reference to equity instruments, they will be classified as financial instruments at fair value, with differences recognised through profit or loss or in other comprehensive income in case of using FVTOCI option for such instruments. In the latter case, unlike the requirements of IAS 39 for available-for-sale financial assets, IFRS 9 no longer requires to recognise impairment losses and provides that, in the event of sale of the instrument, the profits and losses on disposal must be reclassified to other shareholders' equity reserve and not to profit or loss.

Lastly, with reference to financial liabilities designated at fair value, it modified the accounting of "own credit risk", i.e. the changes in the value of liabilities at fair value that are due to fluctuations in own credit risk. According to the new standard, these changes must be recognised in an equity reserve, rather than in the income statement as per IAS 39, thus eliminating a source of volatility in economic results.

- it has introduced a new accounting model of impairment for credit exposures based on an “expected losses” approach replacing the one based on the recognition of “incurred losses” and on the concept of “lifetime” expected loss;
- it has introduced guidelines that clarify when financial instruments shall be written off by specifying that the write-off constitutes an event of accounting derecognition;
- it has also modified the rules applicable to “hedge accounting” with regard to designating a hedging relationship and verifying its effectiveness with the aim of ensuring greater alignment between the accounting recognition of hedges and the underlying management rationale.

The UniCredit Group has exercised the option to continue applying the existing IAS 39 hedge accounting requirements for all its hedging relationships until the IASB completes the project on accounting for macro-hedging.

The UniCredit Group has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous years and for UniCredit Group the first time adoption of the new standard is 1 January 2018.

In these consolidated financial statement the Bank presents balance sheet as at 31 December 2017 as per the IAS 39 requirements. For purposes of transition to IFRS 9 requirements, amounts impacting the consolidated balance sheet are as follows:

In thousands of BGN

	NOTES	31.12.2017 IAS 39	FTA EFFECT: FINANCIAL ASSETS AT AMORTIZED COST	FTA EFFECT: LOANS MANDATORY AT FAIR VALUE	FTA EFFECT: FINANCIAL ASSETS AT FVTOCI	FTA EFFECT: PROVISIONS ON CREDIT RISK ON COMMITMENTS AND FINANCIAL GUARANTEES	FTA EFFECT: INTERCOMPANY ADJUSTMENT	FTA EFFECT: RECLASSIFICATION FROM AFS TO MANDATORY AT FV	01.01.2018 IFRS 9
ASSETS									
Cash and balances with Central Bank	20	3 729 633	(137)	-	-	-	-		3 729 496
Non-derivative financial assets held for trading	21	23 819	-	-	-	-	-	-	23 819
Derivatives held for trading	22	86 332	-	-	-	-	-	-	86 332
Derivatives held for hedging	23	6 339	-	-	-	-	-	-	6 339
Loans and advances to banks	24	1 629 431	(558)	-	-	-	17	-	1 628 890
Loans and advances to customers	25	10 629 087	(63 783)	19	-	-	2 255	-	10 567 578
Investment securities	26	3 762 901	-	-	-	-	-	-	3 762 901
Investments in associates	27	2 717	-	-	-	-	-	-	2 717
Property, plant, equipment and investment properties	28	196 345	-	-	-	-	-	-	196 345
Intangible assets	29	38 024	-	-	-	-	-	-	38 024
Current tax assets	30	-	6 447	(2)	200	1 593	-	-	8 238
Deferred tax assets	31	8 673	-	-	-	(293)	-	-	8 380
Other assets	32	147 046	-	-	-	-	-	-	147 046
TOTAL ASSETS		**20 260 347**	**(58 031)**	**17**	**200**	**1 300**	**2 272**	**-**	**20 206 105**
LIABILITIES									
Financial liabilities held for trading	33	82 483	-	-	-	-	-	-	82 483
Derivatives used for hedging	23	42 898	-	-	-	-	-	-	42 898
Deposits from banks	34	1 258 484	-	-	-	-	-	-	1 258 484
Deposits from customers	35	15 512 999	-	-	-	-	-	-	15 512 999
Provisions	36	41 946	-	-	-	12 989	772	-	55 707
Current tax liabilities	32	5 022	-	-	-	-	-	-	5 022
Deferred tax liabilities	31	59	-	-	-	-	-	-	59
Other liabilities	37	116 710	-	-	-	-	-	-	116 710
TOTAL LIABILITIES		**17 060 601**	**-**	**-**	**-**	**12 989**	**772**	**-**	**17 074 362**
EQUITY									
Share capital		285 777	-	-	-	-	-	-	285 777
Revaluation reserves		236 365	-	-	2 002	-	-	(2 256)	236 111
Retained earnings		2 265 362	(58 031)	17	(1 802)	(11 689)	1 500	2 256	2 197 613
Profit for the year		412 242	-	-	-	-	-	-	412 242
TOTAL EQUITY	**38**	**3 199 746**	**(58 031)**	**17**	**200**	**(11 689)**	**1 500**	**-**	**3 131 743**
TOTAL LIABILITIES AND EQUITY		**20 260 347**	**(58 031)**	**17**	**200**	**1 300**	**2 272**	**-**	**20 206 105**

Transition to "IFRS 15: Revenue from Contracts with Customers"

IFRS 15, effective starting from 1 January 2018, endorsed by the European Union with Regulation EU 2016/1905 of 22 September 2016 (published on 29 October 2016), modifies the previous set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18.

IFRS 15 provides for:

- two approaches for the revenue recognition ("at point in time" or "over time");
- a new model for the analysis of the transactions ("Five steps model") focused on the transfer of control;
- and the request for a more detailed disclosure to be included in the explanatory notes to the financial statements.

The adoption of the new accounting standard could determine (i) the reclassification between lines of income statement used for presenting revenues, (ii) a change in the timing recognition of such revenue, when the contract with the customer contains several performance obligation that must be accounted for separately under the accounting standard, (iii) a different measure of the revenue in order to reflect their variability.

Based on the analysis performed, no major impacts have been detected by the adoption of IFRS 15 on current economic and financial volumes presented in the financial statements of the Bank.

(a) Basis of consolidation

These financial statements are prepared on consolidated basis whereas all entities where UniCredit Bulbank AD exercises control are consolidated applying full consolidation method and all participations in entities where UniCredit Bulbank AD exercises significant influence are consolidated applying equity method.

In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

Following the above criterion, the Bank has performed assessment in two areas focused on:

1. Control existence assessment over all directly and indirectly owned equity participations;
2. Control existence assessment over entities where the Bank has no direct or indirect equity participation.

Upon completion of the first area of assessment, Bank reconfirmed that it has control over the investees in all the cases where it holds directly or indirectly more than 50% of the investee's voting rights. In addition Bank reconfirmed to exercise significant influence over investee's activities in all the cases where it does not exercise control or joint control but owns 20% and more of the investee's voting rights.

For the purposes of the second area of assessment, the Bank primarily focused on so called "troubled loans" analysis as well as special purpose entities (SPE) in the customer portfolio. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted and forborne loans and advances to corporate customers as well as loans and advances to SPEs with material outstanding amount as of the reporting dates (for practical reasons materiality threshold of EUR 1 million was applied). As a result of performing the above mentioned assessment, the Bank concluded that in no cases the definition of control is met, therefore no consolidation procedures on such customers have been applied as of December 31, 2018 and December 31, 2017.

All the entities where the Bank exercises control are consolidated under full consolidation method and all entities where the Bank exercises significant influence are consolidated under equity method. As of December 31, 2018 and December 31, 2017 there are no significant restrictions on the ability of all consolidated subsidiaries and associates to transfer cash or to repay loans to the parent company.

The consolidation scope as of December 31, 2018 has not changed to the one applied as of December 31, 2017 and it covers the following entities:

COMPANY	PARTICIPATION IN EQUITY	DIRECT/INDIRECT PARTICIPATION	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.00%	Direct	Full consolidation
UniCredit Fleet Management EOOD	100.00%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100.00%	Direct	Full consolidation
UniCredit Leasing EAD	100.00%	Direct	Full consolidation
UniCredit Insurance Broker EOOD	100.00%	Indirect	Full consolidation
Cash Service Company AD	20.00%	Direct	Equity method

(b) Interest income and expense

Interest income and expenses are recognized in the Income statement following the accruing principle, taking into account the effective yield/effective interest rate of the asset/liability in all material aspects. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments.

(c) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in P&L as the entity satisfies the performance obligation embedded in the contract, according to "IFRS 15 Revenue from Contracts with Customers" rules.

In particular:

- if the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognized in P&L when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in P&L in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized during the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Group accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or defers it in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, a revenue has to be booked based on the most probable amount that the Group expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, depending on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Nevertheless, for the services provided by the Group such a variability is not usually foreseen.

Finally, if a contract relates to different goods/services whose performance obligations are not satisfied at the same time, the revenue is allocated among the different obligations proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in P&L on the basis of the timing of satisfaction of each obligation.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

(d) Net gains (losses) on financial assets and liabilities held for trading

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading (including derivative deals) as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Bank.

The Bank concludes derivative deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit S.p.A, UniCredit Bank Austria AG and UniCredit Bank AG). The whole realized and unrealized gains/losses on derivatives related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at the official Bulgarian National Bank foreign exchange rate effective at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate effective at the date of the transaction. FX revaluation of equity investments classified in FVTOCI portfolio should be presented on FVTOCI revaluation reserve.

As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

(f) Net gains (losses) on other financial assets designated at fair value through profit or loss

Net gains (losses) on other financial assets designated at fair value through profit or loss include all realised and unrealised fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

(g) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(h) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term and so producing a constant periodic rate of interest on the remaining balance of the liability.

(i) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost. If the amount of transaction costs is clearly not material compared to the fair value of the related financial asset at initial recognition, it is possible to recognize them directly in profit or loss.

As a result of the entry into force of the new accounting standard, the Bank has reclassified financial assets and liabilities as at 1 January 2018 into the new envisaged categories.

In this regard, it should be noted that this classification is based on business model and characteristics of the contractual cash flows.

The analysis of the business model was conducted by mapping the business areas that make up the Bank's portfolios and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the new categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyse the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortised cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyse the contract features with respect to IFRS 9 requirements, or by using external data providers.

In application of the aforementioned rules, the Bank's financial assets and liabilities have been classified as follows:

(ii) Classification

(a) Cash and balances with the Central Bank

Cash and balances with the Central bank include notes and coins on hand and unrestricted balances held with the Central Bank. They are carried at amortised cost in the statement of financial position.

(b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

Financial assets and derivatives held for trading are carried at fair value in the statement of financial position. After initial recognition these financial assets are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HfT) financial asset is recognised in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognised as "Financial liabilities held for trading".

(c) Financial assets designated at fair value through profit or loss

Financial instruments that are not held for trading but which are part of a group of financial assets which performance is internally evaluated and reported on a fair value basis are initially designated and subsequently reported as financial assets designated at fair value through profit or loss.

A non-derivative financial asset can be designated at fair value if the above-mentioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

Financial assets, designated at fair value through profit or loss are carried at fair value in the statement of financial position.

(d) Financial assets mandatorily at fair value

The new portfolio **Mandatorily at fair value through P&L (MFV)** is introduced according to IFRS 9 principles. A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortised cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realised or unrealised, are recognised in P&L as "Other financial assets mandatorily at fair value".

(e) Fair value through other comprehensive income (FVTOCI) assets

Financial asset, which is debt, is classified at fair value through comprehensive income if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

FVTOCI investments are non-derivative investments whose objective is achieved by both collecting contractual cash flow and selling financial assets.

All FVTOCI investments are carried at fair value.

On initial recognition, at settlement date, a financial assets is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and revenues directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortised cost criterion as Interest income and similar revenues.

The gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves.

These instruments are tested for impairment as illustrated in the specific section. Impairment losses are recorded in the income statement.

In the event of disposal, the accumulated profits and losses are recorded in the income statement.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognised in the income statement. Only dividends are recognised in P&L.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers **cost as the best estimate of fair value**.

(f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

UniCredit Group considers cost as a best estimate of fair value in case of Equity instruments for which all the following conditions are met: the instrument is not listed; the percentage of interests held by the Group does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognised in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognised in the income statement. Only dividends are recognised in P&L. No reclassification of gains and losses to P&L on derecognition.

(g) Financial assets at amortised cost

A financial asset is classified as financial asset measured at amortised cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

On initial recognition, at settlement date, financial assets at amortised cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition assets are measured at amortised cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Such interest is recognised in P&L as Interest income and similar revenues.

The carrying amount of financial assets at amortised cost is adjusted to take into account the reductions/write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in P&L.

In the event of disposal, the accumulated profits and losses are recorded in the income statement in P&L as Gains (Losses) on disposal.

Amounts deriving from financial assets carrying amount adjustment, gross of cumulated write-downs, in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition, are recognised in P&L as Gains/Losses from contractual changes with no cancellations of the contracts.

Sales are usually not compatible with this business model. Several kinds of sales however don't jeopardize the business model held to collect. These are sales that occur as a result of deterioration in credit standing of the financial assets, which are not significant in value (not greater than 5% of the carrying value of the relevant portfolio) or sales that are made close to the maturity. In any cases sales should be infrequent.

(h) Investments in subsidiaries and associates

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control. In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

Following the above criteria, the Bank has assessed that it has control in all the investees, where it holds directly or indirectly more than 50% of the voting rights.

Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities. The Bank has assessed that it has significant influence over entities where it holds directly or indirectly 20% and more of the voting rights.

In these consolidated financial statements the Bank has adopted the policy of carrying all investments in associates at equity method. All investments in subsidiaries are fully consolidated.

(i) Deposits from banks and customers

Deposits from banks and customers are financial instruments related to attracted funds by the Bank, payable on demand or upon certain maturity and bearing agreed interest rate.

Deposits from banks and customers are carried at amortised cost using the effective interest rate method.

Reclassifications performed as at 1 January 2018

The following tables summarise the mapping between IAS 39 and IFRS 9 portfolios effective from 01.01.2018 – the date of implementation of IFRS 9.

DEBIT INSTRUMENTS

IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
Fair Value Option (FVOP)	Designated FVTPL	FV through P&L	Fair Value Option (FVOP)	Designated FVTPL	FV through P&L
TRADING	Held to benefit from Changes in Fair Value		Fair Value through P&L (FVTPL) – TRADING	Held to benefit from Changes in Fair Value	
LOAN	Loans and receivables	Amortized Cost	Mandatory FVTPL (SPPI failed)	Mandatory FVTPL	
			Amortized Cost (AC)	Held to collect	Amortized Cost
HTM	Held to maturity	Amortized Cost	Amortized Cost (AC)	Held to collect	
AFS	Available for Sale	FV through OCI	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI

EQUITIES INSTRUMENTS

IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
AFS	Available for Sale	FV through OCI	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI
AFS	Available for Sale	At cost	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI (cost is an appropriate estimate of fair value)

The following tables summarise the reclassifications performed on balance sheet (Assets and Liabilities) based on IFRS 9 initial application.

INSTRUMENT	IAS 39 PORTFOLIO	IAS 39 BUSINESS MODEL	IAS 39 MEASUREMENT	IFRS 9 PORTFOLIO	IFRS 9 BUSINESS MODEL	IFRS 9 MEASUREMENT
Equities participation in VISA	AFS	Available for Sale	FV through OCI	Mandatorily FVTPL	Mandatorily FVTPL – residual intention	FV through PL
Equities participation in Bulgarian Stock Exchange Sofia	AFS	Available for Sale	FV through OCI	Mandatorily FVTPL	Mandatorily FVTPL – residual intention	FV through PL
Equities participation in SWIFT	AFS	Available for Sale	At cost	Fair Value through OCI (FVTOCI)	Both Held to collect and sale	FV through OCI option
Loans to Strart-up companies	LOANS	Held to maturity	Amortized cost	Mandatorily FVTPL	Mandatorily FVTPL – SPPI failed	FV through PL

(iii) Derecognition

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. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement principles

Fair value is defined 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.

In accordance with IFRS 7 "Financial instruments: Disclosures" the Bank applies a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note **5**).

(vi) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when both the Bank and the counter party have a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(vii) Repurchase agreements

UniCredit Bulbank AD enters into purchases (sales) of financial instruments under agreements to resell (repurchase) substantially identical instruments at a certain date in the future at a fixed price. Instruments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. Financial instruments sold under repurchase agreements continue to be recognized in the statement of financial position and measured in accordance with the accounting policy. The proceeds from the sale of the investments are reported in the statement of financial position under deposits from customers or banks, respectively. The difference between the sale and repurchase consideration is recognised on an accrual basis over agreed term of the deal and is included in net interest income.

(j) Impairment

The Bank recognizes a loss allowance for expected credit losses on: a debt financial asset that is measured at **Amortized cost and Fair value through Other Comprehensive income,** a lease receivable, a contract asset or a loan commitment and a financial guarantee contracts.

For this purpose debt instruments have to be classified in one of the following stages:

- **Stage 1:** which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- **Stage 2:** which comprises financial assets whose credit risk has significantly increased since initial recognition;
- **Stage 3:** which comprises credit impaired financial assets.

In order to provide consistency between IFRS and regulatory definitions, it is assumed that all instruments classified as "Non performing" according to regulatory framework are considered to be instruments with an objective evidence of impairment (credit impaired).

In order to meet the requirements of the standard, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. As a matter of fact, for Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in Unicredit Group for other risk relevant purposes (i.e. processes adopted for translating macroeconomic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on Unicredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank, the Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Bank's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

ASSETS CARRIED AT AMORTISED COST

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures. Loans and advances are presented net of allocated allowances for impairment. Impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances. Impairment allowances on portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on previous experience, late payments of interest, principals or penalties. Increases in the allowance account are recognized in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is directly written off.

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in P&L.

FINANCIAL ASSETS REMEASURED TO FAIR VALUE DIRECTLY IN OTHER COMPREHENSIVE INCOME

Financial assets remeasured to fair value directly through other comprehensive income are those classified as Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in P&L.

FVTOCI financial assets are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(k) Derivatives used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD".

Derivatives used for hedging include all derivative assets and liabilities that are not classified as held for trading. Derivatives used for hedging are designated as effective hedging instruments and are measured at fair value in the statement of financial position.

The Bank has developed hedge accounting methodology aiming at effective management of interest rate risk out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting.

In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess and measure the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis (based on Market risk Department independent assessment), as to whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent (the limits for intragroup deals are to be reduced respectively to 90% and 111.8%). The Bank also makes an assessment for each cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, fair value hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item, for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortisation starts immediately when hedge relationship no longer exists. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognised in profit and loss.

Cash flow hedge

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

As Bank's hedging strategy covers forecast cash flows as hedged items, the cumulative amount, recognized in other comprehensive income from the period when the hedge was effective, is recycled in profit or loss when the forecast transactions occur. In case the forecast transaction is no longer expected to occur, the whole balance outstanding in other comprehensive income is reclassified in profit or loss.

(l) Property, plant, equipment and investment property

All items of property, plant and equipment are carried at cost less accumulated depreciation or impairment losses.

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Investment property is measured at cost less any accumulated depreciation.

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **32**).

The gains or losses on disposal of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net in profit or loss.

Depreciation on all items of property, plant and equipment and investment property is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.

The applicable annual depreciation rates based on expected useful life on major assets categories are as follows:

	ANNUAL DEPRECIATION RATES (%)	EQUIVALENT EXPECTED USEFUL LIFE (YEARS)
Buildings	4	25
Computer hardware	20-50	2-5
Fixtures and fittings	15-20	5-7
Vehicles	25	4

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2018 and December 31, 2017 intangible assets include primarily investments in software and related licenses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate.

(n) Non-current assets held for sale

The Bank presents as non-current assets held for sale, investments in properties whose carrying amount will be recovered principally through sale transaction rather than continuing use. Items are only included in this category when the Management of the Bank has clear intention to finalize the sale and has already started looking for a buyer.

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale.

Non-current assets held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2018 and December 31, 2017 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(viii) Short-term employee's benefits

Short-term employees' benefits comprise of amounts due to personnel on the basis of unused paid leave accounted for each and single employee as of the reporting date as well as expected additional bonus payments for achieved results during the current financial year.

The amount of the unused paid-leave obligation includes the overall undiscounted amount of the obligation that the Bank has to settle should the employment contract is terminated as of the reporting date. Short-term employees' benefits are presented as other liabilities and disclosed separately in the Notes.

(ix) Defined benefit obligation

Defined benefit obligations are those agreed in the Collective Labour Agreement.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary. To determine the net amount in the statement of financial position, any actuarial gains and losses is presented separately in the Statement of other comprehensive income.

(x) UniCredit Group Short and Long-Term incentive plans

UniCredit Group Short and Long-term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (equity settled) granted by the ultimate parent UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Bank.

Whenever the vesting period of the stock options or performance shares ends, UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments. Thereafter the parent effectively grants the instruments to the respective managers.

As of December 31, 2018 and December 31, 2017 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(xi) Share capital

As described in Note **1**, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of UniCredit bank Austria AG and ultimately under control of UniCredit S.p.A. The merger represented a share-exchange transaction, where share-exchange ratios based on fair valuation of the net assets of the three Banks, certified by independent auditor, as required by the Bulgarian Commercial Act, were applied. The share capital of UniCredit Bulbank AD as of the date of the merger was in the amount of BGN 239 256 thousand and comprise of the share capital of Bulbank AD before the merger in the amount of BGN 166 370 thousand, increased by the newly issued ordinary shares exchanged for the ordinary shares of the merging Banks - HVB Bank Biochim AD and Hebros Bank AD (increase in the amount of BGN 72 886 thousand).

In September 2010 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 179 000 thousand through issuing 24 655 650 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2010 the share capital of the Bank amounted to BGN 263 911 thousand.

In May 2011 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 158 744 thousand through issuing 21 865 500 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2011 the share capital of the Bank amounts to BGN 285 777 thousand.

In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe (“CEE”) the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit S.p.A was performed thus leading to change of the Bank’s main shareholder to UniCredit S.p.A.

No changes in the amount of the share capital were performed in 2018 and 2017.

(xii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on investments at FVTOICI (for 2017: available for sale investments), cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2018 and December 31, 2017 the reserves include also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Income tax is recognized in the Income statement except to the extent that it relates to items recognized directly to other comprehensive income, in which case it is recognised in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the Income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2018 and December 31, 2017 balances of deferred tax are presented net in the Statement of financial position on single entity level within the consolidation scope and then consolidated in the Statement of financial position. All respective netting requirements set out in IAS 12 are fully met on single entity level.

(s) Segment reporting

The Bank has adopted IFRS 8 “Operating Segments” which requires the Bank to present operating segments based on the information that is internally provided to the Management. The business segments that have been previously determined and presented by the Bank in accordance with IAS 14 “Segment Reporting” are also the primary operating segments which are regularly reported to the Management of the Bank.

(t) Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU came into force in the current reporting period:

- **IFRS 9 “Financial Instruments”** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards (in particular – IRFS 9 Financial instruments) leads to recognition on First time adoption reserve (FTA) in UniCredit Bulbank AD financial statements.

(u) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract.

After the initial recognition the right-of-use will be measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS 16 or by IAS 40.

In this context, the Bank has launched the activities aimed to ensure compliance with this accounting principle, in particular with reference to the calculation and accounting for Right of Use and Lease Liability that represent the main discontinuity compared to the current accounting model required by IAS 17. The activities therefore aimed to the identification of lease contracts and the development of rules, principles and IT systems to be used for the proper evaluation of new assets and liabilities and the subsequent calculation of the related economic effects.

In this context the Bank has decided, as allowed by the standard, explicitly not to apply IFRS 16 provisions to leases of intangible assets, short term leases, lower than 12 months, and low value assets leases.

In order to calculate the lease liability and the related right-of-use asset, the Bank proceeds with discounting the future lease payments at a proper discount rate. In this respect, future lease payments to discount are determined based on contractual provisions and net of VAT as the obligation to pay such a tax starts when the invoice is issued by the lessor and not at the starting date of the lease contract. To perform the mentioned calculation lease payments are discounted at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

In determining the lease term it is necessary to consider the non-cancellable period, established in the contract, in which the lessee is entitled to use the underlying asset taking also into account potential renewal options if the lessee is reasonably certain to renew. In particular, with regard to those contracts that allows the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased and any other circumstance indicating the reasonably certainty of the renewal.

The Bank, following the UniCredit Group guidelines, has decided not to restate comparatives and has chosen, for First Time Adoption purposes, to put the value of right of use equal to the lease liability as at 01 January 2019.

Taking into account the number of lease contracts within the Bank, it is expected that the adoption of IFRS 16 will determine an increase in assets and liabilities volumes, coming from the recognition of Right of Use and related Lease Liabilities, and, consequently, in RWA due to the application of regulatory rules on newly recognised assets.

In particular, the effect on CET 1 ratio coming from IFRS 16 adoption, in terms of application of the new rules from the lessee's perspective, can be preliminarily estimated in the range of 5 bps.

(v) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at January 30.2019 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

At the same time, hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU, remains unregulated.

According to the Bank's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the reporting date.

4. Financial risk management

(a) General framework

UniCredit Bulbank AD is exposed to the following risks from financial instruments:

- market risk;
- liquidity risk;
- credit risk;
- operational and reputational risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

Different types of risks are managed by specialized departments and bodies within the Bank's structure. The applicable policies entirely correspond to the requirements of Risk Management Group Standards as well as all respective requirements set by Bulgarian banking legislation. The Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

Assets and Liabilities Committee (ALCO) is a specialized body established in the Bank for the purposes of market risk and structural liquidity management on individual and consolidated levels.

Credit risk in the Bank is specifically monitored through Provisioning and Restructuring Committee (PRC). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation. Assessment of the credit risk is in accordance with the Group standards and for regulatory purposes in accordance with Bulgarian National Bank requirements.

Management of the Bank has approved certain limits aiming to mitigate the risk impact on the Bank's result. These limits are within the overall risk limits of the banking group. The limits for credit risk depend on size of the exposure. Management Board approves the large exposure – above 10% of the capital of the Bank (requirement of Law on Credit Institutions). There is an effective procedure established in the Bank for limits monitoring, including early warning in case of limits breaches both on individual and consolidated levels.

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk on stand-alone level. In these consolidated financial statements total operational risk requirements are presented as the sum of AMA amount calculated for the Bank stand-alone plus the respective additions from consolidated entities, calculated under standardized approach.

(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by Market Risk function located in Financial Risk and Models Unit. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book of UniCredit Bulbank, reviewed at least annually. A product introduction process is established in which risk managers play a decisive role in approving a new product.

Market risk management in UniCredit Bulbank AD encompasses all activities in connection with Markets and Investment Banking operations and management of the assets and liabilities structure. Risk positions are aggregated at least daily, analysed by the independent Market risk management unit and compared with the risk limits set by the Management Board and ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily presentation of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.

UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level applied to cumulative results for a specific period, the stressed VaR (SVaR), the incremental default risk charge (IRC) and granular sensitivities.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined and integrated in the presentation of performance results.

During 2018, VaR (1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD consolidated moved in a range between EUR 6.03 million and EUR 15.77 million, averaging EUR 9.75 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2018 on consolidated basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.15	1.91	1.47	1.32
Credit spread	6.30	15.59	9.87	5.67
Exchange rate risk	0.01	0.03	0.02	0.01
Vega risk	-	-	-	-
VaR overall[8]	**6.03**	**15.77**	**9.75**	**5.40**

[8] Including diversification effects between risk factors.

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate/spread changes of 0.01% by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In the interest rates sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The sensitivities' table below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2018 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)						
CCY	**0-3M**	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**10Y-**	**SUM**
EUR	(2 162)	(2 967)	(31 988)	(146 488)	1 478	**(182 127)**
BGN	760	15 453	(19 510)	(273 078)	(2 154)	**(278 529)**
USD	(5 395)	5 173	(615)	446	-	**(391)**
CHF	(112)	218	(5)	(35)	(21)	**45**
GBP	(624)	396	1	-	-	**(227)**
Other	(123)	(255)	-	-	-	**(378)**
Total Absolute	**9 176**	**24 462**	**52 119**	**420 047**	**3 653**	**461 697**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2018 totalled EUR 893,655. Instruments issued by governments continue to account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT ISSUER						
ISSUER	**0-3M**	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**10Y-**	**SUM**
Sovereigns	(664)	(1 834)	(88 923)	(758 878)	-	**(850 299)**
Regional governments	-	-	-	(863)	-	**(863)**
Corporates	(1 442)	-	(775)	(40 276)	-	**(42 493)**
Total Absolute	**2 106**	**1 834**	**89 698**	**800 017**	**-**	**893 655**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2018 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

UniCredit Bulbank AD is exposed to exchange rate risk through transactions in foreign currencies. Net FX open positions in trading and banking book are monitored on daily basis and are restricted by volume overnight limits.

As of December 31, 2018 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	2 442 043	15 192	**2 457 235**
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Derivatives held for trading	51 000	6 942	**57 942**
Derivatives held for hedging	496	-	**496**
Loans and advances to banks	2 231 261	55 816	**2 287 077**
Loans and advances to customers	11 127 063	170 033	**11 297 096**
Investment securities	3 727 196	9 553	**3 736 749**
Investments in associates	2 756	-	**2 756**
Property, plant, equipment and investment properties	186 699	-	**186 699**
Intangible assets	47 923	-	**47 923**
Current tax assets	368		**368**
Deferred tax assets	7 813	-	**7 813**
Other assets	101 239	65	**101 304**
TOTAL ASSETS	**19 932 974**	**282 430**	**20 215 404**
LIABILITIES			
Financial liabilities held for trading	26 398	4 808	**31 206**
Derivatives used for hedging	56 901	-	**56 901**
Deposits from banks	645 990	247 761	**893 751**
Deposits from customers	14 390 018	1 434 643	**15 824 661**
Provisions	93 143	5 992	**99 135**
Current tax liabilities	2 941	-	**2 941**
Deferred tax liabilities	114	-	**114**
Other liabilities	127 396	2 227	**129 623**
TOTAL LIABILITIES	**15 342 901**	**1 695 431**	**17 038 332**
EQUITY	**3 177 072**	**-**	**3 177 072**
Net off-balance sheet spot and forward position	**(1 382 591)**	**1 399 695**	**17 104**
Net position	**30 410**	**(13 306)**	**17 104**

As of December 31, 2017 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	3 717 957	11 676	**3 729 633**
Non-derivative financial assets held for trading	36	23 783	**23 819**
Derivatives held for trading	47 796	38 536	**86 332**
Derivatives held for hedging	6 339	-	**6 339**
Loans and advances to banks	1 527 301	102 130	**1 629 431**
Loans and advances to customers	10 424 763	204 324	**10 629 087**
Available for sale investments	3 755 835	7 066	**3 762 901**
Investments in associates	2 717	-	**2 717**
Property, plant, equipment and investment properties	196 345	-	**196 345**
Intangible assets	38 024	-	**38 024**
Deferred tax assets	8 673	-	**8 673**
Other assets	146 956	90	**147 046**
TOTAL ASSETS	**19 872 742**	**387 605**	**20 260 347**
LIABILITIES			
Financial liabilities held for trading	45 032	37 451	**82 483**
Derivatives used for hedging	42 898	-	**42 898**
Deposits from banks	999 065	259 419	**1 258 484**
Deposits from customers	14 079 265	1 433 734	**15 512 999**
Provisions	36 473	5 473	**41 946**
Current tax liabilities	5 022	-	**5 022**
Deferred tax liabilities	59	-	**59**
Other liabilities	114 503	2 207	**116 710**
TOTAL LIABILITIES	**15 322 317**	**1 738 284**	**17 060 601**
EQUITY	**3 199 746**	**-**	**3 199 746**
Net off-balance sheet spot and forward position	**(1 371 226)**	**1 362 495**	**(8 731)**
Net position	**(20 547)**	**11 816**	**(8 731)**

(c) Liquidity risk

In line with Group standards, UniCredit Bulbank AD deals with liquidity risk as a central risk in banking business by monitoring and steering short-term and medium-term liquidity requirements. In this context, liquidity situation is analysed against standard and stress scenarios. Methods of liquidity analysis, management responsibilities, as well as contingency plan and funding plan procedures are laid down in the Bank's Liquidity Management Policy.

Liquidity is operationally managed through Markets/Treasury Department and the structural liquidity through Asset-Liability Management Department. According to the Liquidity Policy, Asset-Liability Management Department monitors on a daily basis short term flows, arising from interbank activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under going concern scenario. For the purposes of liquidity management short-term limits are monitored daily, defined as function of the primary funds and liquidity stress-test results.

Structural liquidity limit ratios define minimum required coverage of long-term assets with coherent liabilities.

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2018, meaning that under extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

The following tables provide basic analysis of the financial assets expected recoverability and financial liabilities of the Bank split into relevant maturity bands based on the remaining contractual periods to repayment for items with defined maturity and model mapping for items with no defined maturity or roll over assumptions. The gross amounts include also estimated contractual interest payments.

Actual outflows may materially differ from those presented in the tables as historically most of the clients' attracted deposit have economic maturity much longer than the contractual one (deposits are consistently rolled over).

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Loans and advances to banks	2 096 112	190 965	**2 287 077**
Loans and advances to customers	4 271 811	7 025 285	**11 297 096**
Available for sale investments	156 497	3 580 252	**3 736 749**
Other assets	50 360	50 944	**101 304**
TOTAL FINANCIAL ASSETS	**6 581 897**	**10 872 275**	**17 454 172**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	36	23 783	**23 819**
Loans and advances to banks	1 009 809	619 622	**1 629 431**
Loans and advances to customers	3 775 902	6 853 185	**10 629 087**
Available for sale investments	166 496	3 596 405	**3 762 901**
Other assets	75 278	71 768	**147 046**
TOTAL FINANCIAL ASSETS	**5 027 521**	**11 164 763**	**16 192 284**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**893 751**	**(895 001)**	(461 984)	(66 869)	(150 265)	(215 883)
Deposits from customers	**15 824 661**	**(15 825 307)**	(4 592 975)	(1 773 449)	(2 837 014)	(6 621 869)
Unutilized credit lines	**-**	**(2 274 447)**	(354 280)	(74 205)	(333 923)	(1 512 039)
Total non-derivative instruments	**16 718 412**	**(18 994 755)**	**(5 409 239)**	**(1 914 523)**	**(3 321 202)**	**(8 349 791)**
Derivatives held for trading, net	**26 736**					
Outflow		**(3 936 564)**	(2 520 511)	(1 212 012)	(48 635)	(155 406)
Inflow		**3 970 730**	2 530 077	1 219 244	53 259	168 150
Derivatives used for hedging, net	**(56 405)**					
Outflow		**(118 810)**	-	(10 321)	(9 207)	(99 282)
Inflow		**62 844**	-	2	-	62 842
Total derivatives	**(29 669)**	**(21 800)**	**9 566**	**(3 087)**	**(4 583)**	**(23 696)**
Total financial liabilities	**16 688 743**	**(19 016 555)**	**(5 399 673)**	**(1 917 610)**	**(3 325 785)**	**(8 373 487)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**1 258 484**	**(1 278 502)**	(428 763)	(108 642)	(289 114)	(451 983)
Deposits from customers	**15 512 999**	**(15 514 033)**	(12 084 894)	(1 205 691)	(1 819 921)	(403 528)
Unutilized credit lines	**-**	**(1 783 383)**	(26 751)	-	(329 926)	(1 426 706)
Total non-derivative instruments	**16 771 483**	**(18 575 918)**	**(12 540 408)**	**(1 314 333)**	**(2 438 960)**	**(2 282 217)**
Derivatives held for trading, net	**3 849**					
Outflow		**(4 154 475)**	(2 970 017)	(864 088)	(136 461)	(183 909)
Inflow		**4 164 823**	2 964 112	863 342	138 398	198 971
Derivatives used for hedging, net	**(36 559)**					
Outflow		**(138 096)**	(3 150)	(11 323)	(8 927)	(114 696)
Inflow		**99 373**	-	19	3	99 351
Total derivatives	**(32 710)**	**(28 375)**	**(9 055)**	**(12 050)**	**(6 987)**	**(283)**
Total financial liabilities	**16 738 773**	**(18 604 293)**	**(12 549 463)**	**(1 326 383)**	**(2 445 947)**	**(2 282 500)**

(d) Credit risks

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.

The Bank effectively manages credit risk inherent to its trading and banking book.

The Bank applies different approach and has established different departments with regard to monitoring the credit risk related to corporate clients, small and middle enterprises and individuals.

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e.g. foreign exchange and interest rate derivatives, equity/bond-related instruments, credit derivatives and commodity derivatives.

Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.

Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

Regulatory trading book includes financial assets held for trading purposes and derivatives, not held in conjunction with banking book positions.

The analysis based on client credit quality and rating (where available) as of December 31, 2018 and December 31, 2017 is as shown in the next table:

In thousands of BGN

	31.12.2018	31.12.2017
Government bonds		
Rated BBB-	3 400	36
Equities		
Unrated	3 717	-
Loan		
Rated BBB	24 829	23 783
Derivatives (net)		
Banks and financial institution counterparties	(58 746)	(92 266)
Corporate counterparties	29 077	59 556
Total trading assets and liabilities	**2 277**	**(8 891)**

Government bonds presented as of December 31, 2018 and December 31, 2017 include bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

Credit risk, inherent in the banking book, is managed as the creditworthiness of Bank's clients is assessed for the whole life of the loan, from the date of initial loan application till the date of final repayment. Issued Letters of Guarantees, Letters of Credit and all other irrevocable credit commitments fell also within the scope of Bank's credit risk monitoring. As a credit risk mitigation policy, the Bank accepts different types of collaterals depending on the product and client.

Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of Provisioning and Restructuring Committee (PRC) established in the Bank.

The Bank applies the principle of individual and collective assessment of credit risk exposures depending on existence or non-existence of objective impairment indicators and considering the adopted individually significant materiality threshold.

Objective impairment indicators are those “loss events” that have occurred after initial recognition of the exposure and which have an impact on the exposure estimated future cash flows. In order to provide consistency in the risk measurement, the Bank assumes existence of objective impairment indicators in case of occurrence of a default event as per applicable regulatory framework.

During 2018 we continued with the activities related to IFRS 9 conversion project and as a result we have full implementation of the loan loss provision model. The IFRS 9 framework was enhanced with models for Exposure at Default and Loss Given Default, estimation of present value of the expected credit losses as well as Overlay Factor, based on predefined macroeconomic scenarios.

Additionally, the existing Credit risk models are being modified to meet the updated EBA guidelines and forthcoming changes in the default definition.

Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as large exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank.

The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2018 and December 31, 2017:

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Biggest credit risk exposure to customers' group	271 648	312 933	271 648	306 803	9,8%	11,2%
Credit risk exposure to top five biggest customers' groups	1 043 279	1 089 380	858 992	964 974	31,1%	35,4%

The table below analyses the breakdown of loss allowances as of December 31, 2018 and December 31, 2017 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2018	2017
Cash and balances with Central Bank	55	-
Loans and advances to banks at amortised cost	631	-
Loans and advances to customers at amortised cost	647 784	761 783
Debt investment securities at amortised cost	52	81
Debt investment securities at FVTOCI	2 952	-
Loan commitments	1 909	-
Financial guarantee contracts	54 404	-
Total Loss allowance by classes	**707 787**	**761 864**

The tables below analyse the movement of the loss allowance during the year per class of assets:

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES TO BANKS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 31.12.2017	**-**	**-**	**-**	**-**	**-**
IFRS 9 FTA effect	(541)	-	-	-	**(541)**
Loss allowance as at 01.01.2018	**(541)**	**-**	**-**	**-**	**(541)**
Changes in the loss allowance:					
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Increases due to change in credit risk	-	-	-	-	**-**
Decreases due to change in credit risk	-	-	-	-	**-**
Write-offs	-	-	-	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(568)	-	-	-	**(568)**
Financial assets that have been derecognised	478	-	-	-	**478**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2018	**(631)**	**-**	**-**	**-**	**(631)**

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 31.12.2017	**(57 320)**	**(19 799)**	**(684 745)**	**-**	**(761 864)**
IFRS 9 FTA effect	1 956	(49 361)	(14 123)	-	**(61 528)**
					-
Loss allowance as at 01.01.2018	**(56 592)**	**(69 161)**	**(698 868)**	**-**	**(824 620)**
Changes in the loss allowance:					**-**
Transfer to Stage 1	(2 206)	2 149	57	-	**-**
Transfer to Stage 2	29 176	(30 803)	1 627	-	**-**
Transfer to Stage 3	61 361	17 332	(78 693)	-	**-**
Increases due to change in credit risk	(86 076)	(28 496)	(99 629)	(8 228)	**(222 428)**
Decreases due to change in credit risk	30 788	37 382	41 990	-	**110 161**
Write-offs	-	-	300 348	-	**300 348**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(11 546)	(8 461)	(44 003)	-	**(64 010)**
Financial assets that have been derecognised	9 870	5 793	36 239	-	**51 902**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	812	-	**812**
Loss allowance as at 31.12.2018	**(25 224)**	**(74 264)**	**(540 120)**	**(8 228)**	**(647 836)**

The tables below analyse the movement of the customers portfolio at amortised cost in terms of quality and respective movements of the gross carrying amounts during 2018 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	YEAR ENDED 2018					YEAR ENDED 2017
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	3 602 015	79 779	-	-	**3 681 794**	**2 691 563**
Grades 4-6: Monitoring	6 105 936	1 405 691	-	-	**7 511 627**	**7 694 054**
Substandard	-	-	76 986	-	**76 986**	**118 223**
Grade 9: Doubtful	-	-	256 398	19 375	**275 773**	**249 509**
Grade 10: Impaired	-	-	384 269	-	**384 269**	**626 034**
Total gross carrying amount	**9 707 951**	**1 485 470**	**717 653**	**19 375**	11 930 449	11 379 383
Loss allowance	(25 172)	(74 264)	(540 120)	(8 228)	**(647 784)**	**(761 783)**
Carrying amount	**9 682 779**	**1 411 206**	**177 533**	**11 147**	**11 282 665**	**10 617 600**

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTISED COST	YEAR ENDED 2018					YEAR ENDED 2017
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	9 866	-	-	-	**9 866**	**11 568**
Grades 4-6: Monitoring	-	-	-	-	**-**	**-**
Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**9 866**	**-**	**-**	**-**	9 866	11 568
Loss allowance	(52)	-	-	-	**(52)**	**(81)**
Carrying amount	**9 814**	**-**	**-**	**-**	9 814	11 487

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Gross carrying amount as at 31.12.2017	9 311 402	1 085 787	993 762	**-**	**11 390 951**
IFRS 9 FTA effect	(3 296)	-	-	**-**	**(3 296)**
Gross carrying amount as at 01.01.2018	**9 308 106**	**1 085 787**	**993 762**	**-**	**11 387 655**
Changes in the gross carrying amount					**-**
Transfer to Stage 1	174 359	(172 981)	(1 378)	**-**	**-**
Transfer to Stage 2	(776 755)	788 489	(11 734)	**-**	**-**
Transfer to Stage 3	(101 709)	(38 420)	140 129	**-**	**-**
Changes due to modifications that did not result in derecognition	-	-	-	**-**	**-**
New financial assets originated or purchased	3 169 437	111 319	58 566	**19 375**	**3 358 697**
Financial assets that have been derecognised	(1 433 446)	(136 373)	(176 829)	**-**	**(1 746 648)**
Write-offs	-	-	(300 348)	**-**	**(300 348)**
Other changes	(622 176)	(152 349)	15 484	**-**	**(759 041)**
Gross carrying amount as at 31.12.2018	**9 717 816**	**1 485 472**	**717 652**	**19 375**	**11 940 315**

The breakdown of the fair value of physical and cash collaterals pledged in favour of the Bank on loans and advances to customers is as follows:

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2018	31.12.2017
Defaulted exposures		
Cash collateral	2 830	3 487
Property	901 324	1 026 808
Debt securities	-	-
Other collateral	484 367	503 179
Performing exposures		
Cash collateral	96 749	126 360
Property	10 994 796	10 344 299
Debt securities	11 064	7 330
Other collateral	10 150 015	9 623 413
Total	**22 641 145**	**21 634 876**

Other collaterals include mostly pledges on non-real estate long-term assets, going concerns and inventories.

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2018 and December 31, 2017:

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Concentration by sectors						
Sovereign	373 565	324 068	-	-	3 317 798	3 479 519
Manufacturing	2 561 243	2 416 832	-	-	135 880	-
Commerce	2 249 173	2 138 998	-	-	-	-
Construction and real estate	1 229 028	1 293 698	-	-	67	67
Agriculture and forestry	568 597	533 056	-	-	-	-
Transport and communication	486 554	509 221	-	-	-	-
Tourism	262 011	278 831	-	-	-	-
Services	370 050	427 983	-	-	-	-
Financial services	123 216	130 325	2 287 708	1 629 431	285 760	286 032
Retail (individuals)					-	-
Housing loans	1 928 599	1 753 565	-	-	-	-
Consumer loans	1 597 723	1 386 957				
Other loans	195 173	197 417	-	-	-	-
	11 944 932	**11 390 951**	**2 287 708**	**1 629 431**	**3 739 505**	**3 765 618**
Impairment allowances	(647 836)	(761 864)	(631)	-	-	-
Total	**11 297 096**	**10 629 087**	**2 287 077**	**1 629 431**	**3 739 505**	**3 765 618**
Concentration by geographic location						
Europe	11 877 543	11 280 893	2 239 758	1 620 667	3 729 952	3 758 552
North America	24 689	45 187	10 208	5 746	9 553	7 066
Asia	41 667	33 255	37 417	2 919	-	-
Africa	342	146	294	-	-	-
South America	16	232	-	-	-	-
Australia	675	31 238	31	99	-	-
	11 944 932	**11 390 951**	**2 287 708**	**1 629 431**	**3 739 505**	**3 765 618**
Impairment allowances	(647 836)	(761 864)	(631)	-	-	-
Total	**11 297 096**	**10 629 087**	**2 287 077**	**1 629 431**	**3 739 505**	**3 765 618**

(e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk). Examples of events include compensations paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud. Such events are subject to consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital held for operational risk is based.

In UniCredit Bulbank AD the operational risk management framework is a combined set of policies and procedures for controlling, measuring and mitigating the operational risk exposure, which includes the guidelines of UniCredit Group and local documents. The Bank has a dedicated function to operational risk management, which is independent from business and operational areas. The responsibilities of the unit are in line with those envisaged by UniCredit Group. Nominated operational risk managers in the branch network and the Head Office, working on a decentralized basis, are responsible for loss data identification and reporting as well as for adoption of measures to reduce and prevent risks in their respective areas.

The established Operational and Reputational Risk Committee greatly enhanced the regular exchange of information and promotion of the operational risk awareness within the Bank. Meetings are held quarterly and are attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational and reputational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. Under the Reputational risk process, special attention is paid to the management and monitoring of the Bank's exposure towards economic sectors and transactions, such as Defence/Weapons, Nuclear energy etc.

The main activities of the Operational and Reputational Risk Unit in 2018 were focused on the further development of the operational risk management, with emphasis on preventative and mitigation actions to reduce future losses. The key activities performed in 2018 related to the operational risk management are namely: Operational Risk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; Operational Risk Assessment for ICT Risk; Operational Risk Assessment of relevant outsourcing transactions and Operational and Reputational Risk Strategies definition (including Business Syndication) and monitoring. Furthermore, a dedicated Operational and Reputational Risk Committee meets every quarter in order key operational risk topics to be discussed, aiming at proper mitigation actions to be elaborated and timely action plans to be outlined. Focusing on prevention of emerging risks, the Operational and Reputational Risk Unit also took part in 2018 in several mitigation and compliance-oriented projects (e.g. GDPR, PSD2, KYC, etc.), as well as actively participated in the implementation of new and changed bank products and processes.

Overall, the organization of operational and reputational risk management at UniCredit Bulbank AD is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible score to the local Operational and Reputational Risk management system. A Self-Assessment template issued by the Group Internal Validation (GIV) Function was filled by the Operational and Reputational Risk Unit in 2018. The outcome of these independent assessments proves the operational risk management and control system is fully adequate and compliant with the regulatory and Group standards. It was found sound and well developed, with focus on proactiveness, proposal and implementation of mitigation actions, with the active involvement of the operational and reputational risk function and all relevant units in the Bank.

(f) Basel III disclosure

In 2014, Basel III (CRD IV) regulatory framework has been effectively introduced in Bulgaria and has become mandatory for all local institutions. Under the new regulation, Bank continues to allocate capital for covering three major types of risk, namely credit risk, market risk and operational risk.

Starting from July 2016, UniCredit Bulbank AD reports on a stand-alone basis regulatory capital for credit risk under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach (STA). STA is still applied by the Bank's subsidiaries for all their exposures. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% and from 2018 capital buffer for other systemic important institution of 0.5% (or combined buffers additional capital requirement of 6%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2018 are 10.5%, 12% and 14%, respectively.

UniCredit Bulbank AD fulfils the minimum requirements, with sufficient excess, already from the first application of the new regulatory framework (more details presented in the following paragraphs).

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2018 is presented in the table below:

NAME	EIF JEREMIE	
Type of securitisation:	First Loss Portfolio Guarantee	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction:	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2018	Performing loans	
Agreed maximum portfolio volume:	EUR 85,000 thousand	
Nominal Value of reference portfolio:	BGN 20,852 thousand	
Issued guarantees by third parties:	First loss cash coverage by EIF	
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2018	BGN 0	BGN 16,681 thousand

(iii) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2017 and December 31, 2016 are as follows:

In thousands of BGN

	31.12.2018	31.12.2017
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 715 438	2 689 733
Tier 1 capital	2 715 438	2 689 733
Tier 2 capital	44 576	38 869
Total regulatory own funds	**2 760 014**	**2 728 602**
Risk Weighted Assets (RWA)		
RWA for credit risk	10 031 488	9 044 531
RWA for market risk	48 750	37 464
RWA for operational risk	923 750	903 338
RWA for credit valuation adjustments	4 463	1 150
Total Risk Weighted Assets (RWA)	**11 008 451**	**9 986 483**
CET 1 ratio	**24,67%**	**26,93%**
Tier 1 ratio	**24,67%**	**26,93%**
Total capital adequacy ratio	**25,07%**	**27,32%**
Minimum CET 1 capital requirements (4.5%)	**495 380**	**449 392**
Minimum Tier 1 capital requirements (6%)	**660 507**	**599 189**
Minimum total capital requirements (8%)	**880 676**	**798 919**
Additional capital requirements for conservation buffer (2.5%)	275 211	249 662
Additional capital requirements for systemic risk buffer (3%)	330 254	299 594
Additional capital requirements for other systemic important institution (0.5%)	55 042	-
Combined buffers additional capital requirements (6%)	**660 507**	**549 257**
Adjusted minimum CET 1 capital requirements after buffers (10% – 2017; 10.5% – 2018)	1 155 887	998 648
Adjusted minimum Tier 1 capital requirements after buffers (11.5% – 2017, 12% – 2018)	1 321 014	1 148 446
Adjusted minimum total capital requirements after buffers (13.5% – 2017, 14% – 2018)	1 541 183	1 348 175
Free equity, after buffers	**1 218 831**	**1 380 427**

5. Use of estimates and judgements

For the purposes of preparation of these consolidated financial statements Management has used certain estimates and judgement in order to provide fair and true presentation of the financial position of the Bank. These estimates and judgement require Management to use all information available in order to assess and where possible to quantify potential impact on the Bank's financial position as a result of some uncertain events.

In general the estimates and judgement are widely used in assessing:

- Fair value determination of financial instruments;
- Fair value determination of non-financial assets;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations.

(a) Fair value determination of financial instruments

As described in note **3 (i) (vi)** the Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument;
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, various option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the fair value of the financial instrument at the reporting date that would have been determined by market participants and that represents the price that would be received to sell an asset or paid to transfer liability in an orderly transaction. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to liquidity, changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation. Management judgement and estimation are usually required for selection of appropriate valuation model, determination of probability of default and prepayment speeds and selection of appropriate discount rates.

Under IFRS 13 "Fair Value Measurement" requirements, the Bank paid specific attention on assessing and revising its valuation techniques, especially with regards to valuation of OTC derivatives and other Level 2 and Level 3 financial instruments, otherwise carried at amortized cost (loans and deposits to/from customers and banks). In doing such revision the Bank has adopted UniCredit Group valuation techniques and methodologies.

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2018 and 2017 see also Note **9**).

Loans and advances to banks and customers

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2018, whenever risk-free FV deviates by more than 2% (2% in 2017) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2018 and December 31, 2017 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2018 and December 31, 2017.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017
Non-derivative financial assets held for trading	7 083	-	23 607	8 335	1 256	15 484	**31 946**	**23 819**
Derivatives held for trading	-	-	56 648	80 651	1 294	5 681	**57 942**	**86 332**
Derivatives used for hedging	-	-	496	6 339	-	-	**496**	**6 339**
Investments securities	2 516 718	2 449 394	1 198 818	1 294 781	21 213	18 726	**3 736 749**	**3 762 901**
Loans and advances to banks	-	-	1 741 842	1 240 859	542 812	388 851	**2 284 654**	**1 629 710**
Loans and advances to customers	-	-	6 610 778	2 182 388	4 874 601	8 947 661	**11 485 379**	**11 130 049**
	2 523 801	**2 449 394**	**9 632 189**	**4 813 353**	**5 441 176**	**9 376 403**	**17 597 166**	**16 639 150**
Financial liabilities held for trading	-	-	31 206	81 086	-	1 397	**31 206**	**82 483**
Derivatives used for hedging	-	-	56 901	42 898	-	-	**56 901**	**42 898**
Deposits from banks	-	-	-	1 118 075	757 463	138 916	**757 463**	**1 256 991**
Deposits from customers	-	-	50 019	5 212 102	15 763 947	10 297 900	**15 813 966**	**15 510 002**
	-	**-**	**138 126**	**6 454 161**	**16 521 410**	**10 438 213**	**16 659 536**	**16 892 374**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2018 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	INVESTMENT SECURITIES
Opening balance (January 1, 2018)	**21 165**	**18 726**
Increases	**60**	**2 487**
Profit recognized in income statement	52	2 487
Profit recognized in equity	-	-
Transfer from other levels	8	-
Decreases	**(18 675)**	**-**
Redemption	-	-
Loses recognized in income statement	(2 972)	-
Transfers to other levels	(14 280)	-
Other decreases	(1 423)	-
Closing balance (December 31, 2017)	**2 550**	**21 213**

The tables below analyse the fair value of financial instruments by classification as of December 31, 2018 and December 31, 2017.

In thousands of BGN

DECEMBER 2018	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	2 457 235	**2 457 235**	**2 457 235**
Non-derivative financial assets held for trading	7 117	24 829	-	-	-	**31 946**	**31 946**
Derivatives held for trading	57 942	-	-	-	-	**57 942**	**57 942**
Derivatives held for hedging	-	-	-	496	-	**496**	**496**
Loans and advances to banks	-	2 287 077	-	-	-	**2 287 077**	**2 284 654**
Loans and advances to customers	-	11 297 096	-	-	-	**11 297 096**	**11 485 379**
Investment securities	-	-	3 736 749	-	-	**3 736 749**	**3 736 749**
TOTAL ASSETS	**65 059**	**13 609 002**	**3 736 749**	**496**	**2 457 235**	**19 868 541**	**20 054 401**
LIABILITIES							
Financial liabilities held for trading	31 206	-	-	-	-	**31 206**	**31 206**
Derivatives used for hedging	-	-	-	56 901	-	**56 901**	**56 901**
Deposits from banks	-	-	-	-	893 751	**893 751**	**757 463**
Deposits from customers	-	-	-	-	15 824 661	**15 824 661**	**15 813 966**
TOTAL LIABILITIES	**31 206**	**-**	**-**	**56 901**	**16 718 412**	**16 806 519**	**16 659 536**

In thousands of BGN

DECEMBER 2017	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	3 729 633	**3 729 633**	**3 729 633**
Non-derivative financial assets held for trading	36	23 783	-	-	-	**23 819**	**23 819**
Derivatives held for trading	86 332	-	-	-	-	**86 332**	**86 332**
Derivatives held for hedging	-	-	-	6 339	-	**6 339**	**6 339**
Loans and advances to banks	-	1 629 431	-	-	-	**1 629 431**	**1 629 710**
Loans and advances to customers	-	10 629 087	-	-	-	**10 629 087**	**11 130 049**
Available for sale Investments	-	-	3 762 901	-	-	**3 762 901**	**3 762 901**
TOTAL ASSETS	**86 368**	**12 282 301**	**3 762 901**	**6 339**	**3 729 633**	**19 867 542**	**20 368 783**
LIABILITIES							
Financial liabilities held for trading	82 483	-	-	-	-	**82 483**	**82 483**
Derivatives used for hedging	0	-	-	42 898	-	**42 898**	**42 898**
Deposits from banks	-	-	-	-	1 258 484	**1 258 484**	**1 256 991**
Deposits from customers	-	-	-	-	15 512 999	**15 512 999**	**15 510 002**
TOTAL LIABILITIES	**82 483**	**-**	**-**	**42 898**	**16 771 483**	**16 896 864**	**16 892 374**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2018 and December 31, 2017 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **28**).

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortised cost and at FVTOCI and in In order to meet the requirements of IFRS 9, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for “regulatory” purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Bank continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(d) Provisions

Assessing the provisions, Management used estimates provided by experts in certain areas such as legal and regulatory advisors as well as credit risk specialists. Usually, more conservative approach is followed in order to protect the Bank in case of adverse development of uncertain events.

6. Segment reporting

Business segments pay and receive interest from the Asset-Liability Management Department (ALM) on arms’ length basis, through given Fund Transfer Pricing rate (FTP) to reflect the funding costs per currencies/tenors. Allocation of capital is also carried out, in proportion to respective RWA.

The Bank operates the following main business segments:

- Retail banking;
- Corporate and Investment Banking and private Banking;
- Asset-Liability Management Dept. and other.

In thousands of BGN

DECEMBER 2018	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	509 120	370 065	(317 042)	**562 143**
Dividend income	-	-	73	**73**
Net fee and commission income	232 363	122 958	(108 056)	**247 265**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	124 140	(10 352)	(16 882)	**96 906**
Net gains from financial assets mandatory at fair value	-	-	2 094	**2 094**
Net income from financial assets measured at FVTOCI	-	25 317	-	**25 317**
Other operating income	(20 339)	(30 608)	(2 740)	**(53 687)**
TOTAL OPERATING INCOME	**845 284**	**477 380**	**(442 553)**	**880 111**
Personnel expenses	(63 367)	(24 650)	(58 101)	**(146 118)**
General and administrative expenses	(63 171)	(15 706)	(26 407)	**(105 284)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 668)	(6 163)	(15 146)	**(38 977)**
Total direct expenses	**(144 206)**	**(46 519)**	**(99 654)**	**(290 379)**
Allocation of indirect and overhead expenses	(51 238)	(30 728)	81 966	**-**
TOTAL OPERATING EXPENSES	**(195 444)**	**(77 247)**	**(17 688)**	**(290 379)**
Provisions for risk and charges	-	-	(42 608)	**(42 608)**
Net impairment loss on financial assets	(35 343)	(79 336)	39 068	**(75 611)**
Net income related to property, plant and equipment	-	-	8 128	**8 128**
PROFIT BEFORE INCOME TAX	**614 497**	**320 797**	**(455 653)**	**479 641**
Income tax expense	(61 450)	(32 080)	45 373	**(48 157)**
PROFIT FOR THE YEAR	**553 047**	**288 717**	**(410 280)**	**431 484**
ASSETS	**2 881 409**	**8 685 865**	**8 648 130**	**20 215 404**
LIABILITIES	**9 666 173**	**6 543 450**	**828 709**	**17 038 332**

In thousands of BGN

DECEMBER 2017	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	441 516	381 415	(229 886)	**593 045**
Dividend income	-	-	3 471	**3 471**
Net fee and commission income	216 890	120 502	(107 625)	**229 767**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	95 103	9 956	(19 109)	**85 950**
Net income from investments	-	9 153	143	**9 296**
Other operating income	(19 323)	(26 887)	(7 144)	**(53 354)**
TOTAL OPERATING INCOME	**734 186**	**494 139**	**(360 150)**	**868 175**
Personnel expenses	(58 348)	(23 773)	(56 666)	**(138 787)**
General and administrative expenses	(60 083)	(15 400)	(25 913)	**(101 396)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 104)	(5 739)	(11 318)	**(34 161)**
Total direct expenses	**(135 535)**	**(44 912)**	**(93 897)**	**(274 344)**
Allocation of indirect and overhead expenses	(50 085)	(29 339)	79 424	**-**
TOTAL OPERATING EXPENSES	**(185 620)**	**(74 251)**	**(14 473)**	**(274 344)**
Provisions for risk and charges	-	-	(6 026)	**(6 026)**
Net impairment loss on financial assets	(10 565)	(130 066)	(2 182)	**(142 813)**
Net income related to property, plant and equipment	-	-	13 721	**13 721**
PROFIT BEFORE INCOME TAX	**538 001**	**289 822**	**(369 110)**	**458 713**
Income tax expense	(53 800)	(28 982)	36 311	**(46 471)**
PROFIT FOR THE YEAR	**484 201**	**260 840**	**(332 799)**	**412 242**
ASSETS	**2 740 606**	**8 344 636**	**9 175 105**	**20 260 347**
LIABILITIES	**8 617 358**	**7 201 759**	**1 241 484**	**17 060 601**

7. Net interest income

In thousands of BGN

	2018	2017
Interest income		
Financial assets held for trading	227	34
Derivatives held for trading	209	13
Loans and advances to banks	6 615	9 411
Loans and advances to customers	534 094	576 001
Available for sale investments	66 371	67 966
	607 516	**653 425**
Interest expense		
Derivatives held for trading	(16)	(16)
Derivatives used for hedging	(19 595)	(20 218)
Deposits from banks	(21 319)	(29 215)
Deposits from customers	(4 443)	(10 931)
	(45 373)	**(60 380)**
Net interest income	**562 143**	**593 045**

For the financial years ended December 31, 2018 and December 31, 2017 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 13 356 thousand and BGN 21 873 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2018	2017
Fee and commission income		
Collection and payment services	141 911	127 948
Lending business	30 477	21 382
Account services	25 202	24 457
Management, brokerage and securities trading	7 862	13 089
Documentary business	18 933	19 240
Package accounts	21 469	19 178
Other	30 266	30 996
	276 120	**256 290**
Fee and commission expense		
Collection and payment services	(25 975)	(22 716)
Management, brokerage and securities trading	(930)	(1 476)
Lending business	(167)	(143)
Other	(1 783)	(2 188)
	(28 855)	**(26 523)**
Net fee and commission income	**247 265**	**229 767**

9. Net gains on financial assets and liabilities held for trading and hedging derivatives

In thousands of BGN

	2018	2017
FX trading income, net	88 594	78 353
Net income from debt instruments	465	710
Net income from equity instruments	(207)	-
Net income from derivative instruments	7 061	6 450
Net income from other trading instruments	1 046	564
Net income from hedging derivative instruments	(53)	(127)
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	**96 906**	**85 950**

The total CVA (net of DVA) for the years ended December 31, 2018 and December 31, 2017, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 444 thousand and BGN (1 202) thousand, respectively.

10. Net gains from financial assets mandatorily at fair value

In thousands of BGN

	2018	2017
Equity investments	2 192	-
Loans and advances	(98)	-
Net gains from financial assets mandatorily at fair value	**2 094**	**-**

11. Net income from financial assets measured at FVTOCI/Net income from available for sale investments

In thousands of BGN

	2018	2017
Realised gains on disposal of debt sequrities	25 145	9 153
Other	172	143
Net income from financial assets in AFS portfolio/ measured at FVTOCI	**25 317**	**9 296**

12. Other operating expenses, net

In thousands of BGN

	2018	2017
Other operating income		
Income from non-financial services	3 026	2 215
Rental income	5 487	617
Other income	4 884	3 946
	13 397	**6 778**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(60 766)	(53 546)
Impairment of foreclosed properties	(2 145)	(2 637)
Other operating expenses	(4 173)	(3 949)
	(67 084)	**(60 132)**
Other operating income (expenses), net	**(53 687)**	**(53 354)**

In 2018 and 2017 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2018 and December 31, 2017 the gains are in the amount of BGN 8 128 thousand and BGN 13 721 thousand, respectively.

14. Personnel expenses

In thousands of BGN

	2018	2017
Wages and salaries	(122 619)	(115 157)
Social security charges	(16 995)	(15 302)
Pension and similar expenses	(667)	(607)
Temporary staff expenses	492	(2 138)
Share-based payments	(1 868)	(2 225)
Other	(4 461)	(3 358)
Total personnel expenses	**(146 118)**	**(138 787)**

As of December 31, 2018 the total number of employees, expressed in full time employee equivalent is 4 138 (December 31, 2017: 4 147).

As described in note 3 (p) (iii) ultimate parent company UniCredit S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.

The table below analyses the costs and movement in the Bank's liability by type of instruments granted:

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2017	2018 COST (GAINS)	SETTLED IN 2018	ECONOMIC VALUE AT DECEMBER 31, 2018
Deferred Short Term Incentive (ordinary shares)	6 266	1 828	(484)	**7 610**
ESOP and shares for Talents	112	40	-	**152**
Total Options and Shares	**6 378**	**1 868**	**(484)**	**7 762**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **36**.

16. General and administrative expenses

In thousands of BGN

	2018	2017
Advertising, marketing and communications	(9 422)	(11 191)
Credit information and searches	(2 567)	(2 523)
Information, communication and technology expenses	(40 928)	(37 284)
Consulting, audit and other professionals services	(3 470)	(2 478)
Real estate expenses	(12 025)	(12 227)
Rents	(14 289)	(13 953)
Travel expenses and car rentals	(2 342)	(2 125)
Insurance	(1 543)	(1 491)
Supply and miscellaneous services rendered by third parties	(12 749)	(12 608)
Other costs	(5 949)	(5 516)
Total general and administrative expenses	**(105 284)**	**(101 396)**

For 2018 the fees for audit services provided by the auditing companies amount to BGN 1 102 thousand (BGN 1 010 thousand for 2017).

17. Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale

In thousands of BGN

	2018	2017
Depreciation charge	(38 226)	(34 161)
Impairment	(751)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(38 977)**	**(34 161)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the year ended December 31, 2018 the impairment of fixed assets is amounting to BGN 751 thousand, while as of December 31, 2017 there is no impairment of fixed assets.

18. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **36**).

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it are presented into profit and loss.

In thousands of BGN

	2018	2017
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(73 101)	(1 838)
Legal cases provisions	(8 295)	(4 352)
Other provisions	(867)	(250)
	(82 263)	**(6 440)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	32 758	-
Legal cases provisions	6 897	414
	39 655	**414**
Net provisions charge	**(42 608)**	**(6 026)**

19. Net Impairment loss on financial assets

In thousands of BGN

	2018	2017
Balance 1 January		
Loans and advances to customers	761 864	1 008 788
IFRS 9 FTA effect	61 528	-
Increase		
Loans and advances to customers	401 801	348 416
Decrease		
Loans and advances to customers	(263 479)	(177 515)
Recoveries from loans previously written-off	(63 669)	(28 088)
	(327 148)	**(205 603)**
Net impairment losses	74 653	142 813
FX revaluation effect on imparment allowances	811	(376)
Other movements	(2 494)	12
Written-off		
Loans and advances to customers	(312 195)	(417 461)
Balance December 31		
Loans and advances to customers	647 836	**761 864**

In thousands of BGN

	2018	2017
Balance 1 January		
Loans and advances to banks	-	-
IFRS 9 FTA effect	**541**	
Increase		
Loans and advances to banks	568	-
Decrease		
Loans and advances to banks	(478)	-
Net impairment losses	90	-
Balance December 31		
Loans and advances to banks	**631**	**-**

In thousands of BGN

	2018	2017
Balance 1 January		
Balances with Central Bank	-	-
IFRS 9 FTA effect	**137**	
Increase		
Balances with Central Bank	37	-
Decrease		
Balances with Central Bank	(119)	-
Net impairment losses	(82)	
Balance December 31		
Balances with Central Bank	**55**	**-**

In thousands of BGN

	2018	2017
Balance 1 January		
Financial assets at fair value through OCI	-	
IFRS 9 FTA effect	**2 002**	
Increase		
Financial assets at fair value through OCI	1 604	
Decrease		
Financial assets at fair value through OCI	(654)	
Net impairment losses	950	
Balance December 31		
Financial assets at fair value through OCI	**2 952**	**-**

In thousands of BGN

	2018	2017
Net impairment losses on Loans and advances to customers	74 653	142 813
Net impairment losses on Loans and advances to banks	90	-
Net impairment losses on Balances with Central Bank	(82)	-
Net impairment losses on Financial assets at fair value through OCI	950	-
Total net impairment loss on financial assets	**75 611**	**142 813**

20. Income tax expense

Taxation is payable at a statutory rate of 10% on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10%, applicable for 2018.

The breakdown of tax charges in the income statement is as follows:

In thousands of BGN

	2018	2017
Current tax	(37 665)	(59 715)
Deferred tax income (expense) related to origination and reversal of temporary differences	(10 662)	13 244
(Overprovided)/underprovided prior year deferred tax	101	(434)
(Overprovided)/underprovided prior year current tax	69	434
Income tax expense	**(48 157)**	**(46 471)**

The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN

	2018	2017
Accounting profit before tax	**479 641**	**458 713**
Corporate tax at applicable tax rate (10% for 2018 and 2017)	(47 964)	(45 871)
Tax effect of non taxable revenue	560	375
Tax effect of non tax deductible expenses	(753)	(776)
Underprovided prior year income tax	-	(199)
Income tax expense	**(48 157)**	**(46 471)**
Effective tax rate	**10,04%**	**10,13%**

21. Cash and balances with Central bank

In thousands of BGN

	31.12.2018	31.12.2017
Cash in hand and in ATM	231 126	203 768
Cash in transit	140 491	104 662
Current account with Central Bank	2 085 618	3 421 203
Total cash and balance with Central Bank	**2 457 235**	**3 729 633**

22. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Government bonds	3 400	36
Equities	3 717	-
Loans	24 829	23 783
Total non-derivative financial assets held for trading	**31 946**	**23 819**

Financial assets held for trading comprise bonds that the Bank holds for the purpose of short-term profit taking, by selling or repurchasing them in the near future.

Trading loans consist of prepaid forward transaction with customer.

23. Derivatives held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Interest rate swaps	33 516	37 182
Equity options	-	2 731
FX forward contracts	17 484	8 031
FX swaps	3 338	2 609
Commodity swaps	192	10 897
Commodity options	3 412	24 882
Total trading derivatives	**57 942**	**86 332**

Derivatives consist of trading instruments that have positive market value as of December 31, 2018 and December 31, 2017. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

24. Derivatives held/used for hedging

As described in Note **3 (k),** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits).

Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

25. Loans and advances to banks

In thousands of BGN

	31.12.2018	31.12.2017
Loans and advances to banks	2 183 478	1 276 391
Current accounts with banks	104 230	353 040
Loans and advances to banks at amortized cost	**2 287 708**	**1 629 431**
Less impairment allowances	(631)	
Total loans and advances to banks	**2 287 077**	**1 629 431**

26. Loans and advances to customers

In thousands of BGN

	31.12.2018	31.12.2017
Companies	7 059 730	6 927 408
Individuals		
Housing loans	1 928 599	1 753 565
Consumer loans	1 597 723	1 386 957
Other loans	86 621	98 813
Central and local governments	373 565	324 068
Finance leases	894 077	900 140
	11 940 315	**11 390 951**
Less impairment allowances	(647 836)	(761 864)
Loans and advances to customers at amortized cost	**11 292 479**	**10 629 087**
Loans and advances to customers mandatorily at fair value	**4 617**	**-**
Total loans and advances to customers	**11 297 096**	**10 629 087**

27. Investment securities

In thousands of BGN

	31.12.2018	31.12.2017
Securities measured at FVTOCI		
Government bonds	3 315 220	3 479 519
Bonds of other financial institutions	263 958	264 050
Corporate bonds	135 711	-
Equities	11 660	19 332
Securities mandatorily measured at FV		
Equities	10 200	
Total Investment securities	**3 736 749**	**3 762 901**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2018 are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

Equities presented comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

As of December 31, 2017 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized.

As of December 31, 2018 and December 31, 2017 there are pledged investments amounting to BGN 101 962 thousand, and BGN 29 733 thousand, respectively (see also Note **40**).

28. Investments in associates

As of December 31, 2018 and December 31, 2017 there is only one associated company, where the Bank exercises significant influence by holding 20% of the share capital of that company. This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2018 and December 31, 2017 are as follows:

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2018
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20,0%	2 756
		Total	**2 756**

In thousands of BGN

Cash Service Company AD	2018	2017
Total assets	14 462	14 256
Total liabilities	679	670
Revenue	6 906	6 774
Net profit for the year	858	722

29. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2017	**3 591**	**151 360**	**11 570**	**67 707**	**70 054**	**67 207**	**371 489**
Additions	-	5 892	1 086	12 049	41 081	-	**60 108**
Transfers	-	-	(37)	78	(1 150)	9 923	**8 814**
Write-offs	-	(849)	(160)	(2 187)	(3 271)	(776)	**(7 243)**
Disposals	-	(138)	-	(231)	(2 459)	(52 952)	**(55 780)**
As of December 31, 2018	**3 591**	**156 265**	**12 459**	**77 416**	**104 255**	**23 402**	**377 388**
Depreciation							
As of December 31, 2017	**-**	**76 973**	**7 506**	**45 398**	**41 728**	**3 539**	**175 144**
Depreciation charge	-	6 983	1 945	8 301	10 759	1 562	**29 550**
Impairment	-	-	-	-	-	751	**751**
Write-offs	-	(849)	(160)	(2 185)	(2 919)	(776)	**(6 889)**
On disposals	-	(73)	-	(231)	(2 317)	(3 728)	**(6 349)**
Transfers	-	-	(321)	-	(1 187)	(10)	**(1 518)**
As of December 31, 2018	**-**	**83 034**	**8 970**	**51 283**	**46 064**	**1 338**	**190 689**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 489**	**26 133**	**58 191**	**22 064**	**186 699**
Net book value as of December 31, 2017	**3 591**	**74 387**	**4 064**	**22 309**	**28 326**	**63 668**	**196 345**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2016	**5 591**	**156 959**	**10 742**	**77 374**	**59 762**	**81 110**	**391 538**
Additions	-	5 133	1 121	7 803	19 213	70	**33 340**
Transfers	(2 000)	(10 125)	9	30	(39)	(909)	**(13 034)**
Write-offs	-	(447)	(302)	(10 751)	(8 542)	-	**(20 042)**
Disposals	-	(160)	-	(6 749)	(340)	(13 064)	**(20 313)**
As of December 31, 2017	**3 591**	**151 360**	**11 570**	**67 707**	**70 054**	**67 207**	**371 489**
Depreciation							
As of December 31, 2016	**-**	**75 554**	**6 322**	**56 374**	**41 601**	**13 328**	**193 179**
Depreciation charge	-	6 757	1 486	6 488	8 907	2 272	**25 910**
Impairment	-	-	-	-	-	-	**-**
Write-offs	-	(447)	(302)	(10 748)	(8 527)	-	**(20 024)**
On disposals	-	(82)	-	(6 716)	(253)	(12 029)	**(19 080)**
Transfers	-	(4 809)	-	-	-	(32)	**(4 841)**
As of December 31, 2017	**-**	**76 973**	**7 506**	**45 398**	**41 728**	**3 539**	**175 144**
Net book value as of December 31, 2017	**3 591**	**74 387**	**4 064**	**22 309**	**28 326**	**63 668**	**196 345**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 420**	**21 000**	**18 161**	**67 782**	**198 359**

Items of property, plant, equipment and investment property are carried at cost less any accumulated depreciation and adjusted for impairment, if any.

As part of the year-end closing procedure, Bank has assessed all items of property, plant, equipment and investment properties for existence of any impairment indicators. For non-real estate items, impairment is usually recognized when those items are found to be obsoleted or their usage is planned to be discontinued. In such cases the recoverable amount on those items is reasonably assessed to be immaterial (close to zero), therefore the remaining carrying amount is fully impaired.

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2018 and December 31, 2017 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2018 and December 31, 2017 amount to BGN 751 thousand and BGN 0 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2018 and December 31, 2017. The fair values of investment properties as of December 31, 2018 and December 31, 2017 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2018	2017	2018	2017
Investment properties				
Land	8 055	10 211	8 297	10 432
Buildings	14 009	53 457	14 857	55 349
Total investment properties	**22 064**	**63 668**	**23 154**	**65 781**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2017	**111 051**
Additions	18 550
Write-offs	(148)
Transfers	25
As of December 31, 2018	**129 478**
Depreciation	
As of December 31, 2017	**73 027**
Depreciation charge	8 676
Write-offs	(148)
As of December 31, 2018	**81 555**
Net book value as of December 31, 2018	**47 923**
Net book value as of December 31, 2017	**38 024**

In thousands of BGN

Cost	
As of December 31, 2016	**92 530**
Additions	18 773
Write-offs	(252)
As of December 31, 2017	**111 051**
Depreciation	
As of December 31, 2016	**65 028**
Depreciation charge	8 251
Write-offs	(252)
As of December 31, 2017	**73 027**
Net book value as of December 31, 2017	**38 024**
Net book value as of December 31, 2016	**27 502**

31. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2018 reported current tax assets are in the amount of BGN 368 thousands and as of December 31, 2017 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the years 2018 and 2017, respectively.

FTA tax effect (tax reduction) of IFRS 9 is amounting to BGN 8 163 and is considered in full in the 2018 as first year of implementation.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2018 and December 31, 2017 is as outlined below:

In thousands of BGN

	31.12.2018	31.12.2017
Property, plant, equipment, investment property and intangible assets	5 355	3 353
Provisions	(4 187)	(3 755)
Actuarial gains (losses)	(502)	(413)
Other liabilities	(8 365)	(7 799)
Tax losses carried forward	-	-
Net tax (assets) liabilities	**(7 699)**	**(8 614)**

The movements of deferred tax assets and liabilities on net basis throughout 2018 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2017	IFRS 9 FTA	BALANCE 01.01.2018	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2018
Property, plant, equipment, investment property and intangible assets	3 353	-	3 353	2 002	-	5 355
Available for sale investments	-	-	-	9 856	(9 856)	-
Provisions	(3 755)	293	(3 462)	(725)	-	(4 187)
Actuarial gains (losses)	(413)	-	(413)	-	(89)	(502)
Cash flow hedge	-	-	-	(6)	6	-
Other liabilities	(7 799)	-	(7 799)	(566)	-	(8 365)
Net tax (assets) liabilities	**(8 614)**	**293**	**(8 321)**	**10 561**	**(9 939)**	**(7 699)**

33. Other assets

In thousands of BGN

	31.12.2018	31.12.2017
Receivables and prepayments	40 878	62 862
Receivables from the State Budget	1 430	1 775
Materials, spare parts and consumables	1 723	3 834
Other assets	6 329	6 807
Foreclosed properties	50 944	71 768
Total other assets	**101 304**	**147 046**

34. Financial liabilities held for trading

In thousands of BGN

	31.12.2018	31.12.2017
Interest rate swaps	18 979	20 906
FX forward contracts	7 738	22 532
Equity options	-	2 731
FX swaps	891	454
Commodity swaps	189	10 933
Commodity options	3 409	24 927
Total trading liabilities	**31 206**	**82 483**

35. Deposits from banks

In thousands of BGN

	31.12.2018	31.12.2017
Current accounts and overnight deposits		
Local banks	261 708	276 085
Foreign banks	54 549	60 386
	316 257	**336 471**
Deposits		
Local banks	122 674	47 715
Foreign banks	445 515	839 927
	568 189	**887 642**
Other	**9 305**	**34 371**
Total deposits from banks	**893 751**	**1 258 484**

36. Deposits from customers

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date.

As of December 31, 2018 and December 31, 2017 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

In thousands of BGN

	31.12.2018	31.12.2017
Current accounts		
Individuals	2 805 041	2 264 189
Corporate	6 038 911	6 216 407
Budget and State companies	269 018	261 149
	9 112 970	**8 741 745**
Term deposits		
Individuals	4 562 579	4 363 189
Corporate	508 390	755 093
Budget and State companies	52 866	62 543
	5 123 835	**5 180 825**
Saving accounts	**1 507 163**	**1 457 596**
Transfers in execution process	**53 255**	**106 936**
Other	**27 438**	**25 897**
Total deposits from customers	**15 824 661**	**15 512 999**

37. Provisions

The movement in provisions for the years ended December 31, 2018 and December 31, 2017 is as follows:

In thousands of BGN

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES (a)	LEGAL CASES (b)	RETIREMENT BENEFITS (c)	CONSTRUCTIVE OBLIGATIONS (d)	OTHER (e)	TOTAL
Balance as of December 31, 2016	**392**	**28 394**	**7 356**	**302**	**523**	**36 967**
Allocations	1 838	4 352	607	-	250	**7 047**
Releases	-	(414)	-	-	-	**(414)**
Additions due to FX revaluation	143	2 116	-	-	-	**2 259**
Releases due to FX revaluation	(190)	(2 819)	-	-	-	**(3 009)**
Actuarial gains/losses recognized in OCI	-	-	1 410	-	-	**1 410**
Utilization	-	(1 699)	(361)	-	(254)	**(2 314)**
Balance as of December 31, 2017	**2 183**	**29 930**	**9 012**	**302**	**519**	**41 946**
IFRS 9 FTA effect	**13 761**	**-**	**-**	**-**	**-**	**13 761**
Balance as of January 1, 2018	**15 944**	**29 930**	**9 012**	**302**	**519**	**55 707**
Allocations	73 101	8 295	667	-	867	**82 930**
Releases	(32 758)	(6 897)	-	-	-	**(39 655)**
Additions due to FX revaluation	243	2 565	-	-	-	**2 808**
Releases due to FX revaluation	(217)	(2 324)	-	-	-	**(2 541)**
Actuarial gains/losses recognized in OCI	-	-	895	-	-	**895**
Utilization	-	(438)	(327)	-	(244)	**(1 009)**
Balance as of December 31, 2018	**56 313**	**31 131**	**10 247**	**302**	**1 142**	**99 135**

(a) Provisions on letters of guarantees and credit commitment

For 2017 provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events. As of December 31, 2017 the Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 2 183 thousand.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2018 accumulated provisions are in the amount of BGN 56 313 thousand.

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future. As of December 31, 2018 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 31 131 thousand has been recognized (BGN 29 930 thousand as of December 31, 2017).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2018 defined benefit obligation are as follows:

- Discount rate – 0.75%;
- Salary increase – 5% p.a.;
- Retirement age: Men 64 years, women 61 years for 2018 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2018 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2017	**9 012**
Current service costs for 2018	583
Interest cost for 2018	84
Actuarial losses recognized in OCI in 2018	895
Benefits paid	(327)
Recognized defined benefit obligation as of December 31, 2018	**10 247**
Interest rate beginning of the year	1,00%
Interest rate end of the year	0,75%
Future increase of salaries	5,00%
Expected 2019 service costs	656
Expected 2019 interest costs	72
Expected 2019 benefit payments	**1 547**

Current service cost and interest cost are presented under Personnel expenses (See note **14**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2018	2017
Sensitivity – Discount rate +/- %	0,25%	0,25%
DBO Discount rate -	10 528	9 260
DBO Discount rate +	9 979	8 776
Sensitivity – Salary increase rate +/- %	0,25%	0,25%
DBO Salary increase rate -	9 989	8 784
DBO Salary increase rate +	10 515	9 250

(d) Provisions on constructive obligation

In the course of regular business, the Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria.

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2018 and December 31, 2017 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates.

(e) Other provision

Other provisions in the amount of BGN 1 142 thousand as of December 31, 2018 (BGN 519 thousand as of December 31, 2017) relates to coverage of claims related to credit cards business as well as other claims.

38. Other liabilities

In thousands of BGN

	31.12.2018	31.12.2017
Liabilities to the State budget	4 040	4 227
Liabilities to personnel	28 098	30 338
Liabilities for unused paid leave	6 580	5 805
Dividends	820	706
Incentive plan liabilities	7 861	6 510
Other liabilities	82 224	69 124
Total other liabilities	**129 623**	**116 710**

Liabilities to the State Budget include current liabilities related to different tax positions of the Bank.

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2018 and 2017 in accordance with the defined target settings and adopted incentive programs.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

As described in note **3 (p) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **14** above.

39. Equity

(a) Share capital

As of December 31, 2018 and December 31, 2017 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years.

The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

In 2018 IFRS 9 FTA effect amounting net to BGN 67 749 thousand was booked against retained earnings of the Bank.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 “Employee Benefits”.

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2018 and December 31, 2017 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 25 145 thousand and BGN 9 153 thousand, respectively, net of tax.

In 2018 IFRS 9 FTA effect amounting net to BGN 254 thousand was booked against the Revaluation reserves of the Bank.

40. Contingent liabilities

In thousands of BGN

	31.12.2018				31.12.2017
	STAGE 1	STAGE 2	STAGE 3	TOTAL	
Letters of credit and letters of guarantee	2 183 831	90 599	18 048	2 292 478	1 715 064
Credit commitments	1 607 757	61 482	58 710	1 727 949	1 783 383
Total contingent liabilities	**3 791 588**	**152 081**	**76 758**	**4 020 427**	**3 498 447**

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2017 the Bank has made assessment in compliance with IAS 37 “Provisions, Contingent liabilities and Contingent assets”. Due to abnormal credit risk related to certain clients’ exposures, Bank’s Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **36**).

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

(b) Litigation

As of December 31, 2018 and December 31, 2017 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these consolidated financial statements as of December 31, 2018 are in the amount of BGN 31 131 thousand (BGN 29 930 thousand in 2017), (see also Note 36).

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients’ disposal.

As of December 31, 2018 and December 31, 2017 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

41. Assets pledged as collateral

In thousands of BGN

	31.12.2018	31.12.2017
Securities pledged for budget holders' account service	49 455	-
Securities pledged on REPO deals	52 507	29 733
Loans pledged for budget holders' account service	254 886	254 886
Loans pledged on other deals	55 602	95 923
	412 450	**380 542**
Pledged assets include:		
Investment securities	101 962	29 733
Loans and advances	310 488	350 809
	412 450	**380 542**

Securities and loans pledged on other deals include those contractually pledged on long-term financing provided to the Bank by local and foreign institutions.

42. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as "parent companies"). In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit S.p.A was performed thus leading to change of the Bank's main shareholder to UniCredit S.p.A.

In addition the Bank has relatedness with associates (see also Note 27), as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2018 and December 31, 2017 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2018	PARENT COMPANIES	OTHER RELATED PARTIES	TOTAL
ASSETS			
Financial assets held for trading	455	15 508	**15 963**
Financial assets held for hedging	-	496	**496**
Current accounts and deposits placed	2 142 491	57 812	**2 200 303**
Extended loans		34 062	**34 062**
Other assets	5 147	2 434	**7 581**
LIABILITIES			
Current accounts and deposits taken	87 815	352 345	**440 160**
Derivatives held for trading	3 049	16 218	**19 267**
Derivatives used for hedging	37 960	18 941	**56 901**
Other liabilities	8 508	786	**9 294**
Guarantees received by the Group	**51 462**	**61 568**	**113 030**

In thousands of BGN

AS OF DECEMBER 31, 2017	PARENT COMPANIES	OTHER RELATED PARTIES	TOTAL
ASSETS			
Financial assets held for trading	473	14 752	**15 225**
Financial assets held for hedging	495	5 844	**6 339**
Current accounts and deposits placed	1 116 334	205 373	**1 321 707**
Extended loans		23 321	**23 321**
Other assets	3 093	2 330	**5 423**
LIABILITIES	168 147	657 304	**825 451**
Current accounts and deposits taken	12 114	55 791	**67 905**
Derivatives held for trading	32 712	10 186	**42 898**
Derivatives used for hedging	8 860	2 071	**10 931**
Other liabilities			
Guarantees received by the Group	**51 462**	**61 568**	**113 030**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2018	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	4 213	-	553	**4 766**
Interest expenses	(14 778)	-	(20 459)	**(35 237)**
Dividends	-	128	-	**128**
Fee and commissions income	165	-	636	**801**
Fee and commissions expenses	(19)	-	(685)	**(704)**
Net gains (losses) on financial assets and liabilities held for trading	6 277	-	50 640	**56 917**
Other operating income	625	-	(329)	**296**
Administrative and personnel expenses	(2 378)	(898)	(11 430)	**(14 706)**
Total	**(5 895)**	**(770)**	**18 926**	**12 261**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2017	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	8 562	-	288	**8 850**
Interest expenses	(12 631)	-	(25 559)	**(38 190)**
Dividend income	-	191	-	**191**
Fee and commissions income	1 016	-	1 919	**2 935**
Fee and commissions expenses	(42)	-	(476)	**(518)**
Net gains (losses) on financial assets and liabilities held for trading	(21 384)	-	(151 606)	**(172 990)**
Other operating income	633	-	(428)	**205**
Administrative and personnel expenses	(2 131)	(914)	(11 155)	**(14 200)**
Total	**(25 977)**	**(723)**	**(187 017)**	**(213 717)**

As of December 31, 2018 the loans extended to key management personnel amount to BGN 1 024 thousand (BGN 975 thousand in 2017). For the year ended December 31, 2018 the compensation paid to key management personnel amounts to BGN 5 612 thousand (BGN 6 663 thousand in 2017).

43. Cash and cash equivalents

In thousands of BGN

	31.12.2018	31.12.2017
Cash in hand and in ATM	231 126	203 768
Cash in transit	140 491	104 662
Current account with the Central Bank	2 085 618	3 421 203
Current accounts with banks	104 230	353 040
Placements with banks with original maturity less than 3 months	13 997	312 612
Total cash and cash equivalents	**2 575 462**	**4 395 285**

44. Leasing

The Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars. Summary of non-cancellable minimum lease payments as of December 31, 2018 and December 31, 2017 are presented in the tables below:

(a) Financial lease contracts, where the Bank is a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Up to one year	329 007	429 505	308 256	324 891
Between one and five years	519 051	494 869	491 755	460 939
Beyond five years	40 872	40 313	37 599	37 204
Total	**888 930**	**964 687**	**837 610**	**823 034**

(b) Operating lease contracts where the Bank acts as a lessee

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2018	31.12.2017
Up to one year	6 608	7 097
Between one and five years	7 580	10 561
Beyond five years	3 092	6 808
Total	**17 280**	**24 466**

(c) Operating lease contracts where the Bank acts as a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2018	31.12.2017
Up to one year	5 404	1 416
Between one and five years	21 245	4 974
Beyond five years	0	0
Total	**26 649**	**6 390**

45. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2018 and December 31, 2017 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of consolidated quantitative mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these consolidated financial statements or other mandatory reports are as follows:

In thousands of BGN

	2018	2017	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	880 111	868 175	Consolidated Income Statement and details in Notes 7, 8, 9, 10, 11 and 12
Profit before income tax	479 641	458 713	Consolidated Income Statement
Income tax expense	(48 157)	(46 471)	Consolidated Income Statement and details in Notes 19
Return on average assets(%)	2,1%	2,0%	2017 Annual Report on Activity
Full time equivalent number of personnel as of December 31	4 138	4 147	Note 14

UniCredit Bulbank AD has never requested or been provided any state grants or subsidies.

Bank Network

Aitos
27, Stancionna str. (0558) 29 600; 29 609; 29 607;

Asenovgrad
8, Radi Ovcharov str. (0331) 228 33; 228 31; 228 34

Balchik
34A, Cherno more str. (0579) 711 15; 711 16; 711 12
3, Ivan Vazov str. (0579) 740 61

Bansko
3, Pirin str. (0749) 86 616

Berkovitsa
1, Yordan Radichkov sq. (0953) 88 787; 88 282;

Blagoevgrad
1, Macedonia sq. (073) 86 70 28; 86 70 16; 86 70 17; 8670 27; 8670 25
5, St. Dimitur Solunski str. (073) 834 074
17, Zelenopolsko shose str. (02) 9264786
22, Ivan Shishman str. (073) 828 625; 828 637; 828 619
57, Vasil Levski blvd. (073) 828 475
18, St. Kiril and Metodius blvd. (073) 82 87 28; 82 87 11; 82 87 19

Bojurishte
85, Evropa blvd. (02) 9938 845; 9938 843

Botevgrad
24, Saransk sq. (0723) 668 72; 668 71;

Burgas
22, Alexandrovska str. (056) 877 241; 877 233
Izgrev district, 53, Transportna str. (02) 9264 733
103, Stefan Stambolov blvd. (02) 9264 731
22, Alexandrovska str.
22, Alexandrovska str. (056) 877 234; (056) 877 228; (056) 877 155
68 70, Hristo Botev str. (056) 806 811; 806 813; 608 817;
104, Democracia blvd. (056) 874 136; 874 114; 874 12; 874 130
Slaveikov district, block 46 (056) 896 685; 896 686;
94 block of Slaveikov District (056) 581 218
Burgas, Meden rudnik, 118 (056) 871 942; 871 943; 871 944; 871 946;
Burgas, zh.k. Izgrev, 187 (056) 598 281; 598 282; 598 283

Chepelare
1, Han Asparuh str. (03051) 20 35; 31 95

Chirpan
2, Yavorov str. (0416) 90100; (0416) 90103; (0416) 90104, 90105

Damyanitsa Technopolis
Damyanitsa (0988) 121 575

Devnia
Devnia in the building of Solvei Sodi (05199) 971 22; (05199) 971 23

Dimitrovgrad
4B, Bulgaria blvd. (0391) 68 610; (0391) 68 623; (0391) 68 620; (0391) 68 615

Dobrich
3, Bulgaria str. (058) 655 731; (058) 655 733; (058) 655 728

DWP Dobrich
7, Nezavisimost str. (058) 653 072

Dobrich Technopolis
54, Okolovrusten put Dobrotica (058) 600 650

Dulovo
14, Vasil Levski str. (0864) 21 060; (0864) 21 062;

Dupnitza
3, Ivan Vazov str. (0701) 599 14; 599 13; 599 15; 599 12

Elin Pelin
5, Nezavisimost sq. (0725) 688 18; (0725) 688 12; (0725) 688 25; (0725) 688 17

Etropole
18 A, M. Gavrailova str. (0720) 672 22; (0720) 623 11

Gabrovo
13, Radecki str. (066) 814 206; (066) 814 245; (066) 814 295; (066) 814 215

Galabovo
8, dr. Jekov str. (0418) 62 224; 62 380; 64 020

General Toshevo
5, Treti Mart str. (05731) 21 37

Godech
2, Svoboda sq. (0729) 223 06

Gorna Orjahovitsa
1A, M. Todorv str. (0618) 6 81 12; 13; 22

Gotse Delchev
11, Byalo More str. (0751) 69620, 696 23, 696 24, 696 31, 696 32

Harmanli
1, Vazrajdane sq. (0373) 80 061; (0373) 80 063; (0373) 80 074

Haskovo
4, Han Kubrat str. (038) 602 742; (038) 602 741; (038) 602 711; (038) 602 728;

Haskovo Technopolis
Haskovo Tehnopolis (032) 905891

Ihtiman
8, Polk. B. Drangov str. (0724) 87 724; (0724) 87 723

Kardzhali
51, Bulgaria blvd. (0361) 670 20; 670 21; 670 22; 670 17
4, Belomorski blvd. (0361) 61 077

Bank Network (continued)

Karlovo

2, Vodopad str.	(0335) 905 25; 905 26; 905 46; 905 45; 905 39; 905 18

Karnobat

14, Bulgaria blvd.	(0559) 28 821; 28 819; 28 803

Kavarna

37, Dobrotica str.	(0570) 811 11; 811 12; 811 16

Kazanlak

4, Rozova Dolina str.	(0431) 68 135; (0431) 68 125; (0431) 68 142

Kyustendil

5, Gueshevo shosse str.	(078) 541 234
39, Democracy str.	(078) 559 613; (078) 559 611

Knezha

5, Nikola Petkov str.	(09132) 67 50; (09132) 73 94

Kostenets

2, Belmeken str.	(07142) 22 52; (07142) 35 58

Kostinbrod

7, Ohrid str.	(0721) 681 25,(0721) 681 27; (0721) 681 17; (0721) 681 28

Kozlodui

Kozlodui Nuclear Plant	(0973) 73 677
1, Kiril I Metodii str.	(0973) 80 004

Lom

14, Dunavska str.	(0971) 68762

Lovech

10, Akad Ishirkov str.	(068) 68 99 43; (068) 68 99 42

Mezdra

8, Georgi Dimitrov str.	(0910) 92078; (0910) 92 386

Montana

72, Treti Mart blvd	(096) 391 957; (096) 391 954; (096) 391 953
216 Treti Mart blvd.	(096) 300 393

Nessebar

Nesebar, 38, Han Krum str.	(0554) 219 21; 219 23; 219 25; 219 27; 219 28; 219 30
10, Zedelvais str.	(0554) 44 081

Nova Zagora

49, Vasil Levski str.	(0457) 61 261; (0457) 61 263; (0457) 61 264

Novi Pazar

4, Rakovski sq.	(0537) 258 52; 258 53; 258 54;258 55

Panagiurishte

1, G. Benkovski str.	(0357) 632 60; (0357) 640 87

Parvomai

2 B, Hristo Botev str.	(0336) 620 53; (0336) 620 54

Pavlikeni

20, Svoboda sq.	(0610) 51 180; (0610) 51 187;

Pazardzhik

6, Bulgaria blvd.	(034) 405 131; (034) 405 129
13, Stefan Stambolov blvd.	(034) 445 380
5, Esperanto str.	(034) 405 718; (034) 405 726

Pernik

41, Krakra str.	(076) 688 983; (076) 688 988
21, St Kiril and Methodius blvd.	(076) 605 387

Peshtera

19, Dimitar Gorov str.	(0350) 621 07

Petrich

48, Rokfeler str.	(0745) 69 521; (0745) 69 530; (0745) 69 532

Pirdop

Todor Vlaikov sq., block 2	(07181) 82 15; (07181) 82 12; (07181) 82 14

Pleven

121, Vasil Levski str.	(064) 890730; 32; 36; 38
4, Georgi Kochev blvd.	(064) 831 065
1, Kosta Hadzhipakev str.	(064) 880 225; 880 220; 880 208; 880 218; 880 229
13, Danail Popov str., block Volga	(064) 89 21 63; 89 21 65; 89 21 64
11, Metro str.	(064) 9264787

Plovdiv

4, Ivan Vazov str.	(032) 601 615; (032) 601 697; (032) 601 626
8, Vasil Levski str.	(032) 905 860; (032) 905 864
41, Saedinenie str., Trakia	(032) 905 974; (032) 905 972
51, Raiko Daskalov str.	(032) 656 044; 656 045; 656 046; 656 049; 656 037
133, Sankt Peterburg blvd.	(032) 680 250
82, Hristo Botev blvd.	(032) 632 600
13, Kniaz Alexander Ist str.	(032) 905 816; (032) 905 808
135, Sankt Peterburg blvd.	(032) 905 895
15 A, Vasil Aprilov blvd.	(032) 905 837
66, Pestersko Shosse str.	(032) 905 841
24, Tsar Assen Str.	(032) 905 844
31, Ivan Vazov str.	(032) 905 935; (032) 905 938; (032) 905 835; (032) 905 839;
1, Asenovgradsko Shosse str.	(032) 622 386
73A, Makedonia blvd.	(032) 271 920

Polski Trumbesh

55, Turgovska str.	(06141) 67 16

Pomorie

2a, Graf Ignatiev str.	(0596) 262 62; 262 63; 262 64; 262 65

Popovo

99, Bulgaria blvd.	(0608) 409 51; 409 53; 409 54

Primorsko

1, Chavdar str.	(0550) 337 82; 337 85; 337 84

Bank Network (continued)

Radnevo

10A, G. Dimitrov str.	(0417) 810 11; 810 12; 810 13

Rakovski

Rakovski, 19 B, Moskva str.	(03151) 50 12; (03151) 60 37

Razgrad

1, Momina Cheshma sq.	(084) 612 490; (084) 612 493; (084) 612 496
66, Aprilsko vastanie blvd.	(084) 609802

Razlog

1, Eksarh Iosif str.	(0747) 89809, (0747) 89805, (0747) 89804

Russe

5, Sveta Troica sq.	(082) 818 258; 818 233
38, Hristo Botev str.	(082) 241 492
123 Lipnik blvd.	(082) 280 810
60, Treti Mart blvd.	(082) 61 1068
1, Kiril Starcev str.	(082) 818 331 (082) 818 341

Samokov

3, Prof V. Zahariev str.	(0722) 688 13; (0722) 688 16; (0722) 688 19; (0722) 688 24;

Sandanski

52, Macedonia str.	(0746) 34852; 348 44; 348 45

Sapareva bania

2, Germaneya str.	(0707) 24 054; (0707) 22 228; (0707) 22 229

Sevlievo

21, Svoboda sq.	(0675) 345 86

Shumen

8, Slavianski blvd.	(054) 858 137; (054) 858 121; (054) 858 142
5, Simeon Veliki blvd.	(054) 830 056

Silistra

4, Georgi S. Rakovski str.	(086) 878 342; (086) 878 341; (086) 878 332
33, 7mi septemvri blvd.	(086) 833 199

Slanchev Briag

Slanchev bryag, business building Sapfir	(0554) 28 023; (0554) 28 022; (0554) 28 034

Sliven

14, Tzar Osvoboditel blvd.	(044) 613 110; (044) 613 135; (044) 613 144
6, Stephan Karadzha str.	(044) 630 035

Slivnitsa

2, Saedinenie sq.	(0727) 489 35; (0727) 489 31; (0727) 489 34

Smolyan

59, Kolio Shishmanov str.	(0301) 673 14; (0301) 673 20

Sofia

7, Sveta Nedelya Sq.	(02) 923 2070; (02) 923 2106; (02) 923 2513; (02) 923 2105
8, Vitosha blvd.	(02) 810 2934; (02) 810 2930; (02) 810 2921
7, Sveta Nedelya Sq.	(02) 923 2145; (02) 923 2456; (02) 923 2169
1, Briuksel blvd.	(02) 980 9601
84, Veslec str.	(02) 810 5921
18, Parva Bulgarska Armiya blvd.	(02) 931 1845
Mladost; 265, Okolovrusten put	(02) 877 0473
2, Buzludzha str.	(02) 895 1019; (02) 895 1034; (02) 895 1025
2, Lomsko shosse str.	(02) 890 4952; (02) 890 4951
13, 202 str.	(02) 833 4174
90, Al. Stamboliyski blvd.	(02) 8102 614; (02) 8102 620; (02) 8102 621; (02) 8102 615
14, Gueshevo str.	(02) 947 4560; (02) 9474 562
100, Cherni Vruh blvd.	(02) 9690 027; (02) 9690 018; (02) 9690 013; (02) 9690 025
90, Vitosha blvd.	(02) 9173 018; (02) 9173 015; (02) 9173 020
105, Gotse Delchev blvd.	(02) 818 2722; (02) 818 2721; (02) 818 2720
1, P.U. Todorov blvd. block 1	(02) 818 6726; (02) 818 6756; (02) 818 6757
199A, Okolovrasten pat, Malinova dolina	(02) 965 8198
69, Bulgaria blvd.	(02) 9264 741; (02) 9264 952; (02) 9264 736; (02) 9264 737
444 A, Slivnica blvd.	(02) 892 6815 / (02) 892 6817
2, Sofroniy Vrachanski str.	(02) 937 7071; (02) 937 7077
Iliyanci	(02) 892 0512; (02) 8920 526 (02) 8920 528
Lyulin 4, block 417	(02) 814 5274; (02) 814 5275; (02) 814 5276; (02) 814 5277
Tsaritsa Ioanna blvd.	(02) 825 8946
182, Europa blvd.	(02) 926 4784
22, Zlaten rog, str.	(02) 926 4850; (02) 926 4854
41, Tzar Boris III blvd.	(02) 895 4028; (02) 895 4027
Sofia, 36 Gen. Totleben blvd.	(02) 926 4847
3, Todor Kableshkov blvd.	(02) 926 4870; (02) 926 4869
38, Liubliana str.	(02) 926 4862; (02) 926 4890
Lyulin center, block 752A	(02) 802 4215 (02) 802 4214; (02) 802 4212
127, Slivnica blvd.	(02) 802 1981; (02) 802 1983
1, Skopie blvd.	(02) 803 3581; (02) 803 3580; (02) 803 3584
56, Georgi Sofiiski str.	(02) 818 8771; (02) 818 8772
145, Georgi S. Rakovski str.	(02) 8053 167; (02) 8053 165; (02) 8053 166
3, Tsar Kaloyan str.	
Sofia, 2 Pozitano Sq., Perform Business Center.	(02) 935 7830; (02) 935 7853
3, Tsar Kaloyan str.	(02) 890 2336; (02) 890 2337
214, Okolovrusten put str.	(02) 967 6117
1, Madrid blvd.	(02) 948 0978; (02) 948 0979; (02) 948 0980; (02) 948 0986
88, Yanko Sakuzov blvd.	(02) 861 3061; (02) 861 3062
SFA 459, Botevgradsko shosse blvd.	(02) 892 2199
Hotel Trivia, Botunec	(02) 994 5442
2, Ivan Asen IInd str.	(02) 942 3024; (02) 942 3028; (02) 942 3034
65, Shipchenski prohod str.	(02) 817 2924; (02) 817 2925; (02) 817 2926; (02) 817 2927;
52, Kosta Lulchev str.	(02) 971 3495
133, Tsarigradsko Shosse blvd. 7th km	(02) 817 8024; (02) 817 8029; (02) 817 8025; (02) 817 8028;
Tsarigradsko Shosse blvd. 7th 11th km	(02) 9264783
147, Tsarigradsko Shosse blvd.	(02) 976 7861; (02) 976 7862
9, Dondukov blvd.	(02) 921 8964; (02) 921 8951; (02) 921 8963; (02) 921 8955

115, Tsarigradsko shose blvd.	(02) 8063 741; (02) 8063 742; (02) 8063 743
9, Julio Kiuri str.	(02) 817 3729; (02) 817 3726; (02) 817 3713
28, Hristo Smirnenski blvd.	(02) 9264 732; (02) 9264 857; (02) 9264 897
140, Georgi S. Rakovski str.	(02) 815 7023; (02) 815 7036; (02) 815 7032
40, Vasil Levski blvd.	(02) 9264 851
9A, Boris Stefanov str.	(02) 819 2872; 73; 74
Simeonovo, 14A Momina salza str.	(02) 8123 967
62, G.M. Dimitrov blvd.	(02) 816 9072; (02) 816 9075
32, Zlatuvruh str.	(02) 819 0712; (02) 819 0715; (02) 819 0711
9, Shipchenski prohod blvd.	(02) 892 4565; (02) 892 4563
22, Ierusalim str., MLADOST, Sofia	(02) 817 4914; (02) 817 4922; (02) 817 4925
3, Filip Avramov str.	(02) 812 3697
Business park Sofia, 2nd building	(02) 8173 322; 8173 323
1, Yanko Sakazov blvd.	(02) 814 5025; (02) 814 5011; (02) 814 5021

Sozopol

2, Parvi May str. (0550) 26 320; 26 321

Stamboliiski

2, Osmi Mart str. (0339) 624 87; (0339) 652 39; (0339) 622 64

Stara Zagora

126, Simeon Veliki blvd.	(042) 696 275; (042) 696 250; (042) 696 328; (042) 696 229; (042) 696 243; (042) 696 264
Nikola Petkov str.	(042) 260 106
80, Tzar Simeon Veliki blvd.	(042) 692 110; (042) 692 116; 692 124; 692 129
115, Tsar Simeon Veliki blvd.	(042) 615 129; 615 130; 615 138; 615 132; 615 136
157, Tzar Simeon str.	(042) 610 780; (044) 610 781

Sungurlare

15, Hristo Smirnenski str. (05571) 52 50; 51 21

Svilengrad

60, Bulgaria blvd. (0379) 70 726; (0379) 70 732

Svishtov

16, Tzar Osvoboditel str. (0631) 611 26; (0631) 611 28

Svoge

35, Tsar Simeon str. (0726) 223 49

Targovishte

23, Vasil Levski str. (0601) 612 20; (0601) 612 21; (0601) 612 25 (0601) 612 10

Tervel

7, Sv. Sv Kiril I Metodii str. (05751) 41 47

Troyan

1, Gen. Karzov str. (0670) 68 881; (0670) 68 873; (0670) 68 878

Tzarevo

20, Kraimorska str. (0590) 55 460; 55 461; 55 463; 55 464; 55 465; 55 467

Varna

1, P. Karavelov str.	(052) 662 128; (052) 662 127; (052) 662 122
39, Maria Luiza str.	(052) 663 120; (052) 663 135; (052) 663 137
2, Gabrovo str.	(052) 689 803; (052) 689 809; (052) 689 834
36 38, Vladislav Varnenchik str.	(052) 687 949; (052) 687 947; (052) 687 935
43, Kniaz Boris str.	(052) 664 021; (052) 664 025; (052) 664 028
115, Osmi Primorski polk blvd.	(052) 785 711; (052) 785 712; (052) 785 713; (052) 785 715
20, Drujba str.	(052) 663 690; (052) 663 691; (052) 663 692; (052) 663 693
61, Pirin str.	(052) 661 346; 661 344
117, Republika blvd.	(052) 739 506; (052) 739 513; (052) 739 503; (052) 739 508
Vladislavovo, Zapadna obikolna str.	(02) 9264 726
267, Tsar Osvoboditel blvd.	(02) 9264 709; (02) 9264 708

Valchi Dol

13, Treti Mart str. (05131) 24 07

Veliko Tarnovo

13, Vasil Levskli str.	(062) 611 029; (062) 611 089; (062) 611 040
4, Magistralna str.	(062) 651 477
78, Balgaria blvd.	(062) 611 018
2B, Krakov blvd.	(062) 611 078; (062) 611 035; (062) 611 040; (062) 611 092

Velingrad

5, Aleksandar Stamboliyski str. (0359) 570 20; (0359) 570 23

Vidin

3, Tzar Simeon Veliki str. (094) 690 212; (094) 690 226; (094) 690 241

Vratsa

17a, Krastio Bulgariyata str. (092) 668 252

Yambol

3, Gorg Papazov str.	(046) 685 122 (046) 685 116 (046) 685 111
173 175, Graf Ignatiev blvd.	(046) 641 153

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Sofia

8, Aksakov str.	02/930 96 52

Varna

28, Slivnitsa blvd.	052/678 013; 678 020

Stara Zagora

126 Tzar Simeon Veliki Blvd.	042/696 246; 696 268

Burgas

22 Alexandrovska Str.	056/877 218; 877 236

Russe

5 Sveta Troitsa Str.	082/818 265; 818 226

Veliko Tarnovo

13 Vassil Levski Str.	062/611 017; 611 056

Pleven

11 Tzar Simeon Str.	064/890 335; 890 332

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