

UNICREDIT BULBANK AD

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2011
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 2011, 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.


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 2011, 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 2011. 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 6 March 2012.


Tzvetelinka Koleva
Authorized representative

KPMG Bulgaria OOD
Sofia, 6 March 2012


Margarita Goleva
Registered auditor 

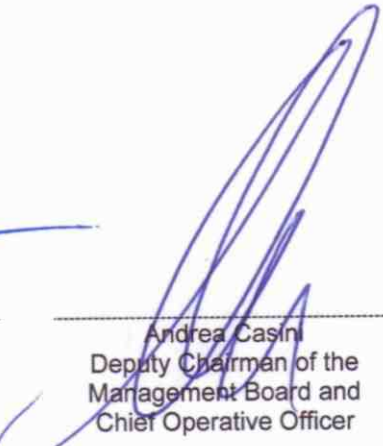



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INCOME STATEMENT


		<i>In thousands of BGN</i>	
	Notes	2011	2010
Interest income		653,175	634,760
Interest expense		(207,587)	(205,811)
Net interest income	7	445,588	428,949
Dividend income		1,196	133
Fee and commission income		176,274	164,584
Fee and commission expense		(9,032)	(9,050)
Net fee and commission income	8	167,242	155,534
Net gains (losses) on financial assets and liabilities held for trading	9	16,332	(793)
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	(1,603)	5,819
Net income from investments	11	10,352	16,693
Other operating income, net	12	6,087	5,962
TOTAL OPERATING INCOME		645,194	612,297
Net income related to property, plant and equipment	13	2,774	270
Personnel expenses	14	(99,845)	(96,925)
General and administrative expenses	15	(114,444)	(112,508)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(34,866)	(36,377)
Provisions for risk and charges	17	(4,426)	3,336
Net impairment loss on financial assets	18	(136,592)	(185,369)
PROFIT BEFORE INCOME TAX		257,795	184,724
Income tax expense	19	(24,937)	(18,019)
PROFIT FOR THE PERIOD		232,858	166,705


Levon Hampartoumian
Chairman of the Management Board and Chief Executive Officer



Andrea Casin
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 48 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

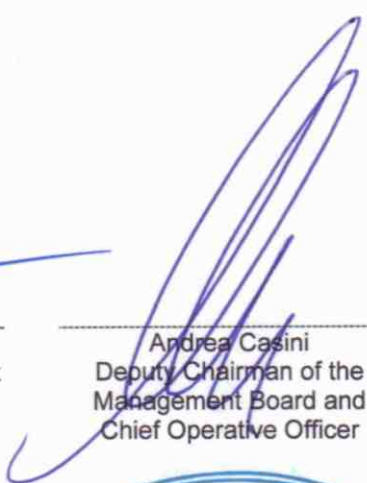
	<i>In thousands of BGN</i>		
	Notes	2011	2010
Profit for the period		232,858	166,705
Other comprehensive income:			
Available for sale investments		(1,846)	6,876
Cash flow hedge		(1,906)	(4,299)
Income tax relating to components of other comprehensive income		376	(259)
Other distribution		(37)	(77)
Total other comprehensive income for the year net of tax		(3,413)	2,241
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		229,445	168,946



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Officer

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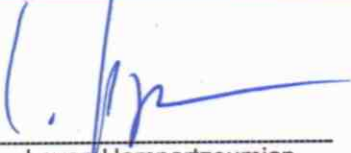
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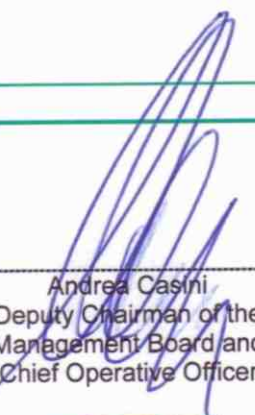



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STATEMENT OF FINANCIAL POSITION
In thousands of BGN


	Notes	2011	2010
ASSETS			
Cash and balances with Central Bank	20	886,704	874,660
Financial assets held for trading	21	129,174	162,160
Derivatives held for trading	22	112,024	56,250
Financial assets designated at fair value through profit or loss	24	79,682	110,545
Loans and advances to banks	25	1,893,784	1,699,214
Loans and advances to customers	26	7,873,628	7,533,400
Available for sale investments	27	383,947	278,732
Held to maturity investments	28	273,247	291,382
Investments in associates	29	32,967	29,218
Property, plant, equipment and investment properties	30	220,641	237,152
Intangible assets	31	31,762	31,097
Current tax assets	32	1	3,471
Deferred tax assets	33	6,995	6,321
Non-current assets and disposal group classified as held for sale	34	797	21
Other assets	35	47,659	27,210
TOTAL ASSETS		11,973,012	11,340,833
LIABILITIES			
Financial liabilities held for trading	36	88,386	62,317
Derivatives used for hedging	23	6,027	4,527
Deposits from banks	37	2,221,082	2,610,171
Deposits from customers	38	7,287,104	6,535,848
Subordinated liabilities	39	216,710	214,053
Provisions	40	38,912	34,266
Current tax liabilities	32	6,339	80
Deferred tax liabilities	33	18,307	20,193
Other liabilities	41	67,373	66,051
TOTAL LIABILITIES		9,950,240	9,547,506
EQUITY			
Share capital		285,777	263,911
Revaluation reserves		117,212	132,073
Retained earnings		1,386,925	1,230,638
Profit for the period		232,858	166,705
TOTAL EQUITY	42	2,022,772	1,793,327
TOTAL LIABILITIES AND EQUITY		11,973,012	11,340,833


 Levon Hampartzumian
 Chairman of the Management
 Board and Chief Executive
 Officer

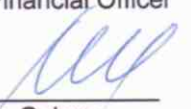

 Andrea Casini
 Deputy Chairman of the
 Management Board and
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 Emilia Palibachiyska
 Member of the
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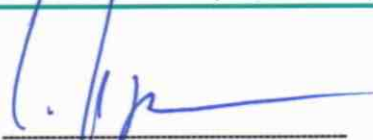



 Margarita Goleva
 Registered auditor

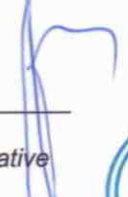
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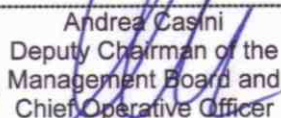
STATEMENT OF CHANGES IN EQUITY
In thousands of BGN


	Share capital	Statutory reserve	Retained earnings	Property revaluation reserve	Available for sale investments revaluation reserve	Cash flow hedges reserves	Total
Balance as of January 1, 2010	239,256	51,155	1,219,614	145,220	(16,692)	1,581	1,640,134
Profit for the period	-	-	166,705	-	-	-	166,705
Transfer of revaluation reserve on non-current assets disposed of	-	-	354	(354)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	6,876	-	6,876
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	(4,299)	(4,299)
Other distribution	-	-	(77)	-	-	-	(77)
Income tax relating to components of other comprehensive income	-	-	-	-	(688)	429	(259)
Total other comprehensive income for the year net of tax	-	-	277	(354)	6,188	(3,870)	2,241
Total comprehensive income for the year net of tax	-	-	166,982	(354)	6,188	(3,870)	168,946
Dividends paid	-	-	(194,753)	-	-	-	(194,753)
Increase of capital	24,655	154,345	-	-	-	-	179,000
Balance as of December 31, 2010	263,911	205,500	1,191,843	144,866	(10,504)	(2,289)	1,793,327
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 reserves	-	-	-	-	-	(1,906)	(1,906)
Other distribution	-	-	(37)	-	-	-	(37)
Income tax relating to components of other comprehensive income	-	-	-	-	185	191	376
Total other comprehensive income for the year net of tax	-	-	11,448	(11,485)	(1,661)	(1,715)	(3,413)
Total comprehensive income for the year net of tax	-	-	244,306	(11,485)	(1,661)	(1,715)	229,445
Dividends paid	-	-	(158,744)	-	-	-	(158,744)
Increase of capital	21,866	136,878	-	-	-	-	158,744
Balance as of December 31, 2011	285,777	342,378	1,277,405	133,381	(12,165)	(4,004)	2,022,772



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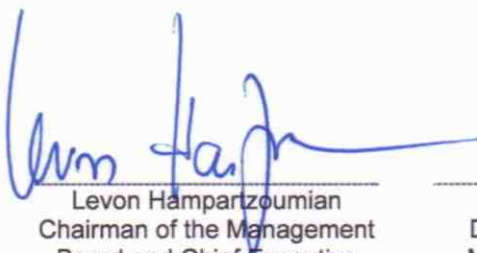
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STATEMENT OF CASH FLOWS

		<i>In thousands of BGN</i>	
	Notes	2011	2010
Net profit		232,858	166,705
Current and deferred tax income, recognised in income statement		(4,534)	(4,388)
Current and deferred tax expenses, recognised in income statement		29,471	22,407
<i>Adjustments for non-cash items</i>			
Depreciation and amortisation	30,31	33,576	33,954
Impairment	16,18,30,31	142,540	188,380
Provisions, net		5,551	(1,398)
Unrealised fair value gains (losses) through profit or loss, net		(24,216)	(3,249)
Unrealised fair value gains (losses) on FX revaluation		(188)	632
Net (gains)/losses on sale of investments and equity consolidation		(13,218)	(6,977)
Net interest income		(445,588)	(428,949)
Dividend income		(1,196)	(133)
Increase in other accruals		19,328	18,808
Cash flows from profits before changes in operating assets and liabilities		(25,616)	(14,208)
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		(1,205,515)	104,252
(Increase) in loans and advances to customers		(474,623)	(323,520)
Decrease (increase) in available for sale investments		(103,600)	21,646
Decrease (increase) in financial instruments held for trading and hedging derivatives		31,726	(38,654)
Decrease in financial instruments at fair value through profit or loss		27,389	21,943
(Increase) in other assets		(17,603)	(7,321)
Change in operating liabilities:			
(Decrease) in deposits from banks		(401,146)	(506,036)
Increase in amounts owed to customers		736,920	123,373
Provisions utilization		(1,396)	(900)
Increase in other liabilities		18,096	613
Interest received		652,010	619,278
Interest paid		(201,667)	(202,298)
Dividends received		1,196	133
Taxes paid		(17,559)	(12,366)
Net cash flow from operating activities		(981,388)	(214,065)
Cash flow from investing activities			
Cash payments to acquire tangible assets		(21,039)	(14,682)
Cash receipt from sale of tangible assets		16,156	1,074
Cash payments to acquire intangible assets		(11,848)	(6,660)
Cash receipt from subsidiaries and associates		6,404	-
Cash receipts from the sale of held to maturity investments		21,807	22,960
Net cash flow from investing activities		11,480	2,692

STATEMENT OF CASH FLOWS (CONTINUED)

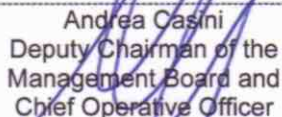
		<i>In thousands of BGN</i>	
	Notes	2011	2010
Cash flow from financial activities			
Dividends paid		(158,744)	(194,753)
Capital increase		158,744	179,000
Other cash payments related to financing activities		(37)	(77)
Net cash flows from financial activities		(37)	(15,830)
Effect of exchange rate changes on cash and cash equivalents		(29,751)	2,505
Net increase in cash and cash equivalents		(999,696)	(224,698)
Cash and cash equivalents at the beginning of period	46	2,573,178	2,797,876
Cash and cash equivalents at the end of period	46	1,573,482	2,573,178



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Chairman of the Management
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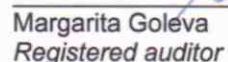
Tzvetelinka Koleva
Authorized representative



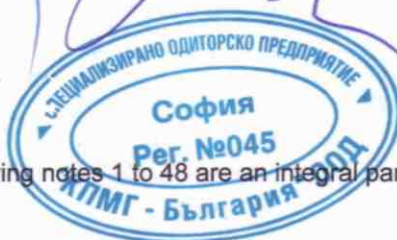
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Member of the
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Chief Financial Officer



Margarita Goleva
Registered auditor



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

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

UniCredit Bulbank AD (the Bank) is a universal Bulgarian bank established upon a triple legal merger, performed on April 27th, 2007 between Bulbank AD, HVB Bank Biochim AD and Hebros Bank AD. These consolidated financial statements comprise of UniCredit Bulbank AD and its subsidiaries and associates (hereafter together referred as UniCredit Bulbank AD or the Bank).

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address 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 218 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 March 6, 2012. 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 areas:

- Presentation of foreclosed properties – in accordance with UCI Group updated presentation requirements, acquisition and selling of such properties is deemed ordinary Bank activity thus the respective amounts are presented as **Other assets** under IAS 2 “Inventories”;
- Unrealised FX gains/losses on impairment allowances and provisions – in accordance with UCI 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	2010 presentation	2011 comparative prior year presentation	Amount
Foreclosed properties	Property, plant, equipment and investment properties	Other assets	4,613
Unrealised FX gains/losses on provisions	Provision for risk and charges	Net gains (losses) on financial assets and liabilities held for trading	1,379
Unrealised FX gains/losses on impairment allowances	Net impairment loss on financial assets	Net gains (losses) on financial assets and liabilities held for trading	270

3. Significant accounting policy (continued)

(a) Basis of consolidation

These consolidated financial statements are prepared in accordance with IAS 27 "Separate and Consolidated 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.

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. For more detailed information on applying equity method on associates see also note 29.

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
Prelios Bulgaria AD (in liquidation)	25.0%	Equity method

(b) Interest income and expense

Interest income and expenses are recognized in the Income statement following the accruing principle, taking into account the effective yield 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.

3. Significant accounting policy (continued)**(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.

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 trade date at which the Bank commits to purchase or sell the asset. 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 "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 reporting date. The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that requires enhanced disclosures about fair value measurements in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments.

Level 1 fair value measurement covers those financial assets and liabilities which fair value is derived directly from quoted prices on active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

3. Significant accounting policies (continued)**(i) Financial instruments (continued)****(vi) Fair value measurement principles (continued)**

Level 2 fair value measurement covers those financial assets and liabilities which fair value is derived on the basis of observable market data (e.g. actual quotations and prices on markets regarded as non-active, available yield curves etc.).

Level 3 fair value measurement covers those financial assets and liabilities for which relevant observable data is not available, or when there is little to non market activity. For all such assets and liabilities valuation technique is applied embodying all relevant market data available, reflecting the assumptions that market participants would use when pricing the respective asset or liability, including assumptions about risk. Level 3 also includes those financial assets, where fair value cannot be reliably measured, therefore they are stated at cost or amortised cost.

(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 and held to maturity financial assets – 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 embedded in 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:

	<i>Annual depreciation rates (%)</i>	<i>Equivalent expected useful life (years)</i>
▪ 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, 2011 and December 31, 2010 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, 2011 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 Group's 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 UniCredito Italiano 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, 2011 and December 31, 2010 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves**(i) Share capital**

As described in Note 1, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of Bank Austria Creditanstalt AG and ultimately under control of UniCredito Italiano S.p.A. The merger represents 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.

(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, 2011 and December 31, 2010 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 does not represent a change in accounting policy as the business segments that has 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 are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the EC

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (issued October 2010) – effective from the first financial year that starts after 1 July 2011.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, generally 1 January 2011

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following 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.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued 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). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012.
- In June 2011 the IASB issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 *Employee Benefits* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

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 UCB 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.

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 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, analyzed 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 & Investment Banking and Assets and Liabilities Management (ALM) operations.

UniCredit Bulbank applies uniform Group risk management procedures. These procedures make available the major risk parameters for the 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. 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 2011 for the Bank stand alone, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 2.41 million and EUR 5.22 million, averaging EUR 3.44 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

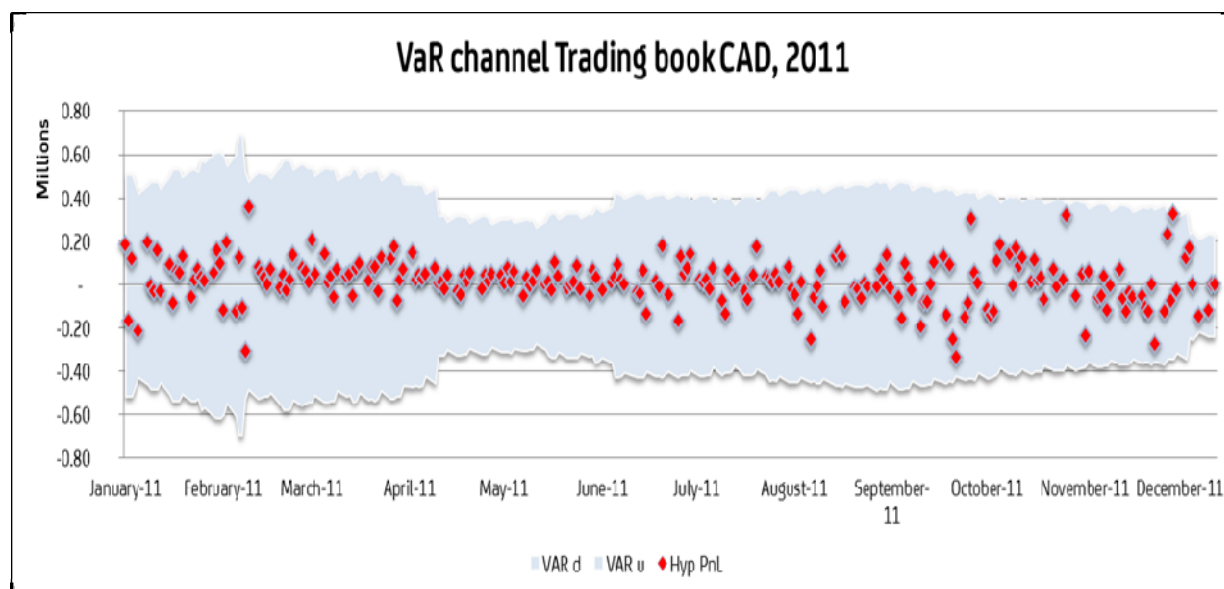
VaR of UniCredit Bulbank AD (stand alone) by risk category in EUR million for 2011 is as follows:

Risk Category	Minimum	Maximum	Average	Year-end
Interest rate risk	2.11	5.42	2.64	2.42
Credit spread	1.73	3.08	2.30	2.25
Exchange rate risk	0.00	0.02	0.01	0.02
Vega risk	0.00	0.01	0.00	0.00
VaR overall¹	2.41	5.22	3.44	3.28

¹ Including diversification effects between risk factors

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

Reliability and accuracy of the internal model is monitored via daily back-testing, comparing the simulated results with actually observed fluctuations in market parameters and in the total value of books. Back-testing results for 2011 confirm the reliability of used internal model.



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 30, 2011 (change in value due to 1 basis point shift, amounts in EUR):

Currency	0-3M	3M-1Y	1Y-3Y	3Y-10Y	Above 10Y	Total
BGN	2,741	13,929	(13,998)	(33,641)	(311)	(31,279)
CHF	(412)	1,136	(23)	(146)	3	557
EUR	9,541	13,693	1,680	16,052	(155)	40,811
GBP	(143)	(138)	7	-	-	(274)
USD	(857)	764	(12,630)	(241)	-	(12,964)
AUD	3	-	-	-	-	3
Total sensitivity¹	13,698	29,660	28,338	50,079	469	85,889

Measured by the total basis-point value, the credit spread position of UniCredit Bulbank as of December 31, 2011 totalled EUR 95,605. 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.

¹ 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	0	-84	-64			-148		-148
MARKIT_FINANCIAL_B_CDS	-14	-2,228				-2,241		-2,241
MARKIT_GOVERNMENT_BB_CDS	-3	-38	-147	-18		-205		-205
SYN_SUPRANATIONALS	-4	-2,252	-1,108			-3,364		-3,364
TREAS_AT	0	-308	-279			-588		-588
TREAS_BG_CDS	-173	-9,297	-41,081	-37,288	-30	-87,868		-87,868
TREAS_IT	0	-242	-401	-6		-649		-649
TREAS_RO	-40	-71				-111		-111
TREAS_TR		-287				-287		-287
UNICREDITO_ITALIANO_CDS	0	-141	-3			-144		-144
Sum	-234	-14,948	-43,083	-37,309	-30	-95,605	0	-95,605
Total	234	14,948	43,083	37,309	30	95,605	0	95,605

Value-at-risk calculations are complemented by various stress scenarios to identify the 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 2011 the Bank's Management continued vigilant risk management practices by limiting risk taking 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, 2011 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

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

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

As of December 31, 2010 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

	<i>In thousands of BGN</i>		
	EUR and BGN	Other currencies	Total
ASSETS			
Cash and balances with Central bank	865,666	8,994	874,660
Financial assets held for trading	161,270	890	162,160
Derivatives held for trading	55,020	1,230	56,250
Financial assets designated at fair value through profit or loss	102,278	8,267	110,545
Loans and advances to banks	1,678,757	20,457	1,699,214
Loans and advances to customers	7,361,256	172,144	7,533,400
Available for sale Investments	278,732	-	278,732
Held to maturity Investments	126,603	164,779	291,382
Investments in associates	29,218	-	29,218
Property, plant, equipment and investment properties	237,152	-	237,152
Intangible assets	31,097	-	31,097
Current tax assets	3,471	-	3,471
Deferred tax assets	6,321	-	6,321
Non-current assets and disposal group classified as held for sale	21	-	21
Other assets	27,068	142	27,210
TOTAL ASSETS	10,963,930	376,903	11,340,833
LIABILITIES			
Financial liabilities held for trading	61,166	1,151	62,317
Derivatives used for hedging	2,313	2,214	4,527
Deposits from banks	2,472,110	138,061	2,610,171
Deposits from customers	5,933,688	602,160	6,535,848
Subordinated liabilities	214,053	-	214,053
Provisions	15,579	18,687	34,266
Current tax liabilities	80	-	80
Deferred tax liabilities	20,193	-	20,193
Other liabilities	64,735	1,316	66,051
TOTAL LIABILITIES	8,783,917	763,589	9,547,506
EQUITY			
Net off-balance sheet spot and forward position	1,793,327	-	1,793,327
	(395,590)	388,523	(7,067)
Net position	(8,904)	1,837	(7,067)

4. Financial risk management (continued)**(c) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The collective Bank's body for liquidity management is ALCO (Assets and Liabilities Committee). Operative management rules, as well as contingency plan and funding plan procedures are laid down in the Bank's Liquidity Management Policy.

The 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.

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. 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 2011	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 years
Non derivative instruments						
Deposits from banks	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)
Total non-derivative instruments	9,745,566	(11,188,209)	(3,342,345)	(1,530,727)	(2,549,836)	(3,765,301)
Trading derivatives, net	23,638					
Outflow		(1,713,883)	(910,150)	(140,575)	(463,425)	(199,733)
Inflow		1,740,935	917,490	144,731	475,275	203,439
Derivatives used for hedging, net	(6,027)					
Outflow		(13,765)	(2,341)	(95)	(1,701)	(9,628)
Inflow		7,691	879	90	1,302	5,420
Total derivatives	17,611	20,978	5,878	4,151	11,451	(502)
Total financial liabilities	9,763,177	(11,167,231)	(3,336,467)	(1,526,576)	(2,538,385)	(3,765,803)

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

Maturity table as at 31 December 2010	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 years
Non derivative instruments						
Deposits from banks	2,610,171	(2,664,311)	(1,359,054)	(51,272)	(367,904)	(886,081)
Deposits from customers	6,535,848	(6,581,367)	(2,179,937)	(1,755,287)	(1,505,458)	(1,140,685)
Subordinated liabilities	214,053	(256,571)	-	-	-	(256,571)
Issued financial guarantee contracts	20,305	(20,305)	-	-	-	(20,305)
Unutilized credit lines	-	(1,121,434)	(16,822)	-	(207,465)	(897,147)
Total non-derivative instruments	9,380,377	(10,643,988)	(3,555,813)	(1,806,559)	(2,080,827)	(3,200,789)
Trading derivatives, net	(6,067)					
Outflow		(1,660,814)	(877,963)	(257,113)	(247,955)	(277,783)
Inflow		1,655,186	869,295	254,966	251,301	279,624
Derivatives used for hedging, net	4,527					
Outflow		(12,342)	(2,286)	(107)	(1,394)	(8,555)
Inflow		7,865	518	46	898	6,403
Total derivatives	(1,540)	(10,105)	(10,436)	(2,208)	2,850	(311)
Total financial liabilities	9,378,837	(10,654,093)	(3,566,249)	(1,808,767)	(2,077,977)	(3,201,100)

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.

The analysis based on client credit quality and rating (where available) as of December 31, 2011 and December 31, 2010 is as shown in the next table:

	<i>In thousands of BGN</i>	
	2011	2010
Government bonds		
Rated BBB	42,180	18,159
Rated BBB+	40,206	45,824
Bonds of credit institutions		
Rated AAA	45,609	35,949
Rated BB	-	35,176
Corporate bonds		
Rated BB	1,179	22,277
Unrated	-	3,093
Equities	-	1,682
Derivatives (net)		
Banks and financial institution counterparties	(34,227)	(45,425)
Corporate counterparties	57,865	39,358
Total trading assets and liabilities	152,812	156,093

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, 2011 and December 31, 2010 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, 2011 and December 31, 2010:

	Carrying amount before impairment		Impairment allowance		<i>In thousands of BGN</i> Carrying amount	
	2011	2010	2011	2010	2011	2010
Individually impaired	1,058,097	779,072	620,811	474,306	437,286	304,766
Collectively impaired	6,700,380	6,767,724	58,876	109,010	6,641,504	6,658,714
Past due but not impaired	165,000	39,204	-	-	165,000	39,204
<i>Past due comprises</i>						
<i>from 31 to 90 days</i>	11,608	1,440	-	-	11,608	1,440
<i>from 91 to 180 days</i>	40,651	7,829	-	-	40,651	7,829
<i>over 181 days</i>	112,741	29,935	-	-	112,741	29,935
	165,000	39,204	-	-	165,000	39,204
Neither past due nor impaired	629,838	530,716	-	-	629,838	530,716
Total	8,553,315	8,116,716	679,687	583,316	7,873,628	7,533,400

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>		
	Loans and advances to customers	
	2011	2010
Against individually impaired		
Cash collateral	187	143
Property	960,474	775,930
Other collateral	2,397,852	1,934,880
Against collectively impaired		
Cash collateral	22,628	18,223
Property	7,892,022	9,661,502
Debt securities	119	10,021
Other collateral	16,975,705	17,221,236
Against past due but not impaired		
Cash collateral	387	325
Property	455,867	124,586
Debt securities	13	13
Other collateral	496,152	89,998
Neither past due nor impaired		
Cash collateral	75,137	87,777
Property	1,714,861	1,711,043
Debt securities	10,020	79,079
Other collateral	889,509	620,807
Total	31,890,933	32,335,563

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	
	2011	2010	2011	2010	2011	2010
Concentration by sectors						
Sovereign	64,010	59,253	-	-	629,358	526,122
Manufacturing	1,727,089	1,622,898	-	-	-	-
Commerce	1,808,209	1,669,173	-	-	-	-
Construction and real estate	1,507,602	1,409,335	-	-	-	-
Agriculture and forestry	161,230	149,096	-	-	-	-
Transport and communication	223,761	289,222	-	-	-	-
Tourism	153,742	174,127	-	-	-	-
Services	282,118	229,533	-	-	-	-
Financial services	204,604	171,897	1,893,784	1,699,214	60,803	73,210
Retail (individuals)						
Housing loans	1,645,838	1,574,778	-	-	-	-
Consumer loans	775,112	767,404	-	-	-	-
	8,553,315	8,116,716	1,893,784	1,699,214	690,161	599,332
Impairment allowances	(679,687)	(583,316)	-	-	-	-
Total	7,873,628	7,533,400	1,893,784	1,699,214	690,161	599,332
Concentration by geographic location						
Europe	8,511,458	8,115,082	1,888,189	1,685,793	676,135	585,403
North America	135	97	2,404	4,691	3,031	2,951
Asia	941	1,377	3,009	8,513	10,995	10,978
Africa	46	46	-	-	-	-
South America	38	22	-	-	-	-
Australia	40,697	92	182	217	-	-
	8,553,315	8,116,716	1,893,784	1,699,214	690,161	599,332
Impairment allowances	(679,687)	(583,316)	-	-	-	-
Total	7,873,628	7,533,400	1,893,784	1,699,214	690,161	599,332

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 and are clearly formalized in the approved Rulebook. 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 three 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 UCB senior management. The Operational Risk Committee acts 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. It was a major step towards integrating operational risk in the bank's processes.

In February 2011 UniCredit Bulbank was officially authorized by Bank of Italy to apply the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA. Activities during the year focused primarily on maintaining the high level of quality of the operational risk system. As part of the annual validation activities related to the AMA use in the Bank, control verifications by UniCredit Group Internal Validation and UCB Internal Audit took place. Based on these independent assessments, the operational risk management and control system was found sound and well developed.

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 and equity method of consolidation of Prelios Bulgaria AD, being both non-financial institutions. However Bank fully deduct the participation in those entities from its capital base (own funds).

Since January 1st, 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

The authorization is an international acknowledgement of the Bank's competence to use its internal models and estimates for the calculation of capital requirements and it follows a detailed and rigorous verification of this ability by both the Bank of Italy and the Bulgarian National Bank.

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 and big deviation in 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 reached minimum Tier I ratio of 10% latest by June 2009.

Applicable calculation techniques for capital requirements for credit risk, market risk and operational risk for the years ended December 31, 2011 and December 31, 2010 is as follows:

	2011	2010 (recalculated)	2010 (reported)
Credit risk requirements			
<i>Exposures to:</i>			
Corporate clients	F-IRB	F-IRB	STA
Banks	F-IRB	F-IRB	STA
SME clients, individuals and other clients	STA	STA	STA
Other exposures	STA	STA	STA
Market risk requirements	STA	STA	STA
Operational risk requirements	AMA	AMA	STA

In the following paragraphs for comparative reasons, the data as of prior year has been recalculated as if the F-IRB Approach has been applied also as of December 31, 2010.

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. The data as of prior year has been recalculated for comparative reasons as if the F-IRB Approach has been also applied as of December 31, 2010.

As of December 31, 2011 and December 31, 2010 the consolidated Capital base of UniCredit Bulbank AD comprises as follows:

	<i>In thousands of BGN</i>	
	2011	2010 (recalculated)
Share capital	285,777	263,911
Statutory reserve	342,378	205,500
Retained earnings	1,027,418	1,019,309
Total capital and reserves	1,655,573	1,488,720
<i>Deductions</i>		
Unrealized loss on available-for-sale instruments	(14,030)	(11,955)
Intangible assets	(31,759)	(31,092)
Total deductions	(45,789)	(43,047)
Total Tier I capital	1,609,784	1,445,673
Revaluation reserve on real estate properties occupied by the Bank	122,324	137,368
Subordinated long-term debt	146,296	165,072
Total Tier II capital	268,620	302,440
Additional deductions from Tier I and Tier II capital	(77,794)	(43,136)
Total Capital base (Own funds)	1,800,610	1,704,977

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 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, 2011 and December 31, 2010 the capital requirements for credit, market and operational risks are as follows:

	<i>In thousands of BGN</i>	
	2011	2010 (recalculated)
Capital requirements for credit risk		
Exposures under standardized approach	197,517	215,962
Exposures under FIRB	413,344	401,918
Total capital requirements for credit risk	610,861	617,880
Capital requirements for market risk	9,380	11,558
Capital requirements for operational risk AMA	69,077	53,180
Additional requirement for operational risk		12,954
Total capital requirements for operational risk	69,077	66,134
Total capital requirements for credit, market and operational risk	689,318	695,572
Additional capital requirements subject to National discretions from the Regulator	344,659	347,786
Total regulatory capital requirements	1,033,977	1,043,358
Capital Base (Own funds)	1,800,610	1,704,977
<i>there off Tier I</i>	1,570,887	1,424,105
Free equity (Own funds)	766,633	661,619
Total capital adequacy ratio	20.90%	19.61%
Tier I ratio	18.23%	16.38%

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 judgement

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 in 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, Black-Scholes and polynomial 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 changes based on specific events and general conditions in the financial markets.

5. Use of estimates and judgement (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 in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments 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, 2011 and December 31, 2010.

Instrument category	<i>In thousands of BGN</i>							
	Level 1		Level 2		Level 3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial assets held for trading	-	-	127,996	136,790	1,178	25,370	129,174	25,370
Derivatives held for trading	-	-	112,024	56,250	-	-	112,024	-
Financial assets designated at fair value through profit or loss	-	-	8,363	19,912	71,319	90,633	79,682	90,633
Available for sale Investments	300	-	367,895	266,906	15,752	11,826	383,947	11,826
	300	-	616,278	479,858	88,249	127,829	704,827	127,829
Financial liabilities held for trading	-	-	88,386	62,317	-	-	88,386	-
Derivatives used for hedging	-	-	6,027	4,527	-	-	6,027	-
	-	-	94,413	66,844	-	-	94,413	-
Total	300	-	710,691	546,702	88,249	127,829	799,240	127,829

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2011 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
Opening balance (January 1, 2011)	25,370	90,633	11,826
Increases	2,883	5,117	3,989
Purchases	-	-	3,924
Profit recognized in income statement	2,883	2,837	65
Transfer from other levels	-	2,280	-
Decreases	(27,075)	(24,431)	(63)
Sales	(26,500)	(20,000)	-
Redemption	(425)	(491)	-
Losses recognized in income statement	(150)	(3,940)	(7)
Transfers to other levels	-	-	(56)
Closing balance (December 31, 2011)	1,178	71,319	15,752

5. Use of estimates and judgement (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, 2011 and December 31, 2010.

								In thousands of BGN	
December 2011	Fair value through profit or loss	Held-to- maturity	Loans and receivables	Available for sale	CFH deriv.	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 judgement (continued)
(a) Fair value determination of financial instruments (continued)
In thousands of BGN

December 2010	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	-	-	-	-	-	874,660	874,660	874,660
Financial assets held for trading	162,160	-	-	-	-	-	162,160	162,160
Derivatives held for trading	56,250	-	-	-	-	-	56,250	56,250
Financial assets designated at fair value through profit or loss	110,545	-	-	-	-	-	110,545	110,545
Loans and advances to banks	-	-	1,699,214	-	-	-	1,699,214	1,699,214
Loans and advances to customers	-	-	7,533,400	-	-	-	7,533,400	7,533,338
Available for sale Investments	-	-	-	278,732	-	-	278,732	278,732
Held to maturity Investments	-	291,382	-	-	-	-	291,382	306,771
TOTAL ASSETS	328,955	291,382	9,232,614	278,732	-	874,660	11,006,343	11,021,670
LIABILITIES								
Financial liabilities held for trading	62,317	-	-	-	-	-	62,317	62,317
Derivatives used for hedging	-	-	-	-	4,527	-	4,527	4,527
Deposits from banks	-	-	-	-	-	2,610,171	2,610,171	2,619,587
Deposits from customers	-	-	-	-	-	6,535,848	6,535,848	6,564,799
Subordinated liabilities	-	-	-	-	-	214,053	214,053	214,053
TOTAL LIABILITIES	62,317	-	-	-	4,527	9,360,072	9,426,916	9,465,283

5. Use of estimates and judgement (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 private Banking;
- Asset-Liability Management Dept. and other.

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	208,699	221,488	15,401	445,588
Dividend income	-	98	1,098	1,196
Net fee and commission income	95,175	72,453	(386)	167,242
Net gains (losses) from financial assets and liabilities held for trading	141	24,984	(8,793)	16,332
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(1,603)	-	(1,603)
Net income from investments	-	214	10,138	10,352
Other operating income	(140)	1,487	4,740	6,087
TOTAL OPERATING INCOME	303,875	319,121	22,198	645,194
Personnel expenses	(41,633)	(14,319)	(43,893)	(99,845)
General and administrative expenses	(72,325)	(20,168)	(21,951)	(114,444)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17,420)	(3,103)	(14,343)	(34,866)
Total direct expenses	(131,378)	(37,590)	(80,187)	(249,155)
Allocation of indirect and overhead expenses	(47,317)	(27,537)	74,854	-
TOTAL OPERATING EXPENSES	(178,695)	(65,127)	(5,333)	(249,155)
Provisions for risk and charges	-	-	(4,426)	(4,426)
Net impairment loss on financial assets	(41,937)	(94,105)	(550)	(136,592)
Net income related to property, plant and equipment	-	-	2,774	2,774
PROFIT BEFORE INCOME TAX	83,243	159,889	14,663	257,795
Income tax expense	-	-	(24,937)	(24,937)
PROFIT FOR THE PERIOD	83,243	159,889	(10,274)	232,858
ASSETS	3,118,385	7,783,877	1,070,750	11,973,012
LIABILITIES	3,782,780	3,794,204	2,373,256	9,950,240

6. Segment reporting (continued)

	<i>In thousands of BGN</i>			
December 2010	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	208,389	241,542	(20,982)	428,949
Dividend income	-	103	30	133
Net fee and commission income	88,805	67,096	(367)	155,534
Net gains (losses) from financial assets and liabilities held for trading	91	(361)	(523)	(793)
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	5,819	-	5,819
Net income from investments	-	-	16,693	16,693
Other operating income	(108)	784	5,286	5,962
TOTAL OPERATING INCOME	297,177	314,983	137	612,297
Personnel expenses	(41,188)	(15,057)	(40,680)	(96,925)
General and administrative expenses	(74,799)	(19,843)	(17,866)	(112,508)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(18,194)	(3,294)	(14,889)	(36,377)
Total direct expenses	(134,181)	(38,194)	(73,435)	(245,810)
Allocation of indirect and overhead expenses	(45,303)	(24,884)	70,187	-
TOTAL OPERATING EXPENSES	(179,484)	(63,078)	(3,248)	(245,810)
Provisions for risk and charges	-	-	3,336	3,336
Net impairment loss on financial assets	(8,291)	(175,679)	(1,399)	(185,369)
Net income related to property, plant and equipment	-	-	270	270
PROFIT BEFORE INCOME TAX	109,402	76,226	(904)	184,724
Income tax expense	-	-	(18,019)	(18,019)
PROFIT FOR THE PERIOD	109,402	76,226	(18,923)	166,705
ASSETS	2,994,102	7,128,113	1,218,618	11,340,833
LIABILITIES	3,394,418	3,518,952	2,634,136	9,547,506

7. Net interest income

	<i>In thousands of BGN</i>	
	2011	2010
Interest income		
Financial assets held for trading	8,020	7,354
Derivatives held for trading	23,544	21,481
Financial assets designated at fair value through profit or loss	5,546	7,600
Loans and advances to banks	12,068	7,435
Loans and advances to customers	575,857	565,040
Available for sale investments	13,791	9,905
Held to maturity investments	14,349	15,945
	653,175	634,760
Interest expense		
Derivatives held for trading	(20,475)	(19,944)
Derivatives used for hedging	(2,003)	(2,545)
Deposits from banks	(38,902)	(22,627)
Deposits from customers	(139,032)	(154,848)
Subordinated debt	(7,175)	(5,847)
	(207,587)	(205,811)
Net interest income	445,588	428,949

For the financial years ended December 31, 2011 and December 31, 2010 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 22,942 thousand and BGN 20,729 thousand, respectively.

8. Net fee and commission income

	<i>In thousands of BGN</i>	
	2011	2010
Fee and commission income		
Collection and payment services	74,203	70,973
Lending business	21,884	23,721
Account services	14,128	16,750
Currency trading	29,881	26,319
Management, brokerage and securities trading	5,000	6,311
Documentary business	11,784	9,637
Package accounts	8,620	6,796
Other	10,774	4,077
	176,274	164,584
Fee and commission expense		
Collection and payment services	(7,171)	(6,943)
Management, brokerage and securities trading	(694)	(708)
Lending business	(907)	(1,160)
Other	(260)	(239)
	(9,032)	(9,050)
Net fee and commission income	167,242	155,534

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

	<i>In thousands of BGN</i>	
	2011	2010
FX trading income, net	(1,234)	842
Net income from debt instruments	9,107	(4,900)
Net income from equity instruments	(435)	(133)
Net income from derivative instruments	8,894	3,398
Net trading income	16,332	(793)

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, 2011 and December 31, 2010 are BGN (1,603) thousand and BGN 5,819 thousand, respectively.

11. Net income from investments

	<i>In thousands of BGN</i>	
	2011	2010
Realised gains on disposal of available for sale investments	199	9,986
Effect of equity method consolidation on associates	10,153	6,707
Net income from investments	10,352	16,693

In 2010 the shareholders of Borika AD (Bulgarian card operator) and Bankservice AD (Bulgarian settlement operator) agreed to combine their activities through merging the two companies into a new company (Borika-Bankservice AD) thus gaining some competitive advantage and benefiting from operative synergies. As of the date of merger UniCredit Bulbank AD maintained minority interests in both merging companies. According to the agreement the merger represented share-exchange transaction where the shareholders of the merging companies received shares in the new company on the basis of share-exchange ratios. These ratios were derived on the basis of fair market valuation of the new company and were approved by all the shareholders and verified by external auditor as required by Bulgarian Commercial Law. The difference between the fair market valuation of the received by UniCredit Bulbank AD new shares and the value of the participations in the two merging companies before the transformation, adjusted by previously recognized revaluation reserve, amounting in total BGN 8,961 thousand, is reported in the position realized gains on disposal of available for sale investments.

12. Other operating income, net

	<i>In thousands of BGN</i>	
	2011	2010
Other operating income		
Income from non-financial services	2,148	1,339
Rental income from investment property	292	314
Other income	3,790	4,424
	6,230	6,077
Other operating expenses		
Other operating expenses	(143)	(115)
	(143)	(115)
Other operating income, net	6,087	5,962

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, 2011 and December 31, 2010 the gains is BGN 2,774 thousand and BGN 270 thousand respectively.

14. Personnel expenses

	<i>In thousands of BGN</i>	
	2011	2010
Wages and salaries	(79,501)	(79,551)
Social security charges	(10,186)	(10,128)
Pension and similar expenses	(634)	(559)
Temporary staff expenses	(5,925)	(5,325)
Share-based payments	(593)	(56)
Other	(3,006)	(1,306)
Total personnel expenses	(99,845)	(96,925)

14. Personnel expenses (continued)

As of December 31, 2011 the total number of employees, expressed in full time employee equivalent is 3,783 (December 31, 2010: 3,799)

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 Italiano 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.

The table below analyses the costs and movement in the Bank's liability by type of instruments granted:

	<i>In thousands of BGN</i>			
	Economic value at December 31, 2010	2011 Cost	Settled in 2011	Economic value at December 31, 2011
Stock Options 06 2006	213	-	(213)	-
Stock Options 06 2007	224	37	-	261
Stock Options 06 2008	180	82	-	262
Stock Options 03 2011	-	113	-	113
Total Stock Options	617	232	(213)	636
Performance Shares 06 2007	190	(190)	-	-
Performance Shares 06 2008	-	113	-	113
Performance Shares 03 2011	-	169	-	169
Total Performance Shares	190	92	-	282
Deferred Short Term Incentive (ordinary shares)	-	258	-	258
Total deferred Short Term Incentive (shares)	-	258	-	258
ESOP	15	11	-	26
Total Options and Shares	822	593	(213)	1,202

15. General and administrative expenses

	<i>In thousands of BGN</i>	
	2011	2010
Deposit guarantee fund annual contribution	(28,823)	(27,031)
Advertising, marketing and communication	(6,874)	(6,992)
Credit information and searches	(1,654)	(1,712)
Information, communication and technology expenses	(29,785)	(29,022)
Consulting, audit and other professionals services	(2,469)	(2,224)
Real estate expenses	(13,067)	(13,026)
Rents	(14,320)	(13,466)
Travel expenses and car rentals	(2,360)	(2,386)
Insurance	(1,303)	(1,101)
Supply and miscellaneous services rendered by third parties	(9,118)	(10,652)
Other costs	(4,671)	(4,896)
Total general and administrative expenses	(114,444)	(112,508)

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>	
	2011	2010
Depreciation charge	(33,576)	(33,954)
Impairment due to obsolescence	(1,290)	(2,152)
Decrease in value due to revaluation	-	(271)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(34,866)	(36,377)

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, 2011 and December 31, 2010 the impairment of long-term assets other than real estate properties, is in the amount of BGN 1,290 thousand and BGN 2,152 thousand, respectively.

Bank also performed review of the entire class of real estate properties. For all such properties, where material decline in fair value is observed, the decrease in value due to revaluation in excess of previously recognized revaluation reserve (devaluation) is recognized in profit or loss.

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 anymore likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note 40).

17. Provisions for risk and charges (continued)

	<i>In thousands of BGN</i>	
	2011	2010
Additions of provisions		
Legal cases provisions	(5,046)	(6)
Other provisions	(293)	(254)
	(5,339)	(260)
Reversal of provisions		
Legal cases provisions	405	3,180
Provisions on constructive obligations	508	416
	913	3,596
Net provisions charge	(4,426)	3,336

18. Net Impairment loss on financial assets

	<i>In thousands of BGN</i>	
	2011	2010
Balance 1 January		
Loans and advances to customers	583,316	405,012
Increase		
Loans and advances to customers	281,760	330,533
Loans and advances to banks	21	-
Decrease		
Loans and advances to customers	(140,530)	(144,846)
Recoveries from loans previously written-off	(4,659)	(318)
	(145,189)	(145,164)
Net impairment losses	136,592	185,369
FX revaluation effect on impairment allowances	599	270
Written-off		
Loans and advances to customers	(45,458)	(7,653)
Loans and advances to banks	(21)	-
Balance December 31		
Loans and advances to customers	679,687	583,316

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 2012.

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

	<i>In thousands of BGN</i>	
	2011	2010
Current tax	(26,957)	(18,578)
Deferred tax income (expense) related to origination and reversal of temporary differences	2,184	732
Underprovided prior year income tax	(164)	(173)
Income tax expense	(24,937)	(18,019)

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>	
	2011	2010
Accounting profit before tax	257,795	184,724
Corporate tax at applicable tax rate (10% for 2011 and 2010)	(25,780)	(18,472)
Tax effect of non taxable revenue	1,168	705
Tax effect of non tax deductible expenses	(300)	(245)
Underprovided prior year income tax	(25)	(7)
Income tax expense	(24,937)	(18,019)
Effective tax rate	9.67%	9.75%

20. Cash and balances with Central bank

	<i>In thousands of BGN</i>	
	2011	2010
Cash in hand and in ATM	125,903	101,691
Cash in transit	23,767	28,934
Current account with Central Bank	737,034	744,035
Total cash and balance with Central Bank	886,704	874,660

21. Financial assets held for trading

	<i>In thousands of BGN</i>	
	2011	2010
Government bonds	82,387	63,983
Bonds of credit institutions	45,609	71,125
Corporate bonds	1,178	25,370
Equities	-	1,682
Total financial assets held for trading	129,174	162,160

21. Financial assets held for trading (continued)

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 and December 31, 2010 financial assets held for trading in the amount of BGN 3,748 thousand and BGN 70,355 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).

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 1st, 2008. Additional information on the reclassification is presented in the table below.

	<i>In thousands of BGN</i>	
	2011	Cumulatively since reclassification (July 2008 - December 2011)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,314)	5,848
Net interest income		
Net interest income recognized for the period after reclassification	4,501	16,209
Net interest income after reclassification that should have been recognized had the assets not been reclassified	5,842	20,689

22. Derivatives held for trading

	<i>In thousands of BGN</i>	
	2011	2010
Interest rate swaps	61,589	39,984
Equity options	183	1,828
FX forward contracts	39,781	14,031
FX options	-	1
Other options	22	198
FX swaps	57	72
Commodity swaps	10,392	136
Total trading derivatives	112,024	56,250

Derivatives comprise of trading instruments that have positive market value as of December 31, 2011 and December 31, 2010. 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, 2011 and December 31, 2010 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, 2011 and December 31, 2010 the fair value of hedging derivatives is negative in the amount of BGN 6,027 thousand and BGN 4,527 thousand, respectively.

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

	<i>In thousands of BGN</i>	
	2011	2010
Government bonds	8,363	17,063
Municipality bonds	2,280	2,850
Corporate bonds	69,039	90,632
Total financial assets designated at fair value through profit or loss	79,682	110,545

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, 2011 and December 31, 2010 assets designated at fair value through profit or loss in the amount of BGN 71 thousand and BGN 11,197 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>	
	2011	2010
Loans and advances to banks	1,878,969	1,662,399
Current accounts with banks	14,815	36,344
Restricted accounts in foreign currency	-	471
Total loans and advances to banks	1,893,784	1,699,214

26. Loans and advances to customers

	<i>In thousands of BGN</i>	
	2011	2010
Companies	6,077,332	5,715,281
Individuals		
Housing loans	1,645,838	1,574,778
Consumer loans	775,112	767,404
Central and local governments	55,033	59,253
	8,553,315	8,116,716
Less impairment allowances	(679,687)	(583,316)
Total loans and advances to customers	7,873,628	7,533,400

27. Available for sale investments

	<i>In thousands of BGN</i>	
	2011	2010
Government bonds	355,160	249,613
Municipality bonds	3,982	-
Bonds of credit institutions	12,735	17,293
Equities	12,070	11,826
Total available for sale investments	383,947	278,732

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 can not be reliably measured. As of December 31, 2011 and December 31, 2010 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, 2011 and December 31, 2010 available for sale investments in the amount of BGN 273,050 thousand and BGN 145,007 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>	
	2011	2010
Government bonds	270,216	276,509
Bonds of credit institutions	3,031	14,873
Total held to maturity investments	273,247	291,382

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, 2011 and December 31, 2010.

29. Investments in associates

Company	Activity	Share in capital	Carrying value in thousands of BGN Dec 2011
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	26,883
UniCredit Leasing AD	Leasing activities	24.4%	3,664
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,420
Prelios Bulgaria AD (in liquidation)	Management of real estate portfolio	25.0%	-
		Total	32,967

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

All investments in associates are accounted for in these consolidated financial statements at applying equity method (for more information see note 11).

30. Property, plant, equipment and investment properties

	<i>In thousands of BGN</i>						
	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost or revalued amount							
As of December 31, 2010	7,637	210,395	3,715	78,831	36,115	329	337,022
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)
As of December 31, 2011	6,400	188,814	4,797	83,088	42,872	10,145	336,116
Depreciation							
As of December 31, 2010	-	18,772	1,929	58,590	20,522	57	99,870
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	-
As of December 31, 2011	-	24,472	2,470	58,062	28,567	1,904	115,475
Net book value as of December 31, 2011	6,400	164,342	2,327	25,026	14,305	8,241	220,641
Net book value as of December 31, 2010	7,637	191,623	1,786	20,241	15,593	272	237,152

* The transfers in the amount of BGN 797 represent properties in advance stage of a disposal, classified as non-current assets held for sale.

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

In thousands of BGN

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost or revalued amount							
As of December 31, 2009	7,384	203,752	3,950	75,925	36,706	473	328,190
Reclassification*	(122)	(290)	-	-	-	-	(412)
As of December 31, 2009 after reclassification	7,262	203,462	3,950	75,925	36,706	473	327,778
Additions	-	50	57	2,288	12,699	-	15,094
Transfers	375	8,903	39	4,461	(11,371)	68	2,475
Write offs	-	(1,722)	(331)	(3,331)	(1,715)	-	(7,099)
Disposals	-	(298)	-	(512)	(298)	(212)	(1,320)
As of December 31, 2010	7,637	210,395	3,715	78,831	36,021	329	336,928
Depreciation							
As of December 31, 2009	-	9,627	1,831	51,557	18,091	62	81,168
Depreciation charge	-	9,921	422	9,633	3,542	20	23,538
Impairment due to obsolescence	-	403	7	1,238	762	-	2,410
Write offs	-	(1,722)	(331)	(3,331)	(1,696)	-	(7,080)
On disposals	-	(66)	-	(507)	(287)	(29)	(889)
Transfers	-	609	-	-	16	4	629
As of December 31, 2010	-	18,772	1,929	58,590	20,428	57	99,776
Net book value as of December 31, 2010	7,637	191,623	1,786	20,241	15,593	272	237,152
Net book value as of December 31, 2009	7,384	194,125	2,119	24,368	18,615	411	247,022

* Reclassification of foreclosed properties presented as other assets under IAS 2 "Inventories" (see also Note 3)

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 2011 Management of the Bank assesses the real estate market as relatively stable compared to 2010 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, 2011.

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
In thousands of BGN

Cost	
As of December 31, 2010	77,214
Additions	11,848
Write offs	-
Disposals	-
As of December 31, 2011	89,062
Depreciation	
As of December 31, 2010	46,117
Depreciation charge	11,183
Impairment due to obsolescence	-
Write offs	-
As of December 31, 2011	57,300
Net book value as of December 31, 2011	31,762
Net book value as of December 31, 2010	31,097

31. Intangible assets (continued)
In thousands of BGN

Cost	
As of December 31, 2009	98,711
Additions	6,660
Write offs	(28,157)
Disposals	-
As of December 31, 2010	77,214
Depreciation	
As of December 31, 2009	63,845
Depreciation charge	10,416
Impairment due to obsolescence	13
Write offs	(28,157)
As of December 31, 2010	46,117
Net book value as of December 31, 2010	31,097
Net book value as of December 31, 2009	34,866

32. Current tax

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2011 and December 31, 2010. 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, 2011 Bank reports current tax assets in the amount of BGN 1 thousand and current tax liabilities in the amount of BGN 6,339 thousands. The corresponding amounts as of December 31, 2010 are BGN 3,471 thousands and BGN 80 thousands, respectively.

33. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2011 and December 31, 2010 is as outlined below:

In thousands of BGN

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and intangible assets	(30)	(30)	15,706	17,962	15,676	17,932
Available for sale investments	(1,352)	(1,167)	2,156	1,977	804	810
Provisions	(1,595)	(1,117)	-	-	(1,595)	(1,117)
Cash flow hedge	(445)	(254)	445	254	-	-
Other liabilities	(3,573)	(3,753)	-	-	(3,573)	(3,753)
Net tax (assets) liabilities	(6,995)	(6,321)	18,307	20,193	11,312	13,872

33. Deferred tax (continued)

The movements of deferred tax assets and liabilities on net basis throughout 2011 are as outlined below:

	<i>In thousands of BGN</i>			
	Balance 2010	Recognised in P&L	Recognised in equity	Balance 2011
Property, plant and equipment	17,932	(2,256)	-	15,676
Available for sale investments	810	179	(185)	804
Provisions	(1,117)	(478)	-	(1,595)
Cash flow hedge	-	191	(191)	-
Other liabilities	(3,753)	180	-	(3,573)
Net tax (assets) liabilities	13,872	(2,184)	(376)	11,312

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 breakdowns as of December 31, 2011 and December 31, 2010 are as follows:

	<i>In thousands of BGN</i>	
	2011	2010
Land	650	-
Buildings	147	21
Total non-current assets held for sale	797	21

35. Other assets

	<i>In thousands of BGN</i>	
	2011	2010
Receivables and prepayments	19,336	15,244
Receivables from the State Budget	27	133
Materials, spare parts and consumables	1,521	1,286
Other assets	5,861	5,934
Foreclosed properties	20,914	4,613
Total other assets	47,659	27,210

36. Financial liabilities held for trading

	<i>In thousands of BGN</i>	
	2011	2010
Interest rate swaps	60,571	38,869
FX forward contracts	18,913	21,324
Equity options	182	1,766
Other options	22	198
FX options	-	1
FX swaps	38	29
Commodity swaps	8,660	130
Total trading liabilities	88,386	62,317

37. Deposits from banks

	<i>In thousands of BGN</i>	
	2011	2010
Current accounts and overnight deposits		
Local banks	142,383	238,159
Foreign banks	575,211	665,387
	717,594	903,546
Deposits		
Local banks	130,878	126,254
Foreign banks	1,360,161	1,537,550
	1,491,039	1,663,804
Liabilities under repurchase agreements	-	30,310
Other	12,449	12,511
Total deposits from banks	2,221,082	2,610,171

38. Deposits from customers

	<i>In thousands of BGN</i>	
	2011	2010
Current accounts and overnight deposits		
Individuals	569,632	533,317
Corporate	1,926,831	1,705,376
Budget and State companies	172,144	159,554
	2,668,607	2,398,247
Term deposits		
Individuals	2,521,459	2,337,207
Corporate	1,476,468	1,188,900
Budget and State companies	113,700	160,253
	4,111,627	3,686,360
Saving accounts	471,393	407,670
Transfers in execution process	34,057	42,324
Other	1,420	1,247
Total deposits from customers	7,287,104	6,535,848

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, 2011 and December 31, 2010 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, 2011 the total amount of BGN 216,710 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

Start date	Term to maturity	Amount of the original principal	Outstanding amount as of December 31, 2011
November 26, 2004	10 years	19,558	25,260
December 20, 2004	10 years	19,558	25,292
February 3, 2005	10 years	25,426	32,039
August 2, 2005	10 years	29,337	36,166
November 19, 2008	10 years	97,792	97,953
Total		191,671	216,710

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, 2011 and December 31, 2010 are as follows:

In thousands of BGN

	Letters of guarantee	Legal cases	Retirement benefits	Constructive obligations	Other	Total
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2010	20,305	7,282	3,286	2,963	430	34,266
Allocations	-	5,046	634	-	293	5,973
Releases	-	(405)	-	(508)	-	(913)
Additions due to FX revaluation	9,451	3,317	-	-	-	12,768
Releases due to FX revaluation	(9,086)	(3,190)	-	-	-	(12,276)
Utilization	-	(33)	(270)	(379)	(224)	(906)
Balance as of December 31, 2011	20,670	12,017	3,650	2,076	499	38,912

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, 2011 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 20,670 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, 2011 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 12,017 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 2011 Defined benefit obligation are as follows:

- Discount rate – 5.28%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63, women 60 for 2011 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 2011 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2010	3,286
Current service costs for 2011	347
Interest cost for 2011	224
Amortisation of actuarial (gains) loss	63
Benefits paid	(270)
Recognized defined benefit obligation as of December 31, 2011	3,650
Unrecognized actuarial loss as of December 31, 2011	154
Interest rate Beginning of the year	5.8%
Interest rate End of the year	5.28%
Future increase of salaries	5.0%
Expected 2012 service costs	297
Expected 2012 interest costs	188
Amortization of actuarial loss	-
Expected 2012 benefit payments	608

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, 2011 and December 31, 2010 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. In December 2011 review of the amount of provisions needed was done, and as a result of reduced expectations for the resources needed, the outstanding amount was adjusted by BGN 508 thousand.

(e) Other provision

Other provisions in the amount of BGN 499 thousand (BGN 430 thousand in 2010) relates to coverage of claims related to credit cards business as well as other claims.

41. Other liabilities

	<i>In thousands of BGN</i>	
	2011	2010
Liabilities to the State budget	4,475	4,780
Liabilities to personnel	23,109	20,849
Liabilities for unused paid leave	6,360	6,813
Dividends	414	331
Incentive plan liabilities	1,284	822
Other liabilities	31,731	32,456
Total other liabilities	67,373	66,051

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 2011 and 2010 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. The amount is equal to the compensation the Bank has to pay should the labour contracts with the employees had been terminated as of December 31, 2011 and December 31, 2010, respectively.

As described in note 3 (p) (iii) selected group of Top and Senior Managers are given UniCredito Italiano 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, 2011 share capital comprises of 285,776,647 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

As described in **3 (q) (i)** in 2011 General Meeting of Shareholders of UniCredit Bulbank AD approved capital increase through cash contributions in total amount of BGN 158,744 thousand comprising of 21,865,500 new ordinary shares with issuing price BGN 7.26 each. The capital increase was effectively completed and registered in December 2011.

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 (see **42 a)** above)

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>	
	2011	2010
Letters of credit and letters of guarantee	901,858	729,562
Credit commitments	1,228,916	1,121,434
Total contingent liabilities	2,130,774	1,850,996

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, 2011 and December 31, 2010 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, 2011 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, 2011 are in the amount of BGN 12,017 thousand (BGN 7,282 thousand in 2010).

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, 2011 and December 31, 2010 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

	<i>In thousands of BGN</i>	
	2011	2010
Securities pledged for budget holders' account service	274,647	265,302
Securities pledged on REPO deals	3,748	27,886
Securities pledged on other deals	76,058	69,171
Blocked deposit on other deals	-	471
	354,453	362,830
Pledged securities include		
Assets held for trading	3,748	70,355
Assets designated at fair value through profit or loss	71	11,197
Available for sale assets	273,050	145,007
Assets held to maturity	77,584	107,914
	354,453	334,473

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. 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, 2011 and Income statement items for the year ended thereafter are as follows:

<i>In thousands of BGN</i>		
	Assets	Liabilities
Financial assets held for trading	38,272	
Available for sale investments	2,781	
Current accounts and deposits placed	1,823,039	
Extended loans	87,569	
Other assets	6,058	
Financial liabilities held for trading		73,325
Derivatives used for hedging		5,940
Current accounts and deposits taken		1,927,794
Subordinated loans		216,710
Other liabilities		1,771
Total	1,957,719	2,225,540
Guarantees received by the Group	99,611	

<i>In thousands of BGN</i>	
	Income (Expense)
Interest incomes	13,695
Interest expenses	(63,609)
Fee and commissions income	4,445
Fee and commissions expenses	(191)
Administrative and personnel expenses	(7,440)
Other operating income	13
	(53,087)

As of December 31, 2011 the loans extended to key management personnel amount to BGN 1,888 thousand. For the twelve months ended December 31, 2011 the compensation paid to key management personnel amounts to BGN 3,771 thousand.

46. Cash and cash equivalents

<i>In thousands of BGN</i>		
	2011	2010
Cash in hand and in ATM	125,903	101,691
Cash in transit	23,767	28,934
Current account with the Central Bank	737,034	744,035
Current accounts with banks	14,846	36,344
Receivables under repurchase agreements	-	84,038
Placements with banks with original maturity less than 3 months	671,932	1,578,136
Total cash and cash equivalents	1,573,482	2,573,178

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 and finance lease agreements to support its daily activity. Under financial lease contracts, Bank acts only as a lessee for acquiring cars and equipment. Under operational lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars.

(a) Financial lease contracts where the Bank acts as a lessee

Residual maturity	<i>In thousands of BGN</i>			
	Total future minimum lease payment		NPV of total future minimum lease payment	
	2011	2010	2011	2010
Up to one year	593	598	525	553
Between one and five years	1,002	741	895	693
Total	1,595	1,339	1,420	1,246

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

Residual maturity	<i>In thousands of BGN</i>	
	Total future minimum lease payment	
	2011	2010
Up to one year	11,565	12,307
Between one and five years	24,877	30,048
Beyond five years	7,127	6,718
Total	43,569	49,073

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

Residual maturity	<i>In thousands of BGN</i>	
	Total future minimum lease payment	
	2011	2010
Up to one year	412	290
Between one and five years	614	274
Beyond five years	53	-
Total	1,079	564

48. Group entities

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2011 and December 31, 2010 the ultimate parent company is UniCredito Italiano S.p.A.