UNICREDIT BULBANK AD

CONSOLIDATED FINANCIAL STATEMENTS AND ANNUAL REPORT ON ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2014 WITH INDEPENDENT AUDITOR'S REPORT THEREON

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
UniCredit Bulbank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements - Annual consolidated report on the activities of the Bank, according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual consolidated report on the activities of the Bank prepared by the Bank's management. The Annual consolidated report on the activities of the Bank is not a part of the consolidated financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Bank prepared by the management is consistent, in all material aspects with the financial information disclosed in the consolidated financial statements of the Bank as of December 31, 2014, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual consolidated report on the activities of the Bank, dated February 27, 2015.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Statutory Manager
Registered Auditor

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

Sofia
March 5, 2015

CONSOLIDATED INCOME STATEMENT

In thousands of BGN

	Notes	2014	2013
Interest income		696,093	642,808
Interest expense		(166,198)	(182,389)
Net interest income	7	**529,895**	**460,419**
Dividend income		**1,246**	**1,205**
Fee and commission income		203,852	187,862
Fee and commission expense		(11,617)	(9,945)
Net fee and commission income	8	**192,235**	**177,917**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	58,487	48,453
Net gains on other financial assets designated at fair value through profit or loss	10	(192)	310
Net income from investments	11	2,553	2,110
Other operating income, net	12	3,608	12,952
TOTAL OPERATING INCOME		**787,832**	**703,366**
Net income related to property, plant and equipment	13	458	1,056
Personnel expenses	14	(123,302)	(111,705)
General and administrative expenses	15	(134,399)	(127,162)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(32,095)	(31,757)
Provisions for risk and charges	17	629	(9,691)
Net impairment loss on financial assets	18	(182,408)	(227,963)
PROFIT BEFORE INCOME TAX		**316,715**	**196,144**
Income tax expense	19	(32,180)	(20,235)
PROFIT FOR THE YEAR		**284,535**	**175,909**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2015

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Andrea Casini
Deputy Chairman of the Management Board and Chief Operative Officer

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

Специализирано одиторско предприятие
София
Рег. №033
"Делойт Одит" ООД

05.03.2015

The accompanying notes 1 to 48 are an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of BGN

	Notes	2014	2013
Profit for the year		**284,535**	**175,909**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses)	40	(796)	(5)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		79	-
		(717)	**(5)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		1,684	1,664
Cash flow hedge		(38,040)	2,884
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		3,636	(454)
		(32,720)	**4,094**
Total other comprehensive income net of tax for the year		**(33,437)**	**4,089**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**251,098**	**179,998**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2015

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Notes	31.12.2014	31.12.2013
ASSETS			
Cash and balances with Central Bank	20	1,092,229	728,730
Non-derivative financial assets held for trading	21	5,607	13,872
Derivatives held for trading	22	124,528	81,915
Derivatives held for hedging	23	-	326
Financial assets designated at fair value through profit or loss	24	60,754	61,549
Loans and advances to banks	25	1,627,489	1,841,961
Loans and advances to customers	26	11,112,403	9,529,902
Available for sale investments	27	1,492,803	901,585
Held to maturity investments	28	136,663	125,071
Investments in associates	29	2,716	2,562
Property, plant, equipment and investment properties	30	183,217	136,872
Intangible assets	31	24,836	25,574
Current tax assets	32	6,993	6,702
Deferred tax assets	33	2,656	2,216
Other assets	35	111,212	69,510
TOTAL ASSETS		**15,984,106**	**13,528,347**
LIABILITIES			
Financial liabilities held for trading	36	85,940	61,494
Derivatives used for hedging	23	41,925	4,079
Deposits from banks	37	2,635,100	2,425,197
Deposits from customers	38	10,666,785	8,526,893
Subordinated liabilities	39	70,596	220,005
Provisions	40	41,940	44,943
Current tax liabilities	32	5,377	458
Deferred tax liabilities	33	1,176	2,682
Other liabilities	41	82,719	69,327
TOTAL LIABILITIES		**13,631,558**	**11,355,078**
EQUITY			
Share capital		285,777	285,777
Revaluation reserves		(14,049)	19,388
Retained earnings		1,796,285	1,692,195
Profit for the year		284,535	175,909
TOTAL EQUITY	42	**2,352,548**	**2,173,269**
TOTAL LIABILITIES AND EQUITY		**15,984,106**	**13,528,347**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2015

Levon Hampartzoumian Chairman of the Management Board and Chief Executive Officer	Andrea Casini Deputy Chairman of the Management Board and Chief Operative Officer	Emilia Palibachiyska Member of the Management Board and Chief Financial Officer

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CONSOLIDATED 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, 2013	**285,777**	**342,378**	**1,449,875**	**21,084**	**(5,018)**	**(767)**	**2,093,329**
Profit for the year	-	-	175,909	-	-	-	**175,909**
Actuarial gains (losses)	-	-	-	-	-	(5)	**(5)**
Change of revaluation reserve on available for sale investments	-	-	-	1,664	-	-	**1,664**
Change of revaluation reserve on cash flow hedges	-	-	-	-	2,884	-	**2,884**
Income tax related to components of other comprehensive income	-	-	-	(166)	(288)	-	**(454)**
Total other comprehensive income for the period net of tax	-	-	-	**1,498**	**2,596**	**(5)**	**4,089**
Total comprehensive income for the period net of tax	-	-	**175,909**	**1,498**	**2,596**	**(5)**	**179,998**
Business combinations under common control	-	-	6,221	-	-	-	**6,221**
Dividends paid	-	-	(106,248)	-	-	-	**(106,248)**
Other distribution	-	-	(31)	-	-	-	**(31)**
Balance as of December 31, 2013	**285,777**	**342,378**	**1,525,726**	**22,582**	**(2,422)**	**(772)**	**2,173,269**
Profit for the year	-	-	284,535	-	-	-	**284,535**
Actuarial gains (losses)	-	-	-	-	-	(796)	**(796)**
Change of revaluation reserve on available for sale investments	-	-	-	1,684	-	-	**1,684**
Change of revaluation reserve on cash flow hedges	-	-	-	-	(38,040)	-	**(38,040)**
Income tax related to components of other comprehensive income	-	-	-	(168)	3,804	79	**3,715**
Total other comprehensive income for the period net of tax	-	-	-	**1,516**	**(34,236)**	**(717)**	**(33,437)**
Total comprehensive income for the period net of tax	-	-	**284,535**	**1,516**	**(34,236)**	**(717)**	**251,098**
Dividends paid	-	-	(71,819)	-	-	-	**(71,819)**
Balance as of December 31, 2014	**285,777**	**342,378**	**1,738,442**	**24,098**	**(36,658)**	**(1,489)**	**2,352,548**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2015

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Chairman of the Management Board and Chief Executive Officer

Andrea Casini
Deputy Chairman of the Management Board and Chief Operative Officer

Emilia Palibachiyska
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Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

The accompanying notes 1 to 48 are an integral part of these financial statements

05.03.2015

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of BGN

	Notes	2014	2013
Net profit		**284,535**	**175,909**
Current and deferred tax income, recognised in income statement		-	(2,145)
Current and deferred tax expenses, recognised in income statement		32,180	22,380
Adjustments for non-cash items			
Depreciation and amortisation	12,16	30,429	29,466
Impairment of financial assets	18	192,155	237,659
Impairment of property plant, equipment, investment properties and other assets	12,16	3,482	2,291
Provisions, net	40	(629)	9,692
Unrealised fair value (gains) through profit or loss, net		(17,992)	(24,175)
Unrealised fair value losses (gains) on FX revaluation		36,682	(14,539)
Net income from associates under equity method		(154)	(284)
Net income from sale of property, plant and equipment		(453)	(1,100)
Net interest income		(529,895)	(460,419)
Dividend income		(1,246)	(1,205)
Increase in other accruals		18,979	17,529
Cash flows from profits before changes in operating assets and liabilities		**48,073**	**(8,941)**
Operating activities			
Change in operating assets			
(Increase) in loans and advances to banks		(293,842)	(346,700)
(Increase) in loans and advances to customers		(1,601,183)	(471,170)
(Increase) in available for sale investments		(569,862)	(268,855)
Decrease in financial instruments held for trading and hedging derivatives		8,133	66,202
Decrease in financial instruments at fair value through profit or loss		600	7,482
(Increase) in other assets		(18,332)	(19,817)
Change in operating liabilities:			
Increase (Decrease) in deposits from banks		196,620	(238,275)
Increase in deposits from customers		2,041,439	483,516
Provisions utilization		(6,057)	(1,691)
Increase (Decrease) in other liabilities		15,635	(5,589)
Interest received		694,515	700,943
Interest paid		(170,869)	(235,337)
Dividends received		1,246	1,205
Taxes paid		(25,832)	(28,396)
Net cash flows from operating activities		**320,284**	**(365,423)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

In thousands of BGN

	Notes	2014	2013
Cash flows from investing activities			
Cash payments to acquire tangible assets		(27,412)	(13,745)
Cash receipt from sale of tangible assets		888	2,473
Cash payments to acquire intangible assets		(6,648)	(5,120)
Cash receipt from sale of tangible assets		-	1
Cash receipts from liquidation of associates		-	7
Cash payment for acquisition of investments in subsidiaries		-	(30,068)
Cash receipts from redemption of held to maturity investments		4,899	117,017
Net cash flows from investing activities		**(28,273)**	**70,565**
Cash flows from financial activities			
Dividends paid		(71,819)	(106,248)
Subordinated loans paid		(149,409)	-
Other cash payments related to financing activities		-	(31)
Net cash flows from financial activities		**(221,228)**	**(106,279)**
Effect of exchange rate changes on cash and cash equivalents		**14,885**	**3,371**
Net increase (decrease) in cash and cash equivalents		**85,668**	**(397,766)**
Cash and cash equivalents at the beginning of period	46	**1,980,031**	**2,377,797**
Cash and cash equivalents at the end of period	46	**2,065,699**	**1,980,031**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2015

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Andrea Casini
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Emilia Palibachiyska
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Deloitte Audit OOD

Sylvia Peneva
Registered auditor

Специализирано одиторско предприятие
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05.03.2015

NOTES TO THE 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. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2014 Bank operates through its network comprising of 203 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act. They were approved by the Management Board of the Bank on February 27, 2015. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

(b) Basis of measurement

These consolidated financial statements have been prepared on historical cost basis except for:

- derivative financial instruments measured at fair value;
- trading instruments and other instruments designated at fair value through profit or loss measured at fair value;
- available for sale financial instruments measured at fair value, where such can be reliably determined;
- liabilities for defined benefit obligation presented as present value of defined benefit obligation.

(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.

2. Basis of preparation (continued)

(d) Use of estimates and judgement (continued)

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.

Change in accounting policy

In 2014 the Bank has changed its accounting policy with regards to presentation of deferred tax assets and liabilities and net income related to customers' driven derivative business. Detailed explanations and summary of the effects are as follows:

1. Presentation of deferred tax assets and liabilities

In the annual financial statements of the Bank for the years ended up until December 31, 2013, the Bank has disclosed and presented deferred tax assets and liabilities on gross basis. In 2014 exhaustive assessment of the tax position was performed. Apart from the ordinary deferred tax assets recoverability test, the assessment covered a thorough analysis on the provisions of Bulgarian income tax regulatory framework in the light of IAS 12 "Income Taxes" deferred tax assets and liabilities netting requirements. As a result of the assessment performed, the Bank confirmed that deferred tax assets and liabilities netting requirements are applicable on single entity level within the consolidation scope. Based on that, the presentation of deferred tax assets and liabilities in the consolidated statement of financial position as of December 31, 2014 has been changed accordingly.

2. Presentation of net income related to customers' driven derivative business

The Bank concludes interest rate swaps 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 Bank Austria AG and UniCredit Bank AG). In the annual financial statements of the Bank for the years ended up until December 31, 2013, the income on both deals (customers' and back-to-back ones) was presented gross and included as part of net interest income and net gains on financial assets and liabilities held for trading and hedging derivatives. In 2014 the Bank reassessed its presentation policy and considering the substance of the business involved, changed it, thus the whole realized and unrealized gains/losses on interest rate swaps 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 and hedging derivatives. The policy change represents reclassification and does not impact neither total revenue of the Bank nor net assets.

3. Significant accounting policies (continued)

The actual restatement amounts impacting the consolidated statement of financial position and consolidated income statement are as follows:

In thousands of BGN

Consolidated statement of financial position	**Reported 31.12.2013**	**Restatement due to change in the accounting policy on deferred tax presentation**	**Restated amount 31.12.2013**
Deferred tax assets	11,254	(9,038)	2,216
Deferred tax liabilities	11,720	(9,038)	2,682

In thousands of BGN

Consolidated income statement	**Reported for 2013**	**Restatement due to change in the accounting policy on customers' driven derivative business**	**Restated amount for 2013**
Interest income	696,907	(54,099)	642,808
Interest expense	(229,210)	46,821	(182,389)
Net gains on financial assets and liabilities held for trading and hedging derivatives	41,175	7,278	48,453

As described above, both restatements are of presentation nature only. They do not impact the net profit and net assets of the Bank as of and for the period ended December 31, 2013.

(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.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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, Bank primarily focused on so called "troubled loans" analysis. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted loans and advances to corporate customers 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, 2013 and December 31, 2014.

Prior year changes in consolidation scope

Following UniCredit Group decision for strategic reorganization, several business combinations under common control were performed throughout 2013.

In January 2013, UniCredit Bulbank AD finalized the deal for acquiring the remaining 50.1% from the capital of UniCredit Consumer Financing AD from UniCredit S.p.A thus the Bank became sole owner of the capital of the company. The acquisition was effectively completed on the first working day of January 2013, therefore control is presumed on full 2013 year basis. Upon deal completion the company was renamed to UniCredit Consumer Financing EAD.

In December 2013, UniCredit Bulbank AD acquired the remaining 75.6% from the capital of UniCredit Leasing AD and 97.6% from the capital of HVB Leasing OOD, both from UniCredit Leasing S.p.A. The deals were effectively completed in mid of December and the control over the two companies is considered effective as of year-end (December 31, 2013). Upon deal completion Bank became sole owner of the capital of both companies and they were renamed, respectively to UniCredit Leasing EAD and HVB Leasing EOOD. In parallel to gaining control over the above mentioned two leasing companies, Bank also became indirect sole owner of their subsidiaries, namely Bulbank Leasing EAD, UniCredit Auto Leasing EOD and UniCredit Insurance Broker EOOD being fully owned by UniCredit Leasing EAD, as well as HVB Auto Leasing EOOD and BA Creditanstalt Bulus EOOD, being fully owned by HVB Leasing EOOD.

All acquisitions performed in 2013 represent business combinations under common control as the ultimate parent before and after the deals remains unchanged – UniCredit S.p.A. In accordance with UniCredit Group accounting policy, such combinations are performed on arm's length principle and purchase price is based on explicit external valuations.

Considering the above, 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, 2014 and December 31, 2013 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, 2014 remained unchanged to the one applied as of December 31, 2013 and it covers the following entities:

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Company	Participation in equity	Direct/Indirect participation	Consolidation method
UniCredit Factoring EAD	100.0%	Direct	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100.0%	Direct	Full consolidation
UniCredit Leasing EAD	100.0%	Direct	Full consolidation
HVB Leasing EOOD	100.0%	Direct	Full consolidation
Bulbank Leasing EAD	100.0%	Indirect	Full consolidation
UniCredit Auto Leasing EOOD	100.0%	Indirect	Full consolidation
UniCredit Insurance Broker EOOD	100.0%	Indirect	Full consolidation
HVB Auto Leasing EOOD	100.0%	Indirect	Full consolidation
BA Creditanstalt Bulus EOOD	100.0%	Indirect	Full consolidation
Cash Service Company AD	20.0%	Direct	Equity method

Acquisitions performed in 2013 represent business combinations under common control and they have no effect on ultimate parent’s consolidated level. According to UniCredit Group accounting policy for such transactions, they are accounted for based on book values of the assets and liabilities of the companies as of the date of transfer of control with the excess of their net assets values (net equity) over total consideration transferred recognized in retained earnings. In addition as the Bank had participations in those companies prior to the new acquisitions, impairment test has been performed and as a result no impairment losses have been recognized, thus in accordance with Group policy the difference between the fair value of the existing participations in affected companies, prior to the business combination under common control, and their book value was recognized in retained earnings.

In thousands of BGN

		Business combinations under common control effects
Pre-business combinations under common control adjustments		
Book value of pre-business combination equity participations		(31,121)
Fair value of pre-business combinations equity participations		28,901
Difference recognized in retained earnings		**(2,220)**
Business combinations under common control adjustments		
Total net assets obtained in business combinations under common control		67,410
Total fair value of the consideration transferred		(58,969)
there off:		
fair value of pre-acquisitions participations	*(28,901)*	
cash paid on newly acquired participations	*(30,068)*	
Difference recognized in retained earnings	*(58,969)*	**8,441**
Total business combinations under common control effects recognized in retained earnings		**6,221**

3. Significant accounting policies (continued)

(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 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.

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 available for sale 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 expenses

Fee and commission income and expense arise on financial services provided/received and are recognized upon rendering/receiving of the corresponding service.

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 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.

3. Significant accounting policies (continued)

(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.

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. 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.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(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 and derivative contracts 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.

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.

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

d) Loans and advances to banks and customers

Loans and advances to banks and customers are instruments where the Bank provides money to a debtor other than those created with the intention of short-term profit taking or selling in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

e) Available for sale investments

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified in another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value.

Fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Classification (continued)

f) Held to maturity investments

Held to maturity 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 and which are not designated as at fair value through profit or loss or as available for sale and do not meet the definition of loans and receivables.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after Bank has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated (such as material creditworthiness deterioration of the issuer).

Held to maturity investments are carried at amortised cost using the effective interest method.

g) Investments in associates

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.

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.

h) Deposits from banks, customers and subordinated liabilities

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

Subordinated liabilities meet some additional requirements set by Bulgarian National Bank (see note **39**). Deposits from banks, customers and subordinated liabilities are carried at amortised cost using the effective interest rate method.

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(iii) Reclassification

Bank does not reclassify financial instruments in or out of any classification category after initial recognition.

(iv) 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.

(v) 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.

(vi) 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” Bank applies three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note **5**).

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(vii) 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.

(viii) 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 carrying amounts of Bank's assets are regularly reviewed to determine whether there is any objective evidence for impairment as follows:

- for loans and receivables – by the end of each month for the purposes of preparing interim financial statements reported to the Bulgarian National Bank and Management;
- for available for sale, held to maturity financial assets and investments in subsidiaries and associates - semi-annually based on review performed by the Bank and decision approved by ALCO;
- for non-financial assets – by the end of each year for the purposes of preparing annual financial statements.

If any impairment indicators exist, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

3. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

Assets classified as held to maturity are assessed for impairment on a semi-annual basis based on available market data. Review is performed and decision is taken my Assets and Liabilities Committee (ALCO) of the Bank.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through profit or loss thus increasing the amortized cost to the amount that never exceeds the amortised cost had the loan never been impaired.

(ii) 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 available for sale financial investments.

Where an asset remeasured to fair value directly through other comprehensive income is impaired, and a write down of the asset was previously recognized directly in other comprehensive income, the write-down is transferred to profit or loss and recognized as part of the impairment loss.

Where debt instrument measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the instrument was previously recognized in other comprehensive income, the increase in fair value of the instrument recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss. For equity instruments, no reversal of impairment is recognized in profit or loss. Any increase in fair value after impairment is recognized in other comprehensive income.

If in subsequent periods the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

Assessment of impairment indicators of available for sale investments is done semi-annually. Decision for existence of any impairment is taken by ALCO.

3. Significant accounting policies (continued)

(k) Derivatives used for hedging

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.

Since 2009 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.

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, 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 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 together with the changes in the fair value of the hedged item attributable to the hedged risk.

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.

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.

3. Significant accounting policies (continued)

(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 acquired upon collaterals foreclosure, which are neither intended to be used in the banking business nor kept as investment properties, but intended to be sold or constructed for the purposes to be sold, are presented in other assets in accordance with IAS 2 “Inventories” (see also Note **35**)

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

3. Significant accounting policies (continued)

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2014 and December 31, 2013 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 and disposal groups classified as 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.

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, 2014 and December 31, 2013 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

(i) 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.

(ii) 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.

3. Significant accounting policies (continued)

(p) Employee benefits (continued)

(iii) 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, 2014 and December 31, 2013 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

(i) 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. No changes in the share capital were performed in 2014 and 2013.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on available for sale investments, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2014 and December 31, 2013 the reserves includes also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

3. Significant accounting policies (continued)

(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, 2014 and December 31, 2013 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

In 2009 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. This adoption did not result in a change in accounting policy as 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.

3. Significant accounting policies (continued)

(t) New IFRS, amendments to existing IFRS and interpretations (IFRIC) adopted for the first time in the financial statements as of at the reporting date

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

- IFRS 10 Consolidated Financial Statements, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 11 Joint Arrangements, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 12 Disclosures of Interests in Other Entities, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 27 (revised in 2011) Separate Financial Statements, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) Investments in Associates and Joint Ventures, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities – Transition Guidance, adopted by the EU on April 4, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interests in Other Entities and IAS 27 (revised in 2011) Separate Financial Statements – Investment Entities, adopted by the EU on November 20, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 32 Financial instruments: presentation – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on December 19, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on December 19, 2013 (effective for annual periods beginning on or after January 1, 2014).

The adoption of these new IFRS, amendments to existing IFRS and interpretations (IFRIC) has not led to any changes in the Bank's accounting policies.

3. Significant accounting policies (continued)

(u) New IFRS and interpretations (IFRIC) adopted by the EU but not yet effective as at the reporting date

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- Amendments to various standards Improvements to IFRSs (cycle 2010-2012) resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 17, 2014 (amendments are to be applied for annual periods beginning on or after February 1, 2015);
- Amendments to various standards Improvements to IFRSs (cycle 2011-2013) resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 18, 2014 (amendments are to be applied for annual periods beginning on or after January 1, 2015);
- Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- IFRIC 21 Levies, adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

(v) Standards and Interpretations 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 from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of publication of these consolidated financial statements (the effective dates stated below is for IFRS in full):

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017);
- 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 (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);

3. Significant accounting policies (continued)

(v) Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 Separate Financial Statements - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards Improvements to IFRSs (cycle 2012-2014) resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements in the period of initial application, except for the one noted below which might have material effect on the financial statements:

- IFRS 9 Financial Instruments uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the bank’s estimates, 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 balance sheet 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. 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 big exposure – 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. Starting from Q3 2014 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.

4. Financial risk management (continued)

(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by Market Risk department. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in Market Risk Rule Book and Financial Markets Rule Book, 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 risk management procedures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) metric, the incremental risk charge (IRC) limit and granular limits by sensitivity.

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. 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 mark to market 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 in UniCredit Bulbank AD was further refined in 2014 and integrated in the presentation of results of market activities including Corporate Treasury Sales on quarterly basis.

During 2014, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 3.02 million and EUR 5.23 million, averaging EUR 4.09 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2014 on consolidated basis is as follows:

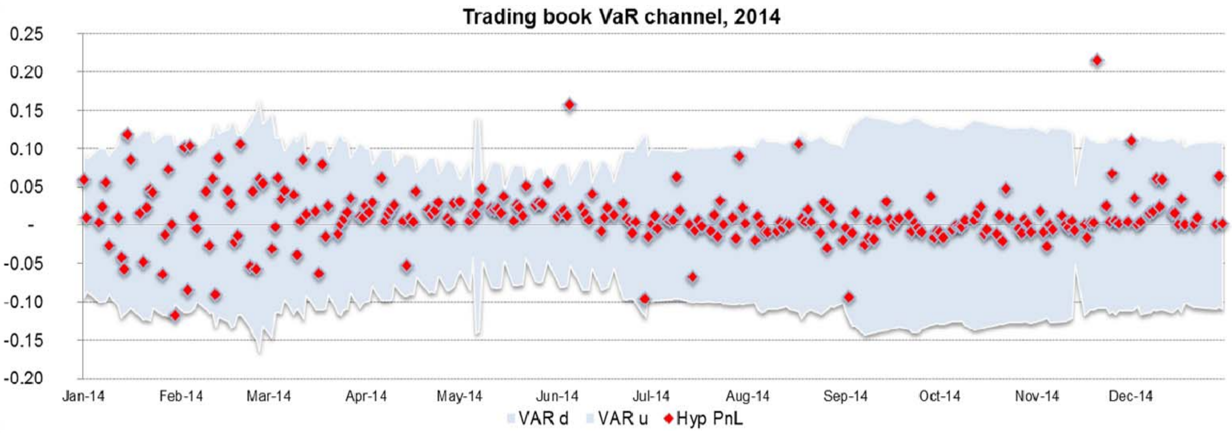
Risk Category	Minimum	Maximum	Average	Year-end
Interest rate risk	2.10	5.23	3.74	2.51
Credit spread	1.46	3.09	2.28	3.00
Exchange rate risk	0.00	0.09	0.03	0.09
Vega risk	0.00	0.00	0.00	0.00
VaR overall[1]	**3.02**	**5.23**	**4.09**	**3.60**

[1] Including diversification effects between risk factors

4. Financial risk management (continued)

(b) Market risks (continued)

Reliability and accuracy of the internal model is monitored via daily back-testing, comparing the simulated results with actually observed fluctuations in market parameters and in the total value of books. Back-testing results for 2014 confirm the reliability of used internal model with only 3 (three) negative excesses.



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 rate 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 interest rate risk exposure of UniCredit Bulbank AD on consolidated basis (trading and banking book) as of December 31, 2014 (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	9,182	15,184	(16,698)	(35,192)	(909)	(28,433)
BGN	2,972	(13,860)	(57,890)	(187,726)	(655)	(257,159)
USD	(118)	3,750	1,132	(784)	0	3,980
CHF	105	458	(46)	(113)	2	405
GBP	124	435	101	0	0	659
Other	(5)	0	0	0	0	(5)
Total ABS	**12,506**	**33,687**	**75,867**	**223,814**	**1,566**	**290,641**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2014 totalled EUR 227,860. Treasury instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively lower.

4. Financial risk management (continued)

(b) Market risks (continued)

SP Basis point shift						
Issuer	**0-3M**	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**10Y-**	**SUM**
Sovereigns	(208)	(20,717)	(59,252)	(145,328)	(258)	(225,763)
Regional governments	0	(12)	(342)	(1,737)	0	(2,091)
Corporates	(4)	(2)	0	0	0	(6)
Total ABS	**212**	**20,731**	**59,594**	**147,065**	**258**	**227,860**

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 2014 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

4. Financial risk management (continued)

(b) Market risks (continued)

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, 2014 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	1,076,694	15,535	**1,092,229**
Non-derivative financial assets held for trading	5,607	-	**5,607**
Derivatives held for trading	100,111	24,417	**124,528**
Financial assets designated at fair value through profit or loss	60,754	-	**60,754**
Loans and advances to banks	1,478,766	148,723	**1,627,489**
Loans and advances to customers	10,816,879	295,524	**11,112,403**
Available for sale investments	1,492,803	-	**1,492,803**
Held to maturity investments	-	136,663	**136,663**
Investments in associates	2,716	-	**2,716**
Property, plant, equipment and investment properties	183,217	-	**183,217**
Intangible assets	24,836	-	**24,836**
Current tax assets	6,993	-	**6,993**
Deferred tax assets	2,656	-	**2,656**
Other assets	111,152	60	**111,212**
TOTAL ASSETS	**15,363,184**	**620,922**	**15,984,106**
LIABILITIES			
Financial liabilities held for trading	61,711	24,229	**85,940**
Derivatives used for hedging	41,223	702	**41,925**
Deposits from banks	2,401,378	233,722	**2,635,100**
Deposits from customers	9,628,478	1,038,307	**10,666,785**
Subordinated liabilities	70,596	-	**70,596**
Provisions	21,852	20,088	**41,940**
Current tax liabilities	5,377	-	**5,377**
Deferred tax liabilities	1,176	-	**1,176**
Other liabilities	80,763	1,956	**82,719**
TOTAL LIABILITIES	**12,312,554**	**1,319,004**	**13,631,558**
EQUITY	**2,352,548**	-	**2,352,548**
Net off-balance sheet spot and forward position	(686,360)	700,922	**14,562**
Net position	**11,722**	**2,840**	**14,562**

4. Financial risk management (continued)

(b) Market risks (continued)

As of December 31, 2013 the FX balances of UniCredit Bulbank are as outlined in the table below:

In thousands of BGN

	EUR and BGN	Other currencies	Total
ASSETS			
Cash and balances with Central Bank	716,424	12,306	**728,730**
Non-derivative financial assets held for trading	13,872	-	**13,872**
Derivatives held for trading	67,385	14,530	**81,915**
Derivatives held for hedging	326	-	**326**
Financial assets designated at fair value through profit or loss	61,549	-	**61,549**
Loans and advances to banks	1,611,960	230,001	**1,841,961**
Loans and advances to customers	9,262,519	267,383	**9,529,902**
Available for sale investments	737,299	164,286	**901,585**
Held to maturity investments	1,532	123,539	**125,071**
Investments in associates	2,562	-	**2,562**
Property, plant, equipment and investment properties	136,872	-	**136,872**
Intangible assets	25,574	-	**25,574**
Current tax assets	6,702	-	**6,702**
Deferred tax assets	2,216	-	**2,216**
Other assets	69,323	187	**69,510**
TOTAL ASSETS	**12,716,115**	**812,232**	**13,528,347**
LIABILITIES			
Financial liabilities held for trading	47,849	13,645	**61,494**
Derivatives used for hedging	2,327	1,752	**4,079**
Deposits from banks	2,338,848	86,349	**2,425,197**
Deposits from customers	7,730,549	796,344	**8,526,893**
Subordinated liabilities	220,005	-	**220,005**
Provisions	27,206	17,737	**44,943**
Current tax liabilities	458	-	**458**
Deferred tax liabilities	2,682	-	**2,682**
Other liabilities	67,424	1,903	**69,327**
TOTAL LIABILITIES	**10,437,348**	**917,730**	**11,355,078**
EQUITY	**2,173,269**	**-**	**2,173,269**
Net off-balance sheet spot and forward position	**(105,099)**	**104,874**	**(225)**
Net position	**399**	**(624)**	**(225)**

4. Financial risk management (continued)

(c) Liquidity risk

In line with Group standards, UniCredit Bulbank 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 40 days horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2014, meaning that assuming 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).

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

Maturity table as of December 31, 2014	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	5,607	-	5,607
Financial assets designated at fair value through profit or loss	-	60,754	60,754
Loans and advances to banks	1,243,272	384,217	1,627,489
Loans and advances to customers	4,841,382	6,271,021	11,112,403
Available for sale investments	442,191	1,050,612	1,492,803
Held to maturity investments	136,663	-	136,663
Other assets	46,551	64,661	111,212
TOTAL FINANCIAL ASSETS	**6,715,666**	**7,831,265**	**14,546,931**

In thousands of BGN

Maturity table as of December 31, 2013	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	13,872	-	13,872
Financial assets designated at fair value through profit or loss	-	61,549	61,549
Loans and advances to banks	1,649,934	192,027	1,841,961
Loans and advances to customers	3,250,508	6,279,394	9,529,902
Available for sale investments	148,515	753,070	901,585
Held to maturity investments	1,532	123,539	125,071
Other assets	43,311	26,199	69,510
TOTAL FINANCIAL ASSETS	**5,107,672**	**7,435,778**	**12,543,450**

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

Maturity table as of December 31, 2014	Carrying amount	Gross in (out) flow	Up to 1 month	From1 to 3 months	From 3 months to 1 year	Over 1 years
Non-derivative instruments						
Deposits from banks	**2,635,100**	**(2,748,876)**	(598,854)	(27,826)	(274,883)	(1,847,313)
Deposits from customers	**10,666,785**	**(10,695,424)**	(7,175,875)	(1,291,830)	(1,882,985)	(344,734)
Subordinated liabilities	**70,596**	**(70,797)**	-	-	(33,263)	(37,534)
Unutilized credit lines	**-**	**(1,285,375)**	(19,281)	-	(237,794)	(1,028,300)
Total non-derivative instruments	**13,372,481**	**(14,800,472)**	**(7,794,010)**	**(1,319,656)**	**(2,428,925)**	**(3,257,881)**
Trading derivatives, net	**38,588**					
Outflow		**(2,678,304)**	(1,309,821)	(542,009)	(522,303)	(304,171)
Inflow		**2,721,934**	1,315,675	548,106	530,589	327,564
Derivatives used for hedging, net	**(41,925)**					
Outflow		**(64,980)**	(988)	(1,604)	(4,659)	(57,729)
Inflow		**22,349**	47	62	146	22,094
Total derivatives	**(3,337)**	**999**	**4,913**	**4,555**	**3,773**	**(12,242)**
Total financial liabilities	**13,369,144**	**(14,799,473)**	**(7,789,097)**	**(1,315,101)**	**(2,425,152)**	**(3,270,123)**

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

Maturity table as of December 31, 2013	Carrying amount	Gross in (out) flow	Up to 1 month	From1 to 3 months	From 3 months to 1 year	Over 1 years
Non-derivative instruments						
Deposits from banks	**2,425,197**	**(2,540,813)**	(204,185)	(16,225)	(365,769)	(1,954,634)
Deposits from customers	**8,526,893**	**(8,620,723)**	(5,404,393)	(1,192,700)	(1,768,526)	(255,104)
Subordinated liabilities	**220,005**	**(240,946)**	-	-	(52,851)	(188,095)
Unutilized credit lines		**(1,265,900)**	(18,989)	-	(234,192)	(1,012,719)
Total non-derivative instruments	**11,172,095**	**(12,668,382)**	**(5,627,567)**	**(1,208,925)**	**(2,421,338)**	**(3,410,552)**
Trading derivatives, net	**20,421**					
Outflow	**-**	**(2,271,009)**	(1,137,062)	(346,441)	(468,928)	(318,578)
Inflow	**-**	**2,296,619**	1,140,283	344,755	473,236	338,345
Derivatives used for hedging, net	**(3,753)**					
Outflow	**-**	**(72,737)**	(908)	(1,611)	(5,324)	(64,894)
Inflow	**-**	**71,821**	63	199	732	70,827
Total derivatives	**16,668**	**24,694**	**2,376**	**(3,098)**	**(284)**	**25,700**
Total financial liabilities	**11,188,763**	**(12,643,688)**	**(5,625,191)**	**(1,212,023)**	**(2,421,622)**	**(3,384,852)**

4. Financial risk management (continued)

(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, 2014 and December 31, 2013 is as shown in the next table:

In thousands of BGN

	31.12.2014	31.12.2013
Government bonds		
Rated BBB	-	13,001
Rated BB+	5,607	-
Corporate bonds		
Unrated	-	872
Derivatives (net)		
Banks and financial institution counterparties	(14,109)	(34,566)
Corporate counterparties	52,697	54,986
Total trading assets and liabilities	**44,195**	**34,293**

4. Financial risk management (continued)

(d) Credit risks (continued)

(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, 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.

Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based). For all exposures that are not defaulted, impairment assessment is done on a portfolio basis combining exposures with similar credit characteristics. The Bank adopts Expected Loss (EL) concept for assessing impairment on portfolio basis, considering expected default probability within one year horizon, adjusted by Loss Confirmation Period (LCP) in order to translate it into incurred loss as defined by IFRS (IBNR concept).

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. The process of evaluation of contingent liabilities and allocation of provisions as per the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is performed specifically whenever provision allocation indicator exists, as per the current Policy, and mandatory by the year-end for the purposes of drawing annual financial statements of the Bank.

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 big 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, 2014 and December 31, 2013.

In thousands of BGN

	Credit risk exposure before risk transfer		Credit risk exposure after risk transfer		% of own funds	
	2014	2013	2014	2013	2014	2013
Biggest credit risk exposure to customers' group	420,503	480,503	420,503	442,912	20.4%	23.9%
Credit risk exposure to top five biggest customers' groups	1,151,906	1,046,998	883,063	955,571	42.9%	51.6%

4. Financial risk management (continued)

(d) Credit risks (continued)

(ii) Credit risk in the banking book (continued)

The table below analyses the breakdown of impairment allowances as of December 31, 2014 and December 31, 2013 on loans and advances to customers:

In thousands of BGN

	Carrying amount before impairment		Impairment allowance		Carrying amount	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Impaired	**1,613,180**	**1,667,039**	**987,028**	**975,726**	**626,152**	**691,313**
individually assessed	*803,552*	*821,133*	*398,832*	*377,742*	*404,720*	*443,391*
portfolio based	*809,628*	*845,906*	*588,196*	*597,984*	*221,432*	*247,922*
Collectively impaired	**8,255,784**	**7,666,419**	**74,768**	**64,581**	**8,181,016**	**7,601,838**
Past due but not impaired	***155,981***	***203,122***	**-**	**-**	***155,981***	***203,122***
individually assessed	*92,823*	*141,143*	-	-	*92,823*	*141,143*
portfolio based	*63,158*	*61,979*	-	-	*63,158*	*61,979*
Past due comprises						
up to 90 days	*66,599*	*24,005*	-	-	*66,599*	*24,005*
from 91 to 180 days	*9,833*	*6,459*	-	-	*9,833*	*6,459*
over 181 days	*79,549*	*172,658*	-	-	*79,549*	*172,658*
	155,981	*203,122*	-	-	*155,981*	*203,122*
Neither past due nor impaired	**2,149,254**	**1,033,629**	**-**	**-**	**2,149,254**	**1,033,629**
Total	**12,174,199**	**10,570,209**	**1,061,796**	**1,040,307**	**11,112,403**	**9,529,902**

4. Financial risk management (continued)

(d) Credit risks (continued)

(ii) Credit risk in the banking book (continued)

The breakdown of the fair value of physical or 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	
	31.12.2014	**31.12.2013**
Impaired defaulted exposures		
Cash collateral	1,584	237
Property	1,409,420	1,311,587
Other collateral	643,926	692,322
Collectively impaired performing exposures (IBNR)		
Cash collateral	64,175	53,754
Property	7,651,656	7,240,872
Other collateral	7,087,047	6,696,387
Past due but not impaired defaulted exposures		
Cash collateral	661	798
Property	364,445	475,658
Other collateral	107,428	84,120
Neither past due nor impaired performing exposures		
Cash collateral	92,431	83,754
Property	1,742,494	1,986,664
Debt securities	249,645	9,638
Other collateral	41,697	74,242
Total	**19,456,609**	**18,710,033**

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

4. Financial risk management (continued)

(d) Credit risks (continued)

(ii) Credit risk in the banking book (continued)

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, 2014 and December 31, 2013.

In thousands of BGN

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Concentration by sectors						
Sovereign	1,304,281	313,666	-	-	1,617,407	1,014,662
Manufacturing	2,197,173	2,157,730	-	-	-	-
Commerce	2,298,659	2,049,742	-	-	-	-
Construction and real estate	1,668,010	1,780,435	-	-	67	97
Agriculture and forestry	443,727	348,289	-	-	-	-
Transport and communication	412,917	425,539	-	-	-	-
Tourism	146,718	169,811	-	-	-	-
Services	462,997	399,232	-	-	-	-
Financial services	344,148	112,519	1,627,489	1,841,961	14,708	14,459
Retail (individuals)						
Housing loans	1,650,784	1,652,031	-	-	-	-
Consumer loans	1,244,785	1,161,215	-	-	-	-
	12,174,199	**10,570,209**	**1,627,489**	**1,841,961**	**1,632,182**	**1,029,218**
Impairment allowances	(1,061,796)	(1,040,307)	-	-	-	-
Total	**11,112,403**	**9,529,902**	**1,627,489**	**1,841,961**	**1,632,182**	**1,029,218**
Concentration by geographic location						
Europe	12,173,246	10,509,382	1,584,633	1,836,390	1,632,182	1,029,218
North America	148	25,952	42,503	5,298	-	-
Asia	654	311	322	133	-	-
Africa	117	34,458	-	-	-	-
South America	32	16	-	-	-	-
Australia	2	90	31	140	-	-
	12,174,199	**10,570,209**	**1,627,489**	**1,841,961**	**1,632,182**	**1,029,218**
Impairment allowances	(1,061,796)	(1,040,307)	-	-	-	-
Total	**11,112,403**	**9,529,902**	**1,627,489**	**1,841,961**	**1,632,182**	**1,029,218**

4. Financial risk management (continued)

(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 include compensations paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud, 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 UniCredit Group guidelines and local documents. The Bank has a dedicated function to operational risk management, which is independent from the business and operational areas. The responsibilities of the unit are in line with those envisaged by the Holding and Sub-Holding. 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 (Reputational Risk function is included within the scope of the Committee since 2013) 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. The responsibilities of the function are expected to be extended through the adoption of new Group policies, governing a wide variety of economic sectors and transactions.

The main activities of the OpRepRisk unit in 2014 were focused on the validation of the new Advanced Measurement Approach (new AMA) model for calculation of the Capital at Risk allocated for Operational risk. The activity was carried out by the Bank of Italy, at UniCredit Group level, and by the Bulgarian National Bank at local level. The new model was approved by both regulators with no recommendations for UniCredit Bulbank. During the year, a significant part of the efforts were also assigned to the further development of the operational risk management with focus on preventative and mitigation actions to reduce future losses and increase the extent of involvement of the Operational and Reputational Risk Unit in the approval process for relevant projects and products. Moreover, the risk culture within the Bank was further enhanced through a dedicated online training and training attendance of all new or reassigned employees. The latest reports show that all employees have passed the operational risk training, which illustrates outstanding operational risk awareness at Bank level.

Overall, the organization of operational and reputational risk management at UniCredit Bulbank AD is well established, at a high level of quality, as stated in the annual self-validation report. This was confirmed by the control verifications of UniCredit Group Internal Validation and Bank's Internal Audit inspections. Based on these independent assessments, the operational risk management and control system 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.

4. Financial risk management (continued)

(f) Basel III disclosure

Under this disclosure, Bank represents regulatory requirements for consolidated reporting. These requirements may differ from IFRS basis for consolidation. As of December 31, 2013 it includes all subsidiaries and associates with the exception of Hypovereins Immobilien EOOD, and as of December 31, 2014 it covers all subsidiaries and associates with the exception of UniCredit Insurance Broker EOOD (excluded from prudential consolidation scope under the requirements of EU 575/2013).

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.

On stand-alone basis Bank applies Foundation Internal Rating Based (F-IRB) Approach for calculation of credit risk capital requirements for corporate clients and credit institutions and Advances Measurement Approach (AMA) for the calculation of capital requirements for operational risk. For all the remaining exposures (including those originating from consolidated subsidiaries) Bank applies Standardised Approach (STA).

The new 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% (or combined buffers additional capital requirement of 5.5%). 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, 2014 are 10%, 11.5% and 13.5%, 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. Summary of FLPG as of December 31, 2014 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, 2014	Performing loans	
Agreed maximum portfolio volume:	EUR 50,000 thousand	
Nominal Value of reference portfolio :	BGN 71,133 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, 2014	BGN 37,375 thousand	BGN 19,531 thousand

4. Financial risk management (continued)

(f) Basel III disclosures (continued)

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2014 and December 31, 2013 are as follows:

In thousands of BGN

	31.12.2014 Basel III	31.12.2013 Basel II
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2,034,385	1,850,917
Tier 1 capital	2,034,385	1,850,917
Tier 2 capital	26,405	-
Total regulatory own funds	**2,060,790**	**1,850,917**
Risk Weighted Assets (RWA)		
RWA for credit risk	9,529,901	8,883,313
RWA for market risk	21,175	99,813
RWA for operational risk	1,036,938	1,264,113
Total Risk Weighted Assets (RWA)	**10,588,014**	**10,247,239**
CET 1 ratio	**19.21%**	**18.06%**
Tier 1 ratio	**19.21%**	**18.06%**
Total capital adequacy ratio	**19.46%**	**18.06%**
Minimum CET 1 capital requirements (4.5%)	**476,461**	**n.a**
Minimum Tier 1 capital requirements (6% in 2014 and 10% in 2013)	**635,281**	**1,024,724**
Minimum total capital requirements (8% for 2014 and 12% for 2013)	**847,041**	**1,229,668**
Additional capital requirements for conservation buffer (2.5%)	264,700	n.a
Additional capital requirements for systemic risk buffer (3%)	317,640	n.a
Combined buffers additional capital requirements (5.5%)	**582,341**	**n.a**
Adjusted minimum CET 1 capital requirements after buffers (10%)	1,058,801	n.a
Adjusted minimum Tier 1 capital requirements, including buffers (11.5%)	1,217,622	n.a
Adjusted minimum total capital requirements after buffers (13.5%)	1,429,382	n.a
Free equity, after buffers	**631,408**	**621,249**

4. Financial risk management (continued)

(f) Basel III disclosures (continued)

(i) Own funds and capital requirements (continued)

Upon introduction of new Basel III regulatory framework, BNB has revoked previously country specific discretions related to:

1. additional deduction from own funds of the excess of regulatory provisions over recognized impairment allowances under IFRS for all exposures treated under standardized approach (no such deduction anymore under Basel III);
2. non-recognition of commercial real estates as eligible risk mitigation collateral (commercial real estates are already eligible collaterals under Basel III).

As described above, following previous prudential approach, in parallel to the introduction of the Basel III regulatory framework, in 2014 BNB defined two additional capital buffers. All Bulgarian banks should meet combined buffers capital requirements already as of December 31, 2014. Buffers can be covered by Core Equity Tier 1 eligible positions only.

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 get used 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 (j) (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.

5. Use of estimates and judgements (continued)

(a) Fair value determination of financial instruments (continued)

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 2014 and 2013 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 2014, whenever risk-free FV deviates by more than 2% (5% in 2013) 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, as of December 31, 2014 all demand deposits are mapped to Level 3 fair value hierarchy (generally mapped to Level 2 in 2013).

5. Use of estimates and judgements (continued)

(a) Fair value determination of financial instruments (continued)

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2014 and December 31, 2013.

In thousands of BGN

Instrument category	Level 1 2014	Level 1 2013	Level 2 2014	Level 2 2013	Level 3 2014	Level 3 2013	Total 2014	Total 2013
Non-derivative financial assets held for trading	-	-	5,607	13,001	-	871	**5,607**	**13,872**
Derivatives held for trading	-	-	123,530	81,865	998	50	**124,528**	**81,915**
Derivatives used for hedging	-	-	-	326	-	-	**-**	**326**
Financial assets designated at fair value through profit or loss	-	-	-	-	60,754	61,549	**60,754**	**61,549**
Available for sale Investments	200,347	194,285	1,275,736	689,569	16,720	17,731	**1,492,803**	**901,585**
Held to maturity investments	136,723	128,965	-	1,538	-	-	**136,723**	**130,503**
Loans and advances to banks	-	-	1,341,932	1,843,094	276,375	-	**1,618,307**	**1,843,094**
Loans and advances to customers	-	-	5,063,603	7,319,204	7,142,118	2,644,745	**12,205,721**	**9,963,949**
	337,070	**323,250**	**7,810,408**	**9,948,597**	**7,496,965**	**2,724,946**	**15,644,443**	**12,996,793**
Financial liabilities held for trading	-	-	85,940	61,494	-	-	**85,940**	**61,494**
Derivatives used for hedging	-	-	41,925	4,079	-	-	**41,925**	**4,079**
Deposits from banks	-	-	1,614,809	2,347,513	1,039,675	-	**2,654,484**	**2,347,513**
Deposits from customers	-	-	5,198,872	8,572,785	5,482,659	-	**10,681,531**	**8,572,785**
Subordinated liabilities	-	-	-	212,847	70,588	-	**70,588**	**212,847**
	-	**-**	**6,941,546**	**11,198,718**	**6,592,922**	**-**	**13,534,468**	**11,198,718**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2014 is as follows:

In thousands of BGN

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available for sale Investments
Opening balance (January 1, 2013)	**921**	**61,549**	**17,731**
Increases	**3,126**	**19**	**200**
Profit recognized in income statement	1,034	19	75
Profit recognized in equity	-	-	125
Transfer from other levels	2,092	-	-
Decreases	**(3,049)**	**(814)**	**(1,211)**
Sales	(1,850)	-	(105)
Redemption	-	(600)	(1,089)
Loses recognized in income statement	(1,098)	(211)	-
Transfers to other levels	(46)	-	-
Other decreases	(55)	(3)	(17)
Closing balance (December 31, 2014)	**998**	**60,754**	**16,720**

5. Use of estimates and judgements (continued)

(a) Fair value determination of financial instruments (continued)

The tables below analyses the fair value of financial instruments by classification as of December 31, 2014 and December 31, 2013.

In thousands of BGN

December 2014	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	1,092,229	**1,092,229**	**1,092,229**
Non-derivative financial assets held for trading	5,607	-	-	-	-	-	**5,607**	**5,607**
Derivatives held for trading	124,528	-	-	-	-	-	**124,528**	**124,528**
Financial assets designated at fair value through profit or loss	60,754	-	-	-	-	-	**60,754**	**60,754**
Loans and advances to banks	-	-	1,627,489	-	-	-	**1,627,489**	**1,618,307**
Loans and advances to customers	-	-	11,112,403	-	-	-	**11,112,403**	**12,205,721**
Available for sale Investments	-	-	-	1,492,803	-	-	**1,492,803**	**1,492,803**
Held to maturity Investments	-	136,663	-	-	-	-	**136,663**	**136,723**
TOTAL ASSETS	**190,889**	**136,663**	**12,739,892**	**1,492,803**	**-**	**1,092,229**	**15,652,476**	**16,736,672**
LIABILITIES								
Financial liabilities held for trading	85,940	-	-	-	-	-	**85,940**	**85,940**
Derivatives used for hedging	-	-	-	-	41,925	-	**41,925**	**41,925**
Deposits from banks	-	-	-	-	-	2,635,100	**2,635,100**	**2,654,484**
Deposits from customers	-	-	-	-	-	10,666,785	**10,666,785**	**10,681,531**
Subordinated liabilities	-	-	-	-	-	70,596	**70,596**	**70,588**
TOTAL LIABILITIES	**85,940**	**-**	**-**	**-**	**41,925**	**13,372,481**	**13,500,346**	**13,534,468**

5. Use of estimates and judgements (continued)

(a) Fair value determination of financial instruments (continued)

In thousands of BGN

December 2013	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	728,730	**728,730**	**728,730**
Financial assets held for trading	13,872	-	-	-	-	-	**13,872**	**13,872**
Derivatives held for trading	81,915	-	-	-	-	-	**81,915**	**81,915**
Derivatives held for hedging	-	-	-	-	326	-	**326**	**326**
Financial assets designated at fair value through profit or loss	61,549	-	-	-	-	-	**61,549**	**61,549**
Loans and advances to banks	-	-	1,841,961	-	-	-	**1,841,961**	**1,843,094**
Loans and advances to customers	-	-	9,529,902	-	-	-	**9,529,902**	**9,963,949**
Available for sale Investments	-	-	-	901,585	-	-	**901,585**	**901,585**
Held to maturity Investments	-	125,071	-	-	-	-	**125,071**	**130,503**
TOTAL ASSETS	**157,336**	**125,071**	**11,371,863**	**901,585**	**326**	**728,730**	**13,284,911**	**13,725,523**
LIABILITIES								
Financial liabilities held for trading	61,494	-	-	-	-	-	**61,494**	**61,494**
Derivatives used for hedging	-	-	-	-	4,079	-	**4,079**	**4,079**
Deposits from banks	-	-	-	-	-	2,425,197	**2,425,197**	**2,347,513**
Deposits from customers	-	-	-	-	-	8,526,893	**8,526,893**	**8,572,785**
Subordinated liabilities	-	-	-	-	-	220,005	**220,005**	**212,847**
TOTAL LIABILITIES	**61,494**	**-**	**-**	**-**	**4,079**	**11,172,095**	**11,237,668**	**11,198,718**

5. Use of estimates and judgements (continued)

(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, 2014 and December 31, 2013 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 **30**)

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortised cost, Management makes judgements about the present value of the net cash flow to be received. By doing that, counterparty's financial position as well as realizable value of the underlying collateral is considered.

Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. As of December 31, 2014 and December 31, 2013 the average applied loss confirmation period is 6 months.

The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty impairment and the model assumptions and parameters used in determining collective impairment.

(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. Following UniCredit Group decision for strategic reorganization activities, in December 2013 UniCredit Bulbank AD obtained control over several leasing entities (see also Note **3 a**). Due to the specifics of leasing business, the latter is presented as separate business segment.

The Bank operates the following main business segments:

- Retail banking;
- Corporate and Investment Banking and private Banking;
- Leasing;
- Asset-Liability Management Dept. and other.

6. Segment reporting (continued)

In thousands of BGN

December 2014	Retail Banking	CIB and Private Banking	ALM and other	Leasing	Total
Net interest income	284,554	245,367	(21,655)	21,629	**529,895**
Dividend income	-	-	1,246	-	**1,246**
Net fee and commission income	118,678	69,619	(676)	4,614	**192,235**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	17,496	41,784	(817)	24	**58,487**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(192)	-	-	**(192)**
Net income from investments	-	2,399	154	-	**2,553**
Other operating income	548	(546)	2,897	709	**3,608**
TOTAL OPERATING INCOME	**421,276**	**358,431**	**(18,851)**	**26,976**	**787,832**
Personnel expenses	(49,334)	(16,820)	(51,382)	(5,766)	**(123,302)**
General and administrative expenses	(83,182)	(26,799)	(21,402)	(3,016)	**(134,399)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16,401)	(3,566)	(11,740)	(388)	**(32,095)**
Total direct expenses	**(148,917)**	**(47,185)**	**(84,524)**	**(9,170)**	**(289,796)**
Allocation of indirect and overhead expenses	(52,236)	(26,059)	78,295	-	**-**
TOTAL OPERATING EXPENSES	**(201,153)**	**(73,244)**	**(6,229)**	**(9,170)**	**(289,796)**
Provisions for risk and charges	-	-	(248)	877	**629**
Net impairment loss on financial assets	(50,347)	(116,019)	(321)	(15,721)	**(182,408)**
Net income related to property, plant and equipment	-	-	243	215	**458**
PROFIT BEFORE INCOME TAX	**169,776**	**169,168**	**(25,406)**	**3,177**	**316,715**
Income tax expense	(16,977)	(16,917)	1,978	(264)	**(32,180)**
PROFIT FOR THE YEAR	**152,799**	**152,251**	**(23,428)**	**2,915**	**284,535**
ASSETS	**3,393,418**	**9,453,134**	**2,483,423**	**654,131**	**15,984,106**
LIABILITIES	**5,860,960**	**4,903,852**	**2,250,443**	**616,303**	**13,631,558**

6. Segment reporting (continued)

In thousands of BGN

December 2013	Retail Banking	CIB and Private Banking	ALM and other	Leasing	Total
Net interest income	258,363	223,321	(21,265)	-	**460,419**
Dividend income	-	-	1,205	-	**1,205**
Net fee and commission income	107,688	68,515	1,714	-	**177,917**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	13,978	45,598	(11,123)	-	**48,453**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	310	-	-	**310**
Net income from investments	-	1,826	284	-	**2,110**
Other operating income	350	(382)	12,984	-	**12,952**
TOTAL OPERATING INCOME	**380,379**	**339,188**	**(16,201)**	**-**	**703,366**
Personnel expenses	(47,621)	(15,284)	(48,800)	-	**(111,705)**
General and administrative expenses	(80,728)	(25,389)	(21,045)	-	**(127,162)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16,510)	(3,274)	(11,973)	-	**(31,757)**
Total direct expenses	**(144,859)**	**(43,947)**	**(81,818)**	**-**	**(270,624)**
Allocation of indirect and overhead expenses	(51,002)	(24,904)	75,906	-	**-**
TOTAL OPERATING EXPENSES	**(195,861)**	**(68,851)**	**(5,912)**	**-**	**(270,624)**
Provisions for risk and charges	-	-	(9,691)	-	**(9,691)**
Net impairment loss on financial assets	(49,711)	(178,258)	6	-	**(227,963)**
Net income related to property, plant and equipment	-	-	1,056	-	**1,056**
PROFIT BEFORE INCOME TAX	**134,807**	**92,079**	**(30,742)**	**-**	**196,144**
Income tax expense	(13,481)	(9,208)	2,454	-	**(20,235)**
PROFIT FOR THE YEAR	**121,326**	**82,871**	**(28,288)**	**-**	**175,909**
ASSETS	**3,299,772**	**7,360,731**	**2,305,639**	**562,205**	**13,528,347**
LIABILITIES	**4,321,066**	**4,211,868**	**2,170,462**	**651,682**	**11,355,078**

7. Net interest income

	2014	2013
	In thousands of BGN	
Interest income		
Financial assets held for trading	793	1,503
Derivatives held for trading	774	771
Financial assets designated at fair value through profit or loss	4,158	4,286
Loans and advances to banks	13,597	5,362
Loans and advances to customers	638,505	598,757
Available for sale investments	31,452	24,569
Held to maturity investments	6,814	7,560
	696,093	**642,808**
Interest expense		
Derivatives held for trading	(844)	(852)
Derivatives used for hedging	(7,133)	(2,513)
Deposits from banks	(39,877)	(30,217)
Deposits from customers	(113,269)	(143,909)
Subordinated debt	(5,075)	(4,898)
	(166,198)	**(182,389)**
Net interest income	**529,895**	**460,419**

For the financial years ended December 31, 2014 and December 31, 2013 the interest income recognized on impaired financial instruments (loans and advances to customers) is in the amount of BGN 30,795 thousand and BGN 25,913 thousand, respectively.

8. Net fee and commission income

	2014	2013
	In thousands of BGN	
Fee and commission income		
Collection and payment services	102,724	91,366
Lending business	31,241	40,601
Account services	9,774	10,642
Management, brokerage and securities trading	5,187	953
Documentary business	17,490	16,612
Package accounts	15,136	12,381
Other	22,300	15,307
	203,852	**187,862**
Fee and commission expense		
Collection and payment services	(9,948)	(8,602)
Management, brokerage and securities trading	(1,123)	(1,036)
Lending business	(288)	(110)
Other	(258)	(197)
	(11,617)	**(9,945)**
Net fee and commission income	**192,235**	**177,917**

9. Net gains on financial assets and liabilities held for trading and hedging derivatives

In thousands of BGN

	2014	2013
FX trading income, net	44,411	38,735
Net income from debt instruments	1,392	1,297
Net income from derivative instruments	12,684	8,418
Net income from hedging derivative instruments	-	3
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	**58,487**	**48,453**

The total CVA (net of DVA) for the years ended December 31, 2014 and December 31, 2013, included in position net income from derivative instruments is in the amount of BGN 2,435 thousand and BGN (6,355) thousand, respectively.

10. Net gains on other financial assets designated at fair value through profit or loss

Bank designates as financial assets at fair value through profit or loss only debt securities, which fair values, can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2014 and December 31, 2013 are BGN (192) thousand and BGN 310 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2014	2013
Realised gains on disposal of available for sale investments	2,396	1,819
Income from liquidation of associates	-	7
Realised gains on disposal of unimpaired loans and advances	3	-
Effect of equity method consolidation on associates	154	284
Net income from investments	**2,553**	**2,110**

Income from liquidation of associates represents recovery from previously written down investment in an associate upon its liquidation. Realized gains on disposal of unimpaired loans and advances include the net profit out of sale of performing exposures. The realised gains (losses) on sale of impaired (defaulted) exposures are included under Net impairment loss on financial assets (see also note **18).**

12. Other operating income, net

In thousands of BGN

	2014	2013
Other operating income		
Income from intergovernmental agreements	-	10,146
Income from non-financial services	4,195	3,069
Rental income from investment property	895	359
Other income	2,538	1,439
	7,628	**15,013**
Other operating expenses		
Impairment of foreclosed properties	(484)	-
Depreciation charge on assets under operating leasing	(1,332)	-
Other operating expenses	(2,204)	(2,061)
	(4,020)	**(2,061)**
Other operating income, net	**3,608**	**12,952**

12. Other operating income, net (continued)

The depreciation costs related to assets under operating lease, whenever this business represents core business (e.g. originating from leasing subsidiaries) are presented as other operating expenses.

In 2014 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.

In 2013 the Bank has recognized income related to letters of credit acquired by the Bank in previous periods, the final settlement of which is covered by intergovernmental agreements.

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 long-term assets. For the years ended December 31, 2014 and December 31, 2013 the gains are in the amount of BGN 458 thousand and BGN 1,056 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2014	**2013**
Wages and salaries	(103,406)	(91,957)
Social security charges	(12,832)	(11,661)
Pension and similar expenses	(522)	(516)
Temporary staff expenses	(1,659)	(2,121)
Share-based payments	(699)	(1,140)
Other	(4,184)	(4,310)
Total personnel expenses	**(123,302)**	**(111,705)**

As of December 31, 2014 the total number of employees, expressed in full time employee equivalent is 4,136 (December 31, 2013: 4,139)

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 **40**.

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.

14. Personnel expenses (continued)

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, 2013	2014 Cost (Gains)	Settled in 2014	Economic value at December 31, 2014
Deferred Short Term Incentive (stock options)	81	45	-	126
Deferred Short Term Incentive (ordinary shares)	2,382	535	(565)	2,352
ESOP and shares for Talents	507	119	(303)	323
Total Options and Shares	**2,970**	**699**	**(868)**	**2,801**

15. General and administrative expenses

In thousands of BGN

	2014	2013
Deposit guarantee fund annual contribution	(37,586)	(34,453)
Advertising, marketing and communication	(11,212)	(9,050)
Credit information and searches	(3,389)	(3,571)
Information, communication and technology expenses	(36,831)	(36,016)
Consulting, audit and other professionals services	(2,445)	(2,209)
Real estate expenses	(11,437)	(12,308)
Rents	(13,491)	(12,815)
Travel expenses and car rentals	(2,607)	(2,352)
Insurance	(1,566)	(1,540)
Supply and miscellaneous services rendered by third parties	(9,806)	(10,547)
Other costs	(4,029)	(2,301)
Total general and administrative expenses	**(134,399)**	**(127,162)**

16. Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale

In thousands of BGN

	2014	2013
Depreciation charge	(29,097)	(29,466)
Impairment	(2,998)	(2,291)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(32,095)**	**(31,757)**

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 years ended December 31, 2014 and December 31, 2013 the impairment of long-term assets, is in the amount of BGN 2,998 thousand and BGN 2,291 thousand, respectively.

17. 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 **40**).

In thousands of BGN

	2014	2013
Additions of provisions		
Legal cases provisions	(2,866)	(9,726)
Other provisions	(837)	(25)
Provisions on constructive obligations	-	(459)
	(3,703)	**(10,210)**
Reversal of provisions		
Legal cases provisions	2,463	519
Other provisions	1,869	-
	4,332	**519**
Net provisions charge	**629**	**(9,691)**

18. Net Impairment loss on financial assets

In thousands of BGN	2014	2013
Balance 1 January		
Loans and advances to customers	**1,040,307**	**755,937**
Increase		
Loans and advances to customers	274,862	309,342
Decrease		
Loans and advances to customers	(82,707)	(71,683)
Recoveries from loans previously written-off	(9,747)	(9,696)
	(92,454)	**(81,379)**
Net impairment losses	182,408	227,963
FX revaluation effect on impairment allowances	2,794	(968)
Other movements	1,295	562
Balances from first consolidation	-	145,047
Written-off		
Loans and advances to customers	(174,755)	(97,930)
Balance December 31		
Loans and advances to customers	**1,061,796**	**1,040,307**

Balances from first consolidation include the stock of allocated impairment allowances of newly acquired subsidiaries in 2013.

19. 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 2015.

The breakdown of tax charges in the income statement is as follows:

In thousands of BGN	2014	2013
Current tax	(30,407)	(22,273)
Deferred tax income (expense) related to origination and reversal of temporary differences	(1,769)	2,145
Underprovided prior year income tax	(4)	(107)
Income tax expense	**(32,180)**	**(20,235)**

19. Income tax expense (continued)

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

	2014	2013
Accounting profit before tax	316,715	196,144
Corporate tax at applicable tax rate (10% for 2014 and 2013	(31,672)	(19,614)
Tax effect of non-taxable revenue	276	272
Tax effect of non-tax deductible expenses	(733)	(919)
Deferred tax remeasurement	(184)	-
Overprovided prior year income tax	133	26
Income tax expense	**(32,180)**	**(20,235)**
Effective tax rate	**10.16%**	**10.32%**

20. Cash and balances with Central bank

In thousands of BGN

	31.12.2014	31.12.2013
Cash in hand and in ATM	240,661	181,429
Cash in transit	58,190	52,359
Current account with Central Bank	793,378	494,942
Total cash and balances with Central Bank	**1,092,229**	**728,730**

21. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2014	31.12.2013
Government bonds	5,607	13,001
Corporate bonds	-	871
Total non-derivative financial assets held for trading	**5,607**	**13,872**

Financial assets held for trading comprise of bonds that the Bank holds for the purpose of short-term profit taking by, selling or repurchasing them in the near future.

21. Non-derivative financial assets held for trading (continued)

In October 2008 Management has adopted amendments in IAS 39 "Financial instruments: Recognition and measurement" issued by IASB that same month. Considering the ongoing financial markets turmoil as an example of "rare circumstances", Management has changed its intention with regard to certain government bonds, previously classified as held for trading and reclassified them into held to maturity category.

The reclassification was performed retrospectively, as allowed by the amendments in IAS 39, with effective date July 1st, 2008. Additional information on the reclassification is presented in the table below.

In thousands of BGN

	2014	Cumulatively since reclassification (July 2008 - December 2014)
Fair value changes		
Fair value gain that should have been recognized had the assets not been reclassified	2,125	4,701
Net interest income		
Net interest income recognized for the period after reclassification	1,994	13,597
Net interest income after reclassification that should have been recognized had the assets not been reclassified	2,894	18,678

22. Derivatives held for trading

In thousands of BGN

	31.12.2014	31.12.2013
Interest rate swaps	74,900	53,441
Equity options	13,970	5,107
FX forward contracts	15,593	6,842
FX options	12	4
Other options	9	864
FX swaps	3,372	7,475
Commodity swaps	9,413	5,402
Commodity options	7,259	2,780
Total trading derivatives	**124,528**	**81,915**

Derivatives comprise of trading instruments that have positive market value as of December 31, 2014 and December 31, 2013. 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.

23. Derivatives 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. As of December 31, 2014 and December 31, 2013 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).

24. Financial assets designated at fair value through profit or loss

In thousands of BGN

	31.12.2014	31.12.2013
Municipality bonds	607	1,191
Corporate bonds	60,147	60,358
Total financial assets designated at fair value through profit or loss	**60,754**	**61,549**

Financial assets designated at fair value through profit or loss are non-trading assets with determinable market price that form a portfolio whose performance is managed by the Bank on a fair value basis.

25. Loans and advances to banks

In thousands of BGN

	31.12.2014	31.12.2013
Loans and advances to banks	1,355,233	1,802,772
Current accounts with banks	272,256	39,189
Total loans and advances to banks	**1,627,489**	**1,841,961**

As of December 31, 2013 loans and advances to banks include also receivables under repurchase agreements. For more details on the outstanding amounts of such agreements as well as the market value of collaterals see Note **44**. As of December 31, 2014 there are no receivables under repurchase agreements with banks.

26. Loans and advances to customers

In thousands of BGN

	12/31/2014	12/31/2013
Receivables under repurchase agreement	234,385	-
Companies	6,997,060	6,798,881
Individuals		
Housing loans	1,650,784	1,652,031
Consumer loans	1,216,992	1,136,833
Central and local governments	1,304,281	299,611
Finance leases	770,697	682,853
	12,174,199	10,570,209
Less impairment allowances	(1,061,796)	(1,040,307)
Total loans and advances to customers	**11,112,403**	**9,529,902**

Receivables under repurchase agreement disclosed as of December 31, 2014 represent short-term funding provided to a local financial institution, collateralized with Bulgarian government bonds. In addition certain loans granted to corporate clients and central government are pledged on funding received (deposits from banks and customers). For more information on pledged assets see Note **44**.

27. Available for sale investments

In thousands of BGN

	31.12.2014	31.12.2013
Government bonds	1,475,689	883,554
Municipality bonds	5,055	6,037
Equities	12,059	11,994
Total available for sale investments	**1,492,803**	**901,585**

Government and corporate bonds classified as available for sale investments 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 as available for sale investments 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, 2014 and December 31, 2013 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized for the years.

As of December 31, 2014 and December 31, 2013 available for sale investments in the amount of BGN 284,350 thousand and BGN 381,121 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

As of December 31, 2014 and December 31, 2013 held to maturity investments comprise only of first class government bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2014 and December 31, 2013.

As of December 31, 2014 and December 31, 2013 held to maturity investments in the amount of BGN 133,672 thousand and BGN 123,114 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

29. Investments in associates

As of December 31, 2014 and December 31, 2013 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, 2014 and December 31, 2013 are as follows:

In thousands of BGN

	2014	**2013**
Cash Service Company AD		
Total assets	14,235	13,241
Total liabilities	659	428
Revenue	7,103	6,300
Net profit for the year	768	489

30. Property, plant, equipment and investment properties

In thousands of BGN

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost							
As of December 31, 2013	**5,628**	**145,436**	**6,698**	**75,099**	**56,819**	**5,802**	**295,482**
Additions	-	3,864	1,130	4,644	10,492	59,244	**79,374**
Transfers*	-	(198)	1	30	(10,856)	198	**(10,825)**
Write offs	-	(208)	(271)	(1,863)	(1,968)	(3,170)	**(7,480)**
Disposals	-	-	-	(1,250)	(892)	(416)	**(2,558)**
As of December 31, 2014	**5,628**	**148,894**	**7,558**	**76,660**	**53,595**	**61,658**	**353,993**
Depreciation							
As of December 31, 2013	**-**	**57,852**	**4,405**	**57,184**	**37,598**	**1,571**	**158,610**
Depreciation charge	-	6,696	693	6,673	6,187	947	**21,196**
Depreciation charge for operational leasing	-	-	-	-	1,332	-	**1,332**
Impairment	-	4	-	754	318	1,757	**2,833**
Write offs	-	(208)	(239)	(1,861)	(1,969)	(3,170)	**(7,447)**
On disposals	-	-	-	(1,244)	(782)	(97)	**(2,123)**
Transfers*	-	(73)	-	-	(3,625)	73	**(3,625)**
As of December 31, 2014	**-**	**64,271**	**4,859**	**61,506**	**39,059**	**1,081**	**170,776**
Net book value as of December 31, 2014	**5,628**	**84,623**	**2,699**	**15,154**	**14,536**	**60,577**	**183,217**
Net book value as of December 31, 2013	**5,628**	**87,584**	**2,293**	**17,915**	**19,221**	**4,231**	**136,872**

* Net transfer positions represent the effect of reassessment of operational lease agreements and their reclassification into finance ones as well as certain work in progress related to acquisition of specific software that upon usage commencement in 2014 is reclassified as intangible assets.

30. Property, plant, equipment and investment properties (continued)

In thousands of BGN

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost							
As of December 31, 2012	**5,739**	**146,067**	**5,311**	**76,655**	**46,190**	**8,694**	**288,656**
Balances upon first consolidation of UniCredit Consumer Financing EAD	-	-	236	865	476	-	**1,577**
Additions	-	2,032	566	4,482	6,665	-	**13,745**
Transfers	(111)	(2,060)	13	74	(87)	2,171	**-**
Write offs	-	(603)	(289)	(2,892)	(2,330)	(3,757)	**(9,871)**
Disposals	-	-	(6)	(5,344)	(1,341)	(1,306)	**(7,997)**
Balances upon first consolidation of UniCredit Leasing EAD and HVB Leasing EOOD	-	-	867	1,259	7,246	-	**9,372**
As of December 31, 2013	**5,628**	**145,436**	**6,698**	**75,099**	**56,819**	**5,802**	**295,482**
Depreciation							
As of December 31, 2012	**-**	**51,910**	**2,985**	**55,892**	**31,495**	**2,733**	**145,015**
Balances upon first consolidation of UniCredit Consumer Financing EAD	-	-	135	726	185	-	**1,046**
Depreciation charge	-	7,206	724	7,456	5,749	344	**21,479**
Impairment	-	14	4	39	58	1,905	**2,020**
Write offs	-	(603)	(289)	(2,892)	(2,318)	(3,757)	**(9,859)**
On disposals	-	-	(4)	(5,031)	(1,261)	(329)	**(6,625)**
Transfers	-	(675)	6	29	(35)	675	**-**
Balances upon first consolidation of UniCredit Leasing EAD and HVB Leasing EOOD	-	-	844	965	3,725	-	**5,534**
As of December 31, 2013	**-**	**57,852**	**4,405**	**57,184**	**37,598**	**1,571**	**158,610**
Net book value as of December 31, 2013	**5,628**	**87,584**	**2,293**	**17,915**	**19,221**	**4,231**	**136,872**
Net book value as of December 31, 2012	**5,739**	**94,157**	**2,326**	**20,763**	**14,695**	**5,961**	**143,641**

30. Property, plant, equipment and investment properties (continued)

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, 2014 and December 31, 2013 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, 2014 and December 31, 2013 amount to BGN 1,757 thousand and BGN 1,905 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2014 and December 31, 2013. The fair values of investment properties as of December 31, 2014 and December 31, 2013 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	Carrying amount		Fair value	
	2014	**2013**	**2014**	**2013**
Investment properties				
Land	13,662	354	14,184	988
Buildings	46,915	3,877	48,150	4,881
Total investment properties	**60,577**	**4,231**	**62,334**	**5,869**

31. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2013	**80,808**
Additions	6,648
Transfers	680
Write offs	(351)
As of December 31, 2014	**87,785**
Amortisation	
As of December 31, 2013	**55,234**
Depreciation charge	7,901
Impairment due to obsolescence	165
Write offs	(351)
As of December 31,2014	**62,949**
Net book value as of December 31, 2014	**24,836**
Net book value as of December 31, 2013	**25,574**

31. Intangible assets (continued)

In thousands of BGN

Cost	
As of December 31, 2012	**74,821**
Balances upon first consolidation UniCredit Consumer Financing EAD	**456**
Additions	5,120
Write offs	(583)
Balances upon first consolidation UniCredit Leasing EAD and HVB Leasing EOOD	994
As of December 31, 2013	**80,808**
Amortisation	
As of December 31, 2012	**46,906**
Balances upon first consolidation UniCredit Consumer Financing EAD	**196**
Depreciation charge	7,987
Impairment due to obsolescence	271
Write offs	(583)
Balances upon first consolidation UniCredit Leasing EAD and HVB Leasing EOOD	457
As of December 31, 2013	**55,234**
Net book value as of December 31, 2013	**25,574**
Net book value as of December 31, 2012	**27,915**

32. 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 overprovided prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank stand-alone and its subsidiaries pay during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Corporate income tax in Bulgaria is charged in single entity basis. Should by the year-end advance instalments on single entity level exceed the overall annual current tax liability, the excess 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, 2014 the consolidated current tax assets, reported by the Bank, represent overprovided current tax for 2013, while current tax liabilities represent net payable current tax position for 2014.

33. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2014 and December 31, 2013 is as outlined below:

In thousands of BGN

	31.12.2014	**31.12.2013**
Property, plant and intangible assets	7,149	7,872
Available for sale investments	872	872
Provisions	(2,860)	(2,535)
Actuarial gains (losses)	(164)	(85)
Other liabilities	(5,276)	(4,533)
Tax losses carried forward	(1,201)	(1,125)
Net deferred tax (assets) liabilities	**(1,480)**	**466**

33. Deferred tax (continued)

The movements of deferred tax assets and liabilities on net basis throughout 2014 are as outlined below:

In thousands of BGN

	31.12.2013	Recognised in P&L	Recognised in equity	Balance 2014
Property, plant and equipment	7,872	(723)	-	7,149
Available for sale investments	872	(168)	168	872
Provisions	(2,535)	(325)	-	(2,860)
Actuarial gains (losses)	(85)	-	(79)	(164)
Cash flow hedge	-	3,804	(3,804)	-
Other liabilities	(4,533)	(743)	-	(5,276)
Tax losses carried forward	(1,125)	(76)	-	(1,201)
Net deferred tax (assets) liabilities	**466**	**1,769**	**(3,715)**	**(1,480)**

34. Non-current assets and disposal group classified as held for sale

The Bank presents as non-current assets and disposal group held for sale only properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends. As of December 31, 2014 and December 31, 2013 Bank has not classified any properties as non-current assets held for sale.

35. Other assets

In thousands of BGN

	31.12.2014	31.12.2013
Receivables and prepayments	34,346	31,332
Receivables from the State Budget	378	66
Materials, spare parts and consumables	3,421	4,250
Other assets	9,773	10,083
Foreclosed properties	63,294	23,779
Total other assets	**111,212**	**69,510**

36. Financial liabilities held for trading

In thousands of BGN

	31.12.2014	31.12.2013
Interest rate swaps	51,232	35,405
FX forward contracts	2,956	7,565
Equity options	13,909	5,438
Other options	9	73
FX options	12	5
FX swaps	1,536	5,469
Commodity swaps	9,133	4,670
Commodity options	7,153	2,869
Total trading liabilities	**85,940**	**61,494**

37. Deposits from banks

In thousands of BGN

	31.12.2014	31.12.2013
Current accounts and overnight deposits		
Local banks	148,003	89,541
Foreign banks	118,013	48,096
	266,016	**137,637**
Deposits		
Local banks	28,587	137,297
Foreign banks	2,328,328	2,134,125
	2,356,915	**2,271,422**
Other	**12,169**	**16,138**
Total deposits from banks	**2,635,100**	**2,425,197**

38. Deposits from customers

In thousands of BGN

	31.12.2014	31.12.2013
Current accounts		
Individuals	1,002,455	749,642
Corporate	3,113,741	2,203,329
Budget and State companies	290,635	288,491
	4,406,831	**3,241,462**
Term deposits		
Individuals	3,463,272	2,898,209
Corporate	1,680,816	1,589,892
Budget and State companies	57,847	52,250
	5,201,935	**4,540,351**
Saving accounts	**1,017,611**	**612,564**
Transfers in execution process	**40,408**	**107,698**
Other	**-**	**24,818**
Total deposits from customers	**10,666,785**	**8,526,893**

38. Deposits from customers (continued)

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, 2014 and December 31, 2013 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.

39. Subordinated liabilities

As of December 31, 2014 and December 31, 2013 the subordinated liabilities with total amount of BGN 70,596 thousand and BGN 220,005 thousand, respectively represent the outstanding debt (principal and accrued interest) on five loan facilities provided by UniCredit Bank Austria AG as outlined in the table below:

In thousands of BGN

Start date	Term to maturity	Amount of the original principal	Outstanding amount as of December 31, 2014	Outstanding amount as of December 31, 2013
November 26, 2004	10 years	19,558	-	26,070
December 20, 2004	10 years	19,558	-	26,102
February 3, 2005	10 years	25,426	33,229	32,881
August 2, 2005	10 years	29,337	37,367	37,020
November 19, 2008	10 years	97,792	-	97,932
Total		**191,671**	**70,596**	**220,005**

In 2014 two of the prior years' subordinated loans matured and were fully repaid to the creditors. In addition one subordinated loan with original principal amount of EUR 50,000 thousand and original maturity in 2018 was early prepaid. For the latter Bank has requested and received permission from the Bulgarian National Bank.

All active subordinated loans meet the requirements of Bulgarian National Bank for Tier II inclusion for which Bank has received written approval. No principal repayments are allowed prior to final maturity of the loans unless explicitly approved by Bulgarian National Bank.

Under the clauses of subordinated agreements UniCredit Bank Austria has agreed that all the subordinated indebtedness is unsecured, and that any repayment of these liabilities in case of insolvency, liquidation or dissolution of the Borrower (UniCredit Bulbank AD) shall be admitted after all other Borrowers' creditors have been reimbursed and satisfied.

40. Provisions

The movement in provisions for the years ended December 31, 2014 and December 31, 2013 is as follows:

In thousands of BGN

	Letters of guarantee	Legal cases	Retirement benefits	Constructive obligations	Other	Total
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2012	**13,626**	**12,429**	**4,685**	**756**	**765**	**32,261**
Allocations	-	9,726	516	459	25	**10,726**
Releases	-	(519)	-	-	-	**(519)**
Additions due to FX revaluation	5,592	2,016	-	-	-	**7,608**
Releases due to FX revaluation	(6,185)	(2,230)	-	-	-	**(8,415)**
Actuarial gains/losses recognized in OCI	-	-	(3)	-	-	**(3)**
Balances from first consolidation	-	2,657	-	-	2,319	**4,976**
Utilization	-	(1,033)	(256)	(168)	(234)	**(1,691)**
Balance as of December 31, 2013	**13,033**	**23,046**	**4,942**	**1,047**	**2,875**	**44,943**
Allocations	-	2,866	522	-	837	**4,225**
Releases	-	(2,463)	-	-	(1,869)	**(4,332)**
Additions due to FX revaluation	5,577	2,010	-	-	-	**7,587**
Releases due to FX revaluation	(3,838)	(1,383)	-	-	-	**(5,221)**
Actuarial gains/losses recognized in OCI	-	-	795	-	-	**795**
Utilization	-	(3,986)	(444)	(326)	(1,301)	**(6,057)**
Balance as of December 31, 2014	**14,772**	**20,090**	**5,815**	**721**	**542**	**41,940**

(a) Provisions on letters of guarantees

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, 2014 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 14,772 thousand (BGN 13,033 thousand as of December 31, 2013).

(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, 2014 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 20,090 thousand has been recognized (BGN 23,046 thousand as of December 31, 2013).

(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 2014 Defined benefit obligation are as follows:

- Discount rate – 3.00%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63 years and 8 months, women 60 years and 8 months for 2015 and increase by 4 months each year thereafter until the age of 65 years for men and 63 years for women is reached.

40. Provisions (continued)

(c) Retirement benefit provision (continued)

The movement of the defined benefit obligation for the year ended December 31, 2014 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, 2013	**4,942**
Current service costs for 2014	356
Interest cost for 2014	166
Actuarial losses recognized in OCI in 2014	795
Benefits paid	(444)
Recognized defined benefit obligation as of December 31, 2014	**5,815**
Interest rate beginning of the year	3.60%
Interest rate end of the year	3.00%
Future increase of salaries	5.0%
Expected 2015 service costs	402
Expected 2015 interest costs	161
Expected 2015 benefit payments	988

Current service cost and interest cost are presented under Personnel expenses (See note **14**).

The major factors impacting the present value of 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

	2014	**2013**
Sensitivity - Discount rate +/- %	0.25%	0.25%
DBO Discount rate -	5,958	5,063
DBO Discount rate +	5,677	4,827
Sensitivity - Salary increase rate +/- %	0.25%	0.25%
DBO Salary increase rate -	5,679	4,828
DBO Salary increase rate +	5,955	5,061

(d) Provisions on constructive obligations

In the course of regular business, the Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria. The respective amounts as of December 31, 2014 and December 31, 2013 are as follows:

In thousands of BGN

	31.12.2014	**31.12.2013**
Provisions in accordance with Instruction I-171 of BNB and Ministry of Internal Affairs	419	588
Provisions related to passportization of buildings	302	459
Total provisions on constructive obligation	**721**	**1,047**

40. Provisions (continued)

(d) Provisions on constructive obligations (continued)

As of December 31, 2014 and December 31, 2013 the Bank has recorded provisions on constructive obligations in accordance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises and safe-deposits boxes.

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 2014, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2014 law amendments moved the deadline for the above mentioned assessment to December 31, 2015. The balances as of December 31, 2014 and December 31, 2013 represent unutilized provision amounts as of the reporting dates.

(e) Other provision

Other provisions in the amount of BGN 542 thousand (BGN 2,875 thousand in 2013) relates to coverage of claims related to credit cards business as well as other claims.

41. Other liabilities

In thousands of BGN

	31.12.2014	**31.12.2013**
Liabilities to the State budget	5,197	4,659
Liabilities to personnel	31,487	25,768
Liabilities for unused paid leave	5,775	5,646
Dividends	471	460
Incentive plan liabilities	3,285	2,934
Other liabilities	36,504	29,860
Total other liabilities	**82,719**	**69,327**

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 2014 and 2013 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.

42. Equity

a) Share capital

As of December 31, 2014 and December 31, 2013 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.

42. Equity (continued)

b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

c) Retained earnings

Under Retained earnings 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 net assets value of the newly acquired subsidiaries in business combinations under common control and the consideration transferred at the date of first consolidation. In 2013 following the acquisitions in UniCredit Consumer Financing EAD, UniCredit Leasing EAD and HVB Leasing EOOD, that difference is in the amount of BGN 6,221 thousand.

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, 2014 and December 31, 2013 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 1,856 thousand and BGN 323 thousand, respectively, net of tax.

43. Contingent liabilities

In thousands of BGN

	31.12.2014	31.12.2013
Letters of credit and letters of guarantee	1,316,870	1,550,531
Credit commitments	1,285,375	1,265,900
Total contingent liabilities	**2,602,245**	**2,816,431**

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, 2014 and December 31, 2013 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 **40**).

43. Contingent liabilities (continued)

b) Litigation

As of December 31, 2014 and December 31, 2013 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 financial statements as of December 31, 2014 are in the amount of BGN 20,090 thousand (BGN 23,046 thousand in 2013), (see also Note **40)**.

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, 2014 and December 31, 2013 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

	31.12.2014	**31.12.2013**
Securities pledged for budget holders' account service	5,808	314,819
Securities pledged on REPO deals	229,655	3,979
Securities pledged on other deals	182,559	185,437
Loans pledged for budget holders' account service	254,886	
Loans pledged on other deals	15,346	1,447
	688,254	**505,682**
Pledged securities include		
Available for sale assets	284,350	381,121
Assets held to maturity	133,672	123,114
Loans and advances	270,232	1,447
	688,254	**505,682**

Securities and loans pledged on other deals include those contractually pledged on long-term financing provided to the Bank by local and foreign institutions.

Information on the collaterals received on open reverse repo deals as of December 31, 2014 and December 31, 2013 is as follows:

In thousands of BGN

	12/31/2014		**12/31/2013**	
	Carrying amount	**Collateral value**	**Carrying amount**	**Collateral value**
Receivables under repurchase agreements with banks	-	-	84,071	82,477
Receivables under repurchase agreements with customers	234,385	243,865	-	-
Total	**234,385**	**243,865**	**84,071**	**82,477**

45. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as “parent companies”). In addition the Bank has relatedness with its subsidiaries and associates (see also Note **29**) 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, 2014 and December 31, 2013 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

As of December 31, 2014	Parent companies	Associates	Other related parties	Total
Financial assets held for trading	1	-	34,004	**34,005**
Current accounts and deposits placed	1,441,137	-	1,089	**1,442,226**
Extended loans	-	-	4,548	**4,548**
Other assets	2,427		2,286	**4,713**
Current accounts and deposits taken	1,855,525	653	14,802	**1,870,980**
Subordinated liabilities	70,596	-	-	**70,596**
Derivatives held for trading	2,670	-	52,158	**54,828**
Derivatives used for hedging	38,895	-	3,030	**41,925**
Other liabilities	4,145	-	3,113	**7,258**
Guarantees received from the Group	**56,578**		**49,706**	**106,284**

In thousands of BGN

As of December 31, 2013	Parent companies	Other related parties	Total
Financial assets held for trading	-	11,675	**11,675**
Current accounts and deposits placed	1,667,452	683	**1,668,135**
Extended loans	-	16,777	**16,777**
Other assets	1,978	2,174	**4,152**
Derivatives used for hedging	59	4,020	**4,079**
Current accounts and deposits taken	1,340,767	9,592	**1,350,359**
Subordinated liabilities	220,005	-	**220,005**
Other liabilities	1,685	744	**2,429**
Guarantees received from the Group	**35,238**	**35,640**	**70,878**

45. Related parties (continued)

In thousands of BGN

Year ended December 31, 2014	Parent companies	Associates	Other related parties	Total
Interest incomes	13,218	-	542	**13,760**
Interest expenses	(44,043)	(3)	(2,602)	**(46,648)**
Fee and commissions income	883	-	1,284	**2,167**
Fee and commissions expenses	(126)	-	(11)	**(137)**
Net gains (losses) on financial assets and liabilities held for trading	(4,397)	-	(5,687)	**(10,084)**
Other operating income	887	-	12	**899**
Administrative and personnel expenses	(2,090)	(945)	(8,819)	**(11,854)**
Total	**(35,668)**	**(948)**	**(15,281)**	**(51,897)**

In thousands of BGN

Year ended December 31, 2013	Parent companies	Associates	Other related parties	Total
Interest income	4,548	-	529	**5,077**
Interest expenses	(30,811)	-	(31,307)	**(62,118)**
Fee and commissions income	836	-	999	**1,835**
Fee and commissions expenses	(92)	-	(15)	**(107)**
Net gains (losses) on financial assets and liabilities held for trading	2,499	-	-	**2,499**
Other operating income	879	-	13	**892**
Administrative and personnel expenses	(737)	(889)	(9,572)	**(11,198)**
Total	**(22,878)**	**(889)**	**(39,353)**	**(63,120)**

As of December 31, 2014 the loans extended to key management personnel amount to BGN 1,934 thousand (BGN 2,190 thousand in 2013). For the year ended December 31, 2014 the compensation paid to key management personnel amounts to BGN 5,659 thousand (BGN 5,016 thousand in 2013).

46. Cash and cash equivalents

In thousands of BGN

	31.12.2014	31.12.2013
Cash in hand and in ATM	240,661	181,429
Cash in transit	58,190	52,359
Current account with the Central Bank	793,378	494,942
Current accounts with banks	272,256	39,189
Receivables under repurchase agreements	234,385	84,071
Placements with banks with original maturity less than 3 months	466,829	1,128,041
Total cash and cash equivalents	**2,065,699**	**1,980,031**

Cash and cash equivalents include cash in hand as well as current accounts with Central Bank and other banks and placement with original maturity up to 3 months.

47. Leasing

The Bank is counterparty in numerous operating and finance lease agreements. After first consolidation of UniCredit Leasing EAD and HVB Leasing EOOD in December 2013, the finance lease agreements prevail, being those leasing companies' core activity.
In 2014 Bank has reassessed certain operating lease agreements originated in leasing subsidiaries, whereas the latter included an option at the discretion of the lessor to sell the leased assets. As the Management decides that all options available will always be exercised, all related operating lease agreements have been reclassified to finance ones. As a result of the reclassification, there are no more operation lease agreements covered within the core business activity of the leasing subsidiaries. Reported outstanding non-cancellable payments on operation lease agreements relate only to auxiliary Bank's stand-alone activity.

Summary of the amount of non-cancellable minimum lease payments where Bank acts both as a lessor and as a lessee are presented in the tables below:

(a) Finance lease contracts where the Bank acts as a lessor

In thousands of BGN

Residual maturity	Total future minimum lease payment		NPV of total future minimum lease payment	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Up to one year	312,942	278,596	263,599	249,623
Between one and five years	492,924	370,947	304,032	329,825
Beyond five years	108,624	121,139	74,140	103,405
Total	**914,490**	**770,682**	**641,771**	**682,853**

(b) Operating lease contracts where the Bank acts as a lessee

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	31.12.2014	**31.12.2013**
Up to one year	4,831	5,493
Between one and five years	4,626	6,475
Beyond five years	1,119	1,119
Total	**10,576**	**13,087**

(c) Operating lease contracts where the Bank acts as a lessor

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	31.12.2014	**31.12.2013**
Up to one year	85	1,455
Between one and five years	-	2,860
Total	**85**	**4,315**

48. 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, 2014 and December 31, 2013 the Bank has no subsidiaries or branches established outside Republic of Bulgaria. Summary of consolidated quantitate 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

	2014	2013	Reference to other notes and reports
Total operating income	787,832	703,366	Consolidated Income Statement and details in Notes 7,8,9,10,11 and 12
Profit before income tax	316,715	196,144	Consolidated Income Statement
Income tax expense	(32,180)	(20,235)	Consolidated Income Statement and details in Note 19
Return on average assets (%)	1.9%	1.3%	2014 Annual Report on Activity
Full time equivalent number of personnel as of December 31	4,136	4,139	Note 14

UniCredit Bulbank AD and its subsidiaries have never requested or been provided any state grants or subsidies.