

**UNICREDIT BULBANK AD**

**CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE YEAR ENDED DECEMBER 31, 2012  
WITH INDEPENDENT AUDITOR'S REPORT THEREON**



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## INDEPENDENT AUDITORS' 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 at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *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 about 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 our 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, we consider internal control relevant to the entity'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 principles 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.



KPMG Bulgaria OOD, a Bulgarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered with the Commercial Register at the Bulgarian Registry Agency  
Identity Code 040595851

IBAN BG06 RZBB 9155 1060 2664 18  
BIC RZBBBGSF  
RaiffeisenBank (Bulgaria) EAD



### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Report on Other Legal and Regulatory Requirements**

*Annual report of the activities of the Bank prepared in accordance with the requirements of article 33 of the Accountancy Act*

As required under the Accountancy Act, we report that the consolidated historical financial information disclosed in the annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated financial statements of the Bank as of and for the year ended 31 December 2012. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 19 February 2013.

Tzvetelinka Koleva  
*Authorized representative*

KPMG Bulgaria OOD  
Sofia, 19 February 2013




Margarita Goleva  
*Registered auditor*

<b>INCOME STATEMENT .....</b>	<b>1</b>
<b>STATEMENT OF COMPREHENSIVE INCOME .....</b>	<b>2</b>
<b>STATEMENT OF FINANCIAL POSITION.....</b>	<b>3</b>
<b>STATEMENT OF CHANGES IN EQUITY .....</b>	<b>4</b>
<b>STATEMENT OF CASH FLOWS .....</b>	<b>5</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>7</b>
1. REPORTING ENTITY .....	7
2. BASIS OF PREPARATION .....	7
3. SIGNIFICANT ACCOUNTING POLICY.....	8
4. FINANCIAL RISK MANAGEMENT .....	23
5. USE OF ESTIMATES AND JUDGEMENTS .....	41
6. SEGMENT REPORTING .....	45
7. NET INTEREST INCOME .....	48
8. NET FEE AND COMMISSION INCOME.....	48
9. NET GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING .....	49
10. NET GAINS (LOSSES) ON OTHER FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS.....	49
11. NET INCOME FROM INVESTMENTS .....	49
12. OTHER OPERATING INCOME, NET.....	49
13. NET INCOME RELATED TO PROPERTY, PLANT AND EQUIPMENT .....	50
14. PERSONNEL EXPENSES .....	50
15. GENERAL AND ADMINISTRATIVE EXPENSES .....	51
16. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE FIXED ASSETS, INVESTMENT PROPERTIES AND ASSETS HELD FOR SALE .....	52
17. PROVISIONS FOR RISK AND CHARGES .....	52
18. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS .....	53
19. INCOME TAX EXPENSE .....	53
20. CASH AND BALANCES WITH CENTRAL BANK .....	54
21. FINANCIAL ASSETS HELD FOR TRADING .....	54
22. DERIVATIVES HELD FOR TRADING .....	55
23. DERIVATIVES USED FOR HEDGING .....	56
24. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS .....	56
25. LOANS AND ADVANCES TO BANKS.....	56
26. LOANS AND ADVANCES TO CUSTOMERS .....	57
27. AVAILABLE FOR SALE INVESTMENTS.....	57
28. HELD TO MATURITY INVESTMENTS .....	58
29. INVESTMENTS IN ASSOCIATES .....	58
30. PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTIES .....	59
31. INTANGIBLE ASSETS .....	61
32. CURRENT TAX .....	62
33. DEFERRED TAX.....	62
34. NON-CURRENT ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE .....	63
35. OTHER ASSETS.....	63
36. FINANCIAL LIABILITIES HELD FOR TRADING .....	64
37. DEPOSITS FROM BANKS .....	64
38. DEPOSITS FROM CUSTOMERS .....	64
39. SUBORDINATED LIABILITIES .....	65
40. PROVISIONS .....	65
41. OTHER LIABILITIES .....	67
42. EQUITY .....	68
43. CONTINGENT LIABILITIES .....	68
44. ASSETS PLEDGED AS COLLATERAL .....	69
45. RELATED PARTIES .....	69
46. CASH AND CASH EQUIVALENTS .....	70
47. LEASING.....	71
48. SUBSEQUENT EVENTS .....	71
49. GROUP ENTITIES .....	71



**INCOME STATEMENT**


		<i>In thousands of BGN</i>	
	Notes	2012	2011
Interest income		641,618	653,175
Interest expense		(233,193)	(207,587)
<b>Net interest income</b>	7	<b>408,425</b>	<b>445,588</b>
<b>Dividend income</b>		<b>1,101</b>	<b>1,196</b>
Fee and commission income		165,552	146,393
Fee and commission expense		(8,598)	(9,032)
<b>Net fee and commission income</b>	8	<b>156,954</b>	<b>137,361</b>
Net gains (losses) on financial assets and liabilities held for trading	9	60,406	46,213
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	2,698	(1,603)
Net income from investments	11	10,249	10,352
Other operating income, net	12	4,577	6,087
<b>TOTAL OPERATING INCOME</b>		<b>644,410</b>	<b>645,194</b>
Net income related to property, plant and equipment	13	1,149	2,774
Personnel expenses	14	(103,550)	(99,845)
General and administrative expenses	15	(116,138)	(114,444)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(36,990)	(34,866)
Provisions for risk and charges	17	5,931	(4,426)
Net impairment loss on financial assets	18	(154,172)	(136,592)
<b>PROFIT BEFORE INCOME TAX</b>		<b>240,640</b>	<b>257,795</b>
Income tax expense	19	(24,758)	(24,937)
<b>PROFIT FOR THE PERIOD</b>		<b>215,882</b>	<b>232,858</b>

  
Levon Hampartzoumian  
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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

KPMG Bulgaria OOD

  
Tzvetelinka Koleva  
Authorized representative

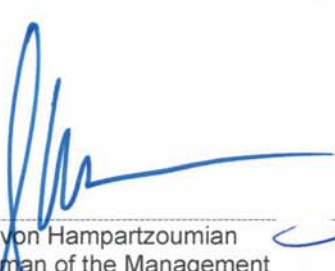
  
Margarita Goleva  
Registered auditor

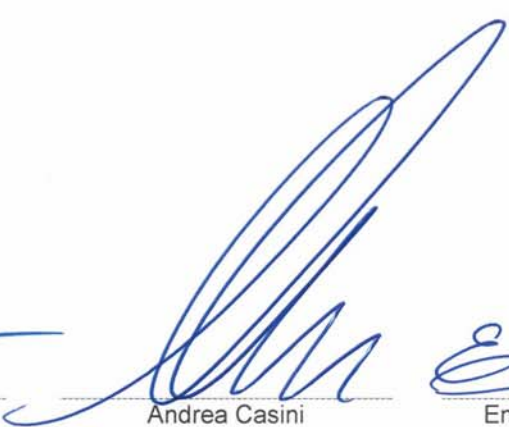
The accompanying notes 1 to 49 are an integral part of these financial statements




**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	<i>In thousands of BGN</i>	
		2012	2011
Profit for the period		215,882	232,858
<b>Other comprehensive income:</b>			
Available for sale investments		36,943	(1,846)
Cash flow hedge		(1,127)	(1,906)
Income tax relating to components of other comprehensive income		(3,581)	376
Other distribution		(38)	(37)
<b>Total other comprehensive income for the year net of tax</b>		<b>32,197</b>	<b>(3,413)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>248,079</b>	<b>229,445</b>


  
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**STATEMENT OF FINANCIAL POSITION**
*In thousands of BGN*

	Notes	2012	2011
<b>ASSETS</b>			
Cash and balances with Central Bank	20	906,398	886,704
Financial assets held for trading	21	80,697	129,174
Derivatives held for trading	22	124,265	112,024
Financial assets designated at fair value through profit or loss	24	69,626	79,682
Loans and advances to banks	25	1,713,903	1,893,784
Loans and advances to customers	26	8,613,880	7,873,628
Available for sale investments	27	634,769	383,947
Held to maturity investments	28	254,997	273,247
Investments in associates	29	33,327	32,967
Property, plant, equipment and investment properties	30	208,623	220,641
Intangible assets	31	27,915	31,762
Current tax assets	32	1,918	1
Deferred tax assets	33	7,842	6,995
Non-current assets and disposal group classified as held for sale	34	-	797
Other assets	35	56,168	47,659
<b>TOTAL ASSETS</b>		<b>12,734,328</b>	<b>11,973,012</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	36	121,667	88,386
Derivatives used for hedging	23	7,669	6,027
Deposits from banks	37	1,891,858	2,221,082
Deposits from customers	38	8,224,740	7,287,104
Subordinated liabilities	39	218,643	216,710
Provisions	40	31,409	38,912
Current tax liabilities	32	62	6,339
Deferred tax liabilities	33	18,449	18,307
Other liabilities	41	67,250	67,373
<b>TOTAL LIABILITIES</b>		<b>10,581,747</b>	<b>9,950,240</b>
<b>EQUITY</b>			
Share capital		285,777	285,777
Revaluation reserves		148,892	117,212
Retained earnings		1,502,030	1,386,925
Profit for the period		215,882	232,858
<b>TOTAL EQUITY</b>	42	<b>2,152,581</b>	<b>2,022,772</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12,734,328</b>	<b>11,973,012</b>

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**STATEMENT OF CHANGES IN EQUITY**

*In thousands of BGN*

	Share capital	Statutory reserve	Retained earnings	Property revaluation reserve	Available for sale investments revaluation reserve	Cash flow hedge reserve	Total
<b>Balance as of January 1, 2011</b>	<b>263,911</b>	<b>205,500</b>	<b>1,191,843</b>	<b>144,866</b>	<b>(10,504)</b>	<b>(2,289)</b>	<b>1,793,327</b>
Profit for the period	-	-	232,858	-	-	-	232,858
Transfer of revaluation reserve on non-current assets disposed of	-	-	11,485	(11,485)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(1,846)	-	(1,846)
Change of revaluation reserve on cash flow hedges	-	-	-	-	-	(1,906)	(1,906)
Other distribution	-	-	(37)	-	-	-	(37)
Income tax relating to components of other comprehensive income	-	-	-	-	185	191	376
<b>Total other comprehensive income for the year net of tax</b>	<b>-</b>	<b>-</b>	<b>11,448</b>	<b>(11,485)</b>	<b>(1,661)</b>	<b>(1,715)</b>	<b>(3,413)</b>
<b>Total comprehensive income for the year net of tax</b>	<b>-</b>	<b>-</b>	<b>244,306</b>	<b>(11,485)</b>	<b>(1,661)</b>	<b>(1,715)</b>	<b>229,445</b>
Dividends paid	-	-	(158,744)	-	-	-	(158,744)
Increase of capital	21,866	136,878	-	-	-	-	158,744
<b>Balance as of December 31, 2011</b>	<b>285,777</b>	<b>342,378</b>	<b>1,277,405</b>	<b>133,381</b>	<b>(12,165)</b>	<b>(4,004)</b>	<b>2,022,772</b>
Profit for the period	-	-	215,882	-	-	-	215,882
Transfer of revaluation reserve on non-current assets disposed of	-	-	555	(555)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	36,943	-	36,943
Change of revaluation reserve on cash flow hedges	-	-	-	-	-	(1,127)	(1,127)
Other distribution	-	-	(38)	-	-	-	(38)
Income tax relating to components of other comprehensive income	-	-	-	-	(3,694)	113	(3,581)
<b>Total other comprehensive income for the year net of tax</b>	<b>-</b>	<b>-</b>	<b>517</b>	<b>(555)</b>	<b>33,249</b>	<b>(1,014)</b>	<b>32,197</b>
<b>Total comprehensive income for the year net of tax</b>	<b>-</b>	<b>-</b>	<b>216,399</b>	<b>(555)</b>	<b>33,249</b>	<b>(1,014)</b>	<b>248,079</b>
Dividends paid	-	-	(118,270)	-	-	-	(118,270)
<b>Balance as of December 31, 2012</b>	<b>285,777</b>	<b>342,378</b>	<b>1,375,534</b>	<b>132,826</b>	<b>21,084</b>	<b>(5,018)</b>	<b>2,152,581</b>

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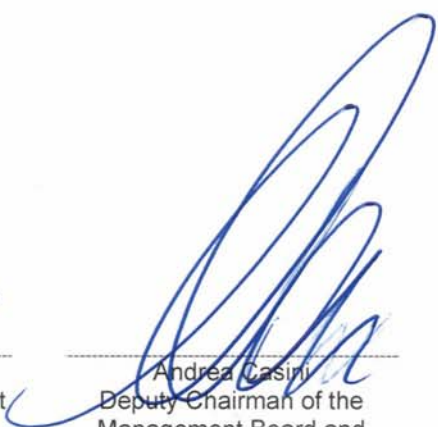
**STATEMENT OF CASH FLOWS**

		<i>In thousands of BGN</i>	
	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Net profit</b>		<b>215,882</b>	<b>232,858</b>
Current and deferred tax income, recognised in income statement		(6,451)	(4,534)
Current and deferred tax expenses, recognised in income statement		31,209	29,471
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	16	35,856	33,576
Impairment of financial assets	18	169,641	141,250
Impairment of long term assets	16	1,134	1,290
Provisions, net	40	(5,446)	5,551
Unrealised fair value losses (gains) through profit or loss, net		23,809	(24,216)
Unrealised gains on FX revaluation		(1,030)	(188)
Net income from associates under equity method		(9,515)	(10,153)
Net income from sale of PP&E and liquidation of associates		(1,191)	(3,065)
Net interest income		(408,425)	(445,588)
Dividend income from available for sale investments		(1,101)	(1,196)
Increase in other accruals		9,879	19,328
<b>Cash flows from profits before changes in operating assets and liabilities</b>		<b>54,251</b>	<b>(25,616)</b>
<b>Operating activities</b>			
<b>Change in operating assets</b>			
Decrease (increase) in loans and advances to banks		965,146	(1,205,515)
(Increase) in loans and advances to customers		(915,591)	(474,623)
(Increase) in available for sale investments		(213,718)	(103,600)
Decrease in financial instruments held for trading and hedging derivatives		48,418	31,726
Decrease in financial instruments at fair value through profit or loss		6,388	27,389
(Increase) in other assets		(879)	(17,603)
<b>Change in operating liabilities:</b>			
(Decrease) in deposits from banks		(327,266)	(401,146)
Increase in amounts owed to customers		944,307	736,920
Provisions utilization		(1,703)	(1,396)
Increase (decrease) in other liabilities		(23,855)	18,096
<b>Interest received</b>		<b>639,368</b>	<b>652,010</b>
<b>Interest paid</b>		<b>(228,339)</b>	<b>(201,667)</b>
<b>Dividends received</b>		<b>1,101</b>	<b>1,196</b>
<b>Taxes paid</b>		<b>(30,903)</b>	<b>(17,559)</b>
<b>Net cash flow from operating activities</b>		<b>916,725</b>	<b>(981,388)</b>
<b>Cash flow from investing activities</b>			
Cash payments to acquire tangible assets		(14,379)	(21,039)
Cash receipt from sale of tangible assets		2,826	16,156
Cash payments to acquire intangible assets		(7,798)	(11,848)
Cash receipt from sale of intangible assets		172	-
Cash receipt from liquidation of associates		42	-
Cash receipts from redemption of held to maturity investments		15,464	21,807
Dividend received from associates		9,147	6,404
<b>Net cash flow from investing activities</b>		<b>5,474</b>	<b>11,480</b>

**STATEMENT OF CASH FLOWS (CONTINUED)**


		<i>In thousands of BGN</i>	
	Notes	2012	2011
<b>Cash flow from financial activities</b>			
Dividends paid		(118,270)	(158,744)
Capital increase		-	158,744
Other cash payments related to financing activities		(30)	(37)
<b>Net cash flows from financial activities</b>		<b>(118,300)</b>	<b>(37)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>416</b>	<b>(29,751)</b>
<b>Net increase in cash and cash equivalents</b>		<b>804,315</b>	<b>(999,696)</b>
<b>Cash and cash equivalents at the beginning of period</b>	46	<b>1,573,482</b>	<b>2,573,178</b>
<b>Cash and cash equivalents at the end of period</b>	46	<b>2,377,797</b>	<b>1,573,482</b>

  
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The accompanying notes 1 to 49 are an integral part of these financial statements


  
 Margarita Goleva  
 Registered auditor

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Reporting entity**

UniCredit Bulbank AD (the Bank) is a universal Bulgarian bank established upon a triple legal merger, performed on April 27<sup>th</sup>, 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.

The Bank operates through its network comprising of 206 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 19, 2013. 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, where such can be reliably determined;
- available for sale financial instruments measured at fair value, where such can be reliably determined;
- investments in properties measured at revalued amount based on independent appraiser's valuation;
- liability for defined benefit obligation presented as fair value of defined benefit obligation plus unrecognized actuarial gains and less unrecognized actuarial losses.

**(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 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 policy**

The accounting policies set below have been consistently applied to all periods presented in these financial statements. Whenever certain information in the current period is presented in a different way for the purposes of providing more fair and true view of the financial position of the Bank, prior period information is also recalculated for comparative reasons. The reclassifications affecting prior year presentation covers the following area:

- Realized gains on FX deals with customers, which in accordance with UniCredit Group updated presentation requirements, are presented as part of Net gains (losses) on financial assets and liabilities held for trading;

The total amounts of reclassifications performed on prior year financial statements are as follows:

*In thousands of BGN*

Description	2011 presentation	2012 comparative prior year presentation	Amount
Realized gains on FX deals with customers	Fee and commission income	Net gains (losses) on financial assets and liabilities held for trading	29,881

**(a) Basis of consolidation**

These consolidated financial statements are prepared in accordance with IAS 27 (2008) "Consolidated and Separate Financial Statements" whereas all participations in single entities where UniCredit Bulbank AD exercise control by holding more than 50% of the voting rights in the investees are consolidated applying full consolidation method and all participations in single entities where UniCredit Bulbank AD exercise significant influence by holding more than 20% of the voting rights in the investees are consolidated applying equity method.

Company	Participation in equity	Consolidation method
UniCredit Factoring EAD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing AD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method

**3. Significant accounting policy (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.

**(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.

**3. Significant accounting policy (continued)****(e) Foreign currency transactions (continued)**

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates effective at the dates that the values were determined. 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 in a net receivable position (positive fair value) and purchased options are reported separately as derivatives held for trading. All derivatives in a net payable position (negative fair value) 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.

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 subsidiaries and associates**

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control through owning more than half of the voting power of such entities or through virtue of an agreement with other investors to exercise more than half of the voting rights.

Investments in associates comprise of equity participations in entities where the Bank does not exercises control but have significant influence in governing the investees' activities through owing more than 20% of the voting power of such entities.

In these consolidated financial statements Bank has adopted the policy of carrying all investments in associates at equity method accordance with IAS 27 (2008) "Consolidated and Separate Financial Statements". 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 liability meets 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on 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 the Bank has 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 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 by 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 an asset measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the asset was previously recognized in other comprehensive income, the increase in fair value of the asset recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss.

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.

In 2009 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 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 amortised 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)**
**(I) Property, plant, equipment and investment property**

The Bank has adopted a policy to carry its items of property at revalued amount under the allowed alternative approach in IAS 16 "Property, Plant and Equipment".

Items of property are stated at fair value determined periodically (4 to 5 years or more often if material deviations are encountered) by independent registered appraisers. Last full scope real estate property valuation was performed as of December 31, 2009 by external independent appraisers.

When the property is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly to other comprehensive income as revaluation surplus. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized in other comprehensive income to the extent that it reverses previously recognized surpluses and the remaining part is recognized as expense in profit or loss.

Plant and equipment are carried at historical cost less any 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 foreclosure procedure, which are neither intended to be used in the ordinary activity of the Bank nor kept as investment properties, 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:

	<b><i>Annual depreciation rates (%)</i></b>	<b><i>Equivalent expected useful life (years)</i></b>
▪ 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, 2012 and December 31, 2011 intangible assets includes 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 5 years, which is an equivalent of approximately 20% annual amortization rate.

**(n) Non-current assets and disposal groups classified as held for sale**

Bank represents as non-current assets held for sale, investments in property which 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, 2012 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, hired by the Bank, using the projected unit credit method. To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the "corridor" approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

The Bank recognises a portion of actuarial gains and losses that arise in calculating the its obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan.

**3. Significant accounting policies (continued)****(p) Employee benefits (continued)****(ii) Defined benefit obligation (continued)**

The portion is determined at the extent to which any cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets (the corridor). Otherwise, the actuarial gains and losses are not recognised.

**(iii) UniCredit Group Short and Long-Term incentive plans**

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments as well as stock options and performance share 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.

As of December 31, 2012 and December 31, 2011 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 27<sup>th</sup>, 2007 with retroactive effect for accounting purposes since January 1<sup>st</sup>, 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 2012.

**(ii) Reserves**

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve. As of December 31, 2012 and December 31, 2011 the reserves includes also the premium of newly 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.

**(s) Segment reporting**

As of January 1, 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 represent 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 and interpretations (IFRIC) not yet adopted as at the reporting date**

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later periods. These changes to IFRS have not been applied in preparing these financial statements and the Bank does not plan to adopt these standards early.

**Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:**

- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank is evaluating the new requirements but it is not expect the Amendments to have any impact on the financial statements.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the Bank's accounting policy.
- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* are shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Bank were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future:
  - BGN 36,943 thousand recognised as reserve for available for sale investments;
  - BGN (1,127) thousand recognised in the cash flow hedge reserve;
  - Tax effect on the items above in the amount of (3,581) thousand.

The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.



**3. Significant accounting policies (continued)****(t) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date (continued)**

- Amended IAS 19 Employee Benefits shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. If the Bank were to adopt the amendments from 1 January 2012, the impact would be a debit to other comprehensive income for the year ending 31 December 2012 of BGN 767 thousand, debit to deferred tax asset of BGN 85 thousand and a credit to defined benefit obligation of BGN 852 thousand (See also Note 40) .
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Company's accounting policy.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities i shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank is currently evaluating the changes but does not expect the Amendments to have any impact on the financial statements.
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Interpretation to have any impact on the financial statements since the Bank does not have any stripping activities.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Amendments to have any impact on the financial statements.

**IASB/IFRIC documents not yet endorsed by EC:**

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments* (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 1 *Government Loans* with an effective date of 1 January 2013.
- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* with an effective date of 1 January 2014.

**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 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 Q2 2011 UniCredit Bulbank AD applies the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA.

**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 element is the loss-warning level limit, providing early indication of any accumulation of position losses.

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").

During 2012, VaR (1 day holding period, confidence interval of 99 %) for the Bank stand alone moved in a range between EUR 2.59 million and EUR 3.99 million, averaging EUR 3.12 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

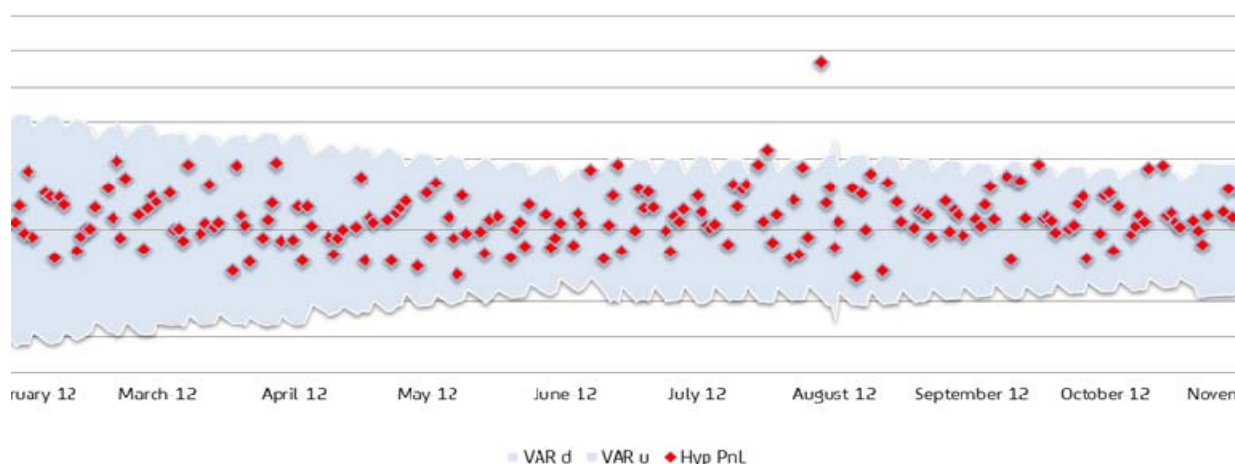
VaR of UniCredit Bulbank AD (stand alone) by risk category in EUR million for 2012 is as follows:

<b>Risk Category</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>	<b>Year-end</b>
Interest rate risk	1.78	2.78	2.11	2.40
Credit spread	1.70	3.31	2.47	3.25
Exchange rate risk	0.02	0.09	0.02	0.02
Vega risk	0.00	0.00	0.00	0.00
<b>VaR overall<sup>1</sup></b>	<b>2.59</b>	<b>3.99</b>	<b>3.12</b>	<b>3.76</b>

<sup>1</sup> 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 2012 confirm the reliability of used internal model. There were no negative back-testing excesses during 2012.

**VaR channel Trading book CAD, 1Y period, Jan 2012 - Dec 2012**


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 following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (stand alone trading and banking book) as of December 31, 2012 (change in value due to 1 basis point shift, amounts in EUR):

<b>Currency</b>	<b>0-3M</b>	<b>3M-1Y</b>	<b>1Y-3Y</b>	<b>3Y-10Y</b>	<b>Above 10Y</b>	<b>Total</b>
BGN	7,220	21,546	(16,125)	(72,996)	(510)	<b>(60,865)</b>
CHF	(316)	887	(44)	(62)	3	<b>468</b>
EUR	12,290	27,319	(7,680)	(3,573)	(525)	<b>27,831</b>
GBP	(148)	(174)	24	-	-	<b>(298)</b>
USD	(2)	65	-	-	-	<b>63</b>
AUD	134	(1,593)	(15,483)	31	-	<b>(16,911)</b>
<b>Total sensitivity<sup>1</sup></b>	<b>20,110</b>	<b>51,584</b>	<b>39,356</b>	<b>76,662</b>	<b>1,039</b>	<b>106,436</b>

Measured by the total basis-point value, the credit spread sensitivity measure for UniCredit Bulbank (stand alone) as of December 31, 2012 totalled EUR 144,253. Treasury-near instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively lower.

<sup>1</sup> Total sensitivity for each maturity band is sum of the each currency absolute sensitivity for that band.



**4. Financial risk management (continued)**
**(b) Market risks (continued)**
**SP Basis Point Shift**

Issuer/Risk factor	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	Long	Short	Sum
MARKIT_CONSUMER_GOODS_B_CDS	-5	-38				-43		-43
MARKIT_FINANCIAL_B_CDS	-13	-223	-7,443			-7,679		-7,679
MARKIT_GOVERNMENT_BB_CDS	-4	-59	-325	-1,895		-2,283		-2,283
SYN_SUPRANATIONALS	-41	-761				-803		-803
TREAS_AT	-7	-181				-189		-189
TREAS_BG_CDS	-337	-6,291	-50,504	-75,818	-7	-132,957		-132,957
TREAS_IT	-13	-131	-151			-296		-296
UNICREDITO_ITALIANO_CDS	-4					-4		-4
Sum	-424	-7,685	-58,423	-77,713	-7	-144,253	0	-144,253
Total	424	7,685	58,423	77,713	7	144,253	0	144,253

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 dramatic deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up to 60 days are reported at least monthly to ALCO. In 2012 the Bank's Management continued vigilant risk management practices by steering risk- taking capacity and 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, 2012 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

	<i>In thousands of BGN</i>		
	<b>EUR and BGN</b>	<b>Other currencies</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and balances with Central Bank	896,658	9,740	<b>906,398</b>
Financial assets held for trading	80,657	40	<b>80,697</b>
Derivatives held for trading	110,940	13,325	<b>124,265</b>
Financial assets designated at fair value through profit or loss	65,832	3,794	<b>69,626</b>
Loans and advances to banks	1,693,186	20,717	<b>1,713,903</b>
Loans and advances to customers	8,351,975	261,905	<b>8,613,880</b>
Available for sale investments	529,567	105,202	<b>634,769</b>
Held to maturity investments	106,431	148,566	<b>254,997</b>
Investments in associates	33,327	-	<b>33,327</b>
Property, plant, equipment and investment properties	208,623	-	<b>208,623</b>
Intangible assets	27,915	-	<b>27,915</b>
Current tax assets	1,918	-	<b>1,918</b>
Deferred tax assets	7,842	-	<b>7,842</b>
Non-current assets and disposal group classified as held for sale	-	-	<b>-</b>
Other assets	55,967	201	<b>56,168</b>
<b>TOTAL ASSETS</b>	<b>12,170,838</b>	<b>563,490</b>	<b>12,734,328</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	109,710	11,957	<b>121,667</b>
Derivatives used for hedging	4,669	3,000	<b>7,669</b>
Deposits from banks	1,863,728	28,130	<b>1,891,858</b>
Deposits from customers	7,524,680	700,060	<b>8,224,740</b>
Subordinated liabilities	218,643	-	<b>218,643</b>
Provisions	12,870	18,539	<b>31,409</b>
Current tax liabilities	62	-	<b>62</b>
Deferred tax liabilities	18,449	-	<b>18,449</b>
Other liabilities	65,717	1,533	<b>67,250</b>
<b>TOTAL LIABILITIES</b>	<b>9,818,528</b>	<b>763,219</b>	<b>10,581,747</b>
<b>EQUITY</b>			
<b>Net off-balance sheet spot and forward position</b>	<b>2,152,581</b>	<b>-</b>	<b>2,152,581</b>
	<b>(213,740)</b>	<b>199,815</b>	<b>(13,925)</b>
<b>Net position</b>	<b>(14,011)</b>	<b>86</b>	<b>(13,925)</b>

**4. Financial risk management (continued)**
**(b) Market risks (continued)**

As of December 31, 2011 the FX balances of UniCredit Bulbank are as outlined in the table below:

	<i>In thousands of BGN</i>		
	<b>EUR and BGN</b>	<b>Other currencies</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and balances with Central Bank	878,095	8,609	<b>886,704</b>
Financial assets held for trading	124,016	5,158	<b>129,174</b>
Derivatives held for trading	95,721	16,303	<b>112,024</b>
Financial assets designated at fair value through profit or loss	74,068	5,614	<b>79,682</b>
Loans and advances to banks	1,880,128	13,656	<b>1,893,784</b>
Loans and advances to customers	7,636,535	237,093	<b>7,873,628</b>
Available for sale investments	355,136	28,811	<b>383,947</b>
Held to maturity investments	119,038	154,209	<b>273,247</b>
Investments in associates	32,967	-	<b>32,967</b>
Property, plant, equipment and investment properties	220,641	-	<b>220,641</b>
Intangible assets	31,762	-	<b>31,762</b>
Current tax assets	1	-	<b>1</b>
Deferred tax assets	6,995	-	<b>6,995</b>
Non-current assets and disposal group classified as held for sale	797	-	<b>797</b>
Other assets	47,500	159	<b>47,659</b>
<b>TOTAL ASSETS</b>	<b>11,503,400</b>	<b>469,612</b>	<b>11,973,012</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	73,734	14,652	<b>88,386</b>
Derivatives used for hedging	2,455	3,572	<b>6,027</b>
Deposits from banks	2,154,141	66,941	<b>2,221,082</b>
Deposits from customers	6,617,572	669,532	<b>7,287,104</b>
Subordinated liabilities	216,710	-	<b>216,710</b>
Provisions	19,747	19,165	<b>38,912</b>
Current tax liabilities	6,339	-	<b>6,339</b>
Deferred tax liabilities	18,307	-	<b>18,307</b>
Other liabilities	66,084	1,289	<b>67,373</b>
<b>TOTAL LIABILITIES</b>	<b>9,175,089</b>	<b>775,151</b>	<b>9,950,240</b>
<b>EQUITY</b>			
<b>Net off-balance sheet spot and forward position</b>	<b>2,022,772</b>	<b>-</b>	<b>2,022,772</b>
	<b>(280,395)</b>	<b>302,744</b>	<b>22,349</b>
<b>Net position</b>	<b>25,144</b>	<b>(2,795)</b>	<b>22,349</b>

**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 and Sales 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 from 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 name-driven crisis signals, with assumptions also being made about behaviour of non-bank clients. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' risk-taking capacity over two months horizon. The extreme scenario (combining market- and a name-driven crisis) was covered without exceptions during 2012, meaning that under assumed stress conditions the Bank would be able to cope with liquidity shock using own resources.

The following tables provide basic analysis of the financial liabilities of the Bank 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 or 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 at 31 December 2012	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year
<b>Non derivative instruments</b>						
Deposits from banks	1,891,858	(1,984,575)	(170,514)	(13,949)	(129,455)	(1,670,657)
Deposits from customers	8,224,740	(8,280,900)	(2,455,553)	(1,578,984)	(2,745,248)	(1,501,115)
Subordinated liabilities	218,643	(242,064)	-	-	-	(242,064)
Issued financial guarantee contracts	18,494	(13,626)	-	-	-	(13,626)
Unutilized credit lines	-	(1,245,507)	(18,683)	-	(230,419)	(996,406)
<b>Total non-derivative instruments</b>	<b>10,353,735</b>	<b>(11,766,672)</b>	<b>(2,644,750)</b>	<b>(1,592,933)</b>	<b>(3,105,122)</b>	<b>(4,423,868)</b>
<b>Trading derivatives, net</b>	<b>2,598</b>					
Outflow		(2,658,172)	(1,369,465)	(366,675)	(569,174)	(352,858)
Inflow		2,664,528	1,358,471	367,342	570,968	367,747
<b>Derivatives used for hedging, net</b>	<b>7,669</b>					
Outflow		(9,785)	(2,546)	(253)	(1,356)	(5,630)
Inflow		2,086	373	37	207	1,469
<b>Total derivatives</b>	<b>10,267</b>	<b>(1,343)</b>	<b>(13,167)</b>	<b>451</b>	<b>645</b>	<b>10,728</b>
<b>Total financial liabilities</b>	<b>10,364,002</b>	<b>(11,768,015)</b>	<b>(2,657,917)</b>	<b>(1,592,482)</b>	<b>(3,104,477)</b>	<b>(4,413,140)</b>

4. Financial risk management (continued)

(c) Liquidity risk (continued)

*In thousands of BGN*

Maturity table as at 31 December 2011	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year
<b>Non derivative instruments</b>						
Deposits from banks	2,221,082	(2,338,609)	(905,834)	(17,609)	(209,967)	(1,205,199)
Deposits from customers	7,287,104	(7,343,286)	(2,418,077)	(1,513,118)	(2,112,520)	(1,299,571)
Subordinated liabilities	216,710	(256,748)	-	-	-	(256,748)
Issued financial guarantee contracts	20,670	(20,670)	-	-	-	(20,670)
Unutilized credit lines	-	(1,228,896)	(18,434)	-	(227,349)	(983,113)
<b>Total non-derivative instruments</b>	<b>9,745,566</b>	<b>(11,188,209)</b>	<b>(3,342,345)</b>	<b>(1,530,727)</b>	<b>(2,549,836)</b>	<b>(3,765,301)</b>
<b>Trading derivatives, net</b>	<b>23,638</b>					
Outflow		(1,713,883)	(910,150)	(140,575)	(463,425)	(199,733)
Inflow		1,740,935	917,490	144,731	475,275	203,439
<b>Derivatives used for hedging, net</b>	<b>(6,027)</b>					
Outflow		(13,765)	(2,341)	(95)	(1,701)	(9,628)
Inflow		7,691	879	90	1,302	5,420
<b>Total derivatives</b>	<b>17,611</b>	<b>20,978</b>	<b>5,878</b>	<b>4,151</b>	<b>11,451</b>	<b>(502)</b>
<b>Total financial liabilities</b>	<b>9,763,177</b>	<b>(11,167,231)</b>	<b>(3,336,467)</b>	<b>(1,526,576)</b>	<b>(2,538,385)</b>	<b>(3,765,803)</b>

**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 mitigating the counterparty risk and settlement risk with regard to the deals in the trading book, Bank concludes deals only with approved counterparts (banks or corporate clients) that have got assigned treasury credit lines. Derivatives are offered to corporate and institutional clients exclusively for hedging purposes.

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, 2012 and December 31, 2011 is as shown in the next table:

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Government bonds</b>		
Rated BBB	14,577	42,180
Rated BBB+	35,665	40,206
<b>Bonds of credit institutions</b>		
Rated AAA	29,841	45,609
<b>Corporate bonds</b>		
Rated BB	-	1,179
Unrated	614	-
<b>Derivatives (net)</b>		
Banks and financial institution counterparties	(94,802)	(34,227)
Corporate counterparties	97,400	57,865
<b>Total trading assets and liabilities</b>	<b>83,295</b>	<b>152,812</b>

**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 the approved "Methodology paper on Default according to Basel II".

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 client or group of related clients exceeding 10% of the capital base are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one client or group of related clients must not exceed 25% of the capital base of the Bank.

As of December 31, 2012 and December 31, 2011 the Bank has fulfilled all statutory lending limits.

**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, 2012 and December 31, 2011 of loans and advances to customers.

	<b>Carrying amount before impairment</b>		<b>Impairment allowance</b>		<i>In thousands of BGN</i> <b>Carrying amount</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Impaired defaulted exposures, there off</b>	1,217,248	1,048,936	694,447	620,811	522,801	428,125
<i>individually assessed</i>	517,454	327,255	254,484	134,806	262,970	192,449
<i>portfolio based</i>	699,794	721,681	439,963	486,005	259,831	235,676
<b>Collectively impaired performing exposures (IBNR)</b>	6,948,003	6,700,380	61,490	58,876	6,886,513	6,641,504
<b>Past due but not impaired defaulted exposures, there off</b>	233,702	174,161	-	-	233,702	174,161
<i>individually assessed</i>	159,310	133,772	-	-	159,310	133,772
<i>portfolio based</i>	74,392	40,389	-	-	74,392	40,389
<i>Past due comprises</i>						
<i>up to 90 days</i>	42,010	20,769	-	-	42,010	20,769
<i>from 91 to 180 days</i>	12,168	40,651	-	-	12,168	40,651
<i>over 181 days</i>	179,524	112,741	-	-	179,524	112,741
	233,702	174,161	-	-	233,702	174,161
<b>Neither past due nor impaired performing exposures</b>	970,864	629,838	-	-	970,864	629,838
<b>Total</b>	<b>9,369,817</b>	<b>8,553,315</b>	<b>755,937</b>	<b>679,687</b>	<b>8,613,880</b>	<b>7,873,628</b>



**4. Financial risk management (continued)**
**(d) Credit risks (continued)**
**(ii) Credit risk in the banking book (continued)**

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

<i>In thousands of BGN</i>		
	<b>Loans and advances to customers</b>	
	<b>2012</b>	<b>2011</b>
<b>Impaired defaulted exposures</b>		
Cash collateral	395	187
Property	1,034,050	960,474
Other collateral	2,635,478	2,397,852
<b>Collectively impaired performing exposures (IBNR)</b>		
Cash collateral	22,108	22,628
Property	6,989,031	7,892,022
Debt securities	119	119
Other collateral	18,821,462	16,975,705
<b>Past due but not impaired defaulted exposures</b>		
Cash collateral	327	387
Property	550,931	455,867
Debt securities	-	13
Other collateral	553,438	496,152
<b>Neither past due nor impaired performing exposures</b>		
Cash collateral	80,169	75,137
Property	2,140,023	1,714,861
Debt securities	10,000	10,020
Other collateral	662,374	889,509
<b>Total</b>	<b>33,499,905</b>	<b>31,890,933</b>

**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.

*In thousands of BGN*

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2012	2011	2012	2011	2012	2011
<b>Concentration by sectors</b>						
Sovereign	64,925	64,010	-	-	874,758	629,358
Manufacturing	2,054,696	1,727,089	-	-	-	-
Commerce	1,989,269	1,808,209	-	-	-	-
Construction and real estate	1,662,572	1,507,602	-	-	97	97
Agriculture and forestry	229,101	161,230	-	-	-	-
Transport and communication	255,728	223,761	-	-	-	-
Tourism	176,149	153,742	-	-	-	-
Services	313,055	282,118	-	-	-	-
Financial services	189,793	204,604	1,713,903	1,893,784	48,238	60,706
Retail (individuals)						
Housing loans	1,653,414	1,645,838	-	-	-	-
Consumer loans	781,115	775,112	-	-	-	-
	<b>9,369,817</b>	<b>8,553,315</b>	<b>1,713,903</b>	<b>1,893,784</b>	<b>923,093</b>	<b>690,161</b>
Impairment allowances	(755,937)	(679,687)	-	-	-	-
<b>Total</b>	<b>8,613,880</b>	<b>7,873,628</b>	<b>1,713,903</b>	<b>1,893,784</b>	<b>923,093</b>	<b>690,161</b>
<b>Concentration by geographic location</b>						
Europe	9,331,198	8,511,458	1,704,277	1,888,189	920,115	676,135
North America	129	135	8,533	2,404	2,978	3,031
Asia	532	941	986	3,009	-	10,995
Africa	37,859	40,652	-	-	-	-
South America	7	38	-	-	-	-
Australia	92	91	107	182	-	-
	<b>9,369,817</b>	<b>8,553,315</b>	<b>1,713,903</b>	<b>1,893,784</b>	<b>923,093</b>	<b>690,161</b>
Impairment allowances	(755,937)	(679,687)	-	-	-	-
<b>Total</b>	<b>8,613,880</b>	<b>7,873,628</b>	<b>1,713,903</b>	<b>1,893,784</b>	<b>923,093</b>	<b>690,161</b>

**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 the operational risk management framework is a combined set of policies and procedures for controlling, measuring and mitigating the operational risk exposure, among which Group guidelines and local documents. The Bank has a dedicated function for operational risk management, which is independent from business and operational areas. The Operational risk unit responsibilities are in line with those envisaged by the Holding and Sub-Holding. Nominated operational risk managers in the branch network and head office, working on a decentralized basis, are responsible for loss data reporting and taking measures to reduce and prevent risks in their respective areas.

For the past four years, the established Operational Risk Committee greatly enhanced the regular exchange of information and promotion of operational risk awareness within the Bank. Meetings are held quarterly and are attended by Bank's senior management. The Operational Risk Committee acts also as a Permanent Workgroup, reporting current operational risk issues and developments and serving as a body to which unresolved issues are referred, for the purpose of finding risk mitigation solutions.

Activities in 2012 were concentrated on further development of the OpRisk management with a focus on mitigation actions to reduce future losses and involvement of OpRisk Unit to a greater extent in relevant projects and products' approval process. The risk culture within the bank was further enhanced through an innovative online training.

Overall, the organisation of OpRisk 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, Group and Bank's Internal Audit, and by the National Regulator. 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 OpRisk function and all relevant units in the Bank.

**4. Financial risk management (continued)**
**(f) Basel II disclosure**

Under this Basel II disclosure, Bank represents regulatory requirements for consolidated reporting. These requirements may differ from IFRS basis for consolidation as it covers only financial institutions, being subsidiary or associate of a credit institution therefore consolidated Basel II figures does not include full consolidation of Hypovereins Immobilien EOOD, being it a non-financial institution. However Bank fully deduct the participation in that entity from its capital base (own funds).

Since January 1<sup>st</sup>, 2007 Bulgarian banks apply BASEL II requirements for measurement of the capital adequacy. Under the regulatory framework, Bank allocates capital for covering three major types of risk, namely credit risk, market risk and operational risk.

In 2011 UniCredit Bulbank AD became the first Bulgarian bank authorized to use:

- Foundation Internal Rating Based (Foundation IRB or F-IRB) Approach under Basel II for the calculation of credit risk capital requirements for corporate clients and credit institutions and
- Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirements

Credit Risk Weighted Assets and capital requirements calculated under the F-IRB Approach are risk sensitive as they depend directly on the borrowers' creditworthiness illustrated by their Probabilities of Default. In order to allow for smooth transition in the calculation of the capital requirements for credit risk and operational risk, Bulgarian National Bank sets a floor limit of the latter being not less than 80% of the same requirements calculated under Basel II standardised approach (STA).

Statutory limits exposed to Banks require Bank to maintain total capital adequacy ratio not less than 12% and Tier I ratio not less than 6%. As a response to the ongoing world financial crisis Bulgarian National Bank strongly recommended all the Banks in Bulgaria to reach minimum Tier I ratio of 10% latest by June 2009 and not to fall below it afterwards.

**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 II. Summary of FLPG 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, 2012	Performing loans	
Agreed maximum portfolio volume:	EUR 50,000 thousand	
Nominal Value of reference portfolio :	BGN 23,689 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, 2012	BGN 14,213 thousand	BGN 4,738 thousand

**4. Financial risk management (continued)**
**(f) Basel II disclosures (continued)**
**(i) Capital base (own funds)**

Capital base (own funds) eligible for regulatory purposes include Tier I and Tier II capital as defined by Bulgarian National Bank.

As of December 31, 2012 and December 31, 2011 the consolidated Capital base of UniCredit Bulbank AD comprises as follows:

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Share capital	285,777	285,777
Statutory reserve	342,378	342,378
Retained earnings	1,153,154	1,027,418
<b>Total capital and reserves</b>	<b>1,781,309</b>	<b>1,655,573</b>
<i>Deductions</i>		
Unrealized loss on available-for-sale instruments	(155)	(14,030)
Intangible assets	(27,914)	(31,759)
<b>Total deductions</b>	<b>(28,069)</b>	<b>(45,789)</b>
<b>Total Tier I capital</b>	<b>1,753,240</b>	<b>1,609,784</b>
Revaluation reserve on real estate properties occupied by the Bank	121,979	122,324
Subordinated long-term debt	127,520	146,296
<b>Total Tier II capital</b>	<b>249,499</b>	<b>268,620</b>
<b>Additional deductions from Tier I and Tier II capital</b>	<b>(114,693)</b>	<b>(77,794)</b>
<b>Total Capital base (Own funds)</b>	<b>1,888,046</b>	<b>1,800,610</b>

The additional deductions from the Capital base relates to Bank's participation in unconsolidated entities which represent 10% or more than 10% of the registered capital of such entities as well as the excess of regulatory provisions on loans over recognized impairment allowances under IFRS (for exposures treated under standardized approach) and short fall (excess of regulatory Expected Loss over IFRS impairment allowances) for exposures treated under F-IRB. For regulatory purposes the deduction is split equally between Tier I and Tier II capital.



**4. Financial risk management (continued)**
**(f) Basel II disclosures (continued)**
**(ii) Capital requirements**

As of December 31, 2012 and December 31, 2011 the capital requirements for credit, market and operational risks are as follows:

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Capital requirements for credit risk</b>		
Exposures under standardized approach	227,360	197,517
Exposures under FIRB	493,168	413,344
<b>Total capital requirements for credit risk</b>	<b>720,528</b>	<b>610,861</b>
<b>Capital requirements for market risk</b>	<b>10,672</b>	<b>9,380</b>
<b>Total capital requirements for operational risk</b>	<b>78,173</b>	<b>69,077</b>
<b>Total capital requirements for credit, market and operational risk</b>	<b>809,373</b>	<b>689,318</b>
<b>Additional capital requirements subject to National discretions from the Regulator</b>	<b>404,686</b>	<b>344,659</b>
<b>Total regulatory capital requirements</b>	<b>1,214,059</b>	<b>1,033,977</b>
Capital Base (Own funds)	1,888,046	1,800,610
there off Tier I	1,695,894	1,570,887
Free equity (Own funds)	673,987	766,633
<b>Total capital adequacy ratio</b>	<b>18.66%</b>	<b>20.90%</b>
<b>Tier I ratio</b>	<b>16.76%</b>	<b>18.23%</b>

Capital requirements for credit risk cover credit risk and dilution risk in the banking book, counterparty risk in the overall business and settlement risk in the trading book.

Capital requirements for market risk cover market risk in the trading book, foreign-exchange and commodity risks in the overall business.

Operational risk is calculated on applying AMA approach as described in note 4 (e)

The additional capital requirements, presented above, are subject to National discretion of Bulgarian National Bank. They are calculated as 50% of the total capital requirements for credit risk, market risk and operational risk.

**5. Use of estimates and judgements**

For the purposes of preparation of these 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;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations

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

As described in note 3 (i) (vi) 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. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. 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.

The table below analyses financial instruments carried at fair value by valuation method applied by the Bank as of December 31, 2012 and December 31, 2011.

Instrument category	<i>In thousands of BGN</i>							
	Level 1		Level 2		Level 3		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Financial assets held for trading	-	-	80,083	127,996	614	1,178	80,697	129,174
Derivatives held for trading	-	-	124,265	112,024	-	-	124,265	112,024
Financial assets designated at fair value through profit or loss	-	-	6,875	8,363	62,751	71,319	69,626	79,682
Available for sale Investments	3,232	300	613,041	367,895	18,496	15,752	634,769	383,947
	<b>3,232</b>	<b>300</b>	<b>824,264</b>	<b>616,278</b>	<b>81,861</b>	<b>88,249</b>	<b>909,357</b>	<b>704,827</b>
Financial liabilities held for trading	-	-	121,667	88,386	-	-	121,667	88,386
Derivatives used for hedging	-	-	7,669	6,027	-	-	7,669	6,027
	<b>-</b>	<b>-</b>	<b>129,336</b>	<b>94,413</b>	<b>-</b>	<b>-</b>	<b>129,336</b>	<b>94,413</b>
<b>Total</b>	<b>3,232</b>	<b>300</b>	<b>953,600</b>	<b>710,691</b>	<b>81,861</b>	<b>88,249</b>	<b>1,038,693</b>	<b>799,240</b>

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2012 is as follows:

	<i>In thousands of BGN</i>		
	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available for sale Investments
<b>Opening balance (January 1, 2012)</b>	<b>1,178</b>	<b>71,319</b>	<b>15,752</b>
<b>Increases</b>	<b>-</b>	<b>6,447</b>	<b>3,036</b>
Purchases	-	-	3,008
Profit recognized in income statement	-	6,447	28
<b>Decreases</b>	<b>(564)</b>	<b>(15,015)</b>	<b>(292)</b>
Redemption	(344)	(10,608)	(165)
Losses recognized in income statement	(220)	(4,407)	(127)
<b>Closing balance (December 31, 2012)</b>	<b>614</b>	<b>62,751</b>	<b>18,496</b>

**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, 2012 and December 31, 2011.

								In thousands of BGN	
December 2012	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	-	-	-	-	-	906,399	906,399	906,399	
Financial assets held for trading	80,697	-	-	-	-	-	80,697	80,697	
Derivatives held for trading	124,265	-	-	-	-	-	124,265	124,265	
Financial assets designated at fair value through profit or loss	69,626	-	-	-	-	-	69,626	69,626	
Loans and advances to banks	-	-	1,713,903	-	-	-	1,713,903	1,713,790	
Loans and advances to customers	-	-	8,613,880	-	-	-	8,613,880	8,614,025	
Available for sale Investments	-	-	-	634,769	-	-	634,769	634,769	
Held to maturity Investments	-	254,997	-	-	-	-	254,997	265,612	
TOTAL ASSETS	274,588	254,997	10,327,783	634,769	-	906,399	12,398,536	12,409,183	
LIABILITIES									
Financial liabilities held for trading	121,667	-	-	-	-	-	121,667	121,667	
Derivatives used for hedging	-	-	-	-	7,669	-	7,669	7,669	
Deposits from banks	-	-	-	-	-	1,891,855	1,891,855	1,895,035	
Deposits from customers	-	-	-	-	-	8,224,740	8,224,740	8,269,457	
Subordinated liabilities	-	-	-	-	-	218,643	218,643	218,643	
TOTAL LIABILITIES	121,667	-	-	-	7,669	10,335,238	10,464,574	10,512,471	

**5. Use of estimates and judgements (continued)**
**(a) Fair value determination of financial instruments (continued)**

In thousands of BGN								
December 2011	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	-	-	-	-	-	886,704	886,704	886,704
Financial assets held for trading	129,174	-	-	-	-	-	129,174	129,174
Derivatives held for trading	112,024	-	-	-	-	-	112,024	112,024
Financial assets designated at fair value through profit or loss	79,682	-	-	-	-	-	79,682	79,682
Loans and advances to banks	-	-	1,893,784	-	-	-	1,893,784	1,887,542
Loans and advances to customers	-	-	7,873,628	-	-	-	7,873,628	7,873,667
Available for sale Investments	-	-	-	383,947	-	-	383,947	383,947
Held to maturity Investments	-	273,247	-	-	-	-	273,247	281,772
TOTAL ASSETS	320,880	273,247	9,767,412	383,947	-	886,704	11,632,190	11,634,512
LIABILITIES								
Financial liabilities held for trading	88,386	-	-	-	-	-	88,386	88,386
Derivatives used for hedging	-	-	-	-	6,027	-	6,027	6,027
Deposits from banks	-	-	-	-	-	2,221,082	2,221,082	2,223,007
Deposits from customers	-	-	-	-	-	7,287,104	7,287,104	7,313,735
Subordinated liabilities	-	-	-	-	-	216,710	216,710	216,710
TOTAL LIABILITIES	88,386	-	-	-	6,027	9,724,896	9,819,309	9,847,865



**5. Use of estimates and judgements (continued)**  
**(b) 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.

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.

**(c) Provisions**

Assessing the provision, Management used estimates provided by specialist in certain areas such as legal and regulatory advisors as well as credit risk specialists. Usually, more conservative approach is followed in order to protect the Bank in case of adverse development of uncertain events.

**6. Segment reporting**

Business segments pay and receive interest from the Asset-Liability Management Department (ALM) on arms' length basis, through given Fund Transfer Pricing rate (FTP) to reflect the funding costs per currencies/tenors. Allocation of capital is also carried out, in proportion to respective RWA.

The Bank operates the following main business segments:

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

6. Segment reporting (continued)

<i>In thousands of BGN</i>				
December 2012	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	212,093	223,698	(27,366)	<b>408,425</b>
Dividend income	-	-	1,101	<b>1,101</b>
Net fee and commission income	93,807	63,325	(178)	<b>156,954</b>
Net gains (losses) from financial assets and liabilities held for trading	13,965	47,358	(917)	<b>60,406</b>
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	2,698	-	<b>2,698</b>
Net income from investments	-	692	9,557	<b>10,249</b>
Other operating income	96	494	3,987	<b>4,577</b>
<b>TOTAL OPERATING INCOME</b>	<b>319,961</b>	<b>338,265</b>	<b>(13,816)</b>	<b>644,410</b>
Personnel expenses	(43,138)	(15,218)	(45,194)	<b>(103,550)</b>
General and administrative expenses	(72,303)	(23,642)	(20,193)	<b>(116,138)</b>
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(18,842)	(3,645)	(14,503)	<b>(36,990)</b>
<b>Total direct expenses</b>	<b>(134,283)</b>	<b>(42,505)</b>	<b>(79,890)</b>	<b>(256,678)</b>
Allocation of indirect and overhead expenses	(44,761)	(28,231)	72,992	-
<b>TOTAL OPERATING EXPENSES</b>	<b>(179,044)</b>	<b>(70,736)</b>	<b>(6,898)</b>	<b>(256,678)</b>
Provisions for risk and charges	-	-	5,931	<b>5,931</b>
Net impairment loss on financial assets	(30,806)	(123,428)	62	<b>(154,172)</b>
Net income related to property, plant and equipment	-	-	1,149	<b>1,149</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>110,111</b>	<b>144,101</b>	<b>(13,572)</b>	<b>240,640</b>
Income tax expense	-	-	(24,758)	<b>(24,758)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>110,111</b>	<b>144,101</b>	<b>(38,330)</b>	<b>215,882</b>
 <b>ASSETS</b>	 <b>2,986,512</b>	 <b>8,366,358</b>	 <b>1,381,458</b>	 <b>12,734,328</b>
 <b>LIABILITIES</b>	 <b>4,165,153</b>	 <b>4,171,478</b>	 <b>2,245,116</b>	 <b>10,581,747</b>

6. Segment reporting (continued)

<i>In thousands of BGN</i>				
December 2011	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	208,820	221,368	15,400	<b>445,588</b>
Dividend income	-	98	1,098	<b>1,196</b>
Net fee and commission income	82,585	56,303	(1,527)	<b>137,361</b>
Net gains (losses) from financial assets and liabilities held for trading	12,341	42,695	(8,823)	<b>46,213</b>
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(1,603)	-	<b>(1,603)</b>
Net income from investments	-	199	10,153	<b>10,352</b>
Other operating income	(140)	862	5,365	<b>6,087</b>
<b>TOTAL OPERATING INCOME</b>	<b>303,606</b>	<b>319,922</b>	<b>21,666</b>	<b>645,194</b>
Personnel expenses	(41,634)	(14,320)	(43,891)	<b>(99,845)</b>
General and administrative expenses	(73,033)	(22,172)	(19,239)	<b>(114,444)</b>
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17,422)	(3,276)	(14,168)	<b>(34,866)</b>
<b>Total direct expenses</b>	<b>(132,089)</b>	<b>(39,768)</b>	<b>(77,298)</b>	<b>(249,155)</b>
Allocation of indirect and overhead expenses	(44,124)	(27,384)	71,508	-
<b>TOTAL OPERATING EXPENSES</b>	<b>(176,213)</b>	<b>(67,152)</b>	<b>(5,790)</b>	<b>(249,155)</b>
Provisions for risk and charges	-	-	(4,426)	<b>(4,426)</b>
Net impairment loss on financial assets	(42,126)	(93,962)	(504)	<b>(136,592)</b>
Net income related to property, plant and equipment	-	-	2,774	<b>2,774</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>85,267</b>	<b>158,808</b>	<b>13,720</b>	<b>257,795</b>
Income tax expense	-	-	(24,937)	<b>(24,937)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>85,267</b>	<b>158,808</b>	<b>(11,217)</b>	<b>232,858</b>
<b>ASSETS</b>	<b>2,864,585</b>	<b>7,360,005</b>	<b>1,748,422</b>	<b>11,973,012</b>
<b>LIABILITIES</b>	<b>3,696,957</b>	<b>3,880,026</b>	<b>2,373,257</b>	<b>9,950,240</b>

**7. Net interest income**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Interest income</b>		
Financial assets held for trading	4,675	8,020
Derivatives held for trading	40,366	23,544
Financial assets designated at fair value through profit or loss	4,727	5,546
Loans and advances to banks	8,186	12,068
Loans and advances to customers	550,692	575,857
Available for sale investments	18,920	13,791
Held to maturity investments	14,052	14,349
	<b>641,618</b>	<b>653,175</b>
<b>Interest expense</b>		
Derivatives held for trading	(36,036)	(20,475)
Derivatives used for hedging	(2,619)	(2,003)
Deposits from banks	(34,276)	(38,902)
Deposits from customers	(154,524)	(139,032)
Subordinated debt	(5,738)	(7,175)
	<b>(233,193)</b>	<b>(207,587)</b>
<b>Net interest income</b>	<b>408,425</b>	<b>445,588</b>

For the financial years ended December 31, 2012 and December 31, 2011 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 28,859 thousand and BGN 22,942 thousand, respectively.

**8. Net fee and commission income**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Fee and commission income</b>		
Collection and payment services	78,496	74,203
Lending business	26,946	21,884
Account services	17,681	14,128
Management, brokerage and securities trading	3,430	5,000
Documentary business	14,968	11,784
Package accounts	10,803	8,620
Other	13,228	10,774
	<b>165,552</b>	<b>146,393</b>
<b>Fee and commission expense</b>		
Collection and payment services	(7,187)	(7,171)
Management, brokerage and securities trading	(815)	(694)
Lending business	(185)	(907)
Other	(411)	(260)
	<b>(8,598)</b>	<b>(9,032)</b>
<b>Net fee and commission income</b>	<b>156,954</b>	<b>137,361</b>

**9. Net gains (losses) on financial assets and liabilities held for trading**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
FX trading income, net	39,178	28,647
Net income from debt instruments	2,843	9,107
Net income from equity instruments	422	(435)
Net income from derivative instruments	17,963	8,894
<b>Net trading income</b>	<b>60,406</b>	<b>46,213</b>

**10. Net gains (losses) 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 marketable debt securities, which fair value 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, 2012 and December 31, 2011 are BGN 2,698 thousand and BGN (1,603) thousand, respectively.

**11. Net income from investments**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Realised gains on disposal of available for sale investments	692	199
Income from liquidation of associates	42	-
Effect of equity method consolidation on associates	9,515	10,153
<b>Net income from investments</b>	<b>10,249</b>	<b>10,352</b>

Income from liquidation of associates represents recovery from previously written down investment in associate upon its liquidation.

**12. Other operating income, net**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Other operating income</b>		
Income from non-financial services	1,506	2,148
Rental income from investment property	374	292
Other income	3,276	3,790
	<b>5,156</b>	<b>6,230</b>
<b>Other operating expenses</b>		
Other operating expenses	(579)	(143)
	<b>(579)</b>	<b>(143)</b>
<b>Other operating income, net</b>	<b>4,577</b>	<b>6,087</b>



**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 on disposal of long-term assets. For the year ended December 31, 2012 and December 31, 2011 the gains is BGN 1,149 thousand and BGN 2,774 thousand respectively.

**14. Personnel expenses**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Wages and salaries	(84,833)	(82,501)
Social security charges	(11,981)	(11,290)
Pension and similar expenses	(485)	(634)
Temporary staff expenses	(1,288)	(1,821)
Share-based payments	(1,046)	(593)
Other	(3,917)	(3,006)
<b>Total personnel expenses</b>	<b>(103,550)</b>	<b>(99,845)</b>

As of December 31, 2012 the total number of employees, expressed in full time employee equivalent is 3,793 (December 31, 2011: 3,783)

Pension and similar expenses comprise of current services costs, interest costs and amortization of actuarial gains/losses 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 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:

<i>In thousands of BGN</i>				
	<b>Economic value at December 31, 2011</b>	<b>2012 Cost</b>	<b>Settled in 2012</b>	<b>Economic value at December 31, 2012</b>
Stock Options 06 2007	261	-	(261)	-
Stock Options 06 2008	262	43	(305)	-
Stock Options 03 2011	113	121	-	<b>234</b>
Deferred Short Term Incentive (stock options)	-	32	-	<b>32</b>
<b>Total Stock Options</b>	<b>636</b>	<b>196</b>	<b>(566)</b>	<b>266</b>
Performance Shares 06 2008	113	(113)	-	-
Performance Shares 03 2011	169	175	-	<b>344</b>
<b>Total Performance Shares</b>	<b>282</b>	<b>62</b>	<b>-</b>	<b>344</b>
Deferred Short Term Incentive (ordinary shares)	258	571	-	<b>829</b>
<b>Total Deferred Short Term Incentive ( shares)</b>	<b>258</b>	<b>571</b>	<b>-</b>	<b>829</b>
<b>ESOP and shares for Talents</b>	<b>26</b>	<b>217</b>	<b>-</b>	<b>243</b>
<b>Total Options and Shares</b>	<b>1,202</b>	<b>1,046</b>	<b>(566)</b>	<b>1,682</b>

**15. General and administrative expenses**

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>2011</b>
Deposit guarantee fund annual contribution	(30,589)	(28,823)
Advertising, marketing and communication	(7,139)	(6,874)
Credit information and searches	(2,184)	(1,654)
Information, communication and technology expenses	(31,288)	(29,785)
Consulting, audit and other professionals services	(3,053)	(2,469)
Real estate expenses	(12,155)	(13,067)
Rents	(13,135)	(14,320)
Travel expenses and car rentals	(2,246)	(2,360)
Insurance	(1,422)	(1,303)
Supply and miscellaneous services rendered by third parties	(8,698)	(9,118)
Other costs	(4,229)	(4,671)
<b>Total general and administrative expenses</b>	<b>(116,138)</b>	<b>(114,444)</b>

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

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Depreciation charge	(35,856)	(33,576)
Impairment due to obsolescence	(1,134)	(1,290)
<b>Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale</b>	<b>(36,990)</b>	<b>(34,866)</b>

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, 2012 and December 31, 2011 the impairment of long-term assets, is in the amount of BGN 1,134 thousand and BGN 1,290 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).

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Additions of provisions</b>		
Legal cases provisions	(1,949)	(5,046)
Other provisions	(761)	(293)
	<b>(2,710)</b>	<b>(5,339)</b>
<b>Reversal of provisions</b>		
Provisions on letters of guarantee	306	405
Legal cases provisions	7,170	508
Provisions on constructive obligations	1,165	-
	<b>8,641</b>	<b>913</b>
<b>Net provisions charge</b>	<b>5,931</b>	<b>(4,426)</b>

**18. Net Impairment loss on financial assets**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Balance 1 January</b>		
Loans and advances to customers	<b>679,687</b>	<b>583,316</b>
<b>Increase</b>		
Loans and advances to customers	253,502	281,760
Loans and advances to banks	-	21
<b>Decrease</b>		
Loans and advances to customers	(83,861)	(140,530)
Recoveries from loans previously written-off	(15,469)	(4,659)
	<b>(99,330)</b>	<b>(145,189)</b>
Net impairment losses	154,172	136,592
FX revaluation effect on impairment allowances	(399)	599
<b>Written-off</b>		
Loans and advances to customers	(92,992)	(45,458)
Loans and advances to banks	-	(21)
<b>Balance December 31</b>		
<b>Loans and advances to customers</b>	<b>755,937</b>	<b>679,687</b>

**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 2013.

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

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Current tax	(27,950)	(26,957)
Deferred tax income (expense) related to origination and reversal of temporary differences	4,286	2,184
Underprovided prior year income tax	(1,094)	(164)
<b>Income tax expense</b>	<b>(24,758)</b>	<b>(24,937)</b>

**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:

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Accounting profit before tax	240,640	257,795
Corporate tax at applicable tax rate (10% for 2012 and 2011)	(24,064)	(25,780)
Tax effect of non-taxable revenue	1,062	1,168
Tax effect of non-tax deductible expenses	(823)	(300)
Underprovided prior year income tax	(933)	(25)
<b>Income tax expense</b>	<b>(24,758)</b>	<b>(24,937)</b>
<b>Effective tax rate</b>	<b>10.29%</b>	<b>9.67%</b>

**20. Cash and balances with Central bank**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Cash in hand and in ATM	161,982	125,903
Cash in transit	42,935	23,767
Current account with Central Bank	701,481	737,034
<b>Total cash and balance with Central Bank</b>	<b>906,398</b>	<b>886,704</b>

**21. Financial assets held for trading**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Government bonds	50,242	82,387
Bonds of credit institutions	29,841	45,609
Corporate bonds	614	1,178
<b>Total financial assets held for trading</b>	<b>80,697</b>	<b>129,174</b>

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

As of December 31, 2011 financial assets held for trading in the amount of BGN 3,748 thousand 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).

**21. Financial assets held for trading (continued)**
***Previous change in accounting policy***

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 a possible example of "rare circumstances", Management has changed its intention with regard to certain government bonds, previously classified as held for trading.

The reclassification was performed retroactively, as allowed by the amendments, with effective date July 1<sup>st</sup>, 2008. Additional information on the reclassification is presented in the table below.

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>Cumulatively since reclassification (July 2008 - December 2012)</b>
<b>Fair value changes</b>		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,041)	3,807
<b>Net interest income</b>		
Net interest income recognized for the period after reclassification	4,595	16,303
Net interest income after reclassification that should have been recognized had the assets not been reclassified	6,070	20,916

**22. Derivatives held for trading**

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>2011</b>
Interest rate swaps	97,217	61,589
Equity options	1,139	183
FX forward contracts	11,071	39,781
FX options	5	-
Other options	9	22
FX swaps	8,193	57
Commodity swaps	6,631	10,392
<b>Total trading derivatives</b>	<b>124,265</b>	<b>112,024</b>

Derivatives comprise of trading instruments that have positive market value as of December 31, 2012 and December 31, 2011. 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's 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, 2012 and December 31, 2011 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).

As of December 31, 2012 and December 31, 2011 the fair value of hedging derivatives is negative in the amount of BGN 7,669 thousand and BGN 6,027 thousand, respectively.

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

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Government bonds	6,875	8,363
Municipality bonds	1,719	2,280
Corporate bonds	61,032	69,039
<b>Total financial assets designated at fair value through profit or loss</b>	<b>69,626</b>	<b>79,682</b>

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

As of December 31, 2012 and December 31, 2011 assets designated at fair value through profit or loss in the amount of BGN 80 thousand and BGN 71 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).

**25. Loans and advances to banks**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Loans and advances to banks	948,923	1,878,969
Current accounts with banks	764,980	14,815
<b>Total loans and advances to banks</b>	<b>1,713,903</b>	<b>1,893,784</b>

Loans and advances to banks include also receivables under repurchase agreements. The outstanding amounts of such agreements as well as the market value of collaterals as of December 31, 2012 and December 31, 2011 are as follows:

	<i>In thousands of BGN</i>			
	<b>2012</b>		<b>2011</b>	
	<b>Carrying value</b>	<b>Collateral value</b>	<b>Carrying value</b>	<b>Collateral value</b>
<b>Loans and advances to banks</b>				
Receivables under repurchase agreements	27,150	27,250	-	-
<b>Total</b>	<b>27,150</b>	<b>27,250</b>	<b>-</b>	<b>-</b>

**26. Loans and advances to customers**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Companies	6,885,298	6,077,332
Individuals		
Housing loans	1,653,414	1,645,838
Consumer loans	781,115	775,112
Central and local governments	49,990	55,033
	<u>9,369,817</u>	<u>8,553,315</u>
Less impairment allowances	(755,937)	(679,687)
<b>Total loans and advances to customers</b>	<b>8,613,880</b>	<b>7,873,628</b>

**27. Available for sale investments**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Government bonds	613,041	355,160
Municipality bonds	6,722	3,982
Bonds of credit institutions	2,932	12,735
Equities	12,074	12,070
<b>Total available for sale investments</b>	<b>634,769</b>	<b>383,947</b>

Government and corporate bonds classified as available for sale investments are held by the Bank for the purposes of maintaining middle and long-term liquidity, coverage of interest rate risk and State Budget funds within the Bank. They 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 generally carried at cost as their fair value cannot be reliably measured. As of December 31, 2012 and December 31, 2011 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, 2012 and December 31, 2011 available for sale investments in the amount of BGN 286,760 thousand and BGN 273,050 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**

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>2011</b>
Government bonds	252,019	270,216
Bonds of credit institutions	2,978	3,031
<b>Total held to maturity investments</b>	<b>254,997</b>	<b>273,247</b>

Held to maturity investments comprise only of first class government and corporate 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, 2012 and December 31, 2011.

As of December 31, 2012 and December 31, 2011 held to maturity investments in the amount of BGN 41,428 thousand and BGN 77,584 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**

<b>Company</b>	<b>Activity</b>	<b>Share in capital</b>	<b>Carrying value in thousands of BGN Dec 2012</b>
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	26,819
UniCredit Leasing AD	Leasing activities	24.4%	4,035
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,473
		<b>Total</b>	<b>33,327</b>

As described in Note 3 (i) (ii) g), investments in associates comprise of equity participations in entities where Bank exercises significant influence.

In these consolidated financial statements all investments in associates are accounted under equity method.

30. Property, plant, equipment and investment properties

	<i>In thousands of BGN</i>						
	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
<b>Cost or revalued amount</b>							
<b>As of December 31, 2011</b>	<b>6,400</b>	<b>188,814</b>	<b>4,797</b>	<b>83,088</b>	<b>43,062</b>	<b>10,145</b>	<b>336,306</b>
Additions	-	2,570	627	5,661	5,521	-	14,379
Transfers*	(68)	(1,633)	-	-	-	1,848	147
Write offs	-	(1,258)	(110)	(8,791)	(1,396)	-	(11,555)
Disposals	(43)	-	(3)	(3,303)	(997)	(941)	(5,287)
<b>As of December 31, 2012</b>	<b>6,289</b>	<b>188,493</b>	<b>5,311</b>	<b>76,655</b>	<b>46,190</b>	<b>11,052</b>	<b>333,990</b>
<b>Depreciation</b>							
<b>As of December 31, 2011</b>	<b>-</b>	<b>24,472</b>	<b>2,470</b>	<b>58,062</b>	<b>28,757</b>	<b>1,904</b>	<b>115,665</b>
Depreciation charge	-	9,328	624	9,284	4,947	378	24,561
Impairment due to obsolescence	-	357	1	541	57	-	956
Write offs	-	(1,260)	(110)	(8,830)	(1,340)	-	(11,540)
On disposals	-	-	-	(3,165)	(926)	(184)	(4,275)
Transfers	-	(389)	-	-	-	389	-
<b>As of December 31, 2012</b>	<b>-</b>	<b>32,508</b>	<b>2,985</b>	<b>55,892</b>	<b>31,495</b>	<b>2,487</b>	<b>125,367</b>
<b>Net book value as of December 31, 2012</b>	<b>6,289</b>	<b>155,985</b>	<b>2,326</b>	<b>20,763</b>	<b>14,695</b>	<b>8,565</b>	<b>208,623</b>
<b>Net book value as of December 31, 2011</b>	<b>6,400</b>	<b>164,342</b>	<b>2,327</b>	<b>25,026</b>	<b>14,305</b>	<b>8,241</b>	<b>220,641</b>

\* The transfers in the amount of BGN 147 thousand represent properties previously classified as non-current assets held for sale for which disposal in near term is no longer certain.

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

*In thousands of BGN*

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
<b>Cost or revalued amount</b>							
<b>As of December 31, 2010</b>	<b>7,637</b>	<b>210,395</b>	<b>3,715</b>	<b>78,831</b>	<b>36,115</b>	<b>329</b>	<b>337,022</b>
Additions	138	3,312	699	7,993	8,899	-	21,041
Transfers*	(1,029)	(9,543)	520	(66)	(495)	9,816	(797)
Write offs	-	(1,745)	(137)	(3,057)	(958)	-	(5,897)
Disposals	(346)	(13,605)	-	(613)	(689)	-	(15,253)
<b>As of December 31, 2011</b>	<b>6,400</b>	<b>188,814</b>	<b>4,797</b>	<b>83,088</b>	<b>42,872</b>	<b>10,145</b>	<b>336,116</b>
<b>Depreciation</b>							
<b>As of December 31, 2010</b>	-	<b>18,772</b>	<b>1,929</b>	<b>58,590</b>	<b>20,522</b>	<b>57</b>	<b>99,870</b>
Depreciation charge	-	9,538	488	8,384	3,618	365	22,393
Impairment due to obsolescence	-	336	23	525	406	-	1,290
Write offs	-	(1,745)	(137)	(3,057)	(958)	-	(5,897)
On disposals	-	(947)	-	(583)	(651)	-	(2,181)
Transfers	-	(1,482)	167	(5,797)	5,630	1,482	-
<b>As of December 31, 2011</b>	-	<b>24,472</b>	<b>2,470</b>	<b>58,062</b>	<b>28,567</b>	<b>1,904</b>	<b>115,475</b>
<b>Net book value as of December 31, 2011</b>	<b>6,400</b>	<b>164,342</b>	<b>2,327</b>	<b>25,026</b>	<b>14,305</b>	<b>8,241</b>	<b>220,641</b>
<b>Net book value as of December 31, 2010</b>	<b>7,637</b>	<b>191,623</b>	<b>1,786</b>	<b>20,241</b>	<b>15,593</b>	<b>272</b>	<b>237,152</b>

\* The transfers in the amount of BGN 797 thousand represent properties classified as non-current assets held for sale.

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

In 2009 Bank has performed valuation of entire class of properties (including land and buildings) based on independent fair value assessment made by certified appraisers. For all the properties where the assessed fair value materially differed from its carrying amount, the carrying amount was adjusted to the assessed fair value. For all revaluated properties the accumulated depreciation before revaluation was netted against assets' book value. For the assets where the assessed fair value was higher than their carrying amount, the difference was recognized in other comprehensive income under revaluation reserves. For those assets where the fair value was below its carrying amount, the reduction was recognized in other comprehensive income to the extent it reduces previously recognized increases. If the amount of the previous increases was insufficient, the difference was recognized in profit or loss.

In 2012 Management of the Bank assesses the real estate market as relatively stable compared to 2011 and no material changes in market prices have occurred. Based on that, no revaluation is recognized on entire class of properties as of December 31, 2012.

All the other categories were assessed for impairment at the year end, and for those assets, found to be impaired (mostly due to obsolescence), impairment loss has been recognized.

**31. Intangible assets**

<i>In thousands of BGN</i>	
<b>Cost</b>	
<b>As of December 31, 2011</b>	<b>69,652</b>
Additions	7,798
Write offs	(2,438)
Disposals	(191)
<b>As of December 31, 2012</b>	<b>74,821</b>
<b>Depreciation</b>	
<b>As of December 31, 2011</b>	<b>37,890</b>
Depreciation charge	11,295
Impairment due to obsolescence	178
Write offs	(2,438)
On disposals	(19)
<b>As of December 31, 2012</b>	<b>46,906</b>
<b>Net book value as of December 31, 2012</b>	<b>27,915</b>
<b>Net book value as of December 31, 2011</b>	<b>31,762</b>



**31. Intangible assets (continued)**

		<i>In thousands of BGN</i>
<b>Cost</b>		
<b>As of December 31, 2010</b>		<b>77,214</b>
Additions		11,848
Write offs		(19,410)
<b>As of December 31, 2011</b>		<b>69,652</b>
<b>Depreciation</b>		
<b>As of December 31, 2010</b>		<b>46,117</b>
Depreciation charge		11,183
Write offs		(19,410)
<b>As of December 31, 2011</b>		<b>37,890</b>
<b>Net book value as of December 31, 2011</b>		<b>31,762</b>
<b>Net book value as of December 31, 2010</b>		<b>31,097</b>

**32. Current tax**

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2012 and December 31, 2011. According to the statutory requirements, the 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. Based on that as of December 31, 2012 Bank reports current tax assets in the amount of BGN 1,918 thousand and current tax liabilities in the amount of BGN 62 thousands. The corresponding amounts as of December 31, 2011 are BGN 1 thousand and BGN 6,339 thousand, respectively.

**33. Deferred tax**

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2012 and December 31, 2011 is as outlined below:

		<i>In thousands of BGN</i>				
		<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>
		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	
		<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>
Property, plant and intangible assets	(30)	(30)	14,642	15,706	14,612	15,676
Available for sale investments	(2,377)	(1,352)	3,249	2,156	872	804
Provisions	(1,520)	(1,595)	-	-	(1,520)	(1,595)
Cash flow hedge	(558)	(445)	558	445	-	-
Other liabilities	(3,357)	(3,573)	-	-	(3,357)	(3,573)
<b>Net tax (assets) liabilities</b>	<b>(7,842)</b>	<b>(6,995)</b>	<b>18,449</b>	<b>18,307</b>	<b>10,607</b>	<b>11,312</b>

**33. Deferred tax (continued)**

The movements of deferred tax assets and liabilities on net basis throughout 2012 are as outlined below:

	<i>In thousands of BGN</i>			
	<b>Balance 2011</b>	<b>Recognised in P&amp;L</b>	<b>Recognised in equity</b>	<b>Balance 2012</b>
Property, plant and equipment	15,676	(1,064)	-	14,612
Available for sale investments	804	(3,626)	3,694	872
Provisions	(1,595)	75	-	(1,520)
Cash flow hedge	-	113	(113)	-
Other liabilities	(3,573)	216	-	(3,357)
<b>Net tax (assets) liabilities</b>	<b>11,312</b>	<b>(4,286)</b>	<b>3,581</b>	<b>10,607</b>

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

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. The assets in the amount of BGN 797 thousand as of December 31, 2011, have been fully disposed in 2012 with exception of one property for which the disposal in near term became uncertain. That property has been reclassified back to property, plant, equipment and investment properties (see also Note 30)

**35. Other assets**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Receivables and prepayments	28,873	19,336
Receivables from the State Budget	31	27
Materials, spare parts and consumables	1,235	1,521
Other assets	5,115	5,861
Foreclosed properties	20,914	20,914
<b>Total other assets</b>	<b>56,168</b>	<b>47,659</b>

**36. Financial liabilities held for trading**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Interest rate swaps	84,425	60,571
FX forward contracts	25,792	18,913
Equity options	1,137	182
Other options	9	22
FX options	5	-
FX swaps	5,154	38
Commodity swaps	5,145	8,660
<b>Total trading liabilities</b>	<b>121,667</b>	<b>88,386</b>

**37. Deposits from banks**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Current accounts and overnight deposits</b>		
Local banks	55,779	142,383
Foreign banks	15,742	575,211
	<b>71,521</b>	<b>717,594</b>
<b>Deposits</b>		
Local banks	119,252	130,878
Foreign banks	1,682,569	1,360,161
	<b>1,801,821</b>	<b>1,491,039</b>
<b>Other</b>	<b>18,516</b>	<b>12,449</b>
<b>Total deposits from banks</b>	<b>1,891,858</b>	<b>2,221,082</b>

**38. Deposits from customers**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
<b>Current accounts and overnight deposits</b>		
Individuals	659,734	569,632
Corporate	1,998,412	1,926,831
Budget and State companies	220,530	172,144
	<b>2,878,676</b>	<b>2,668,607</b>
<b>Term deposits</b>		
Individuals	2,818,606	2,521,459
Corporate	1,907,694	1,476,468
Budget and State companies	55,021	113,700
	<b>4,781,321</b>	<b>4,111,627</b>
<b>Saving accounts</b>	<b>488,424</b>	<b>471,393</b>
<b>Transfers in execution process</b>	<b>75,247</b>	<b>34,057</b>
<b>Other</b>	<b>1,072</b>	<b>1,420</b>
<b>Total deposits from customers</b>	<b>8,224,740</b>	<b>7,287,104</b>

**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, 2012 and December 31, 2011 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, 2012 the total amount of BGN 218,643 thousand represents 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*

<b>Start date</b>	<b>Term to maturity</b>	<b>Amount of the original principal</b>	<b>Outstanding amount as of December 31, 2012</b>
November 26, 2004	10 years	19,558	25,733
December 20, 2004	10 years	19,558	25,765
February 3, 2005	10 years	25,426	32,543
August 2, 2005	10 years	29,337	36,686
November 19, 2008	10 years	97,792	97,916
<b>Total</b>		<b>191,671</b>	<b>218,643</b>

All of them 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**

Balances of provisions as of December 31, 2012 and December 31, 2011 are as follows:

*In thousands of BGN*

	<b>Letters of guarantee</b>	<b>Legal cases</b>	<b>Retirement benefits</b>	<b>Constructive obligations</b>	<b>Other</b>	<b>Total</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>	
<b>Balance as of December 31, 2011</b>	<b>14,193</b>	<b>18,494</b>	<b>3,650</b>	<b>2,076</b>	<b>499</b>	<b>38,912</b>
Allocations	-	1,949	485	-	761	3,195
Releases	(306)	(7,170)	-	(1,165)	-	(8,641)
Additions due to FX revaluation	7,290	2,595	-	-	-	9,885
Releases due to FX revaluation	(7,551)	(2,688)	-	-	-	(10,239)
Utilization	-	(751)	(302)	(155)	(495)	(1,703)
<b>Balance as of December 31, 2012</b>	<b>13,626</b>	<b>12,429</b>	<b>3,833</b>	<b>756</b>	<b>765</b>	<b>31,409</b>

**40. Provisions (continued)**
**(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, 2012 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 13,626 thousand.

**(b) Provisions on legal cases**

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future.

As of December 31, 2012 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 12,429 thousand has been recognized.

**(c) Retirement benefit provision**

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement, reduced by the amount of unrecognized actuarial losses as of the reporting date.

Major assumptions underlying in 2012 Defined benefit obligation are as follows:

- Discount rate – 3.40%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63 and 4 months, women 60 and 4 months for 2012 and increase by 4 months each year until we get 65 for men and 63 for women

The movement of the defined benefit obligation for year ended 2012 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*

<b>Recognized defined benefit obligation as of December 31, 2011</b>	<b>3,650</b>
Current service costs for 2012	297
Interest cost for 2012	188
Amortisation of actuarial (gains) loss	-
Benefits paid	(302)
<b>Recognized defined benefit obligation as of December 31, 2012</b>	<b>3,833</b>
Unrecognized actuarial loss as of December 31, 2012	852
Interest rate Beginning of the year	5.28%
Interest rate End of the year	3.40%
Future increase of salaries	5.0%
Expected 2013 service costs	363
Expected 2013 interest costs	153
Expected 2013 benefit payments	530

Current service cost, interest cost and amortization of actuarial gains/losses presented under Personnel expenses (See note 14).

**40. Provisions (continued)**
**(d) Provisions on constructive obligation**

In the course of regular business, Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria.

As of December 31, 2012 and December 31, 2011 the whole remaining amount of provisions on constructive obligations relates to full compliance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises where safe-deposits boxes are provided.

**(e) Other provision**

Other provisions in the amount of BGN 765 thousand (BGN 499 thousand in 2011) relates to coverage of claims related to credit cards business as well as other claims.

**41. Other liabilities**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Liabilities to the State budget	3,976	4,475
Liabilities to personnel	22,198	23,109
Liabilities for unused paid leave	5,873	6,360
Dividends	461	414
Incentive plan liabilities	1,846	1,284
Other liabilities	32,896	31,731
<b>Total other liabilities</b>	<b>67,250</b>	<b>67,373</b>

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 2012 and 2011 in accordance with the defined target settings.

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, 2012 and December 31, 2011 share capital comprises of 285,776,674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

**b) Statutory reserves**

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

**d) Revaluation reserves**

Revaluation reserves include such on property as per the allowed fair value model under IAS 16 "Property, Plant and Equipment", as well as reserve out of the fair value change of financial assets classified as available for sale or derivatives designated as effective hedging instrument in cash flow hedge relationship all in accordance with IAS 39 "Financial Instruments, Recognition and Measurement".

**43. Contingent liabilities**

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>2011</b>
Letters of credit and letters of guarantee	1,133,916	901,858
Credit commitments	1,331,398	1,228,916
<b>Total contingent liabilities</b>	<b>2,465,314</b>	<b>2,130,774</b>

**a) Memorandum items**

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.

**43. Contingent liabilities (continued)**
**(a) Memorandum items (continued)**

As of December 31, 2012 and December 31, 2011 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).

**b) Litigation**

As of December 31, 2012 there are 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. Litigation claims provided for in these financial statements as of December 31, 2012 are in the amount of BGN 12,429 thousand (BGN 18,494 thousand in 2011).

**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, 2012 and December 31, 2011 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

**44. Assets pledged as collateral**

	<i>In thousands of BGN</i>	
	<b>2012</b>	<b>2011</b>
Securities pledged for budget holders' account service	287,858	274,647
Securities pledged on REPO deals	-	3,748
Securities pledged on other deals	40,410	76,058
	<b>328,268</b>	<b>354,453</b>
<b>Pledged securities include</b>		
Assets held for trading	-	3,748
Assets designated at fair value through profit or loss	80	71
Available for sale assets	286,760	273,050
Assets held to maturity	41,428	77,584
	<b>328,268</b>	<b>354,453</b>

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

**45. Related parties**

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG. Additionally the Bank has relatedness with its key management personnel. UniCredit Bulbank AD has also a related party relationship with all other parent company's subsidiaries within UniCredit Group.

**45. Related parties (continued)**

The related parties' transactions in terms of statement of financial position items as of December 31, 2012 and Income statement items for the year ended thereafter are as follows:

<i>In thousands of BGN</i>		
	<b>Assets</b>	<b>Liabilities</b>
Financial assets held for trading	13,128	
Available for sale investments	2,932	
Current accounts and deposits placed	1,440,940	
Extended loans	104,415	
Other assets	4,419	
Financial liabilities held for trading		111,097
Derivatives used for hedging		7,669
Current accounts and deposits taken		1,718,647
Subordinated loans		218,643
Other liabilities		1,844
<b>Total</b>	<b>1,565,834</b>	<b>2,057,900</b>
<b>Guarantees received by the Group</b>	<b>68,329</b>	

<i>In thousands of BGN</i>	
	<b>Income (Expense)</b>
Interest incomes	12,263
Interest expenses	(67,452)
Fee and commissions income	5,138
Fee and commissions expenses	(427)
Net gains (losses) on financial assets and liabilities held for trading	(2,229)
Other operating income	22
Administrative and personnel expenses	(7,964)
<b>Total</b>	<b>(60,649)</b>

As of December 31, 2012 the loans extended to key management personnel amount to BGN 1,178 thousand. For the twelve months ended December 31, 2012 the compensation paid to key management personnel amounts to BGN 3,913 thousand.

**46. Cash and cash equivalents**

<i>In thousands of BGN</i>		
	<b>2012</b>	<b>2011</b>
Cash in hand and in ATM	161,982	125,903
Cash in transit	42,935	23,767
Current account with the Central Bank	701,481	737,034
Current accounts with banks	764,980	14,846
Receivables under repurchase agreements	27,150	-
Placements with banks with original maturity less than 3 months	679,269	671,932
<b>Total cash and cash equivalents</b>	<b>2,377,797</b>	<b>1,573,482</b>

Cash and cash equivalent 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**

Bank has concluded numerous operating agreements to support its daily activity.

Under operational lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars.

**(a) Operational lease contracts where the Bank acts as a lessee**

Residual maturity	<i>In thousands of BGN</i>	
	<b>Total future minimum lease payment</b>	
	<b>2012</b>	<b>2011</b>
Up to one year	5,672	11,565
Between one and five years	5,208	24,877
Beyond five years	3,239	7,127
<b>Total</b>	<b>14,119</b>	<b>43,569</b>

**(b) Operational lease contracts where the Bank acts as a lessor**

Residual maturity	<i>In thousands of BGN</i>	
	<b>Total future minimum lease payment</b>	
	<b>2012</b>	<b>2011</b>
Up to one year	74	412
Between one and five years	-	614
Beyond five years	-	53
<b>Total</b>	<b>74</b>	<b>1,079</b>

**48. Subsequent events**

On December 12, 2012 UniCredit Bulbank AD signed Share Purchase Agreement with UniCredit S.p.A for acquiring additional 50.1% stake in local UniCredit Consumer Financing AD. The closing of the transaction took place on January 2, 2013. Considering that prior to the transaction Bank held 49.9% from the capital of the company, effectively since that date UniCredit Bulbank AD became sole owner of the capital of UniCredit Consumer Financing AD.

**49. Group entities**

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2012 and December 31, 2011 the ultimate parent company is UniCredit S.p.A.