One Bank One UniCredit Bulbank

2017

Consolidated Reports and Accounts

Banking that matters. UniCredit Bulbank

Banking that matters. | UniCredit Bulbank

One Bank, One UniCredit Bulbank.

We are a simple, successful Pan European Commercial Bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to our extensive franchise of 25 million clients.
Our strategy is long-term. We are transforming the Group through decisive actions to lay the groundwork for the future, changing the way we work to anticipate our clients' medium-term evolution. Everything we do is designed to make UniCredit a true Pan European Winner.

Contents

Financial Highlights (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2017	2016	CHANGE
Net interest income	435 950	446 682	-2.4%
Net fee and commission income	216 758	200 573	8.1%
Net income from trading and hedging derivatives, investments and dividends	98 765	113 447	-12.9%
Other operating income/expenses, net	-53 299	-46 265	15.2%
Operating income	698 174	714 437	-2.3%
Operating expenses	-244 517	-246 314	-0.7%
Gross operating profit	453 657	468 123	-3.1%
Impairment losses on financial assets	-150 241	-139 249	7.9%
Provisions for risk and charges	14 010	-6 491	-315.8%
Income from PPE	13 650	2 285	497.4%
Profit before tax	331 076	324 668	2.0%
Net profit	297 653	291 438	2.1%

Volume Figures

	YEAR 2017	2016	CHANGE
Total assets (eop)	19 096 088	18 625 832	2.5%
Net customer loans (eop)	9 436 559	9 070 237	4.0%
Customer deposits (eop)	15 520 709	14 893 732	4.2%
Shareholders' equity (eop)	2 853 255	2 709 842	5.3%
RWA (eop)	9 162 205	8 528 002	7.4%

Key Performance Indicators (%)

	YEAR 2017	2016	CHANGE
Return on average assets (ROA)	1.58	1.62	-0.04pp
Return on average equity (ROE)	10.7	11.2	-0.5pp
Cost/Income ratio	35.0	34.5	0.5pp
Net profit margin	42.6	40.8	1.8pp
Capital/Asset ratio (eop)	14.9	14.5	0.4pp
Total capital adequacy ratio (eop)	27.3	27.6	-0.3pp
Tier 1 capital ratio (eop)	26.9	27.5	-0.6pp
CET 1 capital ratio (eop)	26.9	27.5	-0.6pp
Risk weighted assets/Total assets ratio (eop)	48.0	45.8	2.2pp
Non-performing loans/Gross loans	8.9	14.0	-5.1pp
Net Loan/Deposit ratio	60.8	60.9	-0.1pp

Resources (number) - (eop)

	YEAR 2017	2016	CHANGE
Employees	3 559	3 560	-1
Branches	168	170	-2

Financial Highlights (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2017	2016	CHANGE
Net interest income	593 045	582 351	1.8%
Net fee and commission income	229 767	210 207	9.3%
Net income from trading and hedging derivatives, investments and dividends	98 717	113 488	-13.0%
Other operating income/expenses, net	- 53 354	- 48 360	10.3%
Operating income	868 175	857 686	1.2%
Operating expenses	- 274 344	- 274 564	-0.1%
Gross operating profit	593 831	583 122	1.8%
Impairment losses on financial assets	- 142 813	- 197 776	-27.8%
Provisions for risk and charges	- 6 026	14 359	-142.0%
Income from PPE	13 721	2 462	457.3%
Profit before tax	458 713	402 167	14.1%
Net profit	412 242	361 345	14.1%

Volume Figures

	YEAR 2017	2016	CHANGE
Total assets (eop)	20 260 347	20 386 681	-0.6%
Net customer loans (eop)	10 629 087	10 872 961	-2.2%
Customer deposits (eop)	15 512 999	14 838 200	4.5%
Shareholders' equity (eop)	3 199 746	2 941 748	8.8%
RWA (eop)	9 986 483	10 013 749	-0.3%

Key Performance Indicators (%)

	YEAR 2017	2016	CHANGE
Return on average assets (ROA)	2.0	1.8	0.2pp
Return on average equity (ROE)	13.4	12.9	0.5pp
Cost/Income ratio	31.6	32.0	-0.4pp
Net profit margin	47.5	42.1	5.4pp
Capital/Asset ratio (eop)	15.8	14.4	1.4pp
Total capital adequacy ratio (eop)	27.3	25.1	2.2pp
Tier 1 capital ratio (eop)	26.9	25.0	2.0pp
CET 1 capital ratio (eop)	26.9	25.0	2.0pp
Risk weighted assets/Total assets ratio (eop)	49.3	49.1	0.2pp
Non-performing loans/Gross loans	8.7	13.0	-4.3pp
Net Loan/Deposit ratio	68.5	73.3	-4.8pp

Resources (number) - (eop)

	YEAR 2017	2016	CHANGE
Employees	4 147	4 149	-2
Branches	177	179	-2

Chairman's message

> "For UniCredit Bulbank in particular, 2017 was yet another year of strengthening it's indisputable leadership position in the Bulgarian banking market in terms of size and performance."
>
> **Levon Hampartzoumian**
> Chairman of the Management Board and CEO

Dear Shareholders,

For the Bulgarian economy, 2017 was recognized as the best year since pre-crisis times **announcing sustainable GDP growth** of 4% yoy. The main drivers supporting the growth were the exports and private consumption. The strong recovery in labor market continued in 2017 with unemployment rate falling further down to 6.2%, which is the second lowest level since the start of the transition to market economy. Although at a slower pace, the private investments also showed first signs of recovery, posting an increase of 2.7% yoy.

In the banking sector, thanks to favorable conditions in the economy, the lending demand increased and helped loan growth accelerate to 4.7% yoy. The non-performing exposures continued to decline and reached 14.8% from gross loans. Deposit expansion recorded almost the same growth (6.6% yoy) when compared to 2016 (6.5% yoy) supported by another uptick in gross saving rate to 24.9% relative share to GDP. In terms of financial performance, banking sector was affected by shrinking interest spreads and despite the decline in loan loss provisions Net Profit marked slight decline compared to 2016.

For UniCredit Bulbank in particular, 2017 was yet another year of **strengthening it's indisputable leadership position** in the Bulgarian banking market in terms of size and performance.

The Bank's total assets grew by 2.5% yoy, to BGN 19.1 bln at the end of 2017 accounting for 19.5% from the assets of the Bulgarian banking system. **On the Lending market**, UniCredit Bulbank preserved its leadership position with a market share of 18.4% (19.5% if including the business generated through the bank's consumer lending subsidiary) thanks to its outstanding reputation, strong business model and customer centric approach oriented to long-term relations. Furthermore, the Bank remained a major partner of households and companies and continued to support the development of the real economy in Bulgaria. **On the Deposits market**, UniCredit Bulbank clearly established itself as the most trusted bank with market share of 19.9%.

The bank's **strong liquidity position** was further improved and the net loans-to-deposits ratio reached 65.3%. **Capitalization** was confirmed at the **very solid levels** well above the regulatory minimums: CET 1 ratio reached 26.9% and was very close to the total capital adequacy ratio of 27.3%, thus proving the **high quality of the capital instruments** – i.e. mainly CET 1 eligible ones.

The Bank achieved **BGN 698.2 mln in Revenues**, thus improving its market share to 21.2%. Targeting an increase in the value proposition of our customers, the bank focused on business re-design which resulted in further transformation of the revenues structure. **Net Fee and Commission income** continued to be the key growth driver increasing by 8.1% yoy, thanks to the strong positioning in traditional fee-generating banking services combined with focus on their digitalization. **Trading revenues** also marked an increase of 5.8% yoy, mainly thanks to strong markets and investment banking services to our core customers, fully plugged into the commercial banking. All these helped to offset 2.4% drop in Net interest income (as a result of shrinking loan-to-depo interest rate spread and decreasing yield of fixed income portfolio). **Operating expenses** (BGN -244.5 mln) remained almost flat yoy (-0.7%) despite the investments in strategic business and operational projects. Aiming at increased coverage of NPE exposures, **loan loss impairment charges** increased by 7.9% yoy and reached BGN 150.2 mln. As a result of the above developments, **Net profit after tax reached BGN 297.7 mln (+2.1% yoy), which representing more than 25% from the Net profit of the Bulgarian banking system**. Profitability generation capacity remained above the one of the market average with Return on Equity of 10.7% compared to 9.5% for the market.

In 2017 one of the greatest achievements was the **remarkable improvement in asset quality of UniCredit Bulbank's portfolio.** Thanks to dedicated focused actions NPE ratio declined by the impressive 511 bps yoy, to single-digit level of 8.9%, while at the same time the NPE coverage increased by 995 bps to a comfortable level of 68.2%.

In 2017 the **strategic orientation** of UniCredit Bulbank remained to further strengthen the leadership position and to create value for all its stakeholders. It is supported by various transformation initiatives under the umbrella of Group Transform 2019 Plan mainly in the area of maximizing the commercial banking value. In UniCredit Bulbank, the main transformational pillars are fully in line with UniCredit CEE strategy: combining the innovations and risk discipline, keeping the customer first in everything we do, striving for efficiency, sharing and replicating the best practices within UniCredit Group.

Digitalization is one of the major pillars of our strategy. Digital solutions and innovative systems were implemented across all business lines. Mobile token **(mToken)** was implemented in 2017 as an alternative solution for authorization and confirmation of e-payments. **Mobile baking was enriched with new features**, like card management, budget payments, utility payments, remote activation through call center, etc. As a result, the active mobile users increased exponentially by 116% yoy. Besides mobile banking, online banking also remained in focus. **Trade finance module** in online banking was very actively used by the corporate customers in 2107. The web-based **"eFactoring.bg" application was further enhanced** assuring full automation of the factoring product cycle.

The evolution of the digital service model and platforms was supported by the respective **ICT investments** in service oriented architecture, core system upgrade and OMNI channel concept.

UniCredit Bulbank **puts the customer in the centre of all activities** delivering relevant solution to their real needs and wants. In **Retail banking**, the main focus remained sustainable business growth through improving customer satisfaction and strengthening the position of preferred client's partner. As a part of the overall approach for customer experience improvement, Customer Experience Governance model continued to be developed, pursuing to enhance the service quality level. In addition, the improvement in several main processes, like POS lending, fast track for micro-lending and servicing SME accounts, ensured high level of efficiency as well as increased satisfaction of customers. In **Corporate Banking**, in order to provide deeper understanding of clients' behaviour a new digital application for Big Data analysis was implemented, providing in-debt analysis of complex business trends, proposing business opportunities and building up long-term relationships. International Customers continued to be in the focus leveraging on the full potential of UniCredit Group unique geographical footprint in order to foster acquisition, reduce attrition and achieve better understanding of customers' profile and needs. In **Private banking**, the Need based advisory concept, was reinforced by some new functionalities like Unique tool and iLibrary. Private banking product offer was diversified by new investment products aiming to cover specific financial needs of the customers.

Concentrating on the development of its **corporate social responsibility program**, during the year the Bank kept the strong focus on already defined key priority areas of education, development of innovations and social entrepreneurship. UniCredit Bulbank supported numerous initiatives of NGOs, institutions, organizations, universities, schools as well as individual causes. As a leader in terms of innovations and digitalization, the Bank became a natural partner of the most respected **forums in the country dedicated to the development of technologies**. In 2017 UniCredit Bulbank proved its position as a valued partner by organizing many of **high profile initiatives and conferences** of the business chambers in Bulgaria and actively participate in **social and charity events**, gathering the business, political and diplomatic elite of the country. In addition, the **national volunteering network** developed numerous projects around the country, involving colleagues and partners.

Thanks to the strong brand of UniCredit, the good image of a stable and reliable organization and the extensive participation in different career events, UniCredit Bulbank continued to be considered as a **stable and reliable employe**r and an excellent place for career development.

UniCredit people are our main competitive advantage. While supporting a **well-balanced work life**, we want to create the conditions to allow our people to contribute, grow and learn. We strongly believe that our continuous investment in **people development** will make the difference.

UniCredit Bulbank remains firmly grounded on UniCredit Group values and principles. We enter 2018 as **a robust institution, well positioned for further growth**, **with outstanding reputation and capable to deliver value-added solutions to customers and society**. I would like to thank our shareholders for their strong support and commitment and our clients for their trust. Also, I would like to express my gratitude to the management team and all our employees for their hard work and dedication.

Levon Hampartzoumian
Chairman

Supervisory Board and Management Board[1]

	Supervisory Board (SB)
Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Silvano Silvestri Ivan Vlaho Luca Rubaga	**Members**
	Management Board (MB)
Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Enrico Minniti	**Deputy Chairman and General Manager**
Jasna Mandac Antoaneta Curteanu Tsvetanka Mincheva Teodora Petkova	**Members**

- As of 19 June 2017 Csilla Ihasz and Gerhard Deschkan were released as SB members.
- As of 19 June 2017 Ivan Vlaho and Luca Rubaga were appointed as SB members.

- As of 1 November 2017 Jasna Mandac was appointed as MB member.
- As of 19 September 2017 Emilia Palibachiyska was released as MB member.
- As of 29 December 2017 Luboslava Uram was released as MB member.

[1] As of December 31st, 2017

ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW
(1 Jan. 2017 – 31 Dec. 2017)

Members of the Supervisory Board

Robert Zadrazil
- SCHOELLERBANK AG – Chairman of SB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – Member of SB
- UNICREDIT BANK AUSTRIA AG – Chairman of MB and CEO
- UNICREDIT BUSINESS INTEGRATED SOLUTIONS AUSTRIA GMBH – Chairman of SB
- UNICREDIT BUSINESS INTEGRATED SOLUTIONS SOCIETA CONSORTILE PER AZIONI – Member of the Board of Directors, until March 2017
- CARD COMPLETE SERVICE BANK AG – Chairman of SB
- UNICREDIT SpA – Member of the Executive Management Committee and representative in the Permanent Establishment in Vienna

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

Heinz Meidlinger
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – Deputy Chairman of SB
- UNICREDIT BANK S.A. – Deputy Chairman of SB, until March 2017
- MEIDLINGER INVESTMENT&CONSULTING GMBH – 99% ownership and managing partner
- WIENER PRIVATRBANK SE, WIEN – Member of SB

Dimitar Zhelev
- STADIS AD – Member of the Board of Directors (BD), majority control through BULLS AD
- DZH AD – Member of BD, 50% ownership
- ALLIANZ BULGARIA HOLDING AD – Chairman of BD and executive director, 34% ownership through STADIS AD and BULLS AD
- BULLS AD – Member of BD, 51% ownership (49% owned by INSURANCE AND SHIPPING FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA – 49.5% ownership through both BULLS AD and DZH AD
- ALLIANZ BANK BULGARIA AD – Chairman of SB

Silvano Silvestri
- UNICREDIT BANK HUNGARY ZRT. – Deputy Chairman of SB
- UNICREDIT GLOBAL LEASING EXPORT GMBH – Deputy Chairman of SB
- BARN BV – MEMBER OF BOARD OF DIRECTORS
- RN BANK – Member of SB
- UNICREDIT BANK SERBIA JSC – Member of SB

Luca Rubaga
- UNICREDIT BANK SERBIA JSC - Member of SB
- UNICREDIT BANK S.A. – Member of SB
- UNICREDIT BUSINESS INTEGRATED SOLUTIONS AUSTRIA GMBH - Procurator

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

Csilla Ihasz – released as of 19 June 2017
- UNICREDIT BANK SERBIA JSC - Chairperson of the MB and CEO
- UNICREDIT BANK HUNGARY ZRT. – Member of SB until 22 February 2017

Gerhard Deschkan – released as of 19 June 2017
- UNICREDIT BANK HUNGARY ZRT. – Member of SB until 19 February 2017

Members of the Management Board

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

Enrico Minniti
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB
- UNICREDIT BANK HUNGARY ZRT. - Member of SB, until 15 February 2017
- AO UNICREDIT Bank - Member of SB, until 17 April 2017

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

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

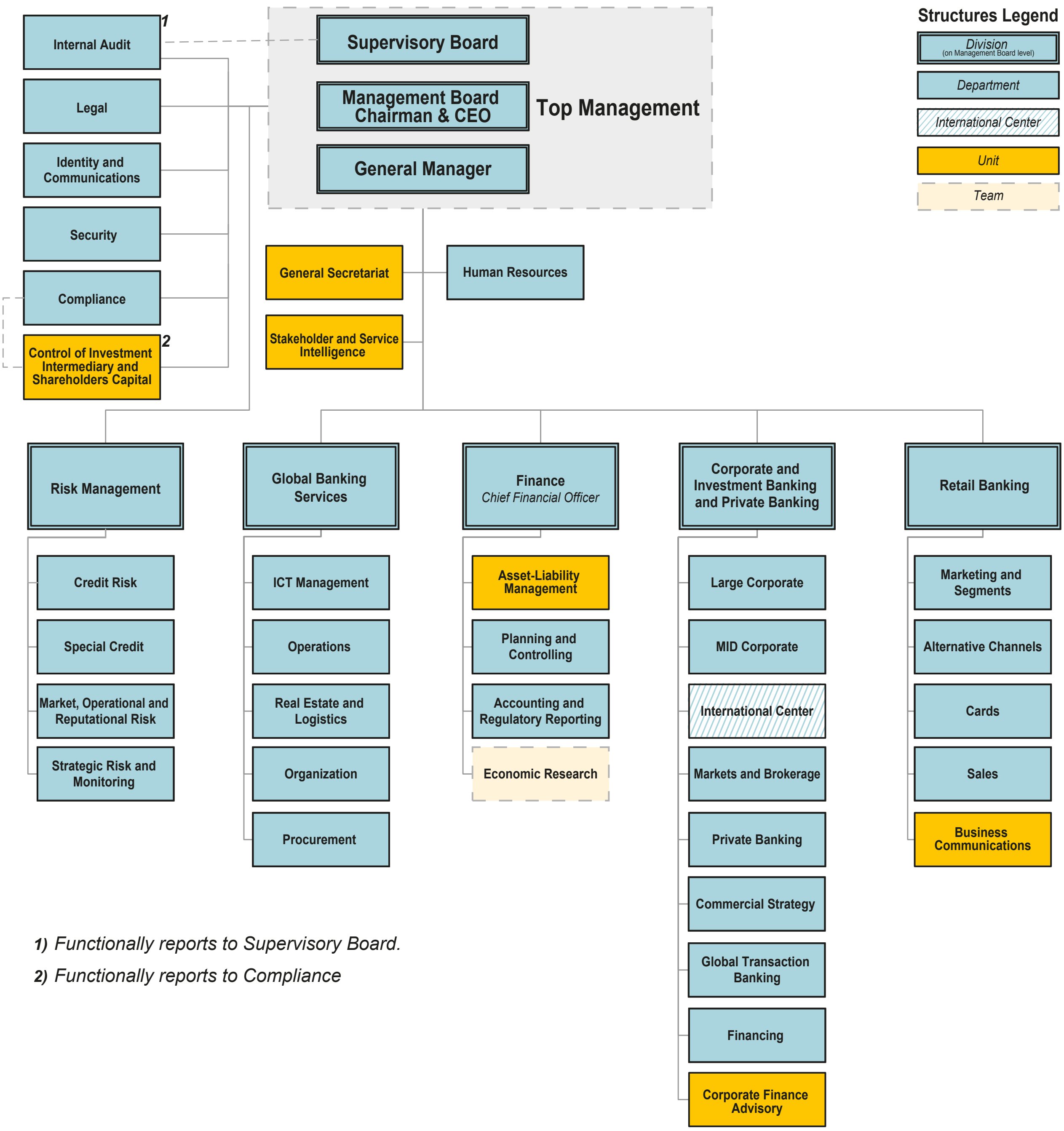
Tsvetanka Mincheva
- UNICREDIT CONSUMER FINANCING EAD – Member of MB
- CASH SERVICE COMPANY AD – Member of BD

Teodora Petkova
- UNICREDIT CONSUMER FINANCING EAD – Member of SB

Emilia Palibachiyska – released as of 19 September 2017
- UNICREDIT CONSUMER FINANCING EAD - Members of SB, until 28 September 2017
- UNICREDIT LEASING EAD - Member of SB, until 28 September 2017

Luboslava Uram – released as of 29 December 2017
- Does not participate in the management of any other entities

Organisation Chart[1]



1) *Functionally reports to Supervisory Board.*
2) *Functionally reports to Compliance*

[1] As of December 31, 2017

Credit rating

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

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

2017 AWARDS

- Best Bank in Bulgaria for 2017 – Global Finance magazine
- Best Trade Finance Bank in Bulgaria – Euromoney magazine
- Best Bank in Bulgaria – EMEA Finance magazine
- Best Investment Bank in Bulgaria – EMEA Finance magazine
- Best Custodian Bank in Bulgaria – Global Finance Magazine
- Best Cash Manager in Bulgaria – Euromoney Cash Management Survey
- Certified as a Top Employer – Top Employers Institute (Amsterdam)
- Primary dealer of securities that has purchased the largest number of securities in the primary market in 2017 – Ministry of Finance
- Primary dealer of securities that has purchased the largest number of securities in the primary market 2017 for its own account – Ministry of Finance
- Superbrand on the Bulgarian market – Global Programme Superbrands
- Video ‘The Intern’ is the best Employer Branding Video – B2B Media’s annual Employer Branding Awards
- The Finance for Non-Financiers National Programme of UniCredit Bulbank was awarded in Knowledge Investor category – Bulgarian Forum of Business Leaders.

Highlights

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 25 million clients.
UniCredit offers local expertise as well as an international one reaching and supporting its clients globally, providing them with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[1]

Operating income
€ 19,619 m

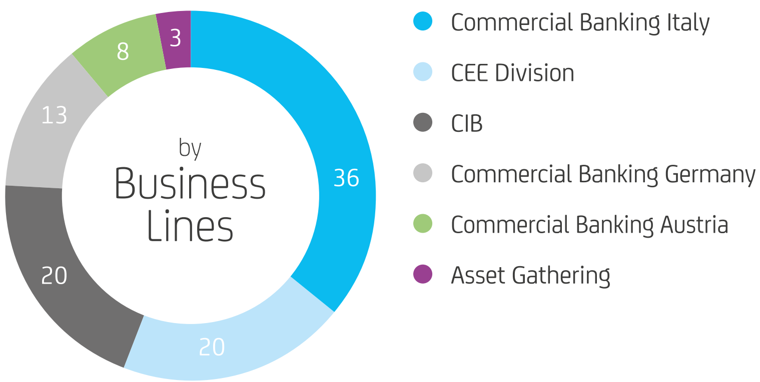
Net profit (loss)
€ 5,473 m

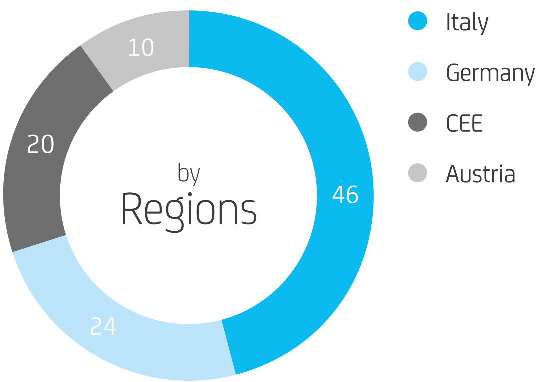
Shareholders' equity
€ 59,331 m

Total assets
€ 836,790 m

Common Equity Tier 1 ratio*
13.60%

Revenues[1] (%)

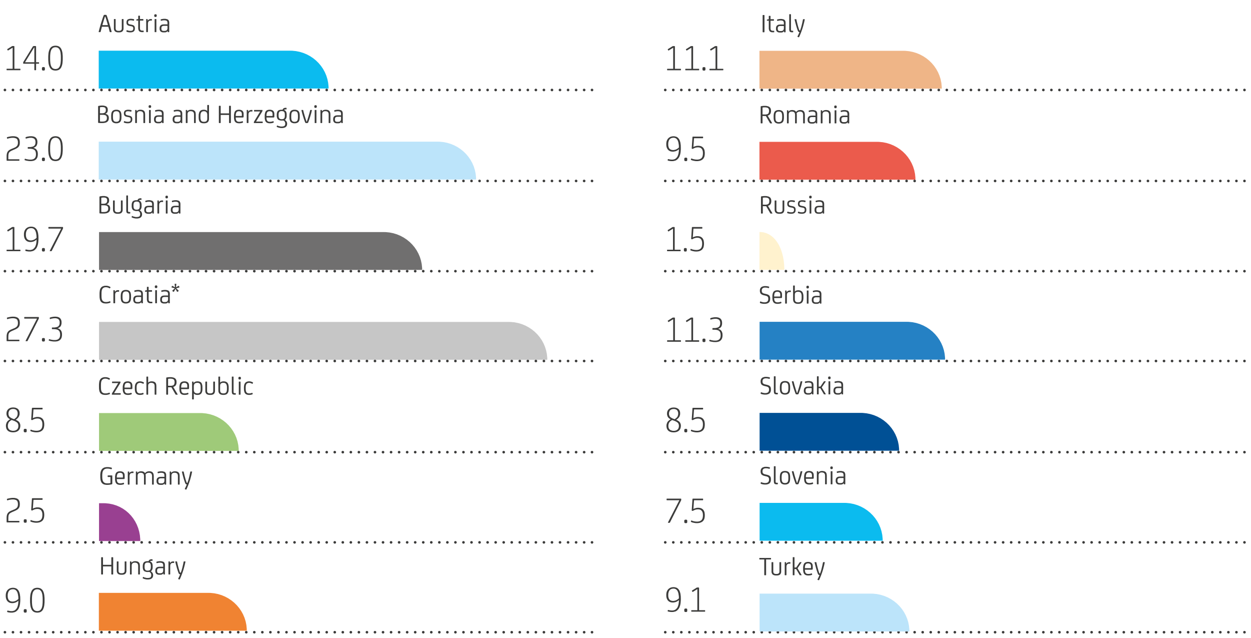




1. Data as at December 31, 2017. In accordance with IFRS5, the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies till the date of the deconsolidation, were recognized in Income Statement under item "Profit (loss) after tax from discontinued operation".
Disposals were finalized during 2017.
* Fully loaded CET1 ratio.

UniCredit European Banking Network

Market Shares[2] (%)



2. Market Shares in terms of Total Loans as at November 2017.
* data as at October 2017.
Source Company data, National Central Banks.

Transform 2019 Milestones

Transform 2019 - our strategic plan - is yielding tangible results.

Our strategy is to be One Bank, One UniCredit: a simple, successful, Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

2016 CAPITAL MARKETS DAY

Strengthen and Optimise Capital — **02.03**

CAPITAL INCREASE

Successful **€13bn capital increase**

Strengthen and Optimise Capital — **07.06**

STRENGTHEN CAPITAL

Disposal of 32.8% stake in **Bank Pekao**

Transform Operating Model — **01.07**

UBIS REORGANISATION

UBIS reorganisation brings improved accountability and simplified processes to further improve customer experience

Strengthen and Optimise Capital — **03.07**

STRENGTHEN CAPITAL

Disposal of **Pioneer Investments** to Amundi

Improve Asset Quality — **17.07**

FINO PHASE 1 SUCCESSFULLY CLOSED

FINO Phase 1 definitive agreements signed with Pimco and Fortress for the sale of €17.7bn portfolio

Improve Asset Quality — **21.09**

STRENGTHEN RISK CONTROLS

New Risk Management structure in place to further strengthen the effectiveness of risk controls

Adopt Lean but Steering Corporate Center — **04.12**

CORPORATE GOVERNANCE SIMPLIFICATION

Strengthened corporate governance and simplified share capital structure to position UniCredit as best in class in terms of European **corporate governance**

2017 CAPITAL MARKETS DAY

Improve Asset Quality

The banking industry is evolving but our core business will always be to support client growth with a unique proposition linked to credit. It is our responsibility to provide advice and support so that companies can develop and globalise - while ensuring sustainable growth. This also means looking beyond purely economic returns, to drive investments with a positive impact on society.

In UniCredit, **"Improve Asset Quality"** is a key pillar of our strategic plan.
- We are focused on the proactive de-risking of our balance sheet
- A strong risk discipline safeguards the quality of future origination
- A new risk management structure further strengthens the effectiveness of our risk controls.

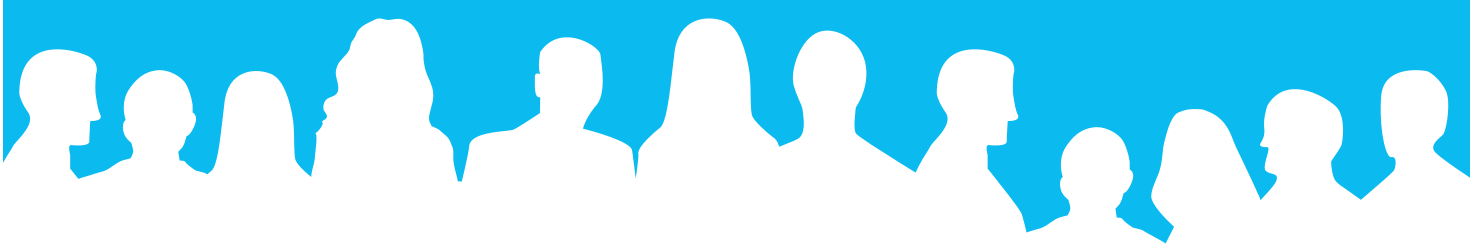
Key Asset Quality Metrics

	2016	2017	2019
Coverage ratio	55.6%	56.2%	>54%
Group Gross NPEs ratio	11.8%	10.2%	7.8%
FINO* portfolio disposal	FINO Phase 1 signed in December 2016	FINO Phase 1 concluded with **€ 17.7bn**	FINO Phase 2 signed to sell down below **20%**

* FINO stands for: Failure Is Not an Option.

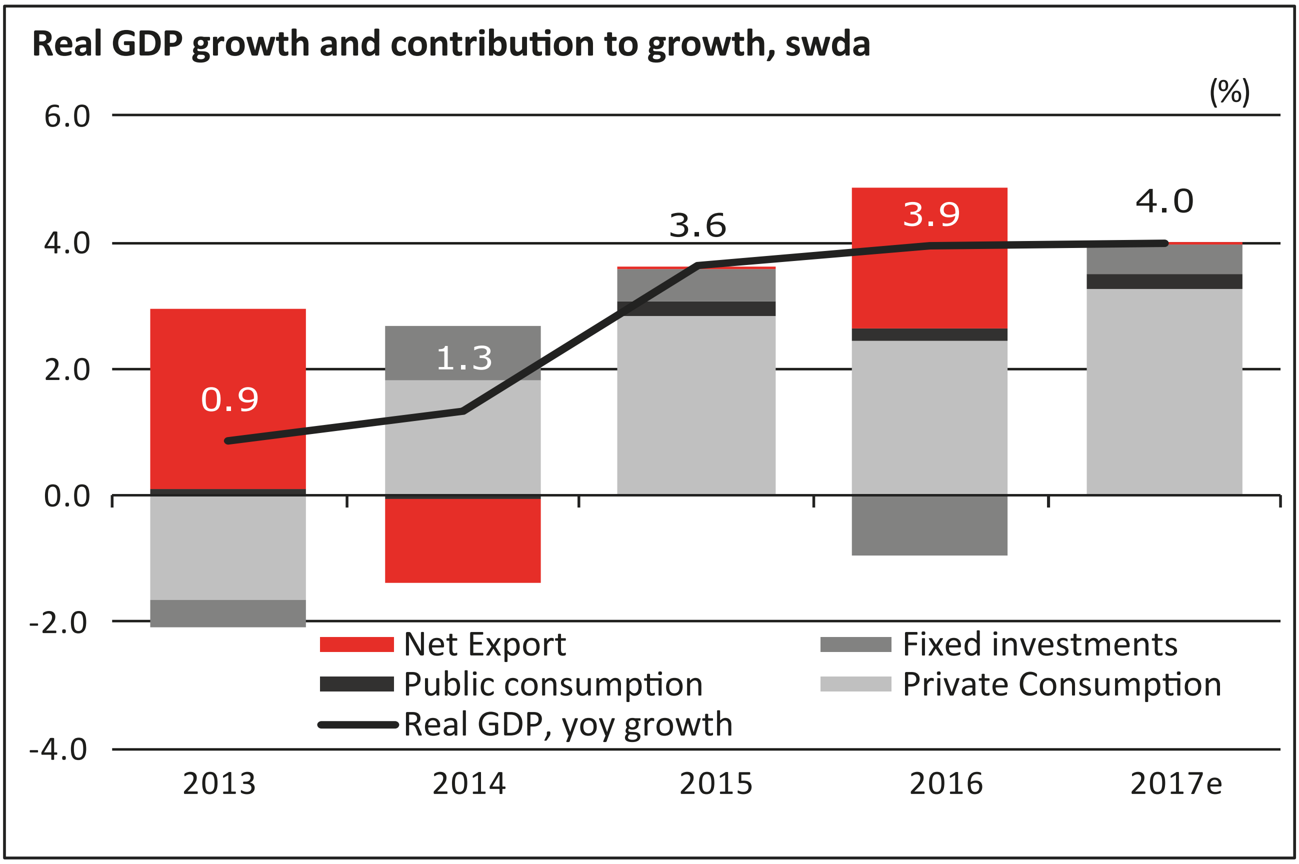
Banking that matters.

UniCredit Bulbank



In this era of unprecedented change customers are looking for companies they can trust and that can play a tangible positive role in their everyday lives. UniCredit has a simple and successful Pan European Commercial banking model delivering relevant solutions to the real needs and wants of today’s customers.

Bulgarian Economy in 2017[1]

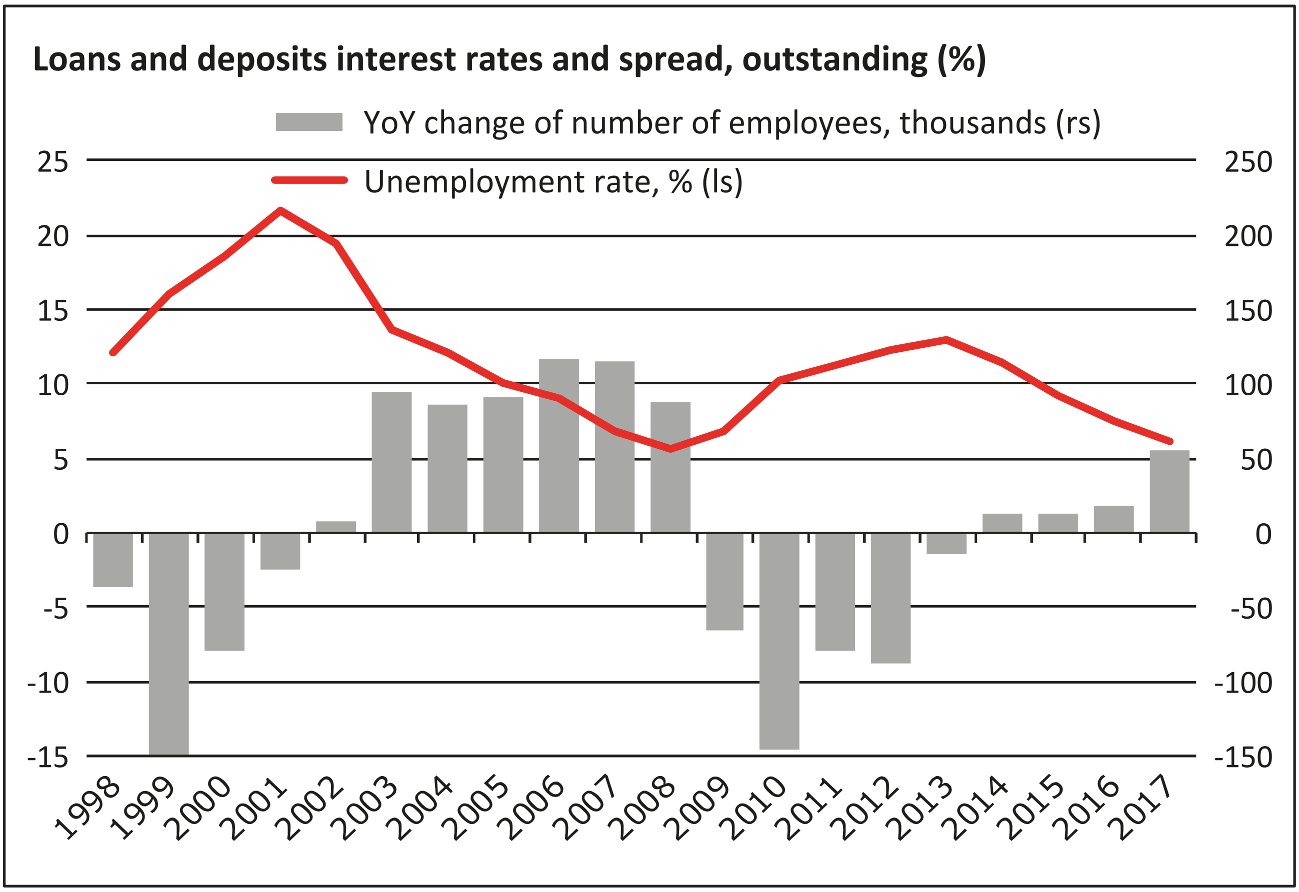


Source: National Statistica lInstitute, UniCredit Bulbank

2017 was the best year for the economy since 2008. The recovery in economic activity gained momentum with real **GDP growth stabilizing at around 4% yoy** on average for a second consecutive year. GDP growth mostly relied on very strong export performance and buoyant individual consumption. Though to a smaller degree, economic expansion last year also drew support from fixed investments, as residential construction continued to rise at a very solid pace, while at the same time investments in machinery and equipment in the sectors producing spare parts for the automotive industry and in some other export oriented industries also increased.

Growth could have been even stronger if it was not for the significant delay in implementation of EU funded project from the new planning period. The latter mostly reflected the numerous appeals at local courts and antitrust authorities of many already awarded construction contracts, when the snap elections were called at the end of 2016. Although most of the appeals were quickly resolved by the courts and underlying construction projects were restarted in response, the accumulated delays nevertheless weighed down on the volume of public infrastructure spending last year, which eventually turned out very close to the already very depressed levels posted for the whole 2016. Average **unemployment rate** went down to anticipated 6.2% in 2017, which if reconfirmed later this year would be the second lowest level reported since the start of transition in 1989. The broadest employment indicator, the number of employed from the National Account data, is expected to have increased by more than 50K last year, which is a remarkable achievement for an economy where people at working age have been decreasing by more than 60K on average over the past five years. Opposite to the pre-crises period approximately a decade ago, when employment gains were mostly driven by low-paid jobs in sectors benefiting from the construction boom, today large part of the new jobs are created in some of the sectors with the highest average wages, such as IT and BPO. Given all these very positive labor market developments, we expect the economy to reach full employment either in the end of 2018 or perhaps in early 2019.

[1] Data cut-off as of November 2017



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

Strong growth in **goods and services export volumes** made possible trade balance to end with a surplus for a third consecutive year. This was the main factor underpinning the estimated 4.9% of GDP surplus on the C/A, which once again reconfirmed that the economy remains price competitive. This very constructive picture was further supported by a sharply decreasing foreign debt, which is likely to have declined to 64% of GDP in 2017, from 70.7% in 2016. Importantly, this helped the net international investment position (the balance between international investment assets and liabilities) to improve to a level below the -35% of GDP threshold set in the EC macroeconomic imbalances procedure either in the end of 2017 or in 2018, after peaking at -92% of GDP in 2010.

Headline inflation (calculated in accordance with the national methodology) rose to 2.1% on average last year, after three consecutive years of negative yoy dynamic. Higher consumer price inflation last year was above all attributable to one-off increases in both energy and food prices, while, at the same time, core prices remained negative for a fourth year in a row (-0.3% on average), reconfirming our long held view that the economy is likely to need more time before reaching full employment.

Meanwhile, **fiscal policy** remained very conservative, with budget ending the year with a cash surplus equivalent to 0.8% of the country's GDP. This pushed basic interest rate further downward, but perhaps more importantly it helped keep fiscal and FX reserves at very comfortable levels, suggesting that the country has significant buffers to mitigate new shocks to the economy, if such are to materialize in the years to come. All these very positive developments have not gone unnoticed by the credit rating agencies - two of which made one notch rating upgrades in December 2017.

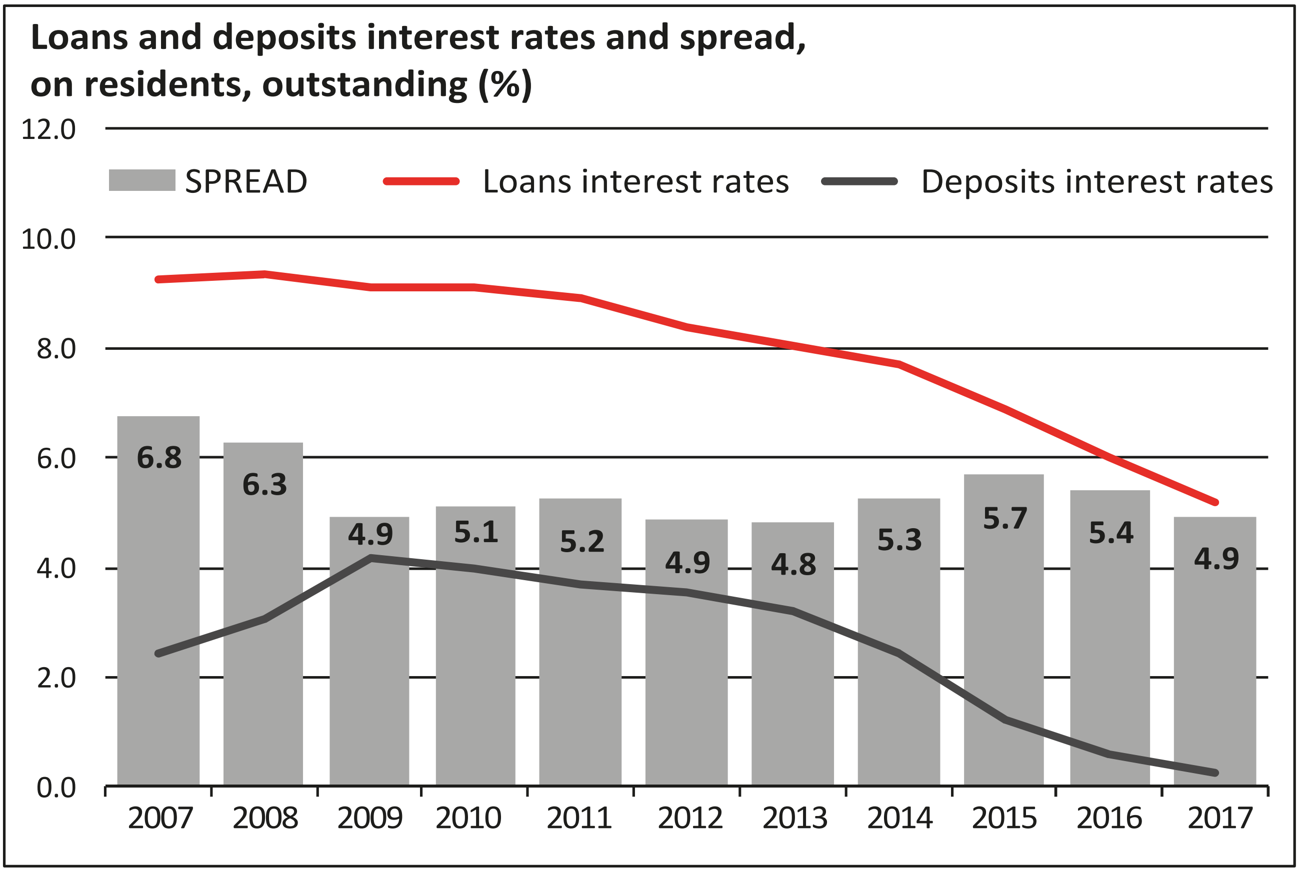
MACROECONOMIC INDICATORS	2017	2016	2015	2014	2013	CHANGE 2017/2016
Nominal GDP[1] (BGN million)	99 782	94 130	88 571	83 634	82 166	6.0%
GDP per capita[1] (BGN)	14 124	13 254	12 381	11 612	11 340	6.6%
Real GDP growth[1], swda (%)	4.0	3.9	3.6	1.3	0.9	+0.1 pp
Basic Interest Rate, avg (%)	-0.29	-0.16	0.01	0.03	0.02	-0.13 pp
Inflation, eop (%)	2.8	0.1	-0.4	-0.9	-1.6	+2.7 pp
Inflation, avg (%)	2.1	-0.8	-0.1	-1.4	0.9	+2.9 pp
Unemployment rate[2], SA, eop (%)	6.2	6.8	8.0	10.8	12.8	-0.6 pp
Official exchange rate, eop (BGN/USD)	1.63	1.86	1.79	1.61	1.42	-12.1%
Official exchange rate, avg (BGN/USD)	1.74	1.77	1.76	1.47	1.47	-1.8%
Current account balance[2] (BGN millions)	4 935	5 010	-33	69	1 048	-11.0%
Current account balance[2] / GDP[1] (%)	4.9	5.3	0.0	0.1	1.3	-0.9 pp
Net foreign direct investments[2] (BGN millions)	1 211	665	4 554	1 724	2 431	-12.6%
Net foreign direct investments[2] / GDP[1] (%)	1.2	0.7	5.1	2.1	3.0	-0.3 pp
Gross foreign debt[2], eop (BGN millions)	63 347	66 589	65 163	76 939	72 240	-3.3%
Gross foreign debt[2] / GDP[1] (%)	63.5	70.7	73.6	92.0	87.9	-7.2 pp
Public debt[2], eop (BGN millions)	24 750	26 954	22 714	22 102	14 118	-4.2%
Public debt[2] / GDP[1] (%)	24.8	28.6	25.6	26.4	17.2	-4.35 pp
BNB FX reserves (BGN millions)	46 279	46 742	39 675	32 338	28 215	-1.0%
Budget balance / GDP[1] (%)	0.8	1.6	-2.8	-3.6	-1.8	-0.8 pp
Acting commercial banks at the end of the period	27	27	28	28	30	0

Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] UniCredit Bulbank forecast for 2017
[2] Data as of November 2017

Banking Sector Overview

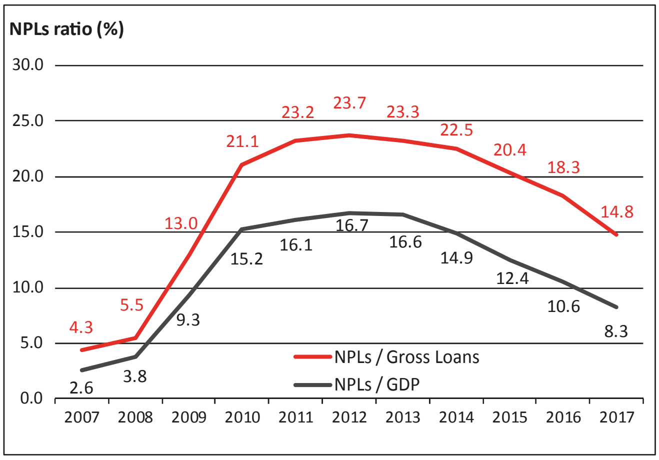
The economic environment within which Bulgarian banks operate continued to improve in 2017, as GDP growth recovery took a stronger hold, while labor market improvement helped the number of jobs in the economy to increase to their highest level since 2008. The average nationwide house price index posted 9% yoy rise in September 2017, following a tad weaker 7% uptick for the whole 2016. Nevertheless, average nationwide house prices seem in line with fundamentals, given that they remain below their peak levels posted in 2008, and especially when having in mind that the recent price rises have come only after a prolonged period of very sharp downward adjustment.

Marked increase in demand helped lending growth to accelerate to 4.7% yoy, spearheaded by the retail segment and mortgage lending in particular. When taking into account significant recycling of NPL exposures, lending growth is likely to have been even stronger in 2017, apparently reaching close to 6.8% yoy. Deposit growth, at the same time, was only a tad weaker (6.6% yoy) when compared to 2016 (6.5% yoy), against the backdrop of another uptick in the gross savings rate to a record-braking 24.9% anticipated for the whole 2017, after already very high 24.4% in 2016.



Source: Bulgarian National Bank, UniCredit Bulbank

Provisions coverage of distressed assets rose further, as local lenders set aside BGN 805 mln of additional provisions, which helped NPLs coverage with provisions remained at the very comfortable level of 53%, already reached in 2016. This helped push the sales of NPLs to companies specialized in collection of distressed assets to anestimated BGN 1.064 bn in 2017, or moderately higher than the BGN 889 mln in 2016. Non-performing loans, at the same time, went down to BGN 8.3bn corresponding to 14.8% of total gross loans and 8.3% from country's GDP respectively.



Source: Bulgarian National Bank, UniCredit Bulbank

Bulgarian Economy in 2017 (continued)

Also positively, **unaudited after tax profit of the sector reached BGN 1.174 bn in 2017**, which, in fact, is the third highest on record since the start of transition in 1989.

Solid profitability performance was above all attributable to lower loan loss provisions and solid 8.1% yoy rise in Fee and commission income, as business volumes grew rapidly, while payment related services were also on a rise to reflect the double digit expansion in foreign trade volumes. These two very important developments helped to partially balance 4.6% drop in NII last year, which was also accompanied by hefty 39% fall in other income (reflecting artificially elevated 2016 level, when other income drew support from one-off gains associated with the revaluation of Visa shares).

Increased competition helped push the spread between interest rates on loans and deposits further downward, which, in turn, continued to challenge banks' profitability. The contraction in the loan-to-deposit interest rate spread last year (48bp) was almost twice as much as in 2016 (26bp). As deposit rates were already close to zero in the start of 2017, spread contraction almost entirely reflected a decline in lending rates, which further supported ongoing strong economic recovery. Meanwhile, capital buffers remained at comfortable levels of 20.9% for Tier 1 Capital adequacy ratio and 22.0% for Solvency ratio in September 2017, or slightly below where they were one year earlier.

BANKING SYSTEM KEY FIGURES	2017	2016	2015	2014	2013	CHANGE 2017/2016
INCOME STATEMENT (BGN MILLION)						
Operating income	3 886	4 080	4 198	3 905	3 709	- 4.7%
incl. Net interest income	2 675	2 805	2 771	2 632	2 541	- 4.6%
incl. Net non-interest income	1 212	1 274	1 427	1 272	1 169	- 4.9%
Operating costs	1 789	1 762	2 022	1 924	1 986	1.5%
Operating profit	2 098	2 317	2 176	1 981	1 723	- 9.5%
Provisions (net)	805	911	1 169	1 161	1 144	-11.6%
Pre-tax profit	1 292	1 406	1 007	820	580	- 8.1%
Net profit	1 174	1 262	898	745	527	- 7.0%
BALANCE SHEET (BGN MILLION)						
Total assets	97 808	92 095	87 524	85 135	85 689	6.2%
Loans to customers (incl. non-residents)	56 084	54 467	54 121	55 590	58 489	3.0%
thereof: Non-performing loans[1]	5 650	6 990	8 308	9 309	9 870	-19.2%
Deposits from customers (incl. non-residents)	78 406	74 129	69 276	63 710	62 230	5.8%
Shareholders' equity	12 597	12 597	11 523	10 839	11 106	0.0%
MAIN RATIOS (%)						
Loans-to-Deposits ratio (on residents)	72.0	73.3	77.0	85.7	93.9	-1.3 pp
Cost / Income ratio	46.0	43.2	48.2	49.3	53.5	+2.8 pp
NPLs ratio	14.8	18.3	20.4	22.5	23.3	-3.5 pp
Cost of Risk[2]	1.5	1.8	2.3	2.2	2.1	-0.3 pp
ROAE (after tax)	9.7	10.7	8.0	6.8	4.8	-1.0 pp
ROAA (after tax)	1.3	1.4	1.0	0.9	0.6	-0.1 pp

Source: Bulgarian National Bank

[1] Provisions flow / Avg gross loans

Transformations in the ownership structure of the banking sector continued last year. Belgian KBC Group completed the acquisition of UBB including other subsidiary businesses of NBG in Bulgaria, thereby creating the third largest local bank in terms of assets. Lichtenstein based Novito Opportunities acquired controlling stake in Municipal Bank (with 1.5% market share of total assets), while the sale of another fringe player (CB Victoria controlling just 0.1% of total assets) has progressed but only very slowly. More M&A are expected next year as improved fundamentals of the banking sector are likely to encourage more players to embark on acquisitions. While consolidation so far has been mostly driven by the withdrawal of Greek lenders from their subsidiaries, more M&A activities are likely among other mid-size players, which are small to generate the economies of scale large enough to withstand competitive pressure from the larger and better established local rivals.

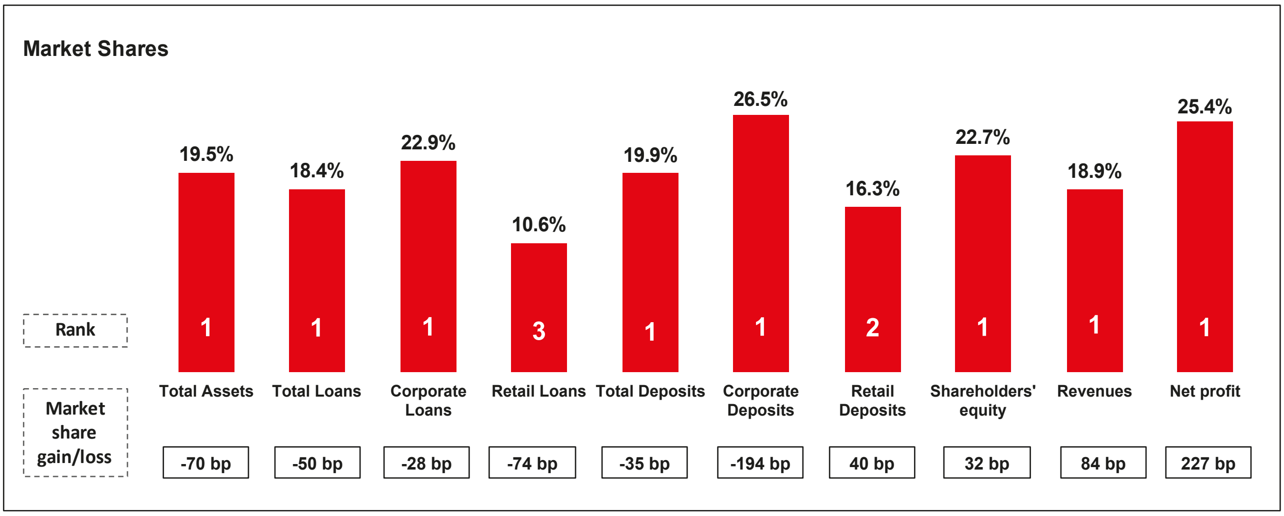
Market Positioning

In 2017 UniCredit Bulbank successfully managed to preserve its leadership position on the Bulgarian Banking Market closing the year as **NUMBER ONE BANK** in terms of volumes and profitability for another year in a row.

The Bank **topped the rankings** in all key indicators: Total Assets, Gross Customer Loans, Customer Deposits, Shareholders' Equity, Revenues, Gross Operating Profit and Net Profit. The strong market position originates from the sustainable business strategy, outstanding reputation and customer centric commercial approach with strong focus on innovations and digitalization.

Serving more than one million customers through a branch network of 168 units UniCredit Bulbank is part of UniCredit, a Pan European commercial bank with inherent competitive advantages servicing more than 25 mil clients. It provides unique commercial banking model throughout Western, Central and Eastern European network to extensive Retail and Corporate client franchise.

In 2017 UCB recorded further growth in Total Assets (+2.5% yoy) achieving 19.5% market share, thus keeping its distinguished position vs the second largest competitor at 7.1 pp.



Source: Regulatory financial statements of UniCredit Bulbank and BNB

UniCredit Bulbank outperformed the Banking System in terms of y/y growth in **Shareholders' Equity**. Although 100% of Net Profit for fiscal 2016 has been transformed into **Dividends payments** in 2017 (vs 70% for the Banking System), UCB **improved its market share in Shareholders' Equity** by 0.32 pp to 22.7% triggered by strong growth in current year Net Profit.

Increasing investments in bonds and reduction in wholesale funding further continued in line with the strict liquidity optimization policy of the bank. During 2017 the Bank continued to keep its leading position in the field of the **Bonds Trading** (+3.7 pp y/y to 27.6% market share) and at the year-end scored the highest security portfolio growth amongst all banks.

UCB's CET1 capital ratio remained much higher (26.9% as of Dec'17) than the minimum BNB requirement of 10% and was further aided by a net profit of BGN 297.7 mln, which accounted for 25.4% of the sector's net result.

Based on a specially tailored commercial approach, oriented to establish a longterm relation with both corporate and individual customers, UCB confirmed its position of **Top Market Lender** with a market share of 18.4% in Total Gross Loans (19.5% if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing, UCFin).

In line with the economic activity gaining momentum with real GDP growth stabilizing at around 4% yoy, Banking System reported a positive yoy lending growth (4.7%) for the second consecutive year while UniCredit Bulbank recorded 1.9% yoy increase.

In the sector of **Corporate and Government Lending** UCB retained its leading position with market share at 22.9% achieving growth of 2.7% yoy mainly in the sector of non-monetary financial institutions.

Following the market activation in **Retail Loans**, UniCredit Bulbank (including the business generated through the Bank's subsidiary specialized in consumer financing UCFin) recorded 4.9% yoy increase (15.2% Market Share) triggered by sustainable growth in both Mortgage and Consumer Loans. Thanks to continuing the projects of processes simplification, new service model implementation and enhancement of the alternative channels functionalities, UCB achieved growth of 5.2% yoy in Mortgage Loans (vs 7.4% for the Banking System) keeping its Market Share stable at 18.8%. Consumer Loans (supported by UniCredit Consumer Financing's banking business contribution) closed another successful year announcing growth of 6.3% yoy clearly preserving the second position in this segment marking 13.5% Market Share.

Market Positioning (continued)

In 2017 UCB continued to be the bank with **the biggest Deposit portfolio** on the market announcing growth of 4.8% yoy and 19.9% Market Share.

The positioning in **Retail segment** was further strengthened recording growth of 8.1% yoy, Market Share reached 16.3% gaining 40 bp yoy. Thanks to its outstanding reputation, the bank clearly established itself as **one of the most trusted bank on the Deposit Market accumulating 24% of the new deposits throughout 2017.**

Within **Corporate segment** UCB remains **indisputable market leader** with market share of 26.5% keeping its distinguished position vs the second largest competitor at 17.5 pp.

In an environment of lowest ever offer rates on new loans contracts and shrinking net interest spreads, UniCredit Bulbank **finished 2017 as NUMBER ONE BANK** in Total Revenues, Gross Operating Profit and Net Profit.

UCB **outperformed the market** in terms of Total Revenue keeping it flat yoy at BGN 736 mln improving its market share by 84 bp to 18.9%. The growth was observed among all revenues components, especially in non-interest income.

The bank recorded remarkable **25.4% market share in Net Profit (growth of 2.1% yoy vs drop of 7% for the Banking System)** outperforming the Market Average in terms of all the fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

Despite the pressure coming from banking market conditions of declining margins, excess liquidity and intensified competition in lending, UniCredit Bulbank successfully managed to protect its profitability announcing growth of 2% yoy in Net Profit strengthening its market leadership position and imposed itself as the most dynamic, efficient, profitable and innovative bank.

Focus on customer needs, services and products, process simplification and increase in efficiency along with excellent reputation and successful business strategy helped UniCredit Bulbank to mark another year of success.

In 2017 Operating income stayed substantially high, amounting to BGN 698.2 mln, decreasing by 2.3% yoy affected by an one-off gain from equity investment, accomplished in 2016 (VISA gain). Excluding the impact on VISA gain, operating income marked an increase by 1.1% yoy.

During the year the Net interest income was characterized by the reduction of interest income on lending to customers, mainly as an effect of the rates reduction, partially offset by the optimization of the average cost of funding from customers and by the growth of the other non-commercial components. Net interest income recorded drop of 2.4% yoy fully offset by an increase in Fees and commission income (BGN 216.8 mln) by 8.1% yoy triggered by growth in collection and payment services thanks to increased economic activity in the country as well as in account services.

Net gains on financial assets held for trading and hedging derivatives (BGN 86.0 mln) also performed positively marking growth of 5.8% yoy due to gain in FX trading. Net other operating income/expenses (BGN -53.3 mln) deteriorated by 15.2% due to increase in the contribution of systemic charges for Deposits Guarantee and Resolution Funds. Income from property, plant and equipment improved by BGN 11.4 mln to BGN 13.7 mln thanks to a non-recurring income at BGN 12.9 mln from the sale of the former HO building. In 2017 Operating expenses (BGN -244.5 mln) dropped by 0.7% yoy due to decreasing depreciation as a result of accomplished Impairment on investment properties in 2016.

In line with the trend in Operating income, Gross operating profit dropped by 3.1% yoy impacted by an one-off gain from equity investment accomplished in 2016 (+2.2% exlcluding VISA gain[2]). Impairment losses on financial assets recorded an increase by 7.9% yoy in line with NPE clean off strategy related to allocation of additional provisions aiming at an increase in NPE coverage. Provisions for risk and charges improved by BGN 20.5 mln to BGN 14 mln thanks to a reversal of provisions on letters of guarantee. The above developments contributed to the 2.1% yoy growth in Net profit to BGN 297.7 mln.

In thousands of BGN

OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2017	2016	%	AMOUNT
Net interest income	435 950	446 682	-2.4%	-10 732
Net fee and commission income	216 758	200 573	8.1%	16 185
Net gains on financial assets and liabilities held for trading and hedging derivatives	85 950	81 246	5.8%	4 704
Net result from investment securities and dividend	12 815	32 201	-60.2%	-19 386
Other operating income/expenses, net	-53 299	-46 265	15.2%	-7 034
OPERATING INCOME	**698 174**	**714 437**	**-2.3%**	**-16 263**
Operating expenses	-244 517	-246 314	-0.7%	1 797
GROSS OPERATING PROFIT	**453 657**	**468 123**	**-3.1%**	**-14 466**
Impairment losses on financial assets	-150 241	-139 249	7.9%	-10 992
Provisions for risk and charges	14 010	-6 491	-315.8%	20 501
Income from property, plant and equipment	13 650	2 285	497.4%	11 365
Income tax expense	-33 423	-33 230	0.6%	-193
NET PROFIT	**297 653**	**291 438**	**2.1%**	**6 215**

In 2017 the strong operating performance of the Bank was further confirmed by the best in class cost/income ratio at 35% which is significantly better than the market average of 46%. Moreover, 2017 was another successful year in which UniCredit Bulbank recorded significantly better profitability indicators compared to ones for the banking system.

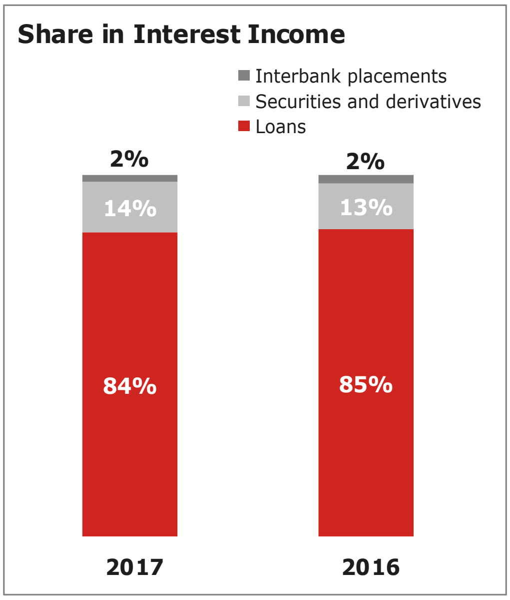
Return on equity (ROE) reached 10.7% (vs 9.5% for the banking system), Return on assets (ROA) reached 1.6% (vs 1.2% for the market) and Net profit margin improved notably by 1.8pp to 42.6% (vs 30.2% for the system). Cost of risk on net loans is at 1.6% (COR), slightly above the market because of conservative provisioning policy resulting in better NPE provision coverage.

Net interest income (BGN 436 mln) decreased by 2.4% yoy following the trend in the whole banking system (drop of 4.6% yoy).

The optimization of cost of funding and the management of excess liquidity (increased investments in bonds and decrease in wholesale funding) have been successfully implemented in UniCredit Bulbank throughout 2017 but the shrinking rates on loans (as a result of the lowest ever offer rates on new contracts impacted by the environment of negative interest rates territory: average 3 months

Unconsolidated Financial Results (continued)

EURIBOR equal to -0.33% in 2017 compared with -0.26% in the year 2016) effected negatively the profitability of both banking system and UniCredit Bulbank. The share of the Net interest income of the Total operating income was flat at 62.4% in 2017 (62.5% in 2016) and remained the major item in revenues composition.



Interest income (BGN 481.5 mln) is primarily earned from the lending business, which accounted for 84% of total interest income, affirming the Bank's strategic focus on commercial banking and the commitment to the local economy. On annual basis interest income decreased by 6.1% as a result of falling interest income from loans and interbank placements, partially offset from growth in securities. **Interest income from customers loans** (BGN 404.1 mln) dropped by 7.1% yoy triggered by general decline in loans rates and competition driven margin compression. **Interest income from securities and derivatives** (BGN 68 mln) recorded 4% yoy growth and account for 14% from interest revenues (compared to 13% in 2016). It is a result from an increase in the bonds portfolio volumes aiming at liquidity utilization and favored by the leading position of the Bank in the government securities market. **Interest income from interbank placements** (BGN 9.4 mln) decreased by 23.9% yoy impacted by lower interest rates.

Interest expenses (BGN 45.6 mln) decreased significantly by 31.1% yoy following the common market trend. Although Deposit volumes increased by 4.2% yoy, cost of customer deposits further decreased which contributed to lower interest expenses. In particular, **interest expenses on customer deposits** (BGN 11.6 mln) dropped significantly by 66.4% yoy and account for 25% of total interest expenses (from 52% in 2016). Conversely, **Interest expenses on derivatives used for hedging** (BGN 20.2 mln) recorded increase of 18.6% yoy, achieving a share in total interest expenses of 44% (from 26% in 2016). **Interest expenses on deposits from banks** (BGN 13.8 mln) decreased by 6.1% yoy (30% share in total interest expenses in 2017 and 22% in 2016) thanks to liquidity optimization strategy managed by the Bank.

In 2017 UniCredit Bulbank successfully preserved its leader market position in traditional banking services achieving 21.8% market share. The Bank continued its activities for deeper penetration while at the same time putting special focus on digitalization. Enriching of investment products' portfolio and enhancement of cards business together with adding new functionalities to the alternative banking channels and digitalizing the trade finance and factoring services were the main initiatives for enlarging fee-generating product portfolio. All this, along with maximized synergy value coming from the full consolidation with the external product factories for consumer financing, leasing, factoring and insurance businesses made the Net fees and commissions income key driver of Net profit's growth.

Net fee and commission income (BGN 216.8 mln) accounts for 31% of Total operating income and recorded impressive growth of 8.1% yoy triggered by gain in all core positions, especially in collection and payment services (6% growth yoy) supported by the increased turnover of customers thanks to positive macro-economic trends and account services (39% growth yoy).

REVENUE STRUCTURE	YEAR	
	2017	2016
Net interest income	62%	63%
Net fee and commission income	31%	28%
Net result from trading and securities and other income	7%	9%
OPERATING INCOME	**100%**	**100%**

Net gains on financial assets held for trading and hedging derivatives (BGN 86 mln) further grew marking growth of 5.8% yoy triggered by higher revenues from FX operations (13.9% y/y).

Net result from investment securities and dividend (BGN 12.8 mln) decreased by 60% yoy, driven by one-off gain from VISA ownership shift (BGN 24.2 mln) accomplished in 2016. On the other hand, gains from the sale of bonds (AFS portfolio) has been recorded (40.4% yoy growth), which partially offset the negative effect. Dividends (BGN 3.7 mln) increased by 141.7% yoy.

Other operating income/expenses, net (BGN 53.3 mln) increased by 15.2% yoy, mainly due to higher contributions to the Deposit Guarantee and Resolution Funds (systemic charges).

Operating expenses (BGN 244.5 mln) marked a decrease of 0.7% yoy, thanks to lower depreciation and amortization expenses. **Personnel costs** reported an annual growth of 5.7% reaching BGN 120.5 mln, in line with the labor market trends. **Non-personnel costs** (BGN 124.0 mln) drop by 6.3% yoy. General and administrative expenses upturned by 2.7% yoy, mainly driven by IT costs, related to the implementation of strategic business and operational projects.

Unconsolidated Financial Results (continued)

Expenses for depreciation and impairment on non-current assets drobt by 25.4% yoy to BGN 31.7 mln, driven by the decrease in impairment of investment properties by BGN 10.7 mln.

Impairment losses on financial assets (BGN 150.2 mln) modestly grew by 7.9% yoy, influenced by the NPE clean off strategy. The sales of non-performing loans exposures in 2017 had a positive effect on the portfolio quality and at the end of 2017 NPL ratio decreased from 14.0% to 8.9% – more than 5.1pp improvement vs a year ago. In 2017 COR (on net loans) decreased by 6.3pp to 1.6% and NPE coverage ratio stood at 68.2% (58.2% in 2016), allowing a further decline of non-performing loans in the next year.

Profit before tax marked positive development of 2.0% yoy reaching BGN 331.1 mln and respectively the income taxes went up by 0.6% yoy to BGN 33.4 mln as of December 2017.

As a result of the above developments, **Net profit after tax reached BGN 297.7 mln** (+2.1% yoy), which representing more than **25% from the Net profit of the Bulgarian banking system**.

Unconsolidated Assets and Liabilities

Despite the banking sector consolidations in 2017 UniCredit Bulbank kept its leadership position on the market in terms of **total assets** which reached BGN 19 096 mln, growing by 2.5% yoy. They increased by BGN 470 mln yoy supported by the significant increase in funding sources, mainly customer deposits (+4.2% yoy), which remained an important customer acquisition channel. To optimize liquidity in a low-credit-demand environment, investments in securities increased (19.5% yoy), highly assisted by the funding from banks growth (23.2% yoy).

The strategic focus on sustainable development of commercial banking and improvement of customers experience pre-determined the highest share of the **net loans and advances to customers** (49%) in the asset structure for the current period. Re-affirmed client's preferences to Bank's reliability and its high-quality services led to increase in net loans and advances to customers by 4.0% yoy to BGN 9 437 mln, driven by Corporate lending (mainly the sector of non-monetary financial institutions), while the production of the consumer lending to individuals was performed via the Bank's specialized subsidiary – UniCredit Consumer Financing.

Securities portfolio followed the upward trend increasing by 19.5% to BGN 3 787 mln, which is reflected into an increase of share in total assets to 19.8% (from 17% in 2016) and in the end translated into improved revenue generation capacity. Almost the entire portfolio (92%) comprised of Bulgarian government bonds. In 2017 the Bank was awarded in both categories for the fifth consecutive year – primary dealer of securities that has purchased the largest number of securities on the primary market in 2017 and a primary dealer of securities that has purchased the largest number of securities on the primary market in 2017 for its own account.

Taking advantage of the banking system liquidity, its steady market position and impeccable reputation, UniCredit Bulbank achieved a growth in **customer deposits** (4.2% yoy) for another consecutive year. They reached BGN 15 521 mln (96% of total liabilities). In 2017 Retail deposits already constitute more than half of the total volume acquiring additional growth of 7.6% yoy and showing the potential which the Bank could unroll among individual customers along with maintaining its pronounced corporate profile.

The **net loans/deposits ratio** improved yoy to 60.8% in 2017. It is better than the market average of 65.9% and positions the Bank favorably for successful exploitation of further growth opportunities.

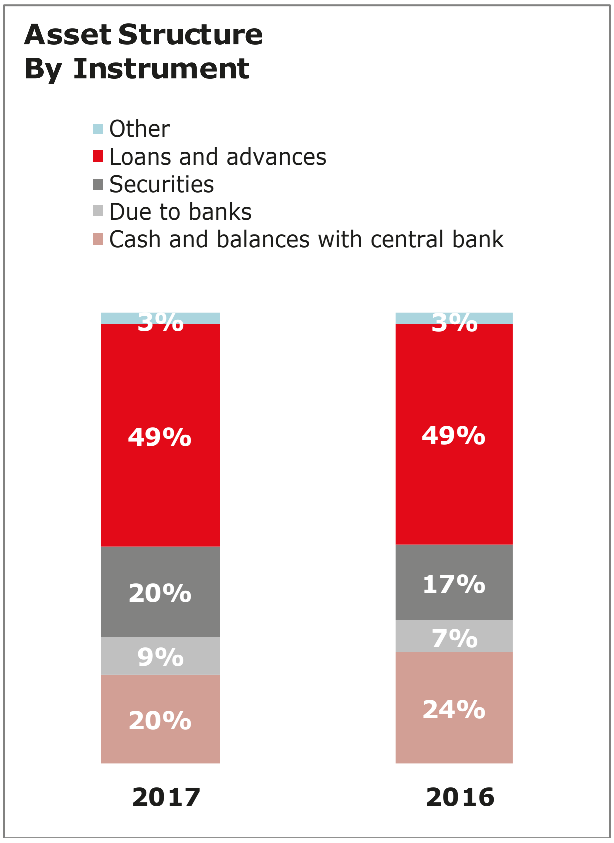
Deposits from banks decreased by 37.9% yoy to BGN 452 mln, which is in line with the liquidity management strategy of reduction in wholesale funding.

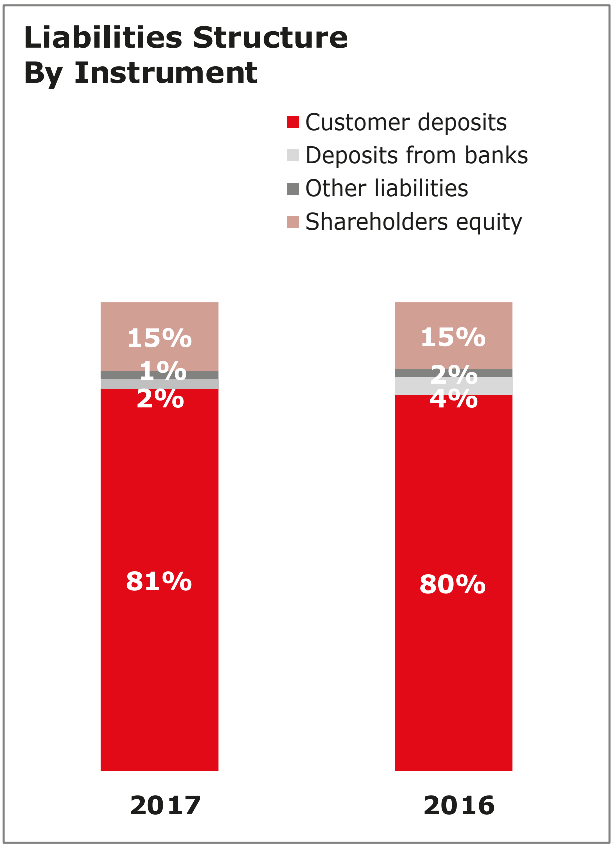
Shareholders' equity reached BGN 2 853 mln, growing by 5.3% yoy and keeping its share to 15% of total assets due to BGN 137 mln increase in revaluation reserves (mainly available-for-sale financial assets).

In thousands of BGN

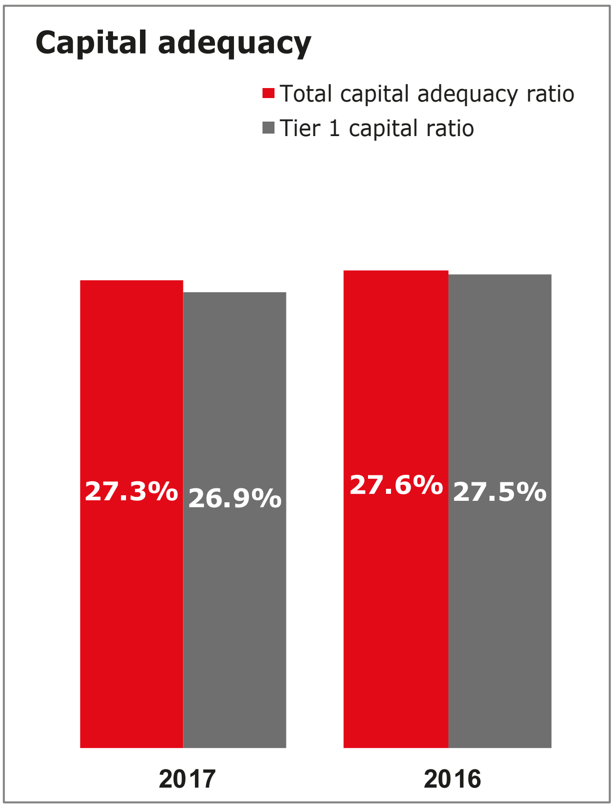
BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2017	2016	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	3 729 631	4 547 510	-18.0%	-817 879
Loans and advances to banks	1 626 697	1 320 905	23.2%	305 792
Securities	3 786 720	3 169 962	19.5%	616 758
Loans and advances to customers	9 436 559	9 070 237	4.0%	366 322
Property, plant, equipment and investment properties	181 364	193 921	-6.5%	-12 557
Other assets, net	335 117	323 297	3.7%	11 820
TOTAL ASSETS	**19 096 088**	**18 625 832**	**2.5%**	**470 256**
LIABILITIES AND EQUITY				
Customer deposits	15 520 709	14 893 732	4.2%	626 977
Deposits from banks	452 276	728 882	-37.9%	-276 606
Other liabilities	269 848	293 376	-8.0%	-23 528
TOTAL LIABILITIES	**16 242 833**	**15 915 990**	**2.1%**	**326 843**
SHAREHOLDERS' EQUITY	**2 853 255**	**2 709 842**	**5.3%**	**143 413**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**19 096 088**	**18 625 832**	**2.5%**	**470 256**

Unconsolidated Assets and Liabilities (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2017 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 13.5% for total capital adequacy ratio and 11.5% for Tier 1 ratio. The **total capital adequacy ratio marked 27.3%** (24.6% in 2016) and **Tier 1 ratio reached 26.9%** (27.5% in 2016), which is still much above the regulatory requirements and indicates the **high quality of the capital instruments – i.e. mainly Tier I eligible ones**.



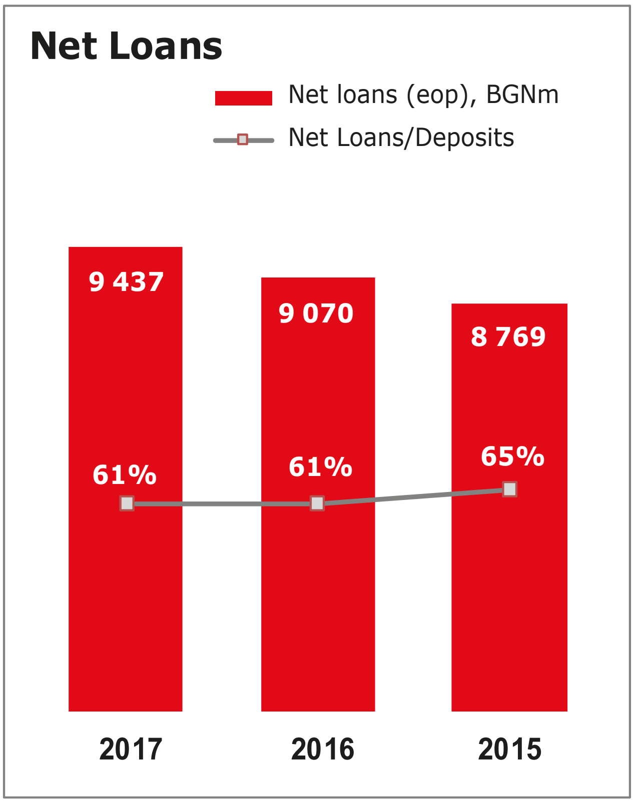
Unconsolidated Assets and Liabilities (continued)

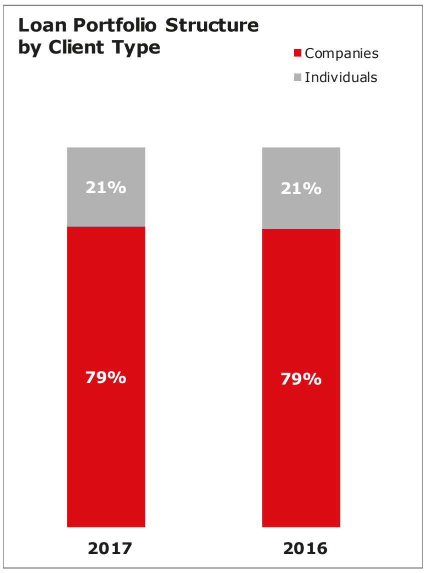
Customer Loans

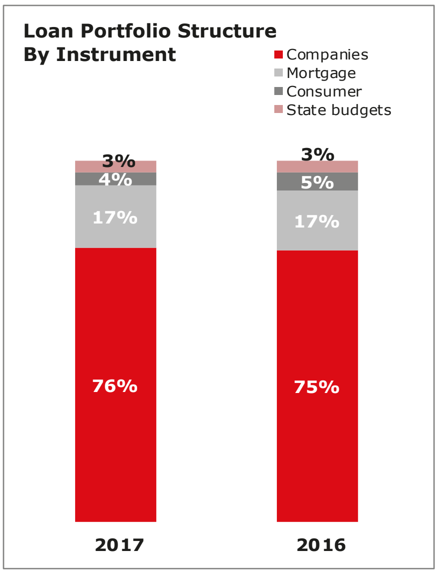
In 2017 the Bulgarian economy showed signs of gradual recovery, where the lending conditions were also improving, helped also by a favorable combination of abundant liquidity and the falling cost of borrowings. In this environment UniCredit Bulbank successfully retained its existing clients and further focused on new businesses. The commercial initiatives were addressed to providing a comprehensive range of Bank financing products supplemented also by factoring and leasing products to fully meet customer needs.

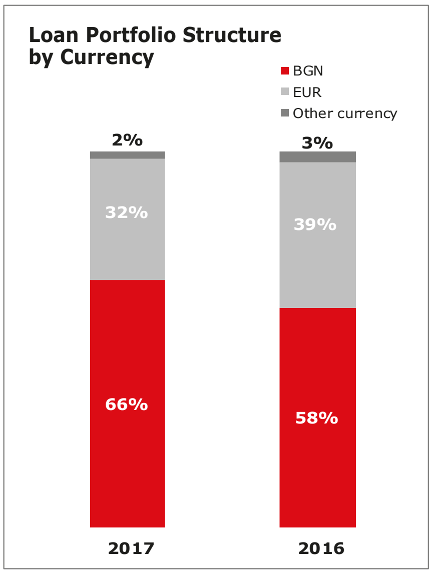
UniCredit Bulbank consolidated its leading market position with **net customer loans** at the amount of BGN 9 437 mln and **gross customer loans** amounting to BGN 10 090 mln. The Bank continued to be the most active player in the Bulgarian lending market with a share of 18.0% (18.2% in 2016).

Loans to companies and government represented the largest portion (79%) of the Bank's loan portfolio and amounted to BGN 7 979 mln. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. The growth in volumes by 2.7% yoy was supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. **Loans to individuals** amounted to BGN 2 111 mln, keeping a 21% share of total volume. In 2017 mortgage loans marked a positive trend of 5.9% yoy, reflecting the tentative revival on the real estate market. Their share in loans to individuals increased to 83% in total loans individuals from 78% in 2016. As in the prior year, the strategic decision to transfer the new consumer loans production to Bank's subsidiary specialized in consumer financing led to decrease in its stand-alone consumer loans portfolio by 24.1% to BGN 358 mln, which represent 4% share of total loans (17% share in loans to individuals vs 22% in 2016). If adding the banking consumer loans produced via UniCredit Consumer Financing, the growth of combined consumer loans portfolio approached 3.7% yoy, while the market reported average annual growth of 6.7%.









Unconsolidated Assets and Liabilities (continued)

At the end of 2017 the loans in EUR shrank in share to 32% of the **currency structure** of Bank's gross loan portfolio and amounted to BGN 3 240 mln. Loans in BGN grew by 14.3% yoy partially offsetting the EUR loan portfolio by taking a share of 66% (58% in 2016). Loans in other currencies remained immaterial with 2% share.

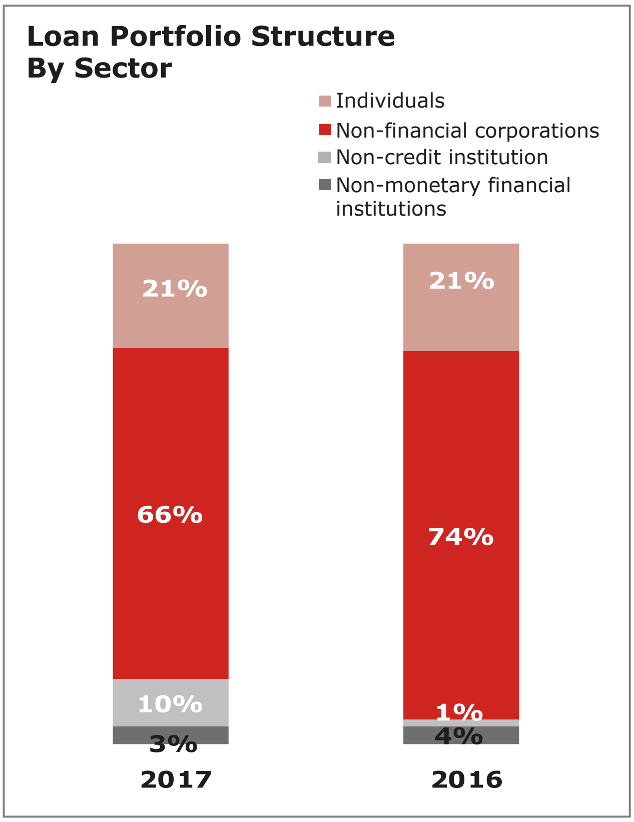
Regarding the **currency structure** of the Bank's gross loan portfolio loan portfolio and amounted to BGN 3 240 mln. Loans in BGN grew by 14.3% yoy partially offsetting the EUR loan portfolio by taking a share of 66% (58% in 2016). Loans in other currencies remained immaterial with 2% share.

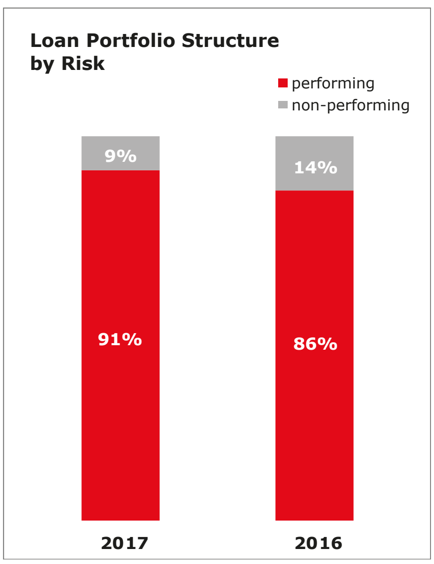
Regarding the **structure by economic sectors**, over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume. They shrank to 66% (from 74% in 2016) at the expense of share of loans to non-credit institutions (10% in 2017 vs 1% in 2016), due to direct funding provided to local financial institutions. The share of loans to individuals remained flat to 21% for both reporting years, while the loans to central government constituted only 3% in 2017 vs 4% in prior year.

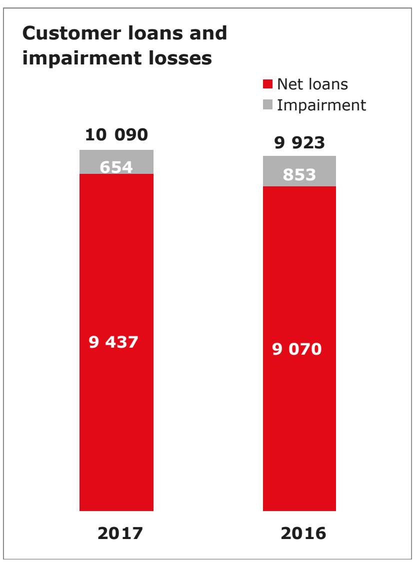
In compliance with the set strategic goals related to **assets quality** and thanks to strong recovery activities the performing loans portfolio represented 91% (+ 7.7% yoy growth) and amounted to BGN 9 193 mln.

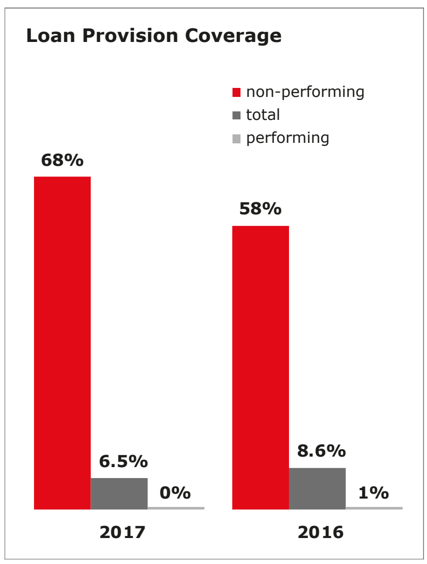
On the other hand, the non-performing loans marked a significant decline by 35.4% yoy to BGN 898 mln.

As of December 2017 the Bank reported NPL ratio of 8.9%. The loan loss provision coverage of non-performing exposures acquired additional 995bp and reached 68%. Total loan loss impairments decreased by 23.4% on an annual basis and reached BGN 654 mln. Total coverage ratio reached 6.5% (8.6% for 2016).









UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (continued)

In terms of industry structure, in 2017 the most significant growth in share marked Financial Services, supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. The performance in other sectors is affected by active NPEs clean-off strategy performed in 2017. The biggest decline is recorded in the sectors of Construction and real estate (decrease by 24.6% yoy), Services (decrease by 24.6% yoy) and Manufacturing (decrease by 5.7% yoy). Tourism reports a slight increase in share, while the share of Commerce, Transport and communication and Sovereign declined. In line with the Bank's strategy Housing loans registered an increase by 5.9% yoy with share of 17%. At the end of 2017 the largest areas of concentration were Manufacturing (22%), Commerce (19%) and Construction and real estate (11%).

Thousands of BGN

INDUSTRY STRUCTURE	2017		2016	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 180 370	22%	2 311 833	23%
Commerce	1 892 042	19%	1 949 629	20%
Construction and real estate	1 158 985	11%	1 536 218	15%
Financial services	988 507	10%	127 058	1%
Agriculture and forestry	464 337	5%	456 810	5%
Services	377 242	4%	500 266	5%
Transport and communication	324 532	3%	321 596	3%
Sovereign	324 068	3%	339 082	3%
Tourism	268 838	3%	253 122	3%
Retail (individuals)	**2 111 435**	**21%**	**2 127 616**	**21%**
Housing loans	1 753 565	17%	1 656 185	17%
Consumer loans	259 057	3%	350 560	3%
Other	98 813	1%	120 871	1%
TOTAL LOAN PORTFOLIO	**10 090 356**	**100%**	**9 923 230**	**100%**

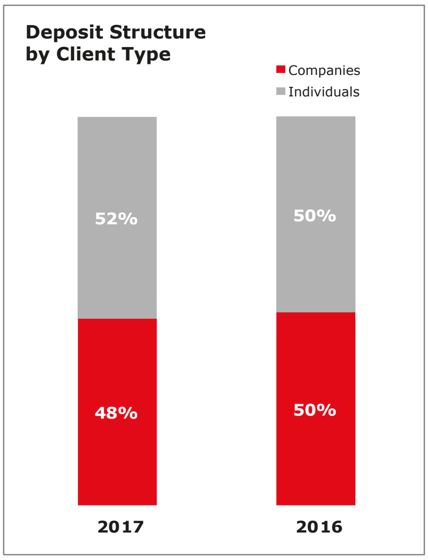
UniCredit Bulbank Activity Review (continued)

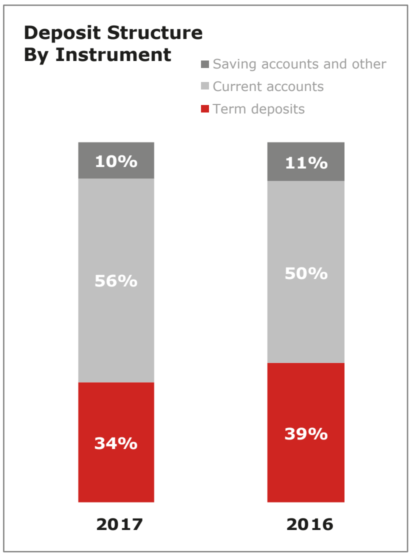
Unconsolidated Assets and Liabilities (continued)

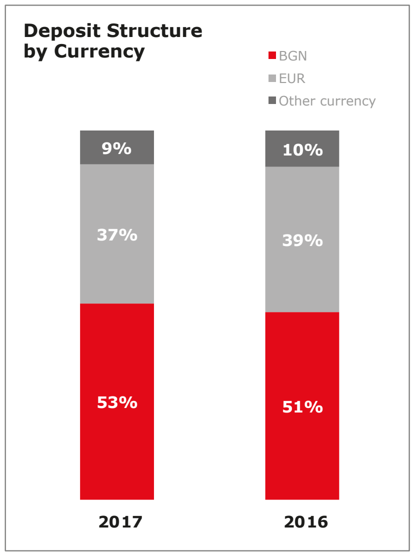
Customer Deposits

In an environment of excess liquidity and deposits offer rates close to zero, the Banking System and UniCredit Bulbank recorded another successful year in the field of attracting and managing funds. UniCredit Bulbank strengthened its Top position on the market in customer deposits with **19.8% market share** leveraging on its distinguished reliability and faithfulness. In 2017 UniCredit Bulbank's **Deposits from customers** grew by 4.2% yoy to BGN 15 521 mln triggered by Retail segment where the bank continues to be one of the most trusted and preferred banks announcing constantly increasing market share.

Furthermore, in 2017 UniCredit Bulbank attracted about 25% from the new customer Retail Deposits in the banking system which was the second highest absolute growth within the market. UniCredit Bulbank became the bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.







In terms of **currency distribution** the structure of deposits remained balanced, 53% share of BGN denominated deposits vs 47% in other currencies. The growth of the Deposit base is entirely triggered by 8.9% y/y increase of BGN denominated deposits, those in other currencies shrank by 0.7% y/y, thus BGN denominated deposits' share increased from 51% in 2016 to 53% in 2017.

With regard to the **product structure**, current accounts recorded an impressive 16.6% y/y growth achieving 56% share. Saving accounts and Term deposits went down resulting in decreasing share of total funds.

In terms of **clients type** the structure of deposits remained balanced, 52% share of Deposits of Individuals vs 48% of Company Deposits. Deposits of Individuals had an upward momentum of 7.6% y/y ending 2017 at BGN 8 085 mln. Company Deposits registered slight increase by 0.7% y/y to BGN 7 436 mln.

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

Consolidated Financial Results

As of 31 December 2017 UniCredit Bulbank's subsidiaries, their consolidation method and respective participation in equity are presented as follows:

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

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

The **consolidated net profit** of UniCredit Group for 2017 was at BGN 412.2 mln increasing by 14.1% yoy. The growth was mainly driven by the increase in revenues of both Bank stand-alone and its subsidiaries (UniCredit Consumer Financing, UniCredit Leasing, UniCredit Factoring). Net interest income rose by 1.8% yoy. Net fees and commissions income (+9.3% yoy) scored higher performance yoy, while Net other operating income/expenses deteriorated by 10.3% due to increased contributions to Deposits Guarantee and Resolution Funds. The **consolidated revenues** reported a growth by 1.2% yoy, where the effect of slight decrease in Bank's stand-alone revenue was entirely offset by robust increase in the income from consumer lending channeled through UniCredit Consumer Financing.

Group's **consolidated operating expenses** stayed almost flat yoy to BGN 274.3 mln and thus resulting to 1.8% yoy growth of **gross operating profit**.

Consolidated impairment losses on financial assets marked a decline of 27.8% yoy to BGN 142.8 mln, thanks to improved asset quality. The consolidated NPE ratio dropped significantly to 8.7% (from 13.0% in 2016) and thanks to conservative NPE coverage reached 68.9%.

Total **consolidated assets** (BGN 20 260 mln) remained almost flat yoy (-0.6%). Influenced by the active NPEs clean-off, consolidated **net customer loans** decreased by 2.2% yoy to BGN 10 629 mln. The decline is entirely in NPEs stock, while the performing portfolio recorded a slight increase. **Customer deposits** of the Group were at BGN 15 513 mln, rising by 4.5% yoy.

In thousands of BGN

	YEAR		CHANGE %
	2017	2016	
INCOME STATEMENT FIGURES			
Operating income	868 175	857 686	1.2%
Operating expenses	- 274 344	- 274 564	-0.1%
Gross operating profit	593 831	583 122	1.8%
Impairment losses on financial assets	- 142 813	- 197 776	-27.8%
Net profit	412 242	361 345	14.1%
VOLUME FIGURES			
Total assets (eop)	20 260 347	20 386 681	-0.6%
Net customer loans (eop)	10 629 087	10 872 961	-2.2%
Customer deposits (eop)	15 512 999	14 838 200	4.5%

Risk Management

Credit Risk

In 2017 the Bank performed its credit activities in compliance with the governing rules and policies and in line with the defined risk appetite framework. A slowdown in deterioration in the overall customer loan portfolio is observed, but also - relatively low demand for new financing. Cost of risk ratio decreased from 180 bp in 2016 to 143 bp in 2017.

The impaired portfolio remained a major focus and therefore Risk Division continued with the repossession of assets, debt collection and disposal of loan packages. The Bank repeated its success from last year and sold big packages of retail loans to external investors.

All circumstances mentioned above coupled with the performed write offs during the year led to a **significant decrease of NPL ratio by 511bp from 14.0% to 8.9%.** The coverage of the impaired portfolio increased by 995bp to the comfortable level of 68.2%.

The activities related to **IFRS 9 conversion project** and in particular the loan loss provision streams are finalized. Locally developed IFRS 9 compliant credit risk models are in place, including the related transfer logic. During the year four parallel runs were performed on quarterly basis.

The **credit underwriting activity** in 2017 was performed in accordance with the adopted local Credit Risk Policies, based on UniCredit Group Credit Risk and Industry Strategies as well as Economic Sectors Outlooks. In the origination of new loans, the Bank conformed to the prescribed financing principles for probability of defaults, transaction's structural features, covenants and conditions and provision of collateral.

The **monitoring** team continue to be strongly focused on streamlining the overall monitoring and watch list process, where in the first half of 2017 have been technically implemented the newly defined anomalies as well as the refined thresholds for other risk-related events. Furthermore, a certain optimization of some functionalities of the monitoring web-based application has been done with the purpose to simplify the on-going process. The monitoring function both in Corporate and Retail continue to be significantly involved in the collateral management process including renewal of statutory validity, market appraisal and insurance delivering periodic reports to the respective business/competence lines.

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

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

Market, Counterparty and Liquidity Risk

In the area of risk appetite and strategy, the Market risk management function supported regular reassessment of market and liquidity risk limits considering budget targets and focus on client-flow business. Market risk policies and processes were regularly adapted to ensure group-compliant risk measurement and control. In 2017 the Bank continued to implement new group reporting tools in the area of liquidity risks. A notable achievement addressing **ECB regulatory requirement on UCI Group level** was the introduction of intraday liquidity buffer monitoring in the first quarter of 2017. The adoption of IFRS9 SPPI and benchmark test tools for regular controls were other important milestones on the list with accomplished tasks.

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

In the area of **market risk controls**, UniCredit Bulbank makes use of the group internal model IMOD for daily managerial control and economic capital assessment, leveraging on UCI Group market risk methodology and architecture. In 2017 the Bank introduced enhanced valuation of embedded options in customer loans and deposits to enable granular simulations of interest rate risks in the banking book. Regarding **liquidity risk management** systems, main efforts were focused on maintaining sound quality of local data control processes to facilitate reliable calculation of regulatory and managerial metrics. The system for **market counterparty risk** measurement and control was further upgraded to quantify enhanced Funding Valuation adjustments for pricing and valuation.

Activities of Market risk management function **in 2018** will be focused on further adaptation of tools and processes related to fair valuation and to the regulatory-driven Fundamental Review of Trading Book. Major step ahead in the area of interest rate risks in the banking book will be the adoption of new managerial IRRBB stress test metric in line with the respective EBA Guidelines, EBA/CP/2017/19, issued end of October 2017. Further refinement of liquidity models will be another area for development.

An important activity to continue in 2018 is the integration of Consumer Financing, Leasing and Factoring operations in terms of risk infrastructure, management and reporting tools.

Risk Management (continued)

Operational and Reputational Risk (OpRepRisk)

The main activities of the OpRepRisk unit in 2017 were focused on the further development of the OpRisk management, with emphasis on **preventative and mitigation actions** to reduce future losses. The key activities performed in 2017 related to the OpRisk Management are namely: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; OpRisk Assessment for ICT Risk and Operational and Reputational Risk Strategies definition (including Business Syndication) and monitoring.

In addition to all above, several new tasks were performed for the first time in 2017. The **Operational Risk losses reporting process** was further optimized in terms of Data Completeness confirmation through the dedicated local IT tool. As part of the Accounting Reconciliation, a new activity was added in 2017 – **reconciliation of the top 5 legal cases**. This activity aimed at improving the completeness and correctness of the relevant losses collected in the OpRisk database. One more task related to OpRisk assessment of the so-called relevant transactions was introduced in 2017. A transaction (e.g. outsourcing of a banking activity) is deemed relevant in case it could significantly change the Business environment, potentially triggering breaches to the Risk Appetite Framework defined and approved at Group level.

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

The Operational Risk management at UniCredit Bulbank AD is well established, at a high level of quality, as it can be concluded from the annual Self-Validation report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible score to the local OpRepRisk management system. A Local Validation Report (LVR) following the template issued by the Group Internal Validation (GIV) Function was filled by the OpRepRisk Unit in 2017. The outcome of these independent assessments proves the operational risk management and control system is fully adequate and compliant with the regulatory and Group standards.

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

The risk culture has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures within the Bank by the OpRepRisk unit ensure the outstanding OpRisk awareness at Bank level. In this regard, at the end of 2017, a dedicated OpRisk training was organized and took place as a webinar for the OpRisk managers in the branch networks both in Retail Banking and Corporate Investment and Private Banking Divisions.

In 2018 the OpRepRisk unit will have to further develop and finalize several projects and activities started in 2017. The unit will continue monitoring the UniCredit Bulbank Operational and Reputational Risk Strategies (strategies deploy their effect in a multiyear perspective), which are evolved from the Group and local Strategies for 2017 and include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk etc. A significant part of the resources will be devoted to new Group projects and initiatives in the OpRisk and RepRisk areas. Additional efforts will be dedicated to the operational risk mitigation actions elaboration and monitoring. The unit will continue the methodological support, training and monitoring of the Legal Entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards.

Corporate, Investment and Private Banking

General Overview

Leveraging on external environment developments, the strategy of Corporate, Investment and Private Banking (CIB&PB) division continues to be twofold: (1) acquisition of selected new clients, with particular focus on international clients and those from higher-potential sectors, applying sound risk appetite; (2) broadening offerings to existing clients with the objective to cultivate long- lasting relationships. Business origination is driven by "solution-oriented" client focus in the daily activities of both product experts and sales force.

Transform 2019 Group Initiative - progress achieved

In the context of CEE Transform 2019 CIB&PB division took part in a number of Group strategic initiatives, harnessing innovation and digitalization in order to further strengthen UniCredit market position. In this respect, Corporate Banking continued developing several initiatives such as Capital Light business model, Big Data, One CIB. In Private Banking the Transform 2019 program targets a further development of service model and advisory services via several initiatives: Need-Based advisory, "Unique" tool and iLibrary.

Acquiring new international clients and applying strict risk discipline take central place, along with the continual focus on cost management. In 2017 the International Center continued to serve as a driver and facilitator of international business as well as more new international clients were attracted. The various meetings and events during the year promoted further the Center as a distinguished business matching hub.

The new client management system already in use at UniCredit Bulbank enabled better understanding of clients' needs and offerings of proper solutions. The innovative platform facilitates the adoption of a structured account planning process and fosters better cooperation between relationship managers and product specialists. A major step in order to provide deeper understanding of clients' behavior was a new digital application created by CEE CIB to analyze Big Data and propose artificially-spotted opportunities.

Bulbank United Initiative

Another joint initiative Bulbank United, between Retail banking division and Corporate, investment and private banking division, continued in 2017. Leveraging on combined commercial efforts of the relationship managers in both divisions, the initiative targets an increase in the number of individuals with payroll accounts at UCB and use of additional products and services as well as expanding the usage of the Payroll service by corporate clients. The initiative was a success story and it has been prolonged in 2018.

Financial Performance - higher fees and commissions, better trading results and dropping risk costs more than compensated for declining interest income from loans and deposits.

In 2017 CIB&PB revenues (consolidated with Leasing and Factoring subsidiaries) declined by 1.8% yoy, pushed down by a further drop in net interest income (-4.1% yoy). On the positive side, non-interest income was up 2.9% yoy, as all main sources contributed. Before-tax profit increased by 8.5% vs previous year, backed by declining risk costs.

Revenue performance across business lines was mixed, with Markets and Brokerage, Private banking, Leasing, Factoring, and Fleet management all having positive impact. On the other hand, Corporate banking on a stand-alone basis registered a 4.5% revenue decline.

Deposits base declining, as interest rates reached the zero level

As of December 31, 2017 deposits in corporate banking on stand-alone basis dropped by 4.3% yoy, as a result of declining interest rates to almost zero level. In the meantime, private banking deposits remained flat. Large companies segment registered decline in deposit volumes by 23.8%. Among the remaining segments, real estate deposits grew the fastest, followed by mid-sized companies and international ones.

Loan volumes decreasing - soft demand and active management of non-performing exposures.

Corporate banking loan volumes declined by 9.5% yoy in 2017, as non-performing exposures dropped by nearly 1/3, driven by active management efforts, while regular loans declined by 5.5% due to both soft demand caused by higher market and clients liquidity. Investment loans decreased faster (down by 10.9%) compared to working capital loans (down by 7.1%). By segments, the international clients managed to expand performing loans by 12.9% yoy, the mid-sized clients' performing portfolio remained flat, while large, real estate and financial institutions all saw performing loans decline.

The active management of NPL exposures led to an improved overall loan portfolio quality. The fastest reduction of NPLs was registered by the mid-sized and real estate clients, but all segments decreased their non-performing exposures significantly.

Cross-sales remain firmly on the daily agenda

The focus on cross-selling opportunities remained on the daily agenda of the sales force and all support functions. Leveraging on synergies, including across subsidiaries, multiple cross-sale opportunities are being originated and executed.

Service Model

Product/Coverage model

The CIB&PB Division applied service model consisting of both **client segment coverage and product factory**, which contributed to achieving high level of customer satisfaction. The segment coverage delivers a personalized relationship via a dedicated professional, who

Corporate, Investment and Private Banking (continued)

follows in depth the corporate client's business development, while the product owner provides a customized solution in a specific area. In 2017 the product factories remained focused on implementing innovative systems and digital solutions across all areas - Trade Finance module as part of Bulbank Online; Mobile Token Project (mToken); eFactoring, where more than 75% of the customers work with the application.

As of 2017 the corporate branch network consists of **10 branches** established in the major regions of the country and ensures a high-class operational service to corporate clients.

European Funds

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

In 2017 UniCredit Bulbank continued its activity under active agreements with EIF and NGF, where the main products were: SME Initiative (including start-ups), InnovFin, NGF and NGF-Rural Development Programme. For 2017 UniCredit Bulbank was awarded as Partner bank - top performer in utilization for NGF Guarantee schemes for SMEs.

The focus of EU funds team for 2018 will remain on facilitating the access to financing for companies, which will result in increased utilization of subsidized financing and expanded client coverage.

Markets and Brokerage

In 2017 UniCredit Bulbank was the main market maker for local currency denominated products and retained its leading position as first-class liquidity provider for local and international banks.

The Bank maintained active trading in order to exploit risk-reward strategies in market environment of excess liquidity, negative rates, decrease in yields and low volatility.

For the fifth consecutive year the Bank was awarded by the Ministry of Finance as the dealer that acquired the highest volume of government bonds for its own account on the primary market.

The corporate treasury sales (CTS) team provided high-quality service to a diverse client base. FX related activities are expected to grow further in 2018, mainly supported by developments in exports and imports. As a result of the team's constant effort to leverage on new possibilities and to provide additional opportunities to its clients, the currencies' range was further upgraded with the introduction of the Chinese Yuan (CNH).

UniCredit Bulbank retained its premier position in providing high-level brokerage services to institutional, private banking and retail clients. The brokerage team offered quality services for equity, fixed income and exchange-traded financial instruments and derivatives, covering wide range of markets, including developed markets, CEE and emerging markets.

In 2017 additional efforts were directed towards the implementation of the regulatory requirements imposed by several key European pieces of legislation in the realm of OTC derivatives, namely: MIFID II, MIFIR, EMIR and PRIIPs.

Financing

The business focus remained on the enhancement of the market opportunities both in terms of Real Estate Financing and Project and Structured Finance. The Financing Department affirmed its expertise role in providing M&A financing, structured finance solutions to real estate development companies and projects in various industries. The main focus throughout 2017 was supporting existing clients in their growth strategies and prospect plans, as well as attracting via unique and competitive projects new customers with sound financial profile.

Project Finance strengthened its leading market position by structuring complex tailor-made transactions in compliance with the Bank's risk appetite, while managing market risks associated with local environment. Ongoing monitoring of existing portfolio ensured preservation of revenues and projects' sustainability within changing market environment. Competitive market conditions in 2017 were substantially overcome by market-specific and high-expertise approach towards investors and new projects. Abilities to capture upcoming market opportunities proved to be successful with a couple of structuring mandates, executed in 2017.

The strategy for 2018 is to continue growing in selected export-oriented industries (manufacturing and electronics, agriculture, infrastructure, I&C), focusing on IT and business-outsourcing industries, explore opportunities for cooperation in Public Private Partnerships (PPPs) for realization of various infrastructure projects, leverage on the current potential for participation in innovative and profit-driven Projects under EU Operational Programs, apply Full Debt Repackaging and Corporate solutions (including syndicated transactions) for existing and new clients, acquisition financing.

High-quality office development and residential projects represented the major part of the **Real Estate** transactions in 2017. The RE Loan portfolio was further developed by capitalizing on a number of opportunities for new financings amidst market's growing expectations. Low mortgage rates, together with near-zero deposit rates, as well as economic growth prospects, renewed the demand for good-quality housing. On the other hand, short supply of high-quality office spaces (primary Class A) and continuing increase in office rental prices, supported both locals and international investors' activity. The transactional volume had been driven mainly by existing well-known clients.

In 2017 the Real Estate market witnessed several huge acquisitions. Big worldwide Real Estate investors, looking to diversify their property portfolio in CEE, stepped into the Bulgarian market. The high market

Corporate, Investment and Private Banking (continued)

liquidity resulted in loan pre-payments, which led to a decrease in the Real Estate portfolio. During the year the quality of Real Estate portfolio had improved through further reduction of non-performing loans via asset sale and through loan restructuring.

Corporate Finance and Advisory

M&A activity was on the rise in 2017 in Europe and Bulgaria was not an exception. The tendency for higher-value deals from 2016 continued driven supported by positive economic outlook, favorable financing and investor interest from broader geographical base.

2017 was a successful year for the Corporate Finance Advisory (CFA) unit with two high-profile, high-visibility M&A deals closed within the year. The Bank's reputation as a leading advisor was reaffirmed and its capability to execute swiftly, confidently and generate interest across borders on the back of our pan-European platform was visible. CFA continued to focus on building internal and external visibility through a number of initiatives, including participation in investment conferences and work with universities.

As part of the leading commercial bank in Bulgaria, CFA will continue in 2018 to **leverage on existing client base**, while also focusing on close intragroup cooperation to generate opportunities. The strong UniCredit Group credentials in all main product areas, as well as the synergies between product factories and client segment coverage provides solid ground for pursuing and winning new mandates in 2018.

Global transaction banking

In 2017 UniCredit Bulbank confirmed its leading position on the market in the transaction banking area. The focus on products and services development aimed at clients' facilitation. New functionalities in the portfolio of electronic services, offered through online banking platforms, card and internet payments enhanced the speed and automation of operations and processes.

The high quality of services and profound expertise of employees was again recognized both by our clients and reputable financial sources. In 2017 UniCredit Bulbank was again announced by the Global Finance Magazine as **Best Trade Finance Bank and Best custodian Bank in Bulgaria**. For the fourth consecutive year the Bank was selected in the prestigious Euromoney customer survey as the **Market Leader in Trade Finance in Bulgaria** and for the third time in the last several years it was proclaimed the **Best bank for Cash Management**. In the same survey the Bank also won the prize in the new category for **Best services in the Trade Finance**.

In 2018 the Bank will continue investing in the development of its product portfolio of transactional services in line with market and regulatory trends.

Private Banking

Private banking (PB) department had set two core goals: **building long-term relations with clients** and **improving profitability** leveraging on revenue management, increasing the share of investment products vs deposits. The PB team managed to diversify and enlarge product offering and put strong focus on products in cooperation with partners, especially in the area of life insurances and mutual funds. These commercial actions consisted of asset allocation proposals and flexibility of PB services to clients' needs.

The low interest rate environment triggered refinancing of mortgage exposures which lead to a decrease in PB loan volumes. **Total financial assets** (TFA) increased by 2.4% yoy, while deposit volumes remained flat. Assets under management (mutual funds and life insurance) registered an increase of +31% yoy, while assets under custody grew by +1.3% yoy.

In 2017, the main target of PB was to transform Deposits TFA to other profit-generating assets, naturally in compliance with the customer's risk profile. New tranches of Life insurance UNIT Linked products were launched during 2017, where the main goal was to differentiate the PB product offer on the domestic market and to increase value proposition to customers.

PB **target for 2018** is to capitalize on business opportunities through **broadening the product portfolio and leveraging on cooperation with external partners**. The focus is on the revenues increase by **attracting new lending business**. PB plans to further develop new and enhance existing products by introducing: Need-based client focus; Client acquisition leveraging on cooperation with corporate segment; Best-in-class financial solutions and asset allocation propositions to high net worth individuals; New investment solutions; Diversification of TFA via insurance products, structured products, mutual funds, open architecture of fund providers, tailor-made investment proposals; Digitalization, cluster analysis, product innovation and pricing optimization.

Outlook for 2018

In 2018 CIB&PB aims to further expand business, while **continuing to concentrate on efficiency improvements and a sound risk appetite**. The division is starting the year as market leader with strong results on customer satisfaction survey and focus on attracting foreign investments by leveraging on the International Center. In 2018, CIB&PB strives to boost value creation based on its diverse corporate portfolio, to enhance cross-selling and pricing capabilities and to increase share-of-wallet among clients with highest potential, including international ones.

In order to sustain its market leadership and meet the expectations of shareholders, CIB&PB seeks to harness new opportunities from digitalization trends, to introduce innovative products and services, and to proactively support asset quality management. The main focus remains the development of sustainable client relationships leading to robust longer-term business opportunities. A high priority continues to be the offering of EU-funds related expertise along with specially designed products and services to companies and projects with significant potential.

Retail Banking

General Overview

UniCredit Bulbank's strategic focus remained sustainable business growth through improving customer satisfaction and strengthening its position of preferred client's partner in Retail Banking. In 2017 Retail banking continued the growing trend. The **revenues** increased by +4.6% yoy (compared to overall decrease by 4.7% yoy for the banking system). Net interest income increased by +1.1% on a yearly basis, negatively affected in 2017 from overall low and negative interest rates environment, pressing margins down. However, the growth of the transactional business of our customers with the Bank (+6%), together with raised commercial activity, were the main contributors for the significant increase in non-interest income with +12.3% versus previous year (compared to overall decrease of 6.3% in non-interest income of the banking system).

In line with the Bank's long-term commercial goal for lending business growth, **Retail loan portfolio** (households and SME) increased by 2.9% (+6.5% growth for the banking system). Consumer lending portfolio increased by 7% leveraging on the product specialization of UniCredit Consumer Financing. In 2017 UniCredit Bulbank consolidated the leading position in mortgage lending and recorded an increase of 27% of newly extended volumes. The focus in small business lending continued to be on developing micro-lending, retaining the portfolio of small enterprises in the agricultural sector and facilitating access to public funds (e.g. EU funds). The small business customers increased by 6% yoy, where those with loans by 3.5% yoy.

The propensity of the customers to recognize the Bank as a preferred choice for their savings generated growth of **attracted funds** from households by 10% and by 17% from small and micro enterprises. The ratio of sight to term deposits remained flat. The share of BGN denominated funds slightly increased. In parallel, there was also increase of demand for alternative investment opportunities, resulting in growth of 36% in 2017 of the number of customers holding investment products.

In 2017 strong focus was put on the **compliance and client protection** related legal requirements, thus ensuring the customer centric image of our business.

Main Activities, Initiatives and Achievements

The digitalization and simplification of main front and back processes were in the focus throughout the whole year. Main new functionalities were in the field of **mBanking** (the payments to the state budget in mobile were 30% of all electronic payments), **mToken** for signing payments in online banking, **Personal messages in mobile** for service and commercial notifications, etc.

The improvement in several main processes ensured the higher level of efficiency and customer satisfaction by reduction of manual work. In 2017 one of the main goals for Micro lending was the simplification of fast track process of creditworthiness evaluation. The process for servicing SME accounts and packages was automated and the number of deposits' product portfolio was significantly reduced.

Following the continuous trend of decrease in deposits' interest rates, the Bank provided different offers for diversification of clients' assets along with strategy to enhance the financial literacy of the society.

In order to respond to the customers' needs and expectations, the development of the insurance and investment products kept its course, while several new products were implemented in 2017. These products aimed to offer new attractive and alternative financial solutions - new investment opportunities, updated insurance coverages combined with better changes for additional yield, insurance protection against unemployment and insolvency, etc. During the year some different activities to boost the investment products' sales and penetration were started, such as **"Investment Days"** initiative, focused on promoting more accessible investment products (i.e. saving plans) to a wider range of customers.

The customer relationship remains in the center of the service model to support sustainable growth. Pursuing the aim to provide customers with better, faster and easier services, the **Customer Experience Governance project for standardized and positive customer experience** was rolled out to 13% of the branch network, which is part of the overall approach for customer experience improvement by observing customers' behaviours and expectations.

The further development of the dedicated program for students **"Academic League"** was part of our strategic plan to increase UniCredit brand awareness among young people as potential Bank's customers.

During the year synergy between retail and corporate segments remained on focus. In 2017 the companies covered by the joint initiative **"Bulbank United"** grew by 12% and individuals with regular payments through Bank's channels raised by 7.3%.

In the small business segment, **developing lending** and covering the need for loans guaranteed under schemes of external institutions, continued to be on focus. Together with EIF, UCB supported micro enterprises by providing quick access to financing through specialized initiative - **SME Initiative and Innofin**. The loans granted under the schemes represent 6.5% from all of the new loans granted in 2017 (investment and working capital). The financing of investment projects under "Innovation and Competitiveness" and "Rural Development" programs 2014-2020 represented 5.9% of all the investment loans granted in 2017.

The fully fledged **Startups program** continued during the year, with partnership of a local accelerator. It covers all activities from mentoring/advising, through business development and investment. The new loan volumes granted in 2017 grew by 129%.

The unique for the Bulgarian banking market **"Corners" initiative** for retail and corporate customers continued in 2017. Over 150 business clients have participated and exhibited their products and/or services for the past year. Also **newsletters for business customers** continued being released, presenting topics about

Retail Banking (continued)

innovations in various economic sectors and useful analysis to improve the knowledge of our customers.

Cards business overview

In 2017 UCB's cards business marked another exceptional **year of growth and market success** with 7% increase in total number of issued debit and credit cards. Number of transactions grew by 18%, while gross volume with cards reached 20% yoy growth, facilitated by the introduction of a number of tailor-made card campaigns and initiatives. Even more remarkable is the cardholder purchases on POS terminals volume which marked 32% growth in terms of number of transactions and 27% in volume of expenditure. Total debit and credit cardholder cash transactions also showed sustainable increase in 2017 compared to 2016 by 7% in transactions and 17% in volume.

Credit cards remained on focus as the main card business driver, achieving around 20% annual increase in **sales of credit cards** for individuals, 15% growth in number of transactions and 11% in expenditure volume. Credit cards results achievement was supported by several improvements in the product functionalities which will also continue in 2018. In 2017 the increase in number of transactions outside Bulgaria was 33% and 21% in terms of total cardholder gross expenditure volume, making UniCredit Bulbank cards the most actively used abroad.

2017 stamped UniCredit Bulbank as the undisputed leader in **card acquiring business**. The Bank registered 24% growth in terms of number of POS transactions and 22% in volume of transactions. In addition, customers enjoy fast, secure and convenient card payment possibilities on 180 unattended terminals all over the country and 1 500 mPOS terminals. In 2017 the Bank also reconfirmed its role as a key player in supporting of POS acceptance among state and municipal institutions, a tendency that we will additionally extend in 2018.

As a result of the pro-active awareness and stimulation campaigns, **contactless payments dynamics** intensified, where 79% of debit and credit card portfolio were contactless-enabled. The number of contactless transactions increased by 133% and total gross expenditure volume marked remarkable annual growth of 148%. The contactless POS terminal network expanded and currently represents 93% from all real POS terminals.

By the end of 2017 **Program "PLUS"** partner merchants increased with around 33%, situated in numerous outlets in more than 142 cities within the country. The Program reached 109% growth of on-us POS volume compared to 40% growth of total POS payment at partner's outlets and 178% growth of payments above 30 BGN.

Channels

2017 was another year mainly driven by the digitalization. The share of operations performed through multichannel platforms increased to 79% and the deals concluded in the digital channels reached 12% share of total newly provided Bank's products.

The main digitalization initiatives were focused on developing features in mobile banking: confirmation of e-payments through mobile (M-token); card management; budget payments; remote activation process for mobile banking through call-center, etc. There was also strong commercial focus and marketing campaigns on mobile banking. In the beginning of the year was launched the new public web site with enhanced lead generation engine.

Active mobile banking users increased exponentially with +116% yoy growth, reaching 14% of active customers supported by the new functionalities and dedicated commercial activities, constantly performed. **Internet banking users** continued also their growth by 17.5% yoy.

Call Center activity grew with more than 21% annually in terms of number of interactions (more than 1 mln ytd) and more than 60% in terms of number of sales, thus turning it into the channel with major commercial contribution with more than 70 000 sales annually, mainly of mobile banking, consumer loans, overdrafts, credit cards and insurances. The result was supported by implementation of new direct sale process for mobile banking and new processes for targeting clients – inbound calls pro-active offering and event based real time offering at outbound.

Business strategy for **development of 3rd party network** for 2017 was split in three main areas – Lending business as a primary pillar of the network, Boost in the sales of Investment/saving products and New strategic partnerships. In 2017 loan volumes generated by 3rd party network continued to strengthen, where the strongest performance was derived from Mortgage lending (38% yoy growth). The share of sales brought by 3rd party agents increased by 4% during the year, while the investment/saving products marked another good performance reflecting the efforts and activities put in the development of skills and knowledge among the partners and the growth in 2017 was 6 fold the sales vs 2016.

In line with strategy for developing digital channels, the Bank had leveraged a well saturated network of physical branches with over 240 points of presence in all the country.

Following the continuous trend of migration towards automated cash services, at the end of 2017 the **self-service zones** reached 18% coverage. The Bank increased the share of deposit ATMs in its network to 126 installations in the busiest locations. In addition, during the year some projects and initiatives were implemented for improving service and customer experience related to deposit function of ATMs.

During the year UCB put focus on further **stepwise optimization of network footprint** by relocation and renovation of current branches following customers' preferences.

In 2017 more locations were redesigned as a part of **Branches of the Future** initiative, which represented 17% of the Bank's network. That included the project for designing and reconstruction of Sveta Nedelya flagship branch in Sofia, making full use of its unique landmark opportunity.

Retail Banking (continued)

Outlook for 2018

In 2018 the main focus of Retail Division will remain **on digital channels development and new functionalities implementation** especially in mobile banking area. We will continue investing in building the best customer experience, following and driving major market trends of transformation of retail business and giving the opportunity to our customers to reach the bank in fully integrated and consistent way.

Further development of alternative financial solutions for diversification of clients' assets along with strategy to enhance the financial literacy of the society are among our main goals for 2018, together with investments in innovation in card area (issuing and acquiring) in order to preserve the market leadership.

Keeping good levels of Customer satisfaction (excellent service) and proactive customer experience management, supported by efforts for Branch Network simplification, productivity and efficiency improvement, focusing strongly on compliance and client protection related legal requirements will remain our key success goals.

Asset and Liability Management

In 2017, UniCredit Bulbank continued **deleveraging its external funding exposure** under the conditions of robust primary sources and abundant liquidity.

The volume of **intra-group funding decreased** further, the remaining part being attributed to local subsidiaries. The successfully achieved aim was to decrease overall cost of funding for the Bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. BASEL-3 ratios) and capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, with abundant liquidity buffers being kept against the backdrop of increasing liquidity in the local banking system. No increase of intra-group funding was planned for 2018 either, as the Bank is able to take advantage of gradually increasing opportunities for a sound lending growth on its own, without deviating from the prudent liquidity management policy pursued so far. Since UniCredit Bulbank Group includes local subsidiaries (Leasing, Consumer Financing, Factoring etc.), the consolidated 2018 Funding Plan covers their liquidity needs, too.

Customer deposits remained the main funding source for the Bank, growing steadily throughout 2017 and contributing to stabilization of the customer deposits market share and further decrease of the loan/deposit ratio compared to 2016, continuing the trend from the previous years. UniCredit Bulbank will maintain its focus on retail and corporate deposits also in 2018, taking advantage of its excellent reputation, international franchising, variety of innovative products and service quality.

Given the excellent liquidity position of the Bank, no bonds were issued in 2017 or planned for 2018.

Over the course of the year 2017, UniCredit Bulbank continued to pursue an active but sensible investment policy in accordance with the approved internal limits and rules and with a view of maintaining a sound short-term and structural liquidity position of the Bank.

The investment portfolio was being structured with the aim to invest a part of the surplus liquidity, earning adequate return on an acceptable risk basis. The bond portfolio also served as liquidity cushion, being partially pledged as collateral for funds attracted from state budget entities and banking institutions. Moreover, the bonds in the investment portfolio are treated as high-quality liquid assets for the purpose of Liquidity Coverage Ratio calculation. The Bank gradually increased the volume of its investment portfolio from BGN 1 110 mln to BGN 1 182 mln in face value terms. In line with the preliminarily approved investment policy, the only bonds acquired in 2017 were issued by the Bulgarian government. Thus, the 100% share of Bulgarian government bonds (domestic and global) in the investment portfolio was kept unchanged during 2017. As at the end of 2017, the average rating of the investment portfolio was "BBB-" (as per S&P) and the average modified duration – 6.47 years.

Human Resources

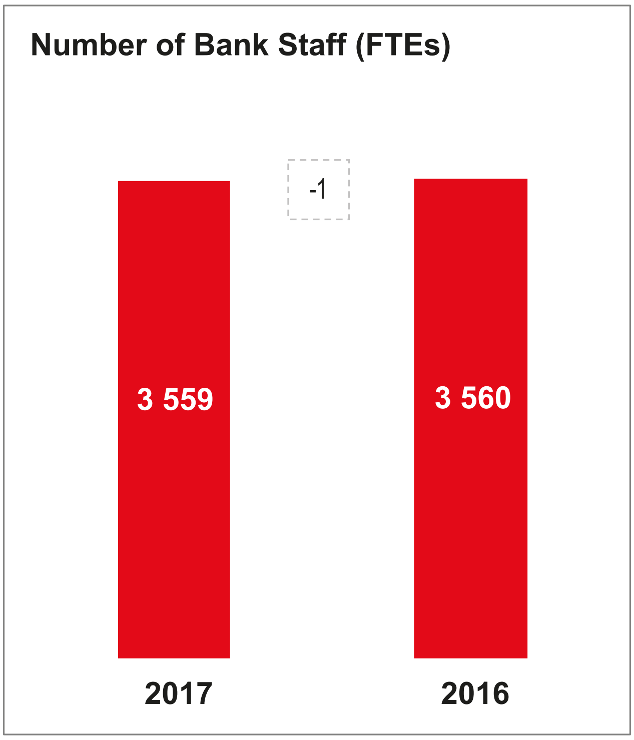
In 2017 HR department continued following its **strong human capital development** focus on exceptional leadership, talent acquisition & engagement, employee experience and digitally savvy mindset. At the same time more targeted actions were done in support of education in Bulgaria and manifesting our way of being a great place to work for the employees of tomorrow.

At the end of last year the **number of employees** (FTEs) of the Bank remained almost unchanged 3 559 compared to 3 560 at the end of 2016. In terms of gender distribution the proportion of female/male overall is ~76% vs 24%; the ratio for the managerial positions is quite balanced – 61% vs 39%, while for the top managerial positions (board level and direct reports to executive directors) the ratio is 53% vs 47%. Gender diversity is one of the priority not only of the HR team, but is part of the managerial agenda across all functions and is implicated in various internal requirements and procedures, covering not only the gender balance, but also with regards to the remuneration, succession planning, talent development, etc. The average age of the employees is 41 years, and from educational structure perspective most of the Bank's employees have university education (over 75%).

The **HR costs** remained under control, keeping the conservative approach, but also being at level that ensures competitive remuneration in comparison with the market, and also considering the positive commercial performance during the year. As planned in the previous year dedicated compensation actions and initiatives were delivered in order to be aligned with the local labor market development and increased dynamic and the staff fluctuation. The voluntary turnover was managed appropriately and showed significant decrease – from 9.5% to 7.6% with some areas going around and below 5%, thus being far below the market and ensuring stable and productive internal business environment.

The Bank continued to be considered a good place to work and **stable and reliable employer**, supported by the strong brand of UniCredit. It continues its active presence in the career events, events of students' organizations and in the social media. Particularly challenging were specific segments of the labor market that are related to highly qualified banking experts and specific positions (incl. the IT sector), as well as the geographical areas with higher turnover due to the labor market specifics. The major employer branding initiatives, launched in the previous year, aimed at increasing the popularity and attractiveness of UniCredit Bulbank as employer and good place to work were continued: the "Business MasterClass" – an initiative to spread banking knowledge among students and boost the interest for career in banking business through series of events lead by Bank's managers and experts, and the scholarships for best students from economic universities to support the well-educated and proactive young people in the country. In 2017 were hired slightly above 440 new people.

The Internship program as usual was one of the key priorities and affirmed its position of a very strong channel to feed the hiring pipeline. UniCredit Bulbank conducts maybe the largest Internship program on the local market with 361 participants, out of which 118 have been hired for permanent jobs. This represents almost 27% of all new hires which is making the program one of the key sources for recruiting new employees. The internship program together with the "Business MasterClass" are also an expression of the socially responsible approach of the Bank towards the society, as it gives students opportunities to obtain practical knowledge and experience thus increasing the quality of their education and giving them better chances.



The compensation policy was in line with the Group approach and with the European and local legislative requirements. Market trends have been closely monitored through participation in salary survey, analyzing the results and taking the needed actions in order to provide sustainable and competitive remuneration to employees, ensuring correlation with the Bank's performance as well as meeting the challenges of higher turnover and local labor market macroeconomic trends.

In 2017 HR department made further steps towards **fostering employee engagement** by encouraging meritocratic and feedback-driven environment, sustaining a focused talent-oriented culture for growth of future leaders, increasing awareness and understanding of career development opportunities in the company and last but not least by creating various cross learning and sharing experience opportunities for our people. For 2017 the Bank maintained sustainable and stable engagement level for both HO and Network structures, registering 80% employee engagement index for a second consecutive year. In 2017 trainings and various development

Human Resources (continued)

initiatives devoted to foster our employees' professional and personal growth have been at the core of our people development strategy. The Bank has manifested increase of 22% of the overall training hours. In addition, thoroughly new projects and HR services to our people had been started. One of the vivid examples of such an initiative is the Career Consultation realized through individual career coaching meetings available for all employees. This initiative aims to strengthen transparency in career and development opportunities and to support employees to identify the concrete steps needed to do a new career step and thus - to increase people engagement. The encouragement of meritocratic and feedback-driven environment has been tackled through providing new functionalities for cross-functional and instant feedback in Performance Management System. The purpose of this project was to strengthen transparency, meritocracy and objectivity in performance evaluation, career and development opportunities and foster closer communication between structures. Another development initiative "LIVE Motives" designed to enhance the personal growth of our employees and to support their abilities to manage successfully the dynamics in their professional and personal life continued to enjoy very positive feedback and gathered more than 600 participants from different structures. Other groups of actions, facilitating the professional excellence, practical learning and growth, were "Sales skills for Retail Portfolio Managers" training for Retail Network, "Follow-up on Strategic Relationship Management " for CIB&PB, "Meet to learn" for GBS, "Risk to know" for Risk colleagues, etc. Compliance and Security related topics have been also a tangible part of training agenda for 2017. At the same time, Agile methodology has been one of the topics around which we organized different trainings activities as it is of high importance at both Bank and Group level.

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

In 2018 HR department will continue to act as a trusted consultant for sustainable business and leadership growth, to empower the positive attitude and culture and to strengthen the open communication with our colleagues and local communities. **Employer branding initiatives** are going to be conceptually stronger positioned through a tailored strategy for supporting education and promotion of innovation competitions for students. New HR projects will be launched in order to ensure premium employee experience for our people.

UniCredit Bulbank Activity Review (continued)

Global Banking Services

Global Banking Services Division continued in 2017 to support sustainable business evolution in terms of high level performance and efficiency as well as development and implementation of new strategic initiatives and projects.

Following the multiyear strategy of the Bank, the main focus areas were related to differentiation and excellence in customer experience; digitalization and simplification of client related and back office processes; assuring high level of availability and performance as well as development of new enhanced capabilities driven by regulatory and business demand.

Information and Communication Technologies

In 2017, ICT followed its strategy to focus on the evolution of the digital platform base, through Service Oriented Architecture, modernization of Core System and Back office systems, unified presentation layer and multichannel development on the OMNI channel concept.

As a flagman of digital offer and following Mobile first strategy, the Bank continued to improve its mobile platform, speeding up the developments and leveraging on some agile principles to decrease time to market.

In 2017 the Bank continued to develop its ICT backbone, investing in technological and security programs. Several critical infrastructure projects have been completed without service interruption.

Priorities in 2017 Technological program were improving of storage capacity to cover test environments for the new version of core banking system, analysis of main data center relocation and establishment of the basis Office 365 environment.

Some of the technological achievements during the year were related to upgrade of Remedy system; Technological Refresh of High-End and Mid-Range storages; improving web and mail protection; securing mobile device management; strengthening End Point Security Protection and other.

ICT development was focused on challenging project portfolio and additionally delivered more than 400 small developments.

In 2018 main priorities will be to ensure resources for new version of core banking system FC 12, GDPR related security initiatives, implementation of Mobile and collaboration technologies based on Office 365.

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

Internal Group evaluation of ICT processes for 2017 shows that the level of maturity achieved by UCB IT exceeds in every basic discipline the target maturity defined based on the organization complexity.

Organization

In the area of project portfolio management 58 projects and programs were ongoing. The project portfolio complexity increased significantly versus previous years, impacted also by increasing regulatory pressure in the sector, but thanks to strong focus on top tier initiatives and proper prioritization of the others, the Bank managed to administrate it successfully and the main KPI's remained within the targets.

The strategic program **Transform 2019** continued with the ultimate focus on implementation of the initiatives in the area of commercial business analytics and digitalization. On the operational side the main achievements were the start of the implementation of core banking system upgrade and **ICT technological and ICT Security programs.**

Increased number of **regulatory initiatives** were ongoing - Alba Project - Group Remediation and Enhancement Plan, AnaCredit, MIFID/MIFIR, IFRS, General Data Protection Regulation, New definition of Default, Payment Service Directive. Despite the high number of resources allocated to these regulatory, group strategic and operational activities the Bank managed to assure also **proper focus in all other areas** in order to support the critical business development, ambitious Bank targets and strategy. This was supported with efficient process design and analysis and ad hoc sizing and functional analysis.

Following the new trends in the area of project management GBS implemented successfully several local and Group projects under **agile methodology** and set the basis for further development of the methodology, onboarding and training strategy for the whole Bank.

In the area of process improvement the focus was put on finalization of on-going Lean Six Sigma (LSS) initiatives. The main achievements are related to support business processes digitalization, standardization and efficiency improvement.

During the year the Bank established Chief Data Office function and technical team and approved Data & Information Governance Framework aiming to define and rule Data & Information Governance area.

Real Estate and Logistics

In 2017, in line with the strategic priorities of the business divisions, the Bank continued to roll out its Branch of the Future (BoF) concept and transformed 10 additional branches into the concept, reaching 33 at the end of 2017. On the top of this few more Self Service Zones: Fast Bank were developed as well as several other branches were modernized according to the new Retail and Corporate service models aiming to answer increased customer needs for speed of service and 24/7 availability.

A landmark project was implemented in Sveta Nedelya Flagship branch, employing new technologies and materials to best fit the context of Branch of the future concept, including modern 24/7 Fast banking area. UniCredit Studio was incorporated into the branch area giving clear vision of Bank's interaction with communities and support of young artists' development.

Following the understanding that engaged and competent people

Global Banking Services (continued)

are a key asset, UniCredit Bulbank implemented in 2017 a modern training and event center.

A big step towards using energy efficient and environment friendly technologies was undertaken with program for renovation of the building infrastructure and appliances. Massive change to LED lights in the HO buildings and the other main sites is undergoing.

An initiative for reduction of paper use was launched giving very positive result of 10-15% at this stage.

RFID technology for inventory management was implemented in 2017, initially in the HO, but aiming to fully cover the network in 2018.

Operations

The strategic outlook and commitment of Operations department for 2017 have been again aligned with the core fundamentals of UniCredit. Focusing on growth in a sustainable way and building on intrinsic strengths and capacities, Operations department provided for the right level of quality services, flexibility and risk free transaction execution, assuring proper support to Bank's business development.

An essential achievement of Operations was related to the operational excellence and quality of execution, delivered in parallel with headcount and operative risk optimization. Both FTE savings and production capacity increase were assured in order to meet new business demands and transactional volume growth.

Efficiency and costs optimization goal was strongly supported in line with expectations and demand of business for lower costs and more competitive servicing. Based on some LSS (lean six sigma) and project initiatives coordinated internally Optical character recognition (OCR) was optimized and Bank cash model was significantly reorganized.

Procurement

The line of centralization of procurement activities in Bulgaria continued during this year, supporting sustainable Bank efficiency.

Along with the improvement of most of the procurement KPIs, a significant improvement of the Time to Delivery indicator was achieved. In addition the Procurement department started to realize its business potential by sourcing innovative technologies and solutions from StartUp companies which assures competitive advantage at reduced costs.

The main focus of Procurement Department in 2018 will be towards extracting more business options from the market as well as assuring on time and in quality support of key business projects.

Customer Satisfaction Management

Client centricity remains one of the main strategic pillars when it comes to the mission of UniCredit Group. Stakeholder and Service Intelligence (S&SI) Unit is focused on **creating and managing listening activities and objective measurement of the perception** of UniCredit Bulbank, its products, services and image among various groups of stakeholders – external and internal customers, community members and employees. Feedback surveys, direct management of complaints, compliments and recommendations filed by the stakeholders on the base of the day-to-day operations. The customer experience and behaviour towards the banks is dramatically changing with shifting clients' expectations and priorities requiring Omni-channel service, impeccable on-time support and effortless client journeys.

While supporting the traditional listening initiatives, S&SI is developing new customer experience and instant feedback formats/ platforms which could provide more flexibility and action ability delivering adequate and credible on-time data.

External Customer Satisfaction

In **Retail Banking** nearly 1 100 customers and 2 000 prospects' individual customers were interviewed for the purpose of obtaining a valuable feedback and reliable benchmarking to competitors in the area of customer satisfaction. Important topics as satisfaction, recommendation, attrition risk, cross-selling, acquisition potential and others were covered.

In 2017 a new **Customer First Index** was introduced in all countries where UniCredit is present for the purpose of providing an in-depth and reliable feedback about customer satisfaction. Results for Individual customers show satisfaction of UniCredit Bulbank's customers of 64pts (+2pts above main peers). A high share of customers who would recommend the Bank is also observed (Net Promoters Score (NPS) = 20pts) where UniCredit Bulbank is again outperforming Peers with +3pts.

In Small Business 510 Competitors' and 223 UCB customers were interviewed for the purpose of having a reliable benchmark to competitors. UCB confirms its leadership position with a positive +4 pts gap to main peers and a NPS = 30pts (+19pts gap to Peers).

Considering the importance of **gathering on-time feedback** by customers about their experience among all channels, UniCredit Bulbank addressed more than 90 000 Customers (both online and over the phone) and received more than 8 500 valuable feedbacks about the experience of clients within the branch they have visited. Important topics related to customer experience like overall satisfaction, NPS, politeness of employees and solving problems were covered, all showing very positive results.

For the seventh consecutive year, another more than 12 000 interviews with individuals and small business customers who have a dedicated relationship manager were conducted for the purpose of in-depth understanding of their satisfaction with the Bank and the service provided by the relationship managers.

In **Corporate segment**, UniCredit Bulbank Customer First Index result is 62 (+2pts above competitors). High level of recommendation (NPS = 25pts, +14pts vs Peers), good acquisition potential and cross selling opportunities provide a solid ground for a future positive growth.

Mystery Shopping

In 2017 various scenarios for individuals (Investment products, Overdraft, Credit Card) and small business customers (Working capital loan) gathered feedback about level of service provided in branch network. **Service Quality Index remains high** for almost all scenarios (above 80pts.) ensuring UniCredit Bulbank customers receive a very high level of consultation.

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

Internal Client Satisfaction

As **Customer First** is among the pillars of UniCredit, delivering an excellent service quality and top products to customers' means having a high level of cooperation between structures inside the Bank. Therefore an Internal Customer Satisfaction Survey has been conducted for the eighth consecutive year. Cooperation and Synergies Index measuring the level of cooperation between structures and effort they put into dealing with each other has increased to 67pts (+2pts yoy).

Reputation Management

Reputation of UniCredit Bulbank remains excellent, outperforming competitors among all 3 segments that were surveyed - Individuals, Small Business and Corporate.

The Bank is considered to be **solid and strategic** for the country by both customers and prospects, working in a clear and understandable manner with clients and being a trustful partner.

Complaints Management

The **Complaints management process** is structured in accordance with the Group Global Policy, allowing for a structured and transparent claim handling process as well as the established local regulations. The main channels for gathering customers' complaints feedback were the Bank's branches, CCM email, Call Center, website feedback forms, CCM phone and social networks by exception. The process included **identification of recurring issues and system malfunctions, and suggestions for respective correction measures** to the respective Bank's units.

Customer feedback and the information for each complaint were integrated in reports that are presented to Top Management on regular basis. In 2017 was achieved the internal KPI for complaints management resolution to resolve at least 85% of complaints within 3 workdays. Related to the cases regulated by the local regulations were observed the reply deadlines as stipulated in the legislation - one month or the set deadlines from regulatory authorities.

Corporate Social Responsibility and Sustainable Development

In 2017 the Bank further developed its corporate citizenship program keeping strong focus on already defined key priority areas of education, development of innovations and social entrepreneurship.

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

Focus on education, innovation

UniCredit Bulbank has been recognized by the society as leading bank in terms of innovations and digitalization and as such it became a natural partner of the most respected forums in the country dedicated to the development of technologies **like Innovation Explorer Forum, DigitaLK** and **HackConf 2017.**

The aim of the Bank is to work for improving the country's well-being and it does so not only by promoting the development of modern technologies but also by supporting educational initiatives. For a fifth year, the Bank was the partnering organization of the **"Creative vacations for children"** - joint project together with the Sovereign Order of Malta which gives the opportunity of disadvantaged children to visit some of the most remarkable places in Bulgaria and to represent them in paintings.

The Bank also further developed its efforts for improving the financial knowledge of the young people. The experts of the Bank continued with its **national program "Finance for Non- specialists",** launched in 2016. The program was acknowledged with the "Investor in Knowledge" category of the Annual Business Responsibility Awards (BBLF) of the Bulgarian Business Leaders Forum and won first place in the category "Business Education Project" at the annual B2B Media Awards 2017.

The Bank also supported Junior Achievement **"The Financial IQ Project"**, which is targeting students in high schools.

Focus on business and social entrepreneurship

In 2017 UniCredit Bulbank kept its position as valued partner in many of the high profile initiatives and conferences of the business chambers in Bulgaria like Confindustria Bulgaria, the Bulgarian Chamber of Commerce and Industry's EU Club meetings, business forums of the American Chamber of Commerce in Bulgaria, the German – Bulgarian Chamber, Austrian Business Circle, etc.

The Bank was also active in social and charity events, gathering the business, political and diplomatic elite of the country. Traditionally UniCredit Bulbank was main partner of the charitable **Vienna Ball in Sofia.** The funds collected from the Vienna Ball in 2017 were distributed to 13 Children's homes in Sofia and youth centre of the "Concordia" in Sofia.

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

Being consistent, in 2017, UniCredit Bulbank continued to support the organization of one of the most important initiatives of Council of Women in Business - **Leadership Academy.** The initiative targets ladies from SMEs and its focus is on improving leadership and managerial skills of the participants.

The tradition of combined support of healthy lifestyle, sport, and social entrepreneurship was continued also in the last year with the sixth edition of the **1000 km Balkan Charity Challenge.**

Focus on art and culture

In 2017 UniCredit Bulbank was active supporting the most respected art and cultural events in the country such as **Camerata Orfica, Orpheus and Paganini spectacle** and **three concerts of Spanish Ballet** in Sofia, Ruse and Varna. The Bank not only sponsored the **concert of the famous Charles Aznavour** in Sofia but also hosted a cocktail with the legendary singer at its International Center. The event was attended by Ambassadors and many high profile guests.

UniCredit Bulbank International Center hosted also the special event, organized by the Bank, for presenting **Kiril Kartaloff book dedicated to Vatican.**

As a bank, UniCredit Bulbank supports cultural integration and this was the reason to support the third edition of **Cinelibri Festival.** The respected cinema forum was dedicated to movies screenings by books and attracted the attention of the whole society.

Among the most remembered cultural events of the year was also gala concert in National opera - 25 April 2017: 10 years of EU membership. Among the flagship partnership of the Bank during the year was with the Italian Cultural Institute for the organization of **Viva Italia exhibition.**

The Bank not only supported but also organized numerous exhibitions during the year under the umbrella of the Gallery for contemporary art UniCredit Studio. The gallery hosted events like **"Contrasts along the coast", "Contrasts" and "Return".**

Among the projects, continued also from previous years were the sponsorship of the **Stoyan Kambarev Foundation award for young artists, the Month of Photography 2017** and **the forth "Photo Factory Festival".**

Focus on volunteering initiatives

In 2017 the traditional **Christmas** and **Easter Charity Bazaars** were organized by the Bank employees in several venues. The proceeds from those events go to charity to organizations, proposed by the employees. In addition the national volunteering network developed numerous projects around the country, involving colleagues and partners.

Major Subsidiaries and Associates

UniCredit Consumer Financing

In an environment of growing Bulgarian economy, continuing expansion of consumer lending market and yet fierce competition, UniCredit Consumer Financing (UCFin) completed another successful year.

For the year ended December 31, 2017 **UCFin reported net profit in the amount of BGN 101.2 mln, representing a record growth of 63% yoy**. The revenues reached BGN 131.2 mln (+17% yoy) with net interest income (NII) being the usual main contributor with a share of 88%. The three channels (Banking, POS and CVM) kept their steady performance with NII coming from the Banking channel preserving its predominant position (74% from total NII for 2017). The operating costs of UCFin for 2017 amounted to BGN 18.4 mln (+5.5% yoy). Cost growth was entirely volume driven and was lower than the revenues growth which was a clear indicator for the proper cost management system adopted by the Company and spread out across all areas. For another consecutive year UCFin carried on with its prudential risk management policy. This year the focus was on development of expected loss model linked to upcoming new IFRS 9 (effective in 2018). Risk assumptions have been analyzed and adjusted due to the better portfolio performance and as a result of that, the overall impairment losses charged for the year amounted to BGN 0.2 mln.

The performance of the Company was also facilitated by the **high quality of the loan portfolio** due to careful underwriting activities and outstanding collection performance. As of December 31, 2017 performing loans portfolio was stable, representing 99% of total outstanding loans. During the year the outstanding portfolio increased by 20% supported by an overall increase in new volumes by 16%. **POS financing** continued to be major customer acquisition engine for the Company and the growth of new sales in that channel (+9% yoy) was strong enough to position again the Company as number one in the segment.

In 2017 UCFin kept the **joint commercial activities with the Bank**, focused on acquisition of new clients and cross-selling. The latter resulted in increase of consumer loans originated through the Banking channel with more than 13% yoy. During the year the Company continued Customer value management (CVM) commercial activities on banking clients as well as on POS customers. Both resulted in great CVM performance (growth 54% yoy) with record high sales reported in August and November.

In 2018 the growth of the economy is expected to continue and the competition among the banking and non-banking players to remain fierce. In such environment UCFin will focus its efforts on **keeping the leading market position and bringing sustainable profits** by leveraging on its strength, being innovative and by re-enforcing the links with UniCredit Bulbank. POS business will remain acquisition engine for new customers for the Group. In parallel, UCFin will keep on acting as product factory for the Bank, bringing the state-of-the-art risk management for underwriting, collection as well as after-sales processes.

UniCredit Leasing

In 2017 **UniCredit Leasing (UCL) consolidated net profit** went up to BGN 11.1 mln, translated in 64% increase yoy. Total Revenues accelerated by some 17% yoy, edging up to BGN 33.6 mln. The year-end figures witness solid cost management as OPEX slumped by cca 3% vs 2016. In 2017 the net financing surged by 1pp yoy to BGN 828 mln parallel with 20% reduction of the loans provisions.

As far as the risk management area is concerned, a **continuously positive trend of asset quality improvement** is on track. Gross defaulted loans show 44.5% yoy reduction, reaching total volume of BGN 79 mln in December 2017 (vs. BGN 142 mln an year earlier). At the same time, gross performing loans increased by 6.9% yoy in 2017, reaching BGN 821 mln compared to BGN 768 mln a year earlier.

The improvement in terms of performance and efficiency continues in 2017. The number of signed new leasing contracts increased by 11% and reached 3 786 new contracts, keeping the total volume of the financed amount under newly signed leasing contracts.

UniCredit Leasing has kept its leading market position and retained a share of 23%. This was enhanced mainly through the excellent cooperation and cross sales with UniCredit Bulbank and the strong cooperation with international vendors of equipment and car dealers, implementation of new and improvement of existing products. **The main drivers for the good performance** were positioned in the following areas:

- **Manufacturing sector:** UCL has significantly increased its market share, reaching 27%, supported by: the positive development of the **construction sector** and the launched infrastructure projects facilitated by new leasing opportunities; the increasing number of foreign investments especially in the **export oriented sectors**. UCL and UCB together provide structured solutions – leasing plus all the relevant banking products and services.
- **Transportation sector:** the overall market coverage remained at levels over 30%, where UniCredit Leasing has been traditionally strong with providing flexible solutions, together with the vendors. Despite the reduction of the investment activity in the sector that can be illustrated with the shrunk in the sales of new trucks with 9% in 2017, UCL increased with 2% the volume of the financed amount under newly signed leasing contracts. This result was supported by the increase of the car market, car dealer cooperations and adequate pricing policy.
- **Agricultural sector:** remained stable due to two cooperations with leading vendors in the agricultural machinery cluster. Additional boost in that segment was given by the EU Funds product, which provides financing schemes to the customers, eligible under the EU grant programs.

In 2017 **UniCredit Insurance Broker (UCIB)** strengthened further its position as leading provider of insurance-brokerage services. UCIB remained the leader on the market, with regard to placed Casco premiums, thanks to the long-lasting partnership with UCL.

Major Subsidiaries and Associates (continued)

UCIB continued and developed further its excellent interaction with UniCredit Bulbank and UniCredit Factoring. This led to an increase of UCIB revenues by 10% in 2017 vs 2016.

UniCredit Factoring

For UniCredit Factoring EAD (UCF) 2017 was a year of stable market environment and big potential for growth of factoring business. UCF kept the sustainable positive trends, enlarging and diversifying the client and product portfolio and reaching significant growth. The increase of business volumes and debt average reached 30% yoy, resulting in **net revenues growth by 14%,** due to continuous downtrend in margins. The strong market competition continued in 2017, mainly in terms of pricing and simplification and optimization of services.

The **volumes of all products offered registered growth** in 2017: domestic recourse factoring (above 30%), domestic non-recourse factoring (13%), higher-value added products, such as export factoring (22%) and import factoring volumes (21%). The clients' demand for customized factoring solutions and reverse factoring (buyer-based solution) was rising, driven by the demand of flexible financial services for the company itself and the counterparties. UniCredit Factoring successfully closed several reverse factoring deals, providing flexible financial service to suppliers of large and trustworthy companies. The other comparatively new product – Invoice discounting increased its portfolio penetration, providing the opportunity of fast and one-off financing of customer's current financial needs.

All services provided were digitalized through eFactoring.bg. UCF continued the application enhancement in 2017, fully automating the product process cycle and its varieties. The portfolio penetration of eFactoring exceeded 75% of the client base, reaching double-digit growth yoy in terms of registered users. The electronically assigned volumes continously grew during the year, following the trend of digitalization of financial services and clients' preferences. The full digitalization of all services reaffirmed UCF's position as a market maker in 2017, providing innovative solutions, which is fully focused to meet customers' needs.

In terms of **presence in specific industries**, **UCF continued to confirm its leading position in sectors traditionally requiring factoring services**, such as trade and services, transportation and storage, heavy and light industries, metals and machinery, etc. In 2017 UCF continued to provide factoring solutions to suppliers of municipalities and public institutions and agencies, where it successfully closed several flexible customized deals. In terms of export financing, the attractive EU markets and neighbouring countries took a leading share in the factoring portfolio, providing favourable environment for business generation.

In 2017 UCF met the growing business demand and sophisticated customer needs, while increasing the customer satisfaction, offering flexibility and simplification of services through high expertise and synergy with the Bank. The trend for customer portfolio expansion is expected to continue in the next year through capitalizing on the domestic market and the ongoing export growth.

In 2018 UCF will continue **to leverage on the product diversity, increase in market share and enriching the services provided.** Key drivers for the business will be the full range of digitalized domestic products, the buyer-based approach and customized solutions meeting the business demand. UCF will continue to rely on transparency, speed and high level of services to preserve its leadership position in 2018 as well.

UniCredit Fleet Management

UniCredit Fleet Management EOOD is a non-financial company specialized in providing transport and car fleet management services to companies within UniCredit Group in Bulgaria as well as to external clients. As of December 31, 2017 the Company operated total 292 motor vehicles with headcount of 11 people employed. In 2017 a new business line had just started: develop and offer fleet management services also to external (non-related) clients and the expectations are for a rapid expansion in the following years.

Governance Declaration

Corporate Governance Declaration by UniCredit Bulbank AD

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

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

The main documents regulating the corporate governance of UniCredit Group are available on UniCredit Group's website:

https://www.unicreditgroup.eu/en/governance/governance-system-and-policies.html?topmenu=INT-TM_GOV1_en023

Among them (but not only) are:

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

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

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

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

Management

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

General Meeting of the Shareholders

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

The General Meeting of the Shareholders:

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

Supervisory Board

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

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

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

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

Management Board

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

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

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

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

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

The Annual Report on the activity if the Bank for 2017 provides detailed information about the organizational structure of the Bank and the members of the management bodies.

Specialized bodies

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

Supervisory Board Committees

(i) Audit Committee

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

(ii) Nomination and Compensation Committee

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

(iii) Risk Committee

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

Management Board Committees

(i) Asset-Liability Committee (ALCO)

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

(ii) Credit Committee and Credit Council

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

(iii) Provisioning and Restructuring Committee

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

Governance Declaration (continued)

(iv) Cost Committee

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

(v) Project Portfolio Committee

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

(vi) Operational and Reputational Risk Committee

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

(vii) Quality Assurance Committee

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

(viii) Disciplinary Committee

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

(ix) Credit Monitoring Commission

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

(x) Internal Control Business Committee (ICBC)

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

(xi) Process Steering Committee

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

(xii) Local Investment Committee to Private Banking Department

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

(xiii) Business Continuity Management Committee

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

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

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

LAYERS OF THE INTERNAL CONTROL SYSTEM

Governance Declaration (continued)

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

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

Risk Management

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

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

Compliance

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

Internal Audit

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

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

Information on proposals for acquisitions/ mergers in 2017

As at the end of 2017 no proposals to UniCredit Bulbank AD were made for acquisition from/merger to/with other companies.

For UniCredit Bulbank AD:

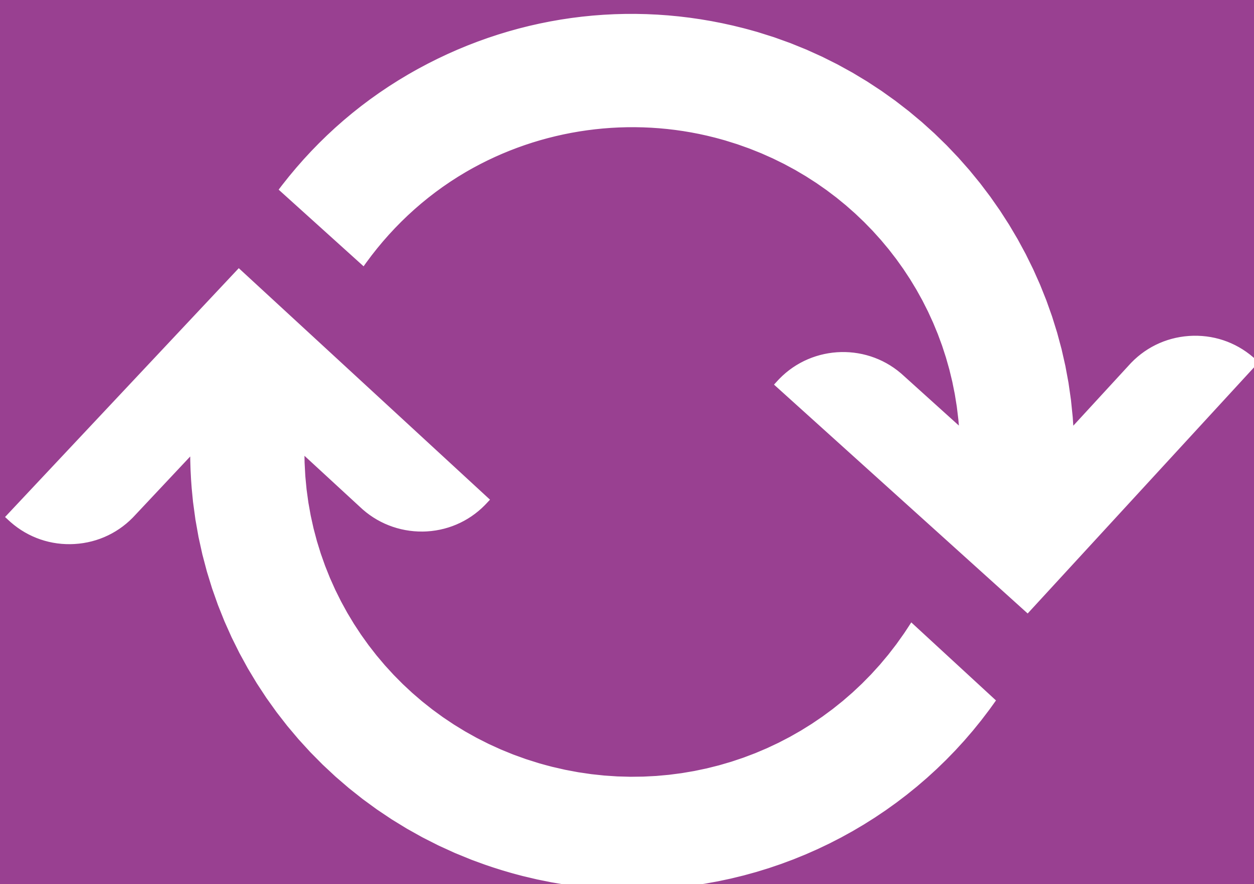
Levon Hampartzoumian
Chief Executive Officer

Enrico Minniti
General Manager

Strengthen and optimise capital.

Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

Deloitte. BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bulbank AD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the separate statement of financial position as at December 31, 2017, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers As described in note 24 to the separate financial statements, the Bank has recorded as at December 31, 2017 impairment allowances on loans and advances to customers amounting to BGN 653,797 thousand. Impairment allowances represent management's estimate of the losses incurred within the loan portfolio at the reporting date built on complex assumptions and professional judgments with significant impact on the financial position of the Bank. As described in note 5c to the separate financial statements, in estimating the impairment on financial instruments carried at amortised cost, Management makes judgements about the present value of the net cash flows to be received. By doing that, counterparty's financial position as well as realizable value of the underlying collateral is considered. Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the risks of material misstatement in this area. Out audit procedures were focused on the following: **Testing of internal controls** We evaluated the design and implementation of relevant controls that the Management has established to support their collective and individual impairment calculations, as well as their operating effectiveness, including: - controls over the source data, methodology and internal models development/validation and for the results acceptance; - controls related to timely identification of impairment triggers; - controls related to assessment of the borrowers' financial performance and estimation of future cash flows. **Collective impairment** In case of collective allowances, we assessed for selected internal models the model methodology, the internal validation reports and results of the model back-testing. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the collective impairment based on the risk parameters resulted from the models and the loan portfolio as at December 31, 2017. We considered the appropriateness of Management's estimates in respect of calculation methodologies and economic factors used by the Bank in the collective impairment process.

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Key audit matter	*How our audit addressed the key audit matter*
	Individual impairment In determining the samples for our detailed substantive procedures, we analysed the Bank's loan portfolio in order to determine the exposures on which our procedures were focused. We performed detailed substantive procedures in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans.

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the separate financial statements

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

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

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

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

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2017 by the general meeting of shareholders held on December 12, 2017 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2017 represents fifth total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and first statutory audit engagement for the Bank carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2016 and December 31, 2017. The audits were performed in accordance with ISA.
  - Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2016 and December 31, 2017, and audit of the reporting package of the Bank's subsidiary UniCredit Factoring EAD prepared in accordance with the UniCredit Group accounting policies as at and for the year ending December 31, 2016. The audits were performed in accordance with ISA.
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2016, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

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- Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 3 months ending March 31, 2017, the 6 months ending June 30, 2017, and the 9 months ending September 30, 2017. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Momchil Chergashki
Proxy of the Statutory Manager Assen Dimov
Registered Auditor

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

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Krassimira Radeva
Statutory Manager
Registered Auditor

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

March 9, 2018

7

Income Statement

In thousands of BGN

	Notes	2017	2016
Interest income		481 504	512 824
Interest expense		(45 554)	(66 142)
Net interest income	7	**435 950**	**446 682**
Dividend income		**3 662**	**1 515**
Fee and commission income		242 576	222 162
Fee and commission expense		(25 818)	(21 589)
Net fee and commission income	8	**216 758**	**200 573**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	85 950	81 246
Net income from investments	10	9 153	30 686
Other operating expenses, net	11	(53 299)	(46 265)
TOTAL OPERATING INCOME		**698 174**	**714 437**
Net income related to property, plant and equipment	12	13 650	2 285
Personnel expenses	13	(120 489)	(113 964)
General and administrative expenses	14	(92 332)	(89 869)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	15	(31 696)	(42 481)
Provisions for risk and charges	16	14 010	(6 491)
Net impairment loss on financial assets	17	(150 241)	(139 249)
PROFIT BEFORE INCOME TAX		**331 076**	**324 668**
Income tax expense	18	(33 423)	(33 230)
PROFIT FOR THE YEAR		**297 653**	**291 438**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 31, 2018

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

Deloitte Audit OOD

Momchil Ghergansky
Registered auditor
9.03.2018

Baker Tilly Klitou & Partners OOD

09.03.2018

Krassimira Radeva
Registered auditor

The accompanying notes 1 to 44 are an integral part of these separate financial statements

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

Одиторско дружество
София
Рег. № 129
Бейкър Тили Клиту и Партньори ООД

2

Statement of Comprehensive Income

In thousands of BGN

	Notes	2017	2016
Profit for the year		**297 653**	**291 438**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial losses	36	(1 410)	(745)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		141	75
		(1 269)	**(670)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		144 723	71 622
Cash flow hedge		9 129	(9 082)
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		(15 385)	(6 254)
		138 467	**56 286**
Total other comprehensive income net of tax for the year		**137 198**	**55 616**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**434 851**	**347 054**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 31, 2018.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

J. Mandac
Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Cherganski
Registered auditor
9/03/2018

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor
09.03.2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The accompanying notes 1 to 44 are an integral part of these separate financial statements

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Statement of Financial Position

In thousands of BGN

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and balances with Central Bank	19	3 729 631	4 547 510
Non-derivative financial assets held for trading	20	23 819	23 256
Derivatives held for trading	21	86 332	108 905
Derivatives held for hedging	22	6 339	2 452
Loans and advances to banks	23	1 626 697	1 320 905
Loans and advances to customers	24	9 436 559	9 070 237
Available for sale investments	25	3 762 901	3 146 706
Investments in subsidiaries and associates	26	55 004	55 004
Property, plant, equipment and investment properties	27	181 364	193 921
Intangible assets	28	35 337	24 842
Deferred tax assets	30	5 669	7 493
Non-current assets held for sale	31		2 015
Other assets	32	146 436	122 586
TOTAL ASSETS		**19 096 088**	**18 625 832**
LIABILITIES			
Financial liabilities held for trading	33	82 483	74 305
Derivatives used for hedging	22	42 898	64 453
Deposits from banks	34	452 276	728 882
Deposits from customers	35	15 520 709	14 893 732
Provisions	36	41 356	56 242
Current tax liabilities	29	4 078	8 807
Other liabilities	37	99 033	89 569
TOTAL LIABILITIES		**16 242 833**	**15 915 990**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		236 380	99 182
Retained earnings		2 033 445	2 033 445
Profit for the year		297 653	291 438
TOTAL EQUITY	38	**2 853 255**	**2 709 842**
TOTAL LIABILITIES AND EQUITY		**19 096 088**	**18 625 832**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 31, 2018.

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

Deloitte Audit OOD	Baker Tilly Klitou & Partners OOD	09.03.2018
Momchil Cherganski *Registered auditor* 9.03.2018	Krassimira Radeva *Registered auditor*	

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The accompanying notes 1 to 44 are an integral part of these separate financial statements.

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Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2016	**285 777**	**342 378**	**1 836 070**	**73 431**	**(28 094)**	**(1 771)**	**2 507 791**
Profit for the year	-	-	**291 438**	-	-	-	**291 438**
Actuarial losses	-	-	-	-	-	(745)	(745)
Change of revaluation reserve on available for sale investments	-	-	-	71 622	-	-	71 622
Change of revaluation reserve on cash flow hedges	-	-	-	-	(9 082)	-	(9 082)
Income tax related to components of other comprehensive income	-	-	-	(7 162)	908	75	(6 179)
Total other comprehensive income for the year net of tax	-	-	-	**64 460**	**(8 174)**	**(670)**	**55 616**
Total comprehensive income for the year net of tax	-	-	**291 438**	**64 460**	**(8 174)**	**(670)**	**347 054**
Dividends paid	-	-	(145 003)	-	-	-	(145 003)
Balance as of December 31, 2016	**285 777**	**342 378**	**1 982 505**	**137 891**	**(36 268)**	**(2 441)**	**2 709 842**
Profit for the year	-	-	**297 653**	-	-	-	**297 653**
Actuarial losses	-	-	-	-	-	**(1 410)**	(1 410)
Change of revaluation reserve on available for sale investments	-	-	-	144 723	-	-	144 723
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 129	-	9 129
Income tax related to components of other comprehensive income	-	-	-	(14 472)	(913)	141	(15 244)
Total other comprehensive income for the year net of tax	-	-	-	**130 251**	**8 216**	**(1 269)**	**137 198**
Total comprehensive income for the year net of tax	-	-	**297 653**	**130 251**	**8 216**	**(1 269)**	**434 851**
Dividends paid	-	-	(291 438)	-	-	-	(291 438)
Balance as of December 31, 2017	**285 777**	**342 378**	**1 988 720**	**268 142**	**(28 052)**	**(3 710)**	**2 853 255**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 31, 2018.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
Registered auditor
9/03/2018

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor
09.03.2018

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

The accompanying notes 1 to 44 are an integral part of these separate financial statements.

5

Statement of Cash Flows

In thousands of BGN

	Notes	2017	2016
Net profit		**207 663**	**201 430**
Current and deferred tax, recognised in income statement		33 423	33 230
Adjustments for non-cash items			
Depreciation and amortisation	15	31 696	31 753
Impairment of financial assets	17	178 561	164 670
Impairment of property, plant, equipment, investment properties and other assets	11, 15	2 637	13 916
Provisions, net	36	(13 403)	7 076
Unrealised fair value losses through profit or loss, net		4 657	3 430
Unrealised fair value losses/(gains) on FX revaluation		(169 821)	31 240
Net income from sale of property, plant and equipment		(13 650)	(2 294)
Net interest income		(435 950)	(446 682)
Dividend income		(3 662)	(1 515)
Increase in other accruals		57 428	49 759
Cash flows from profits before changes in operating assets and liabilities		**(30 431)**	**176 021**
Operating activities			
Change in operating assets			
Decrease/(Increase) in loans and advances to banks		153 283	(45 611)
(Increase) in loans and advances to customers		(579 417)	(510 639)
(Increase) in available for sale investments		(470 788)	(778 846)
Decrease in financial instruments held for trading and hedging derivatives		9 794	9 730
Decrease/(Increase) in non-current assets held for sale		2 015	(2 015)
(Increase) in other assets		(63 098)	(26 352)
Change in operating liabilities			
(Decrease) in deposits from banks		(248 784)	(387 339)
Increase in deposits from customers		813 659	1 380 111
Provisions utilization		(2 142)	(2 465)
(Decrease) in other liabilities		(19 078)	(29 288)
Interest received		487 708	492 563
Interest paid		(51 093)	(87 692)
Dividends received on available for sale investments		3 662	1 515
Taxes paid		(43 199)	(34 696)
Net cash flow from operating activities		**(37 909)**	**194 997**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2017	2016
Cash flow from investing activities			
Cash payments to acquire tangible assets		(15 403)	(28 788)
Cash receipts from sale of tangible assets		13 650	3 808
Cash payments to acquire intangible assets		(18 025)	(10 677)
Net cash flow from investing activities		**(19 778)**	**(35 657)**
Cash flow from financial activities			
Dividends paid		(291 438)	(145 003)
Net cash flows from financial activities		**(291 438)**	**(145 003)**
Effect of exchange rate changes on cash and cash equivalents		**(7 478)**	**180**
Net increase in cash and cash equivalents		**(356 603)**	**14 517**
Cash and cash equivalents at the beginning of period	42	**4 749 152**	**4 734 635**
Cash and cash equivalents at the end of period	42	**4 392 549**	**4 749 152**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 31, 2018

JMandac

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Baker Tilly Klitou & Partners OOD

Momchil Chergansky
Registered auditor
9/03/2018

Krassimira Radeva
Registered auditor
09.03.2018

The accompanying notes 1 to 44 are an integral part of these separate financial statements

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

Одиторско дружество
София
Рег. № 129
Бейкър Тили Клиту и партньори ООД

Notes to the Separate Financial Statements

1. Reporting entity

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

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

As of December 31, 2017 Bank operates through its network comprising of 168 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

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

These separate financial statements are approved by the Management Board of UniCredit Bulbank AD on January 31, 2018. They should be read in conjunction with the consolidated financial statements which will be approved by the Management Board of the Bank as well in February 2018.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policies

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

(a) Interest income and expense

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

(b) 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.

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

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

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

(d) Foreign currency transactions

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

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

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

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

(f) Dividend income

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

(g) Lease payments made

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

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

(h) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity depends on IAS 39 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost.

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

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

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.

f) Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available for sale and do not meet the definition of loans and receivables.

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

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

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

g) Investments in subsidiaries and associates

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

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

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

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

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

h) Deposits from banks and customers

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

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

(i) Reclassification

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

(ii) 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.

(iii) 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.

(iv) Fair value measurement principles

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

(v) Offsetting

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

(vi) Repurchase agreements

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

(i) Impairment

The carrying amounts of Bank’s assets are regularly reviewed to determine whether there is any objective evidence for impairment as follows:

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

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

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

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

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

(j) 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.

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

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting.

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

(k) Property, plant, equipment and investment property

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

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

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **32**).

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

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

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

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

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2017 and December 31, 2016 intangible assets include primarily investments in software and related licenses.

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

(m) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale. (see also Note **31**)

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

(n) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2017 and December 31, 2016 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(o) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (equity settled) granted by the ultimate parent UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Bank.

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

As of December 31, 2017 and December 31, 2016 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(p) Share capital and reserves

(i) Share capital

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

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

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

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

No changes in the amount of the share capital were performed in 2017 and 2016.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on available for sale investments, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2017 and December 31, 2016 the reserves includes also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(q) Taxation

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2017 and December 31, 2016 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

(r) Segment reporting

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

(s) Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU came into force for the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses** – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017).

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- **IFRS 16 "Leases"** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 "Financial Instruments" - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);

The new accounting standard IFRS 9 "Financial Instruments" (IFRS 9), mandatorily effective for annual periods beginning after January 1, 2018, that will replace IAS 39 "Financial Instruments: Recognition and Measurement":

- will introduce significant changes, compared to IAS39, to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI - Solely Payments of Principal and Interests criteria);
- requires the classification of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available for sale assets set by IAS39, IFRS9 has eliminated the request to recognize impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit and loss accounts;
- will introduce a new accounting model for impairment, based on expected losses approach substituting the current approach based on the incurred losses;
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS39 hedge accounting rules until the IASB has completed the project on definition of macro-hedging rules;
- changes the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognized in a specific equity reserve, rather than to the income statement, as requested under IAS39, therefore removing a volatility source from the economic results.

As of the date of preparing these separate financial statements, UniCredit Bulbank AD has already ensured the first time application of IFRS 9 with regards to the new requirements for classification and measurement and impairment. In accordance with IFRS 9.7.2.21, the Bank continues to apply the hedge accounting requirements of IAS 39 in their entirety instead of the requirements set out in IFRS 9. This decision applies to all of the entity's hedging relationships.

In order to grant the prompt compliance with the requirements set by the accounting principles, the UniCredit Group has activated a project, that is in its final phase, with the aim at creating accounting and risk monitoring methodologies harmonized across Group Legal Entities.

Mirroring the main changes required by IFRS9, the Group wide project has been organized through work-streams specifically:

I. Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS9 criteria.

II. Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

These work-streams are further integrated by a specific work-stream dedicated to adapting the models and methodologies developed to the peculiarities of Corporate & Investment Banking (CIB).

The whole project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Board of Directors and Senior Management.

Details of the new requirements in the areas of classification and measurement and impairment allowances as well as their impact on the Bank's financial statements are described below.

I. CLASSIFICATION AND MEASUREMENT

With reference to "Classification and Measurement" work-stream, the Group has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard;
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas composing the Group and by attributing them a specific business model.

In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas composing the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

In this context, possible sales of financial instruments are considered as compliant with a "held to collect" business model in case of (i) securitization transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.

A business model "other" has been assigned to the business areas composing the trading portfolio of the Group so to reflect the trading intent.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").

In this regard, the Group has developed processes and systems aimed at analyzing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio").

This analysis is performed either contract by contract or by standardized products, defined on the basis of the features of the asset, and using a specific internal tool (SPPI Tool) in order to analyze the feature of the contracts in comparison with IFRS 9 requirements or making use of an external data provider.

UniCredit Bulbank AD effectively applies both process and system wise, the SPPI Tool since April 2017 and the process of SPPI contractual screening of all existing contracts has been successfully finalized already in 2017. In addition to the above the following activities are finalized:

- Design of new underwriting process – SPPI Test is embedded in the process pre-approval of the loan deal;
- Design and implementation of new product approval process;
- Series of educations for acquainting employees with the IFRS 9 SPPI Criterion are held;
- Fair Value Engine development – in final stage of Group implementation.

Equity financial assets are classified upon initial recognition in one of the following categories (portfolios):

- In case equity is acquired principally for the purpose of selling or repurchasing it in the near term, then the asset is classified as Fair value through P&L (FVTPL) and foreign exchange gains or losses are recognized in P&L; changes in fair value are recognized in P&L also;
- In case of irrevocable election to present in other comprehensive income, subsequent measurement is in FVOCI. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

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

All derivative financial instruments are classified as FVTPL/held for trading/, except for those which are designated as effective hedging instruments as per the approved Hedge Accounting Policy of the entity.

In accordance with IFRS 9 the entity classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

A brief comparison between portfolios and reclassifications relevant for UniCredit Bulbank AD imposed by the adoption of the new classification and measurement criteria are described below:

- *Held for trading (HFT) and Fair value option (FVO)*

Changes related to the composition of HFT and FVO portfolios are not envisaged given that the criteria for the classification in such categories remain basically unchanged. The Bank intends all debt securities and derivatives classified in HFT portfolio according to IAS

39 to be classified as FVTPL in accordance with IFRS 9.

- *Mandatory at fair value (MFV)*

The new portfolio MFV is going to be introduced according to IFRS 9 principles in case of SPPI failure. The Bank will introduce this portfolio effectively only for few loans granted to start-up companies amounting at MBGN 3.2. These loans will be measured since January 2018 at FV on a monthly basis, where the results would be presented in P&L (no material impact is assessed for the moment).

- *Fair value through Other Comprehensive Income (FVOCI)*

The Bank intends all debt securities classified currently in AFS portfolio according to IAS 39 to be classified as FVOCI in accordance to IFRS 9.The following reclassifications will be applied ensuring Group consistency:

- Equities investment in **Visa LTD** will be measured at fair value in FVTPL portfolio (revaluation in P&L) according to IFRS 9 while in accordance with IAS 39 is measured at fair value in AFS portfolio (revaluation in other comprehensive income);
- Equities investment in **Bulgarian Stock exchange Sofia** will be measured at fair value in FVTPL portfolio (revaluation in P&L) according to IFRS 9 while in accordance with IAS 39 is measured at fair value in AFS portfolio (revaluation in other comprehensive income)
- Equities investment in **SWIFT** will be measured at fair value in FVOCI (revaluation in OCI) according to IFRS 9 while in accordance with IAS 39 is measured at cost in AFS portfolio.

Except for the above stated, no other reclassifications, change in business model or measurement are expected to be applicable for UniCredit Bulbank AD.

II. IMPAIRMENT

With reference to the “Impairment” work-stream, the Group impairment models have been adapted to comply with the new accounting requirements, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

The applicable asset perimeter subject to expected losses calculation have been extended in order to include, in addition to financial assets at Amortized Cost and the applicable off balance sheet exposures, all credit exposures assets classified at Fair Value through Other Comprehensive Income.

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

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

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

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective.

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

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

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

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

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

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

In UniCredit Group the stage allocation assessment includes a combination of relative and absolute triggers. Main triggers include:

- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect the bank's expectation about PD changes over time (e.g. age, maturity, level of PD at origination);
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due);
- other internal relevant triggers (e.g. new classifications to Forborne).

Methodological framework

With reference to the implementation of the methodological framework and tools described above in the daily operations the Group, in line with the project timeline, has designed the final IT architecture, and is finalizing the development of the organizational processes and procedures.

The Group plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.

The UniCredit group IFRS9 project is part of European Central Bank Thematic Review.

First Time Adoption (FTA) effects

At the date of first time application, the main impacts of IFRS9 on UniCredit group are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause an increase of Loan Loss Provisions made on financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognized in the financial statements (especially between "Stage1", which will include the new positions originated as well as all performing loans, and "Stage2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

The effects arising from IFRS 9 adoption both in term of impairment and classification and measurement on CET 1 for UniCredit Bulbank AD are estimated in the range of -0.5% on CET 1 gross of tax effect.

All FTA effects for UniCredit Bulbank AD are summarized below:

In thousands of BGN

	IFRS 9 FIRST TIME ADOPTION EFFECT'S ESTIMATION
Reclassification of assets	2 538
Impairment allowances	(77 662)
Total FTA	**(75 124)**

Further to entering into force of IFRS9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses (CRD/CRR) is foreseen.

In that regard, the EU Regulation n. 2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. UniCredit Group at consolidated level will not adopt this transitional regime including UniCredit Bulbank AD.

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

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

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

Based on the analysis performed on a Group level including for UniCredit Bulbank AD, so far no major impacts are foreseen by the adoption of IFRS 15.

IFRS 16, effective starting from January 1, 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of October 31, 2017 (published on November 9, 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS16 or by IAS40.

Activities aimed at assessing the impacts of the adoption of the new accounting principles and ensuring the compliance with it are currently ongoing.

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

As of 31 December 2017 the IASB issued the following standards, amendments, interpretations or revisions, their application is subject to completion of the endorsement process by the competent bodies of the European Commission[1], which is still ongoing:

- **IFRS 17 "Insurance Contracts**" (effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IAS 40 "Investment Property" -** Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after January 1, 2018);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after January 1, 2019);

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

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

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over

[1] EFRAG resolved not to proceed with the endorsement of IFRS14 – Regulatory Deferral Accounts and Amendments to IFRS10 and IAS28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk.

(b) Market risks

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

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

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

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

During 2017, VaR (1 day holding period, confidence interval of 99 %) of UniCredit Bulbank AD moved in a range between EUR 14.86 million and EUR 16.08 million, averaging EUR 15.36 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2017 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.21	3.32	1.53	1.30
Credit spread	14.64	15.88	15.08	15.60
Exchange rate risk	0.01	0.37	0.14	0.02
Vega risk	-	-	-	-
VaR overall[1]	**14.86**	**16.08**	**15.36**	**15.36**

[1] Including diversification effects between risk factors.

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

The sensitivities' table below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2017 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(6 860)	2 812	(35 634)	(187 328)	(2 756)	**(229 766)**
BGN	(13 328)	10 659	(35 093)	(195 487)	-	**(233 249)**
USD	(7 365)	2 913	558	88	-	**(3 806)**
CHF	44	239	(5)	(19)	(24)	**235**
GBP	(590)	(131)	37	-	-	**(684)**
Other	(7)	(151)	-	-	-	**467 898**
Total Absolute	**28 194**	**16 905**	**71 327**	**382 922**	**2 780**	**467 89**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2017 totalled EUR 1 025 335. Instruments issued by governments continue to account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(464)	(7 515)	(15 283)	(987 957)	-	(1 011 219)
Regional governments	-	-	-	(1 269)	-	(1 269)
Corporates	-	(11 593)	(627)	(627)	-	(12 847)
Total Absolute	**464**	**19 108**	**15 910**	**989 853**	**-**	**1 025 335**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2017 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

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

In thousands of BGN

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

As of December 31, 2016 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	4 536 225	11 285	**4 547 510**
Non-derivative financial assets held for trading	37	23 219	**23 256**
Derivatives held for trading	90 515	18 390	**108 905**
Derivatives held for hedging	2 452	-	**2 452**
Loans and advances to banks	1 176 128	144 777	**1 320 905**
Loans and advances to customers	8 782 485	287 752	**9 070 237**
Available for sale investments	3 141 171	5 535	**3 146 706**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	193 921	-	**193 921**
Intangible assets	24 842	-	**24 842**
Deferred tax assets	7 493	-	**7 493**
Non current assets held for sale	2 015	-	**2 015**
Other assets	122 527	59	**122 586**
TOTAL ASSETS	**18 134 815**	**491 017**	**18 625 832**
LIABILITIES			
Financial liabilities held for trading	59 791	14 514	**74 305**
Derivatives used for hedging	64 453	-	**64 453**
Deposits from banks	517 673	211 209	**728 882**
Deposits from customers	13 362 053	1 531 679	**14 893 732**
Provisions	49 997	6 245	**56 242**
Current tax liabilities	8 807	-	**8 807**
Other liabilities	87 049	2 520	**89 569**
TOTAL LIABILITIES	**14 149 823**	**1 766 167**	**15 915 990**
EQUITY	**2 709 842**	**-**	**2 709 842**
Net off-balance sheet spot and forward position	**(1 280 816)**	**1 298 802**	**17 986**
Net position	**(5 666)**	**23 652**	**17 986**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2017, meaning that under extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

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

In thousands of BGN

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	37	23 219	**23 256**
Loans and advances to banks	593 809	727 096	**1 320 905**
Loans and advances to customers	3 139 314	5 930 923	**9 070 237**
Available for sale investments	330 630	2 816 076	**3 146 706**
Other assets	49 447	73 139	**122 586**
TOTAL FINANCIAL ASSETS	**4 113 237**	**9 570 453**	**13 683 690**

In thousands of BGN

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	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	728 882	(730 585)	(402 806)	(6 284)	(37 613)	(283 882)
Deposits from customers	14 893 732	(14 899 054)	(10 546 601)	(1 432 620)	(2 253 361)	(666 472)
Unutilized credit lines	-	(1 873 083)	(28 096)	-	(346 520)	(1 498 466)
Total non-derivative instruments	**15 622 614**	**(17 502 722)**	**(10 977 503)**	**(1 438 904)**	**(2 637 494)**	**(2 448 820)**
Derivatives used for trading, net	**34 600**	**-**	**-**	**-**	**-**	**-**
Outflow	-	(2 936 531)	(1 736 508)	(483 308)	(468 632)	(248 083)
Inflow	-	2 978 982	1 743 265	487 276	477 301	271 140
Derivatives used for hedging, net	**(62 001)**	**-**	**-**	**-**	**-**	**-**
Outflow	-	(147 310)	(233)	(10 441)	(8 410)	(128 226)
Inflow	-	86 383	-	11	3	86 369
Total derivatives	**(27 401)**	**(18 476)**	**6 524**	**(6 462)**	**262**	**(18 800)**
Total financial liabilities	**15 595 213**	**(17 521 198)**	**(10 970 979)**	**(1 445 366)**	**(2 637 232)**	**(2 467 620)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2017 and December 31, 2016 is as shown in the next table:

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds		
Rated BB+	36	37
Loan		
Rated BBB	23 783	23 219
Derivates (net)		
Banks and financial institution counterparties	(92 266)	(77 036)
Corporate counterparties	59 556	49 635
Total trading assets and liabilities	**(8 891)**	**(4 145)**

Government bonds presented as of December 31, 2017 and December 31, 2016 include only bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

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

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

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

During 2017 the Bank has performed 4 parallel runs on quarterly basis regarding loan loss provision according to IFRS 9, which becomes effective from 01.01.2018. According to new methodology under the standard, the scope of the assessment is extended and includes off-balance sheet items of credit instruments measured at amortized cost, loans to banks as well as debt securities evaluated according to amortised cost or fair value through other comprehensive income.

Further change is the removal of IBNR concept and introduction of expected credit loss concept for the performing loans, which is divided in two views – 12-month and lifetime expected loss, based on the stage of the transaction. In order to meet all criteria of the new standard, local modelling team developed IFRS9 compliant PD, LGD and EAD models and related transfer logic.

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

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures. The process of evaluation of contingent liabilities and allocation of provisions as per the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is performed specifically whenever provision allocation indicator exists, as per the current Policy, and mandatory by the year-end for the purposes of drawing annual financial statements of the Bank.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as large exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank.

The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2017 and December 31, 2016.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2017	2016	2017	2016	2017	2016
Biggest credit risk exposure to customers' group	312 933	313 422	306 803	313 422	12.3%	13.3%
Credit risk exposure to top five biggest customers' groups	1 061 644	1 108 347	937 011	829 623	37.4%	35.2%

The table below analyses the breakdown of impairment allowances as of December 31, 2017 and December 31, 2016 on loans and advances to customers:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Impaired	**827 923**	**1 209 004**	**611 894**	**809 316**	**216 029**	**399 688**
individually assessed	333 128	473 420	196 724	243 559	136 404	229 861
portfolio assessed	494 795	735 584	415 170	565 757	79 625	169 827
Collectively assessed performing exposures (IBNR)	**7 400 361**	**7 645 559**	**41 903**	**43 677**	**7 358 458**	**7 601 882**
Past due but not impaired	**69 822**	**181 325**	**-**	**-**	**69 822**	**181 325**
individually assessed	45 604	143 822	-	-	45 604	143 822
portfolio assessed	24 218	37 503	-	-	24 218	37 503
Past due comprises of:						
up to 90 days	**31 862**	**74 472**	**-**	**-**	**31 862**	**74 472**
from 91 to 180 days	23 239	3 063	-	-	23 239	3 063
over 181 days	14 721	103 790	-	-	14 721	103 790
	69 822	181 325	-	-	69 822	181 325
Neither past due nor impaired	**1 792 250**	**887 342**	**-**	**-**	**1 792 250**	**887 342**
Total	**10 090 356**	**9 923 230**	**653 797**	**852 993**	**9 436 559**	**9 070 237**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2017	31.12.2016
Impaired defaulted exposures		
Cash collateral	3 172	1 224
Property	834 585	1 034 136
Other collateral	420 387	562 366
Collectively impaired performing exposures (IBNR)		
Cash collateral	59 409	58 222
Property	8 733 480	8 731 975
Debt securities	430	430
Other collateral	8 730 590	8 025 836
Past due but not impaired defaulted exposures		
Cash collateral	315	868
Property	192 223	453 579
Other collateral	72 028	114 272
Neither past due nor impaired performing exposures		
Cash collateral	66 951	74 408
Property	1 610 819	1 548 703
Debt securities	6 900	10 300
Other collateral	80 422	61 751
Total	**20 811 711**	**20 678 070**

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

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2017 and December 31, 2016.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Concentration by sectors						
Sovereign	324 068	339 082	-	-	3 479 519	3 129 166
Manufacturing	2 180 370	2 311 833	-	-	-	-
Commerce	1 892 042	1 949 629	-	-	-	-
Construction and real estate	1 158 985	1 536 218	-	-	67	67
Agriculture and forestry	464 337	456 810	-	-	-	-
Transport and communication	324 532	321 596	-	-	-	-
Tourism	268 838	253 122	-	-	-	-
Services	377 242	500 266	-	-	655	655
Financial services	988 507	127 058	1 626 697	1 320 905	337 664	71 822
Retail (individuals)						
Housing loans	1 753 565	1 656 185	-	-	-	-
Consumer loans	259 057	350 560	-	-	-	-
Other	98 813	120 871	-	-	-	-
	10 090 356	**9 923 230**	**1 626 697**	**1 320 905**	**3 817 905**	**3 201 710**
Impairment allowances	(653 797)	(852 993)	-	-	-	-
Total	**9 436 559**	**9 070 237**	**1 626 697**	**1 320 905**	**3 817 905**	**3 201 710**
Concentration by geographic location						
Europe	9 999 793	9 859 361	1 617 933	1 316 874	3 810 839	3 196 175
North America	45 187	21 535	5 746	3 623	7 066	-
Asia	14 039	3 078	2 919	156	-	-
Africa	73	46	-	-	-	-
South America	26	29	-	-	-	5 535
Australia	31 238	39 181	99	252	-	-
	10 090 356	**9 923 230**	**1 626 697**	**1 320 905**	**3 817 905**	**3 201 710**
Impairment allowances	(653 797)	(852 993)	-	-	-	-
Total	**9 436 559**	**9 070 237**	**1 626 697**	**1 320 905**	**3 817 905**	**3 201 710**

(e) Operational Risk

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

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

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

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

The main activities of the Operational and Reputational Risk Unit in 2017 were focused on the further development of the Operational Risk management, with emphasis on preventive and mitigation actions to reduce future losses. In particular, Operational Risk Assessment for ICT Risk, was performed in UniCredit Bulbank AD - this is a bottom up approach for the identification and assessment of ICT risks and mitigating controls that facilitates the understanding and management of ICT risks. A significant part of the resources of the Operational and Reputational Risk Unit were also devoted towards the implementation and monitoring of the 2017. Operational Risk Strategies of the Bank (Operational risk strategies deploy their effect in a multiyear perspective) and include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk, etc. As part of the definition of the Operational Risk Strategies 2018, the Business Syndication activity was performed. This activity is performed by the Operational and Reputational Risk unit in order to collect information related to business strategies in a forward looking perspective. The aim is to measure the operational risk arising from Strategies implementation using also risk indicators. Additionally, the Operational and Reputational Risk team was also deeply involved in several critical initiatives for the Bank, such as projects covering the General Data Protection Regulation (GDPR), the second Payment Services Directive (PSD2), Anti-money Laundering, the upgrade of the core banking system, etc.

Overall, the organization of operational and reputational risk management at UniCredit Bulbank AD is well established, at a high level of quality, as stated in the annual self-validation report. This was confirmed by the control verifications of UniCredit Group Internal Validation and Bank's Internal Audit inspections. Based on these independent assessments, the operational risk management and control system was found sound and well developed with focus on proactiveness, proposal and implementation of mitigation actions with the active involvement of the operational and reputational risk function, and all relevant units in the Bank.

(f) Basel III disclosure

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

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

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2017 are 10%, 11.5% and 13.5%, respectively.

UniCredit Bulbank AD fulfils the minimum requirements, with sufficient excess, already from the first application of the new regulatory framework (more details presented in the following paragraphs).

Securitization

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes.

Summary of FLPG as of December 31, 2017 is presented in the table below:

NAME	EIF JEREMIE	
Type of securitisation:	First Loss Portfolio Guarantee	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction:	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2017	Performing loans	
Agreed maximum portfolio volume:	EUR 85,000 thousand	
Nominal Value of reference portfolio:	BGN 41,306 thousand	
Issued guarantees by third parties:	First loss cash coverage by EIF	
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2017	BGN 9,648 thousand	BGN 23,397 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2017 and December 31, 2016 are as follows:

In thousands of BGN

	31.12.2017	31.12.2016
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 463 974	2 343 258
Tier 1 capital	2 463 974	2 343 258
Tier 2 capital	39 893	14 326
Total regulatory own funds	**2 503 867**	**2 357 584**
Risk Weighted Assets (RWA)		
RWA for credit risk	8 409 786	7 677 613
RWA for market risk	37 467	40 026
RWA for operational risk	713 804	807 800
RWA for credit valuation adjustments	1 148	2 563
Total Risk Weighted Assets (RWA)	**9 162 205**	**8 528 002**
CET 1 ratio	**26.89%**	**27.48%**
Tier 1 ratio	**26.89%**	**27.48%**
Total capital adequacy ratio	**27.33%**	**27.65%**
Minimum CET 1 capital requirements (4.5%)	**412 299**	**383 760**
Minimum Tier 1 capital requirements (6%)	**549 732**	**511 680**
Minimum total capital requirements (8%)	**732 976**	**682 240**
Additional capital requirements for conservation buffer (2.5%)	229 055	213 200
Additional capital requirements for systemic risk buffer (3%)	274 866	255 840
Combined buffers additional capital requirements (5.5%)	**503 921**	**469 040**
Adjusted minimum CET 1 capital requirements after buffers (10%)	916 221	852 800
Adjusted minimum Tier 1 capital requirements, including buffers (11.5%)	1 053 654	980 720
Adjusted minimum total capital requirements after buffers (13.5%)	1 236 898	1 151 280
Free equity, after buffers	**1 266 969**	**1 206 304**

Following previous prudential approach, in parallel to the introduction of the Basel III regulatory framework, in 2014 BNB defined two additional capital buffers –for conservation and for systemic risk. All Bulgarian banks should meet combined buffers capital requirements already as of December 31, 2014. Buffers can be covered by Core Equity Tier 1 eligible positions only. As of December 31, 2017 and December 31, 2016 the same requirements remained valid.

5. Use of estimates and judgements

For the purposes of preparation of these separate financial statements Management has used certain estimates and judgement in order to provide fair and true presentation of the financial position of the Bank. These estimates and judgement require Management to use all information available in order to assess and where possible to quantify potential impact on the Bank's financial position as a result of some uncertain events.

In general the estimates and judgement are widely used in assessing:

- Fair value determination of financial instruments;
- Fair value determination of non-financial assets;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations.

(a) Fair value determination of financial instruments

As described in note **3 (h) (vi)** the Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument;
- **Level 2**: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, various option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the fair value of the financial instrument at the reporting date that would have been determined by market participants and that represents the price that would be received to sell an asset or paid to transfer liability in an orderly transaction. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to liquidity, changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation. Management judgement and estimation are usually required for selection of appropriate valuation model, determination of probability of default and prepayment speeds and selection of appropriate discount rates.

Under IFRS 13 "Fair Value Measurement" requirements, the Bank paid specific attention on assessing and revising its valuation techniques, especially with regards to valuation of OTC derivatives and other Level 2 and Level 3 financial instruments, otherwise carried at amortized cost (loans and deposits to/from customers and banks). In doing such revision the Bank has adopted UniCredit Group valuation techniques and methodologies.

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2017 and 2016 see also Note **9**).

Loans and advances to banks and customers

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7.

In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2017, whenever risk-free FV deviates by more than 2% (2% in 2016) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2017 and December 31, 2016 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2017 and December 31, 2016.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non derivative financial assets held for trading	-	-	8 335	23 256	15 484	-	23 819	**23 256**
Derivatives held for trading	-	-	80 651	107 896	5 681	1 009	**86 332**	**108 905**
Derivatives held for hedging	-	-	6 339	2 452	-	-	**6 339**	**2 452**
Available for sale Investments	2 449 394	2 143 081	1 294 781	985 978	18 726	17 647	**3 762 901**	**3 146 706**
Loans and advances to banks	-	-	1 240 859	1 253 849	386 117	72 573	**1 626 976**	**1 326 422**
Loans and advances to customers	-	-	1 003 422	1 608 118	8 850 798	8 201 449	**9 854 220**	**9 809 567**
	2 449 394	**2 143 081**	**3 634 387**	**3 981 549**	**9 276 806**	**8 292 678**	**15 360 587**	**14 417 308**
Financial liabilities held for trading	-	-	81 086	74 305	1 397	-	**82 483**	**74 305**
Derivatives used for hedging	-	-	42 898	64 453	-	-	**42 898**	**64 453**
Deposits from banks	-	-	313 000	253 922	138 916	454 971	**451 916**	**708 893**
Deposits from customers	-	-	5 202 469	5 752 257	10 315 252	9 137 395	**15 517 721**	**14 889 652**
	-	**-**	**5 639 453**	**6 144 937**	**10 455 565**	**9 592 366**	**16 095 018**	**15 737 303**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2017 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2017)	**1 009**	**17 647**
Increases	**20 479**	**2 194**
Profit recognized in income statement	736	-
Profit recognized in equity	-	2 194
Transfer from other levels	19 743	-
Decreases	**(323)**	**(1 115)**
Redemption	-	(452)
Loses recognized in income statement	(23)	-
Loses recognized in equity	-	(663)
Other decreases	(300)	-
Closing balance (December 31, 2017)	**21 165**	**18 726**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2017 and December 31, 2016.

In thousands of BGN

DECEMBER 2017	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	3 729 631	**3 729 631**	**3 729 631**
Non-derivative financial assets held for trading	36	23 783	-	-	-	**23 819**	**23 819**
Derivatives held for trading	86 332	-	-	-	-	**86 332**	**86 332**
Derivatives held for hedging				6 339		**6 339**	**6 339**
Loans and advances to banks	-	1 626 697	-	-	-	**1 626 697**	**1 626 976**
Loans and advances to customers	-	9 436 559	-	-	-	**9 436 559**	**9 854 220**
Available for sale Investments	-	-	3 762 901	-	-	**3 762 901**	**3 762 901**
TOTAL ASSETS	**86 368**	**11 087 039**	**3 762 901**	**6 339**	**3 729 631**	**18 672 278**	**19 090 218**
LIABILITIES							
Financial liabilities held for trading	82 483	-	-	-	-	**82 483**	**82 483**
Derivatives used for hedging	-	-		42 898	-	**42 898**	**42 898**
Deposits from banks	-	-	-	-	452 276	**452 276**	**451 916**
Deposits from customers	-	-	-	-	15 520 709	**15 520 709**	**15 517 721**
TOTAL LIABILITIES	**82 483**	**-**	**-**	**42 898**	**15 972 985**	**16 098 366**	**16 095 018**

In thousands of BGN

DECEMBER 2016	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-		4 547 510	**4 547 510**	**4 585 396**
Non-derivative financial assets held for trading	37	23 219	-	-	-	**23 256**	**23 256**
Derivatives held for trading	108 905	-	-	-	-	**108 905**	**108 905**
Derivatives held for hedging					2 452	**2 452**	**2 452**
Loans and advances to banks	-	1 320 905	-	-	-	**1 320 905**	**1 326 422**
Loans and advances to customers	-	9 070 237	-	-	-	**9 070 237**	**9 809 567**
Available for sale Investments	-	-	3 146 706	-	-	**3 146 706**	**3 146 706**
TOTAL ASSETS	**108 942**	**10 414 361**	**3 146 706**	**2 452**	**4 547 510**	**18 219 971**	**18 964 818**
LIABILITIES							
Financial liabilities held for trading	74 305	-	-	-	-	**74 305**	**74 305**
Derivatives used for hedging	-	-		64 453	-	**64 453**	**64 453**
Deposits from banks	-	-	-	-	728 882	**728 882**	**708 893**
Deposits from customers	-	-	-	-	14 893 732	**14 893 732**	**14 889 652**
TOTAL LIABILITIES	**74 305**	**-**	**-**	**64 453**	**15 622 614**	**15 761 372**	**15 737 303**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2017 and December 31, 2016 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **27**).

(c) Impairment of financial instruments

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

Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. As of December 31, 2017 and December 31, 2016 the average applied loss confirmation period is 6 months.

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

(d) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2017	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	220 979	235 532	(20 561)	**435 950**
Dividend income	-	-	3 662	**3 662**
Net fee and commission income	138 547	78 372	(161)	**216 758**
Net gains from financial assets and liabilities held for trading and hedging derivatives	21 919	48 873	15 158	**85 950**
Net income from investments	-	9 153	-	**9 153**
Other operating expenses, net	19 957	(28 498)	5 733	**(53 299)**
TOTAL OPERATING INCOME	**362 388**	**343 432**	**7 646**	**698 174**
Personnel expenses	(52 597)	(16 999)	(50 893)	**(120 489)**
General and administrative expenses	(57 065)	(11 015)	(24 252)	**(92 332)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16 551)	(4 808)	(10 337)	**(31 696)**
Total direct expenses	**(126 213)**	**(32 822)**	**(85 482)**	**(244 517)**
Allocation of indirect and overhead expenses	(50 831)	(28 689)	79 520	**-**
TOTAL OPERATING EXPENSES	**(177 044)**	**(61 511)**	**(5 962)**	**(244 517)**
Provisions for risk and charges	-	-	14 010	**14 010**
Net impairment loss on financial assets	(10 407)	(117 528)	(22 306)	**(150 241)**
Net income related to property, plant and equipment	-	-	13 650	**13 650**
PROFIT BEFORE INCOME TAX	**174 937**	**164 393**	**(8 254)**	**331 076**
Income tax expense	(17 494)	(16 439)	510	**(33 423)**
PROFIT FOR THE YEAR	**157 443**	**147 954**	**(7 744)**	**297 653**
ASSETS	**2 764 037**	**8 421 332**	**7 910 719**	**19 096 088**
LIABILITIES	**8 686 899**	**7 151 001**	**404 933**	**16 242 833**

In thousands of BGN

DECEMBER 2016	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	235 927	251 146	(40 391)	**446 682**
Dividend income	-	-	1 515	**1 515**
Net fee and commission income	124 397	76 219	(43)	**200 573**
Net gains from financial assets and liabilities held for trading and hedging derivatives	20 773	48 710	11 763	**81 246**
Net income from investments	-	6 518	24 168	**30 686**
Other operating expenses, net	(17 773)	(26 425)	(2 067)	**(46 265)**
TOTAL OPERATING INCOME	**363 324**	**356 168**	**(5 055)**	**714 437**
Personnel expenses	(48 605)	(16 707)	(48 652)	**(113 964)**
General and administrative expenses	(57 056)	(10 283)	(22 530)	**(89 869)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 239)	(4 799)	(20 443)	**(42 481)**
Total direct expenses	**(122 900)**	**(31 789)**	**(91 625)**	**(246 314)**
Allocation of indirect and overhead expenses	(47 036)	(28 284)	75 320	**-**
TOTAL OPERATING EXPENSES	**(169 936)**	**(60 073)**	**(16 305)**	**(246 314)**
Provisions for risk and charges	-	-	(6 491)	**(6 491)**
Net impairment loss on financial assets	(16 763)	(142 755)	20 269	**(139 249)**
Net income related to property, plant and equipment	-	-	2 285	**2 285**
PROFIT BEFORE INCOME TAX	**177 782**	**156 772**	**(9 887)**	**324 668**
Income tax expense	(17 663)	(15 334)	**(233)**	**(33 230)**
PROFIT FOR THE YEAR	**160 119**	**141 438**	**(10 120)**	**291 438**
ASSETS	**2 730 835**	**8 539 829**	**7 355 168**	**18 625 832**
LIABILITIES	**7 842 005**	**7 358 572**	**715 413**	**15 915 990**

7. Net interest income

In thousands of BGN

	2017	2016
Interest income		
Non-derivative financial assets held for trading	34	154
Derivatives held for trading	13	0
Loans and advances to banks	9 431	12 394
Loans and advances to customers	404 060	435 054
Available for sale investments	67 966	65 222
	481 504	**512 824**
Interest expense		
Derivatives held for trading	(16)	(20)
Derivatives used for hedging	(20 218)	(17 053)
Deposits from banks	(13 751)	(14 642)
Deposits from customers	(11 569)	(34 427)
	(45 554)	**(66 142)**
Net interest income	**435 950**	**446 682**

For the financial years ended December 31, 2017 and December 31, 2016 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 21 429 thousand and BGN 23 551 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2017	2016
Fee and commission income		
Collection and payment services	128 782	118 338
Lending business	17 238	17 042
Account services	24 457	17 654
Management, brokerage and securities trading	8 590	7 495
Documentary business	19 240	18 409
Package accounts	19 178	19 077
Other	25 091	24 147
	242 576	**222 162**
Fee and commission expense		
Collection and payment services	(22 343)	(18 194)
Management, brokerage and securities trading	(1 476)	(1 334)
Lending business	(143)	(120)
Other	(1 856)	(1 941)
	(25 818)	**(21 589)**
Net fee and commission income	**216 758**	**200 573**

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

In thousands of BGN

	2017	2016
FX trading income, net	78 353	68 791
Net income from debt instruments	710	783
Net income from derivative instruments	6 450	10 889
Net income from other trading instruments	564	1 431
Net income from hedging derivative instruments	(127)	(648)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**85 950**	**81 246**

The total CVA (net of DVA) for the years ended December 31, 2017 and December 31, 2016, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN (1 202) thousand and BGN 2 162 thousand, respectively.

10. Net income from investments

In thousands of BGN

	2017	2016
Realised gains on disposal of available for sale investments	9 153	6 518
Income from equity investments	-	24 166
Realised gains on disposal of unimpaired loans and advances	-	2
Net income from investments	**9 153**	**30 68**

Realized gains on disposal of unimpaired loans and advances include the net profit out of sale of performing exposures. The realised gains (losses) on sale of impaired (defaulted) exposures are included under Net impairment loss on financial assets (see also note **17).**

Income from equity investments as of December 31, 2016 consists of one-off gain from VISA ownership shift.

11. Other operating expenses, net

In thousands of BGN

	2017	2016
Other operating income		
Income from non-financial services	933	901
Rental income	617	833
Other income	3 946	5 887
	5 496	**7 621**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(53 546)	(48 399)
Impairment of foreclosed properties	(2 637)	(3 188)
Other operating expenses	(2 612)	(2 299)
	(58 795)	**(53 886)**
Other operating income, net	**(53 299)**	**(46 265)**

In 2017 and 2016 the Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

12. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2017 and December 31, 2016 the gains are in the amount of BGN 13 650 thousand and BGN 2 285 thousand respectively.

13. Personnel expenses

In thousands of BGN

	2017	2016
Wages and salaries	(100 163)	(94 347)
Social security charges	(13 251)	(12 885)
Pension and similar expenses	(607)	(585)
Temporary staff expenses	(1 466)	(1 391)
Share-based payments	(1 897)	(1 767)
Other	(3 105)	(2 989)
Total personnel expenses	**(120 489)**	**(113 964)**

As of December 31, 2017 the total number of employees, expressed in full time employee equivalent is 3 559 (December 31, 2016: 3 560)

As described in note **3 (o) (iii)** ultimate parent company UniCredit S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the “Enrolment period”. The granting of free ordinary shares is subordinated to vesting conditions.

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2016	2017 COST (GAINS)	SETTLED IN 2017	ECONOMIC VALUE AT DECEMBER 31, 2017
Deferred Short Term Incentive (ordinary shares)	4 128	1 834	(510)	5 452
ESOP and shares for Talents	267	63	(231)	99
Total Options and Shares	**4 395**	**1 897**	**741**	**5 551**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **36**.

14. General and administrative expenses

In thousands of BGN

	2017	2016
Advertising, marketing and communication	(9 002)	(9 297)
Credit information and searches	(1 377)	(1 927)
Information, communication and technology expenses	(35 849)	(33 120)
Consulting, audit and other professionals services	(2 150)	(3 005)
Real estate expenses	(12 009)	(11 869)
Rents	(12 954)	(12 794)
Travel expenses and car rentals	(2 846)	(2 965)
Insurance	(1 104)	(1 082)
Supply and miscellaneous services rendered by third parties	(12 608)	(11 580)
Other costs	(2 433)	(2 230)
Total general and administrative expenses	**(92 332)**	**(89 869)**

For 2017 the fees for audit services provided by the auditing companies amount to BGN 833 thousands (BGN 640 thousand for 2016).

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

In thousands of BGN

	2017	2016
Depreciation charge	(31 696)	(31 753)
Impairment	-	(10 728)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investmentproperties and assets held for sale	**(31 696)**	**(42 481)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its fixed assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the year ended December 31, 2017 there is no impairment of fixed assets, while as of December 31, 2016 the impairment of fixed assets is in the amount of BGN 10 728 thousand.

16. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **36**).

In thousands of BGN

	2017	2016
Additions of provisions		
Provisions on letters of guarantee	(1 838)	(20 950)
Legal cases provisions	(4 240)	(1 574)
Other provisions	(250)	(200)
	(6 328)	**(22 724)**
Reversal of provisions		
Provisions on letters of guarantee	19 925	-
Legal cases provisions	413	16 233
	20 338	**16 233**
Net provisions charge	**14 010**	**(6 491)**

17. Net Impairment loss on financial assets

In thousands of BGN

	2017	2016
Balance 1 January		
Loans and advances to customers	852 993	928 408
Increase		
Loans and advances to customers	267 249	263 222
Decrease		
Loans and advances to customers	(88 688)	(98 552)
Recoveries from loans previously written-off	(28 320)	(25 421)
Net impairment losses	150 241	139 249
FX revaluation effect on imparment allowances	(376)	1 178
Other movements	12	(26 475)
Written-off		
Loans and advances to customers	(377 393)	(214 788)
Balance December 31 Loans and advances to customers	**653 797**	**852 993**

18. 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 2017.

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

In thousands of BGN

	2017	2016
Current tax	(47 277)	(43 502)
Deferred tax income (expense) related to origination and reversal of temporary differences	13 854	10 425
(Overprovided)/underprovided prior year deferred tax	(434)	88
(Overprovided)/underprovided prior year current tax	434	(241)
Income tax expense	**(33 423)**	**(33 230)**

The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN

	2017	2016
Accounting profit before tax	**331 076**	**324 668**
Corporate tax at applicable tax rate (10% for 2017 and 2016)	(33 108)	(32 467)
Tax effect of non-taxable revenue	362	152
Tax effect of non-tax deductible expenses	(677)	(762)
Overprovided (underprovided) prior year income tax	-	(153)
Income tax expense	**(33 423)**	**(33 230)**
Effective tax rate	**10.10%**	**10.24%**

19. Cash and balances with Central bank

In thousands of BGN

	31.12.2017	31.12.2016
Cash in hand and in ATM	203 766	201 762
Cash in transit	104 662	71 936
Current account with Central Bank	3 421 203	4 273 812
Total cash and balance with Central Bank	**3 729 631**	**4 547 510**

20. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds	36	37
Trading loans	23 783	23 219
Total non-derivative financial assets held for trading	**23 819**	**23 256**

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

Trading loans consist of prepaid forward transaction with customer.

21. Derivatives held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Interest rate swaps	37 182	56 610
Equity options	2 731	8 771
FX forward contracts	8 031	22 856
Other options	-	1
FX swaps	2 609	8 404
Commodity swaps	10 897	9 401
Commodity options	24 882	2 862
Total trading derivatives	**86 332**	**108 905**

Derivatives consist of trading instruments that have positive market value as of December 31, 2017 and December 31, 2016. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

22. Derivatives held/used for hedging

As described in Note **3 (j)** in 2009 the Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits). Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

23. Loans and advances to banks

In thousands of BGN

	31.12.2017	31.12.2016
Loans and advances to banks	1 276 391	1 266 211
Current accounts with banks	350 306	54 694
Total loans and advances to banks	**1 626 697**	**1 320 905**

24. Loans and advances to customers

In thousands of BGN

	31.12.2017	31.12.2016
Companies	7 654 853	7 456 532
Individuals		
Housing loans	1 753 565	1 656 185
Consumer loans	259 057	350 560
Other loans	98 813	120 871
Central and local governments	324 068	339 082
	10 090 356	9 923 230
Less impairment allowances	(653 797)	(852 993)
Total loans and advances to customers	**9 436 559**	**9 070 237**

25. Available for sale investments

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds	3 479 519	3 128 715
Municipality bonds	-	451
Bonds of other financial institutions	264 050	-
Equities	19 332	17 540
Total available for sale investments	**3 762 901**	**3 146 706**

Government and corporate bonds classified as available for sale investments are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

As of December 31, 2017 and December 31, 2016 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized.

As of December 31, 2017 there are no pledged available for sale investments. As of December 31, 2016 available for sale investments in the amount BGN 310 629 thousand are pledged on open repo-deals and other funding deals (see also Note **40**).

26. Investments in subsidiaries and associates

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2017	SHARE IN CAPITAL DECEMBER 2016	CARRYING VALUE IN THOUSANDS OF BGN DEC 2017	CARRYING VALUE IN THOUSANDS OF BGN DEC 2016
UniCredit Factoring EAD	Factoring activities	100%	100%	3 000	3 000
UniCredit Fleet Management EOOD	Transport services	100%	100%	655	655
UniCredit Consumer Financing EAD	Consumer lending and other similar activities in line with the applicable law and regulations	100%	100%	39 238	39 238
UniCredit Leasing EAD	Leasing activities	100%	100%	9 611	9 611
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20%	20%	2 500	2 500
			Total	**55 004**	**55 004**

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

In August 2016 former Hypovereins Immobilien EOOD was renamed to UniCredit Fleet Management EOOD.

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost. In addition the Bank also prepares consolidated financial statements where all entities in which the Bank has control are fully consolidated and those where the Bank exercises significant influence, are consolidated under equity method.

27. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2016	**5 591**	**156 959**	**9 524**	**75 639**	**51 934**	**81 110**	**380 757**
Additions	-	5 133	1 082	7 737	6 928	70	**20 950**
Transfers	(2 000)	(10 125)	-	-	-	(909)	**(13 034)**
Write offs	-	(447)	(232)	(10 669)	(6 755)	-	**(18 103)**
Disposals	-	160	-	(6 739)	(5)	(1 241)	**(8 155)**
As of December 31, 2017	**3 591**	**151 360**	**10 374**	**65 958**	**52 102**	**79 030**	**362 415**
Depreciation							
As of December 31, 2016	**-**	**75 554**	**5 345**	**54 986**	**37 623**	**13 328**	**186 836**
Depreciation charge	-	6 757	1 379	6 320	7 438	2 272	**24 166**
Impairment	-	(447)	(232)	(10 669)	(6 755)	-	**(18 103)**
Write offs	-	(82)	-	(6 716)	(3)	(206)	**(7 007)**
On disposals	-	(4 809)	-	-	-	(32)	**(4 841)**
Transfers	-	76 973	6 492	43 921	38 303	15 362	**181 051**
As of December 31, 2017	**3 591**	**74 387**	**3 882**	**22 037**	**13 799**	**63 668**	**181 364**
Net book value as of December 31, 2017	**5 591**	**81 405**	**4 179**	**20 653**	**14 311**	**67 782**	**193 921**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 179**	**20 653**	**14 311**	**67 782**	**193 921**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2015	**5 628**	**150 958**	**8 130**	**70 004**	**47 027**	**48 171**	**329 918**
Additions	-	7 018	1 684	11 706	7 951	34 895	**63 254**
Transfers	(25)	(165)	-	-	-	341	**151**
Write offs	-	(683)	(286)	(1 567)	(2 196)	-	**(4 732)**
Disposals	(12)	(169)	(4)	(4 504)	(848)	(2 297)	**(7 834)**
As of December 31, 2016	**5 591**	**156 959**	**9 524**	**75 639**	**51 934**	**81 110**	**380 757**
Depreciation							
As of December 31, 2015	**-**	**69 440**	**4 393**	**54 604**	**34 459**	**1 499**	**164 395**
Depreciation charge	-	6 930	1 242	6 453	6 169	1 969	**22 763**
Impairment	-	-	-	-	-	10 728	**10 728**
Write offs	-	(683)	(286)	(1 567)	(2 193)	-	**(4 729)**
On disposals	-	(68)	(4)	(4 504)	(812)	(933)	**(6 321)**
Transfers	-	(65)	-	-	-	65	**-**
As of December 31, 2016	-	**75 554**	**5 345**	**54 986**	**37 623**	**13 328**	**186 836**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 179**	**20 653**	**14 311**	**67 782**	**193 921**
Net book value as of December 31, 2015	**5 628**	**81 518**	**3 737**	**15 400**	**12 568**	**46 672**	**165 523**

Items of property, plant, equipment and investment property are carried at cost less any accumulated depreciation and adjusted for impairment, if any.

As part of the year-end closing procedure, Bank has assessed all items of property, plant, equipment and investment properties for existence of any impairment indicators. For non-real estate items, impairment is usually recognized when those items are found to be obsoleted or their usage is planned to be discontinued. In such cases the recoverable amount on those items is reasonably assessed to be immaterial (close to zero), therefore the remaining carrying amount is fully impaired.

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2017 and December 31, 2016 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2017 and December 31, 2016 amount to BGN 0 and BGN 10 728 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2017 and December 31, 2016. The fair values of investment properties as of December 31, 2017 and December 31, 2016 are ranked Level 3 as per fair value hierarchy.hierarchy.

In thousands of BGN

	CARRYING AMOUNT			FAIR VALUE
	2017	2016	2017	2016
Investment properties				
Land	10 211	10 860	10 432	11 068
Buildings	53 457	56 922	55 349	58 313
Total investment properties	**63 668**	**67 782**	**65 781**	**69 381**

28. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2016	**87 525**
Additions	18 025
Write offs	(252)
As of December 31,2017	**105 298**
Depreciation	
As of December 31, 2016	62 683
Depreciation charge	7 530
Write offs	(252)
As of December 31,2017	**69 961**
Net book value as of December 31, 2017	**35 337**
Net book value as of December 31, 2016	**24 842**

In thousands of BGN

Cost	
As of December 31, 2015	**92 562**
Additions	10 677
Write offs	(15 714)
As of December 31,2016	**87 525**
Depreciation	
As of December 31, 2015	69 407
Depreciation charge	8 990
Write offs	(15 714)
As of December 31,2016	**62 683**
Net book value as of December 31, 2016	**24 842**
Net book value as of December 31, 2015	**23 155**

29. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2017 and as of December 31, 2016 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the years 2017 and 2016 respectively.

30. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2017 and December 31, 2016 is as outlined below:

In thousands of BGN

	31.12.2017	31.12.2016
Property, plant, equipment, investment properties and intangible assets	3 256	2 812
Provisions	(3 284)	(4 913)
Actuarial (losses)	(412)	(271)
Other (assets)	(5 229)	(5 121)
Net tax (assets)	**(5 669)**	**(7 493)**

The movements of deferred tax assets and liabilities on net basis throughout 2017 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2016	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2017
Property, plant, equipment, investment properties and intangible assets	2 812	444	-	3 256
Available for sale investments	-	(14 472)	14 472	-
Provisions	(4 913)	1 629	-	(3 284)
Actuarial gains (losses)	(271)		(141)	(412)
Cash flow hedge	-	(913)	913	-
Other liabilities	(5 121)	(108)	-	(5 229)
Net tax (assets) liabilities	**(7 493)**	**(13 420)**	**15 244**	**(5 669)**

31. Non-current assets held for sale

Usually the Bank presents as non-current assets and disposal group held for sale properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends.

As of December 31, 2017 and December 31, 2016 the Bank has not classified any properties as non-current assets held for sale.

As of the end of 2016, the Bank has signed an agreement for sale of a loan portfolio at gross amount of TEUR 93 000 (including balance sheet exposures, as well as written-off the balance sheet exposures). The deal is part of the Group plan aiming at strengthening the loan portfolio quality. Following the above, as of December 31, 2016 the Bank has reclassified the balance sheet loan exposures subject to sale in compliance with the requirements of IFRS 5. Loans evaluation and measurement is following the requirements of IAS 39 and as of December 31, 2016 the carrying value of the balance sheet exposures is equal to the cession price allocated to that portion of the portfolio for sale - TBGN 2 015.

As of the end of 2017 the Bank has not classified any assets as non-current assets held for sale.

32. Other assets

In thousands of BGN

	31.12.2017	31.12.2016
Receivables and prepayments	67 905	41 021
Receivables from the State Budget	66	1
Materials, spare parts and consumables	924	841
Other assets	5 773	7 584
Foreclosed properties	71 768	73 139
Total other assets	**146 436**	**122 586**

33. Financial liabilities held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Interest rate swaps	20 906	34 665
FX forward contracts	22 532	11 420
Equity options	2 731	9 093
Other options	-	1
FX swaps	454	6 818
Commodity swaps	10 933	9 438
Commodity options	24 927	2 870
Total trading liabilities	**82 483**	**74 305**

34. Deposits from banks

In thousands of BGN

	31.12.2017	31.12.2016
Current accounts and overnight deposits		
Local banks	276 085	213 994
Foreign banks	60 386	89 350
	336 471	**303 344**
Deposits		
Local banks	47 715	47 934
Foreign banks	33 719	354 528
	81 434	**402 462**
Other	**34 371**	**23 076**
Total deposits from banks	**452 276**	**728 882**

35. Deposits from customers

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date.

As of December 31, 2017 and December 31, 2016 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

In thousands of BGN

	31.12.2017	31.12.2016
Current accounts		
Individuals	2 264 189	1 764 509
Corporate	6 225 385	5 467 936
Budget and State companies	261 149	274 625
	8 750 723	**7 507 070**
Term deposits		
Individuals	4 363 189	4 151 020
Corporate	779 722	1 508 686
Budget and State companies	62 543	96 615
	5 205 454	**5 756 321**
Saving accounts	**1 457 596**	**1 597 716**
Transfers in execution process	**106 936**	**32 625**
Total deposits from customers	**15 520 709**	**14 893 732**

36. Provisions

The movement in provisions for the years ended December 31, 2017 and December 31, 2016 is as follows:

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2015	**16 441**	**26 331**	**6 410**	**1 573**	**490**	**51 245**
Allocations	20 950	1 574	585	-	200	**23 309**
Releases	-	(16 233)	-	-	-	**(16 233)**
Additions due to FX revaluation	2 335	2 914	-	-	-	**5 249**
Releases due to FX revaluation	(2 886)	(2 723)	-	-	-	**(5 609)**
Actuarial gains/losses recognized in OCI	-	-	745	-	-	**745**
Other movements	(15 498)	15 498	-	-	-	**-**
Utilization		(585)	(384)	(1 271)	(224)	**(2 464)**
Balance as of December 31, 2016	**21 342**	**26 776**	**7 356**	**302**	**466**	**56 242**
Allocations	1 838	4 240	607	-	250	**6 935**
Releases	(19 925)	(413)	-	-	-	**(20 338)**
Additions due to FX revaluation	143	2 116	-	-	-	**2 259**
Releases due to FX revaluation	(190)	(2 819)	-	-	-	**(3 009)**
Actuarial gains/losses recognized in OCI	-	-	1 410	-		**1 410**
Utilization		(1 580)	(361)	-	(202)	**(2 143)**
Balance as of December 31, 2017	**3 208**	**28 320**	**9 012**	**302**	**514**	**41 356**

(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, 2017 the Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 3 208 thousand (BGN 21 342 thousand as of December 31, 2016).

(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, 2017 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 28 320 thousand has been recognized (BGN 26 776 as of December 31, 2016).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2017 defined benefit obligation are as follows:

- Discount rate – 1,00%;
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years, women 61 years for 2017 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2017 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, 2016	**7 356**
Current service costs for 2017	475
Interest cost for 2017	132
Actuarial losses recognized in OCI in 2017	1 410
Benefits paid	(361)
Recognized defined benefit obligation as of December 31, 2017	**9 012**
Interest rate beginning of the year	1.94%
Interest rate end of the year	1.00%
Future increase of salaries	5.00%
Expected 2018 service costs	583
Expected 2018 interest costs	85
Expected 2018 benefit payments	1 281

Current service cost and interest cost are presented under Personnel expenses (See note **13**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2017	2016
Sensitivity - Discount rate +/- %	0.25%	0.25%
DBO Discount rate -	9 260	7 542
DBO Discount rate +	8 776	7 179
Sensitivity - Salary increase rate +/- %	0.25%	0.25%
DBO Salary increase rate -	8 784	7 184
DBO Salary increase rate +	9 250	7 536

(d) Provisions on constructive obligation

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

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2017 and December 31, 2016 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates.

(e) Other provision

Other provisions in the amount of BGN 514 thousand as of December 31, 2017 (BGN 466 thousand as of December 31, 2016) relates to coverage of claims related to credit cards business as well as other claims.

37. Other liabilities

In thousands of BGN

	31.12.2017	31.12.2016
Liabilities to the State budget	3 692	5 136
Liabilities to personnel	26 999	31 604
Liabilities for unused paid leave	5 462	5 288
Dividends	706	546
Incentive plan liabilities	5 550	4 395
Other liabilities	56 624	42 600
Total other liabilities	**99 033**	**89 569**

Liabilities to the State Budget include current liabilities related to different tax positions of the Bank.

Liability to personnel includes accrued but not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2017 and 2016 in accordance with the defined target settings and adopted incentive programs.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

As described in note **3 (o) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **13** above.

38. Equity

(a) Share capital

As of December 31, 2017 and December 31, 2016 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years.

The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position the Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 "Employee Benefits".

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.).

For the years ended December 31, 2017 and December 31, 2016 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 9 153 thousand and BGN (18 061) thousand, respectively, net of tax. For 2016 major part of the amount (BGN (14 811)) are due to one off effect from derecognition of Visa Europe equity participation.

39. Contingent liabilities

In thousands of BGN

	31.12.2017	31.12.2016
Letters of credit and letters of guarantee	1 740 315	1 763 146
Credit commitments	1 857 711	1 873 083
Total contingent liabilities	**3 598 026**	**3 636 229**

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2017 and December 31, 2016 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **36**).

(b) Litigation

As of December 31, 2017 and December 31, 2016 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these separate financial statements as of December 31, 2017 are in the amount of BGN 28 320 thousand (BGN 26 776 thousand in 2016), (see also Note **36**).

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients' disposal.

As of December 31, 2017 and December 31, 2016 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

40. Assets pledged as collateral

In thousands of BGN

	31.12.2017	31.12.2016
Securities pledged on repo deals	29 733	-
Securities pledged on other deals	-	310 629
Loans pledged for budget holders' account service	254 886	254 257
Loans pledged on other deals	95 923	17 843
	380 542	**582 729**
Pledged assets include:		
Available for sale assets	29 733	310 629
Loans and advances	350 809	272 100
	380 542	**582 729**

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

41. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 - UniCredit Bank Austria AG and its ultimate parent - UniCredit S.p.A (jointly referred as "parent companies"). In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit SpA was performed thus leading to change of the Bank's main shareholder to UniCredit SpA.

In addition the Bank has relatedness with its subsidiaries and associates (see also Note **26**) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2017 and December 31, 2016 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2017	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS					
Derivatives held for trading	473	-	-	14 752	**15 225**
Derivatives held for hedging	495	-	-	5 844	**6 339**
Current accounts and deposits placed	1 116 334	-	-	202 923	**1 319 257**
Extended loans	-	884 775	-	11 313	**896 088**
Other assets	2 712	13 125	-	2 125	**17 962**
LIABILITIES					
Financial liabilities held for trading	12 114	-	-	55 791	**67 905**
Derivatives used for hedging	32 712	-	-	10 186	**42 898**
Current accounts and deposits taken	1 423	42 095	-	16 287	**59 805**
Other liabilities	7 718	67	-	2 015	**9 800**
Guarantees received by the Group	**51 462**	**-**	**-**	**61 568**	**113 030**

In thousands of BGN

AS OF DECEMBER 31, 2016	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS					
Derivatives held for trading	-	-	-	31 402	**31 402**
Derivatives held for hedging	-	-	-	2 452	**2 452**
Current accounts and deposits placed	1 186 925	-	-	36 785	**1 223 710**
Extended loans	-	14 975	-	9 189	**24 164**
Other assets	973	12 604	-	3 737	**17 314**
LIABILITIES					
Financial liabilities held for trading	611	-	-	45 872	**46 483**
Derivatives used for hedging	46 231	-	-	18 222	**64 453**
Current accounts and deposits taken	17 752	85 816	-	75 307	**178 875**
Other liabilities	5 692	28	-	2 329	**8 049**
Guarantees received by the Group	**55 057**			**65 958**	**121 015**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2017	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	8 562	3 366	-	279	**12 207**
Interest expenses	(11 501)	(22)	-	(12 355)	**(23 878)**
Dividend income			191		**191**
Fee and commissions income	1 016	13 749	-	1 791	**16 556**
Fee and commissions expenses	(42)	-	-	(59)	**(101)**
Net gains (losses) on financial assets and liabilities held for trading	(21 384)	-	-	(151 607)	**(172 991)**
Other operating income	-	593	-	(428)	**165**
Administrative and personnel expenses	(1 932)	(1 660)	(914)	(9 618)	**(14 124)**
Total	**(25 281)**	**16 026**	**(723)**	**(171 997)**	**(181 975)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2016	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	12 050	440	-	192	**12 682**
Interest expenses	(8 945)	(771)	-	(11 004)	**(20 720)**
Dividend income	-	-	178	-	**178**
Fee and commissions income	242	12 964	-	2 310	**15 516**
Fee and commissions expenses	(45)	-	-	(52)	**(97)**
Net gains (losses) on financial assets and liabilities held for trading	2 331	-	-	21 182	**23 513**
Other operating income	-	4 385	-	(143)	**4 242**
Administrative and personnel expenses	(1 804)	(1 669)	(1 056)	(9 211)	(13 740)
Total	**3 829**	**15 349**	**(878)**	**3 274**	**21 574**

As of December 31, 2017 the loans extended to key management personnel amount to BGN 140 thousand (BGN 372 thousand in 2016). For the year ended December 31, 2017 the compensation paid to key management personnel amounts to BGN 4 471 thousand (BGN 4 420 thousand in 2016).

42. Cash and cash equivalents

In thousands of BGN

	31.12.2017	31.12.2016
Cash in hand and in ATM	203 766	201 762
Cash in transit	104 662	71 936
Current account with the Central Bank	3 421 203	4 273 812
Current accounts with banks	350 306	54 694
Placements with banks with original maturity less than 3 months	312 612	146 948
Total cash and cash equivalents	**4 392 549**	**4 749 152**

43. Leasing

Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars. Summary of non-cancellable minimum lease payments as of December 31, 2017 and December 31, 2016 are presented in the tables below.

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2017	31.12.2016
Up to one year	6 123	5 738
Between one and five years	7 102	8 214
Beyond five years	3 421	4 829
Total	**16 646**	**18 781**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2017	31.12.2016
Up to one year	128	227
Total	**128**	**227**

44. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2017 and December 31, 2016 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitate mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these separate financial statements or other mandatory reports are as follows:

In thousands of BGN

	2017	2016	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	698 174	714 437	Separate Income Statement and details in Notes 7,8,9,10 and 11
Profit before income tax	331 076	324 668	Separate Income Statement
Income tax expense	(33 423)	(33 230)	Separate Income Statement and details in Notes 18 2017
Return on average assets (%)	1.6%	1.6%	Annual Report on Activity
Full time equivalent number of personnel as of December 31	3 559	3 560	Note 13

UniCredit Bulbank AD has never requested or been provided any state grants or subsidies.

Maximise commercial bank value.

We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

Deloitte.

BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Shareholders of UniCredit Bulbank AD

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD ("the Bank") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers As described in note 24 to the consolidated financial statements, the Group has recorded as at December 31, 2017 impairment allowances on loans and advances to customers amounting to BGN 761,864 thousand. Impairment allowances represent management's estimate of the losses incurred within the loan portfolio at the reporting date built on complex assumptions and professional judgments with significant impact on the financial position of the Group. As described in note 5c to the consolidated financial statements, in estimating the impairment on financial instruments carried at amortised cost, Management makes judgements about the present value of the net cash flows to be received. By doing that, counterparty's financial position as well as realizable value of the underlying collateral is considered. Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the risks of material misstatement in this area. Out audit procedures were focused on the following: **Testing of internal controls** We evaluated the design and implementation of relevant controls that the Management has established to support their collective and individual impairment calculations, as well as their operating effectiveness, including: - controls over the source data, methodology and internal models development/validation and for the results acceptance; - controls related to timely identification of impairment triggers; - controls related to assessment of the borrowers' financial performance and estimation of future cash flows. **Collective impairment** In case of collective allowances, we assessed for selected internal models the model methodology, the internal validation reports and results of the model back-testing. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the collective impairment based on the risk parameters resulted from the models and the loan portfolio as at December 31, 2017. We considered the appropriateness of Management's estimates in respect of calculation methodologies and economic factors used by the Group in the collective impairment process. **Individual impairment** In determining the samples for our detailed substantive procedures, we analysed the Group's loan portfolio in order to determine the exposures

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Key audit matter	*How our audit addressed the key audit matter*
	on which our procedures were focused. We performed detailed substantive procedures in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Group. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans.

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the consolidated financial statements

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

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

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

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

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

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

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2017 by the general meeting of shareholders held on December 12, 2017 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2017 represents fifth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and first statutory audit engagement for the Group carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:

  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2016 and December 31, 2017. The audits were performed in accordance with ISA.
  - Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2016 and December 31 2017, and audit of the reporting package of the Bank's subsidiary UniCredit Factoring EAD prepared in accordance with the UniCredit Group accounting policies as at and for the year ending December 31, 2016. The audits were performed in accordance with ISA.
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2016, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

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- Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 3 months ending March 31, 2017, the 6 months ending June 30, 2017, and the 9 months ending September 30, 2017. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

Momchil Chergansky
Proxy of the Statutory Manager Assen Dimov
Registered Auditor

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

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Одиторско дружество
София
Рег. № 129
Бейкър Тили Клиту и партньори ООД

Krassimira Radeva
Statutory Manager
Registered Auditor

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

March 9, 2018

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Income Statement

In thousands of BGN

	Notes	2017	2016
Interest income		653 425	671 664
Interest expense		(60 380)	(89 313)
Net interest income	7	**593 045**	**582 351**
Dividend income		**3 471**	**1 337**
Fee and commission income		256 290	232 160
Fee and commission expense		(26 523)	(21 953)
Net fee and commission income	8	**229 767**	**210 207**
Net gains on financial assets and liabilities held for trading	9	85 950	81 249
Net income from investments	10	9 296	30 902
Other operating expenses, net	11	(53 354)	(48 360)
TOTAL OPERATING INCOME		**868 175**	**857 686**
Net income related to property, plant and equipment	12	13 721	2 462
Personnel expenses	13	(138 787)	(131 593)
General and administrative expenses	14	(101 396)	(98 775)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	15	(34 161)	(44 196)
Provisions for risk and charges	16	(6 026)	14 359
Net impairment loss on financial assets	17	(142 813)	(197 776)
PROFIT BEFORE INCOME TAX		**458 713**	**402 167**
Income tax expense	18	(46 471)	(40 822)
PROFIT FOR THE YEAR		**412 242**	**361 345**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
Registered auditor

Baker Tilly Klitou & Partners OOD

9/03/2018

Krassimira Radeva
Registered auditor

09.03.2018

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

Одиторско дружество София Рег. № 033 Делойт Одит ООД

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements.

Statement of Comprehensive Income

In thousands of BGN

	Notes	2017	2016
Profit for the year		**412 242**	**361 345**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial losses	36	(1 410)	(745)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		141	75
		(1 269)	**(670)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		144 723	71 622
Cash flow hedge		9 125	(9 082)
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		(15 385)	(6 254)
		138 463	**56 286**
Total other comprehensive income net of tax for the year		**137 194**	**55 616**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**549 436**	**416 961**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

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Jasna Mandac
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Deloitte Audit OOD

Momchil Chergansky
Registered auditor

9/03/2018

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor

09.03.2018

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ООД

Одиторско дружество София Рег. № 033 Делойт Одит ООД

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Consolidated Financial Statements (continued)

Statement of Financial Position

In thousands of BGN

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and balances with Central Bank	19	3 729 633	4 547 512
Non-derivative financial assets held for trading	20	23 819	23 256
Derivatives held for trading	21	86 332	108 905
Derivatives held for hedging	22	6 339	2 452
Loans and advances to banks	23	1 629 431	1 323 278
Loans and advances to customers	24	10 629 087	10 872 961
Available for sale investments	25	3 762 901	3 146 706
Investments in associates	26	2 717	2 769
Property, plant, equipment and investment properties	27	196 345	198 359
Intangible assets	28	38 024	27 502
Deferred tax assets	30	8 673	11 124
Non-current assets held for sale	31	-	2 015
Other assets	32	147 046	119 842
TOTAL ASSETS		**20 260 347**	**20 386 681**
LIABILITIES			
Financial liabilities held for trading	33	82 483	74 305
Derivatives used for hedging	22	42 898	64 453
Deposits from banks	34	1 258 484	2 315 468
Deposits from customers	35	15 512 999	14 838 200
Provisions	36	41 946	36 967
Current tax liabilities	29	5 022	9 271
Deferred tax liabilities	30	59	77
Other liabilities	37	116 710	106 192
TOTAL LIABILITIES		**17 060 601**	**17 444 933**
EQUITY			
Share capital		285 777	285 777
Revaluation reserves		236 365	99 171
Retained earnings		2 265 362	2 195 455
Profit for the year		412 242	361 345
TOTAL EQUITY	38	**3 199 746**	**2 941 748**
TOTAL LIABILITIES AND EQUITY		**20 260 347**	**20 386 681**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

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Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
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Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Cherganski
Registered auditor

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor

09.03.2018

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2016	**285 777**	**342 378**	**1 998 080**	**73 431**	**(28 094)**	**(1 782)**	**2 669 790**
Profit for the year	-	-	361 345	-	-	-	**361 345**
Actuarial losses	-	-	-	-	-	(745)	**(745)**
Change of revaluation reserve on available for sale investments	-	-	-	71 622	-	-	**71 622**
Change of revaluation reserve on cash flow hedges	-	-	-	-	(9 082)	-	**(9 082)**
Income tax related to components of other comprehensive income	-	-	-	(7 162)	908	75	**(6 179)**
Total other comprehensive income for the period net of tax	-	-	-	**64 460**	**(8 174)**	**(670)**	**55 616**
Total comprehensive income for the period net of tax	-	-	**361 345**	**64 460**	**(8 174)**	**(670)**	**416 961**
Dividends paid	-	-	(145 003)	-	-	-	**(145 003)**
Balance as of December 31, 2016	**285 777**	**342 378**	**2 214 422**	**137 891**	**(36 268)**	**(2 452)**	**2 941 748**
Profit for the year	-	-	412 242	-	-	-	**412 242**
Actuarial losses	-	-	-	-	-	(1 410)	**(1 410)**
Change of revaluation reserve on available for sale investments	-	-	-	144 723	-	-	**144 723**
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 125	-	**9 125**
Income tax related to components of other comprehensive income	-	-	-	(14 472)	(913)	141	**(15 244)**
Total other comprehensive income for the period net of tax	-	-	-	**130 251**	**8 212**	**(1 269)**	**137 194**
Total comprehensive income for the period net of tax	-	-	**412 242**	**130 251**	**8 212**	**(1 269)**	**549 436**
Dividends paid	-	-	(291 438)	-	-	-	**(291 438)**
Balance as of December 31, 2017	**285 777**	**342 378**	**2 335 226**	**268 142**	**(28 056)**	**(3 721)**	**3 199 746**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

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

Deloitte Audit OOD	Baker Tilly Klitou & Partners OOD
Momchil Cherganski *Registered auditor* 9/03/2018	Krassimira Radeva *Registered auditor* 09.03.2018

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements.

Statement of Cash Flows

In thousands of BGN

	Notes	2017	2016
Net profit		**412 242**	**361 345**
Current and deferred tax, recognised in income statement		46 471	40 822
Adjustments for non-cash items			
Depreciation and amortisation	15	34 161	33 468
Impairment of financial assets	17	178 561	222 637
Impairment of property, plant, equipment, investment properties and other assets	11,15	2 637	13 916
Provisions, net	36	(13 403)	(13 774)
Unrealised fair value losses through profit or loss, net		4 657	3 430
Unrealised fair value (gains)/losses on FX revaluation		(169 821)	31 240
Net income from associates under equity method		(143)	(216)
Net income from sale of property, plant and equipment		(13 650)	(2 471)
Net interest income		(435 950)	(582 351)
Dividend income		(3 662)	(1 337)
Increase in other accruals		57 428	49 759
Cash flows from profits before changes in operating assets and liabilities		**99 528**	**156 468**
Operating activities			
Change in operating assets			
Decrease in loans and advances to banks		155 656	22 319
Decrease (Increase) in loans and advances to customers		31 065	(887 568)
(Increase) in available for sale investments		(470 788)	(778 846)
Decrease in financial instruments held for trading and hedging derivatives		9 790	9 730
Decrease/(Increase) in non-current assets held for sale		2 015	(2 015)
(Increase) in other assets		(65 825)	(31 059)
Change in operating liabilities:			
(Decrease) in deposits from banks		(1 029 202)	(300 559)
Increase in deposits from customers		861 481	1 514 036
Provisions increase/(utilization)		17 723	(2 807)
(Decrease) in other liabilities		(30 610)	(29 253)
Interest received		487 708	661 569
Interest paid		(51 093)	(101 028)
Dividends received		3 662	1 337
Taxes paid		(43 199)	(34 696)
Net cash flow from operating activities		**(22 089)**	**197 628**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2017	2016
Cash flow from investing activities			
Cash payments to acquire tangible assets		(27 793)	(30 438)
Cash receipts from sale of tangible assets		13 650	3 996
Cash payments to acquire intangible assets		(18 721)	(11 846)
Net cash flow from investing activities		**(32 864)**	**(38 288)**
Cash flow from financial activities			
Dividends paid		(291 438)	(145 003)
Net cash flows from financial activities		**(291 438)**	**(145 003)**
Effect of exchange rate changes on cash and cash equivalents		**(7 478)**	**180**
Net increase in cash and cash equivalents		**(353 869)**	**14 517**
Cash and cash equivalents at the beginning of period	42	**4 749 154**	**4 734 637**
Cash and cash equivalents at the end of period	42	**4 395 285**	**4 749 154**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
Registered auditor

9/03/2018

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor

09.03.2018

The accompanying notes 1 to 44 are an integral part of these consolidated financial statements

Notes to Consolidated Financial Statements

1. Reporting entity

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

These consolidated financial statements comprise of UniCredit Bulbank AD and its subsidiaries and associates (hereafter together referred as UniCredit Bulbank AD or the Bank).

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

As of December 31, 2017 Bank operates through its network comprising of 177 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

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

These consolidated financial statements are approved by the Management Board of UniCredit Bulbank AD on February 23, 2018.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

These financial statements are prepared on consolidated basis whereas all entities where UniCredit Bulbank AD exercises control are consolidated applying full consolidation method and all participations in entities where UniCredit Bulbank AD exercises significant influence are consolidated applying equity method.

In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

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

Following the above criterion, the Bank has performed assessment in two areas focused on:

1. Control existence assessment over all directly and indirectly owned equity participations;

2. Control existence assessment over entities where the Bank has no direct or indirect equity participation.

Upon completion of the first area of assessment, Bank reconfirmed that it has control over the investees in all the cases where it holds directly or indirectly more than 50% of the investee's voting rights. In addition Bank reconfirmed to exercise significant influence over investee's activities in all the cases where it does not exercise control or joint control but owns 20% and more of the investee's voting rights.

For the purposes of the second area of assessment, the Bank primarily focused on so called "troubled loans" analysis. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted and forborne loans and advances to corporate customers with material outstanding amount as of the reporting dates (for practical reasons materiality threshold of EUR 1 million was applied). As a result of performing the above mentioned assessment, the Bank concluded that in no cases the definition of control is met, therefore no consolidation procedures on such customers have been applied as of December 31, 2017 and December 31, 2016.

All the entities where the Bank exercises control are consolidated under full consolidation method and all entities where the Bank exercises significant influence are consolidated under equity method. As of December 31, 2017 and December 31, 2016 there are no significant restrictions on the ability of all consolidated subsidiaries and associates to transfer cash or to repay loans to the parent company.

The consolidation scope as of December 31, 2017 has not changed to the one applied as of December 31, 2016 and it covers the following entities:

COMPANY	PARTICIPATION IN EQUITY	DIRECT/INDIRECT PARTICIPATION	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.00%	Direct	Full consolidation
UniCredit Fleet Management EOOD	100.00%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100.00%	Direct	Full consolidation
UniCredit Leasing EAD	100.00%	Direct	Full consolidation
UniCredit Insurance Broker EOOD	100.00%	Indirect	Full consolidation
Cash Service Company AD	20.00%	Direct	Equity method

(b) Interest income and expense

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

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis;
- interest on available for sale investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments.

(c) Fee and commission income and expenses

Fee and commission income and expense arise on financial services provided/received and are recognized upon rendering/receiving of the corresponding service. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

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

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading (including derivative deals) as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Bank. The Bank concludes derivative deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit SpA, UniCredit Bank Austria AG and UniCredit Bank AG). The whole realized and unrealized gains/losses on derivatives related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading and hedging derivatives

(e) Foreign currency transactions

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

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

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

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

(g) Dividend income

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

(h) Lease payments made

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

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

(i) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity depends on IAS 39 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost.

(ii) Classification

(a) Cash and balances with the Central Bank

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

(b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

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

(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) Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available for sale and do not meet the definition of loans and receivables.

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

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- sales or reclassifications after Bank has collected substantially all of the asset’s original principal;

- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated (such as material creditworthiness deterioration of the issuer).

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

(f) Investments in associates

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

In these consolidated financial statements the Bank has adopted the policy of carrying all investments in associates at equity method. All investments in subsidiaries are fully consolidated.

(g) Deposits from banks and customers

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

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

(h) 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.

(iii) Reclassification

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

(iv) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

(j) Impairment

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

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

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

(i) Assets carried at amortised cost

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

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

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

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

(ii) Financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as available for sale financial investments.

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

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

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

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

(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.

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

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting.

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

Fair value hedge

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

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

Cash flow hedge

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

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

(l) Property, plant, equipment and investment property

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

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

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **32**).

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

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

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

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

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2017 and December

31, 2016 intangible assets include primarily investments in software and related licenses.

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

(n) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale. (see also Note **31**)

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, 2017 and December 31, 2016 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (equity settled) granted by the ultimate parent UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Bank.

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

As of December 31, 2017 and December 31, 2016 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

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

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

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

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

No changes in the amount of the share capital were performed in 2017 and 2016.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on available for sale investments, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2017 and December 31, 2016 the reserves include also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2017 and December 31, 2016 balances of deferred tax are presented net in the Statement of financial position on single entity level within the consolidation scope and then consolidated in the Statement of financial position. All respective netting requirements set out in IAS 12 are fully met on single entity level.

(s) Segment reporting

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

(t) Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU came into force in the current reporting period:

- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses** – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Banks's financial statements.

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018);
- **IFRS 16 "Leases"** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted

by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time);

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 "Financial Instruments" - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018);

The new accounting standard IFRS 9 "Financial Instruments" (IFRS 9), mandatorily effective for annual periods beginning after January 1, 2018, that will replace IAS 39 "Financial Instruments: Recognition and Measurement":

- will introduce significant changes, compared to IAS39, to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI - Solely Payments of Principal and Interests criteria);
- requires the classification of the equity instruments at fair value either through profit or loss or through "other comprehensive income". In this second case, unlike previous requirements for available for sale assets set by IAS39, IFRS9 has eliminated the request to recognize impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit and loss accounts;
- will introduce a new accounting model for impairment, based on expected losses approach substituting the current approach based on the incurred losses;
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS39 hedge accounting rules until the IASB has completed the project on definition of macro-hedging rules;
- changes the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognized in a specific equity reserve, rather than to the income statement, as requested under IAS39, therefore removing a volatility source from the economic results.

As of the date of preparing these consolidated financial statements, UniCredit Bulbank AD has already ensured the first time application of IFRS 9 with regards to the new requirements for classification and measurement and impairment. In accordance with IFRS 9.7.2.21, the Bank continues to apply the hedge accounting requirements of IAS 39 in their entirety instead of the requirements set out in IFRS 9. This decision applies to all of the entity's hedging relationships.

In order to grant the prompt compliance with the requirements set by the accounting principles, the UniCredit Group has activated a project, that is in its final phase, with the aim at creating accounting and risk monitoring methodologies harmonized across Group Legal Entities.

Mirroring the main changes required by IFRS9, the Group wide project has been organized through work-streams specifically:

I. Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS9 criteria,

II. Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

These work-streams are further integrated by a specific work-stream dedicated to adapting the models and methodologies developed to the peculiarities of Corporate & Investment Banking (CIB).

The whole project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Board of Directors and Senior Management.

Details of the new requirements in the areas of classification and measurement and impairment allowances as well as their impact on the Bank's financial statements are described below.

I. CLASSIFICATION AND MEASUREMENT

With reference to "Classification and Measurement" work-stream, the Group has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard;
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas composing the Group and by attributing them a specific business model.

In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas composing the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

In this context, possible sales of financial instruments are considered as compliant with a "held to collect" business model in case of (i) securitization transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.

A business model "other" has been assigned to the business areas composing the trading portfolio of the Group so to reflect the trading intent.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").

In this regard, the Group has developed processes and systems aimed at analyzing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio").

This analysis is performed either contract by contract or by standardized products, defined on the basis of the features of the asset, and using a specific internal tool (SPPI Tool) in order to analyze the feature of the contracts in comparison with IFRS 9 requirements or making use of an external data provider.

UniCredit Bulbank AD effectively applies both process and system wise, the SPPI Tool since April 2017 and the process of SPPI contractual screening of all existing contracts has been successfully finalized already in 2017. In addition to the above the following activities are finalized:

- Design of new underwriting process – SPPI Test is embedded in the process pre-approval of the loan deal;
- Design and implementation of new product approval process;
- Series of educations for acquainting employees with the IFRS 9 SPPI Criterion are held;
- Fair Value Engine development – in final stage of Group implementation.

Equity financial assets are classified upon initial recognition in one of the following categories (portfolios):

- In case equity is acquired principally for the purpose of selling or repurchasing it in the near term, then the asset is classified as Fair value through P&L (FVTPL) and foreign exchange gains or losses are recognized in P&L; changes in fair value are recognized in P&L also;
- In case of irrevocable election to present in other comprehensive income, subsequent measurement is in FVOCI. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

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

All derivative financial instruments are classified as FVTPL/held for trading/, except for those which are designated as effective hedging instruments as per the approved Hedge Accounting Policy of the entity.

In accordance with IFRS 9 the entity classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

A brief comparison between portfolios and reclassifications relevant for UniCredit Bulbank AD imposed by the adoption of the new classification and measurement criteria are described below:

- **Held for trading (HFT) and Fair value option (FVO)**

Changes related to the composition of HFT and FVO portfolios are not envisaged given that the criteria for the classification in such categories remain basically unchanged. The Bank intends all debt securities and derivatives classified in HFT portfolio according to IAS 39 to be classified as FVTPL in accordance with IFRS 9.

- **Mandatory at fair value (MFV)**

The new portfolio MFV is going to be introduced according to IFRS 9 principles in case of SPPI failure. The Bank will introduce this portfolio effectively only for few loans granted to start-up companies amounting at MBGN 3.2. These loans will be measured since January 2018 at FV on a monthly basis, where the results would be presented in P&L (no material impact is assessed for the moment).

- **Fair value through Other Comprehensive Income (FVOCI)**

The Bank intends all debt securities classified currently in AFS portfolio according to IAS 39 to be classified as FVOCI in accordance to IFRS 9.The following reclassifications will be applied ensuring Group consistency:

- Equities investment in **Visa LTD** will be measured at fair value in FVTPL portfolio (revaluation in P&L) according to IFRS 9 while in accordance with IAS 39 is measured at fair value in AFS portfolio (revaluation in other comprehensive income);
- Equities investment in **Bulgarian Stock exchange Sofia** will be measured at fair value in FVTPL portfolio (revaluation in P&L) according to IFRS 9 while in accordance with IAS 39 is measured at fair value in AFS portfolio (revaluation in other comprehensive income);
- Equities investment in **SWIFT** will be measured at fair value in FVOCI (revaluation in OCI) according to IFRS 9 while in accordance with IAS 39 is measured at cost in AFS portfolio.

Except for the above stated, no other reclassifications, change in business model or measurement are expected to be applicable for UniCredit Bulbank AD.

II. IMPAIRMENT

With reference to the "Impairment" work-stream, the Group impairment models have been adapted to comply with the new accounting requirements, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

The applicable asset perimeter subject to expected losses calculation have been extended in order to include, in addition to financial assets at Amortized Cost and the applicable off balance sheet exposures, all credit exposures assets classified at Fair Value through Other Comprehensive Income.

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

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

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

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective.

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

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

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

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

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

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

In UniCredit Group the stage allocation assessment includes a combination of relative and absolute triggers. Main triggers include

- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect the bank's expectation about PD changes over time (e.g. age, maturity, level of PD at origination);
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due);
- other internal relevant triggers (e.g. new classifications to Forborne).

METHODOLOGICAL FRAMEWORK

With reference to the implementation of the methodological framework and tools described above in the daily operations the Group, in line with the project timeline, has designed the final IT architecture, and is finalizing the development of the organizational processes and procedures.

The Group plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.

The UniCredit group IFRS9 project is part of European Central Bank Thematic Review.

FIRST TIME ADOPTION (FTA) EFFECTS

At the date of first time application, the main impacts of IFRS9 on UniCredit group are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause an increase of Loan Loss Provisions made on financial assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognized in the financial statements (especially between "Stage1", which will include the new positions originated as well as all performing loans, and "Stage2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

The effects arising from IFRS 9 adoption both in term of impairment and classification and measurement on CET 1 for UniCredit Bulbank AD are estimated in the range of -0.5% on CET 1 gross of tax effect.

All FTA effects for UniCredit Bulbank AD on consolidated basis are summarized below:

In thousands of BGN

	IFRS 9 FIRST TIME ADOPTION EFFECT'S ESTIMATION
Reclassification of assets	2 538
Impairment allowances	(79 463)
Total FTA	**(76 925)**

Further to entering into force of IFRS9, a review of the regulatory treatment for the calculation of the capital absorption of expected credit losses (CRD/CRR) is foreseen.

In that regard, the EU Regulation n. 2017-2395, issued on 27 December 2017, allows, as an option, financial institutions to adopt a transitional regime where the additional Loan Loss Provisions could be included in CET1 with a "phase-in" mechanism over 5 years starting from 2018. UniCredit Group at consolidated level will not adopt this transitional regime including UniCredit Bulbank AD.

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

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

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

Based on the analysis performed on a Group level including for UniCredit Bulbank AD, so far no major impacts are foreseen by the adoption of IFRS 15.

IFRS 16, effective starting from January 1, 2019, has been endorsed by the European Union with Regulation EU 2017/1986 of October 31, 2017 (published on November 9, 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

At the initial recognition such asset is measured on the basis of the lease contract cash flows, which include in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition the right-of-use will be measured on the basis of the provisions set for tangible assets applying the cost model less any accumulated depreciation and any eventual accumulated impairment losses, the revaluation model or the fair value model set by IAS16 or by IAS40.

Activities aimed at assessing the impacts of the adoption of the new accounting principles and ensuring the compliance with it are currently ongoing.

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

As of 31 December 2017 the IASB issued the following standards, amendments, interpretations or revisions, their application being subject to completion of the endorsement process by the competent bodies of the European Commission[1], which is still ongoing:

- **IFRS 17 "Insurance Contracts**" (effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement

[1] EFRAG resolved not to proceed with the endorsement of IFRS14 – Regulatory Deferral Accounts and Amendments to IFRS10 and IAS28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after January 1, 2018);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after January 1, 2019).

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

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

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk on stand-alone level. In these consolidated financial statements total operational risk requirements are presented as the sum of AMA amount calculated for the Bank stand-alone plus the respective additions from consolidated entities, calculated under standardized approach.

(b) Market risks

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

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

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

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

During 2017, VaR (1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD consolidated moved in a range between EUR 14.87 million and EUR 16.10 million, averaging EUR 15.36 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2017 on consolidated basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.24	2.21	1.63	1.32
Credit spread	14.64	15.88	15.08	15.60
Exchange rate risk	0.01	0.37	0.14	0.02
Vega risk	-	-	-	-
VaR overall[1]	**14.87**	**16.10**	**15.38**	**15.25**

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

The sensitivities' table below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2017 (change in value due to 1 basis point shift, amounts in EUR):

IR Basis point shift (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(7 683)	8 975	(22 330)	(184 950)	(2 756)	**(208 744)**
BGN	(15 232)	9 531	(41 380)	(201 516)	(7)	**(248 604)**
USD	(7 255)	2 913	558	88	-	**(3 696)**
CHF	44	239	(5)	(19)	(24)	**235**
GBP	(590)	(131)	37	-	-	**(684)**
Other	(7)	(151)	-	-	-	**(158)**
Total Absolute	**30 811**	**21 940**	**64 310**	**386 573**	**2 787**	**462 121**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2017 totalled EUR 1 025 335. Instruments issued by governments continue to account for the largest part of credit spread exposure.

[1] Including diversification effects between risk factors

SP BASIS POINT SHIFT ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(464)	(7 515)	(15 283)	(987 957)	-	(1 011 219)
Regional governments	-	-	-	(1 269)	-	(1 269)
Corporates	-	(11 593)	(627)	(627)	-	(12 847)
Total Absolute	**464**	**19 108**	**15 910**	**989 853**	**-**	**1 025 335**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2017 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

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

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	3 717 957	11 676	**3 729 633**
Non-derivative financial assets held for trading	36	23 783	**23 819**
Derivatives held for trading	47 796	38 536	**86 332**
Derivatives held for hedging	6 339	-	**6 339**
Loans and advances to banks	1 527 301	102 130	**1 629 431**
Loans and advances to customers	10 424 763	204 324	**10 629 087**
Available for sale investments	3 755 835	7 066	**3 762 901**
Investments in associates	2 717	-	**2 717**
Property, plant, equipment and investment properties	196 345	-	**196 345**
Intangible assets	38 024	-	**38 024**
Deferred tax assets	8 673	-	**8 673**
Other assets	146 956	90	**147 046**
TOTAL ASSETS	**19 872 742**	**387 605**	**20 260 347**
LIABILITIES			
Financial liabilities held for trading	45 032	37 451	**82 483**
Derivatives used for hedging	42 898	-	**42 898**
Deposits from banks	999 065	259 419	**1 258 484**
Deposits from customers	14 079 265	1 433 734	**15 512 999**
Provisions	36 473	5 473	**41 946**
Current tax liabilities	5 022	-	**5 022**
Deferred tax liabilities	**59**	**-**	**59**
Other liabilities	**114 503**	**2 207**	**116 710**
TOTAL LIABILITIES	**15 322 317**	**1 738 284**	**17 060 601**
EQUITY	**3 199 746**	**-**	**3 199 746**
Net off-balance sheet spot and forward position	**(1 371 226)**	**1 362 495**	**(8 731)**
Net position	**(20 547)**	**11 816**	**(8 731)**

As of December 31, 2016 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	4 536 227	11 285	**4 547 512**
Non-derivative financial assets held for trading	37	23 219	**23 256**
Derivatives held for trading	90 515	18 390	**108 905**
Derivatives held for hedging	2 452	-	**2 452**
Loans and advances to banks	1 178 501	144 777	**1 323 278**
Loans and advances to customers	10 584 220	288 741	**10 872 961**
Available for sale investments	3 141 171	5 535	**3 146 706**
Investments in associates	2 769	-	**2 769**
Property, plant, equipment and investment properties	198 359	-	**198 359**
Intangible assets	27 502	-	**27 502**
Deferred tax assets	11 124	-	**11 124**
Other assets	119 781	61	**119 842**
Non current assets held for sale	2 015	-	**2 015**
TOTAL ASSETS	**19 894 673**	**492 008**	**20 386 681**
LIABILITIES			
Financial liabilities held for trading	59 791	14 514	**74 305**
Derivatives used for hedging	64 453	-	**64 453**
Deposits from banks	2 104 259	211 209	**2 315 468**
Deposits from customers	13 306 521	1 531 679	**14 838 200**
Provisions	30 722	6 245	**36 967**
Current tax liabilities	9 271	-	**9 271**
Deferred tax liabilities	77	-	**77**
Other liabilities	103 670	2 522	**106 192**
TOTAL LIABILITIES	**15 678 764**	**1 766 169**	**17 444 933**
EQUITY	**2 941 748**	**-**	**2 941 748**
Net off-balance sheet spot and forward position	**(1 280 816)**	**1 298 802**	**17 986**
Net position	**(6 655)**	**24 641**	**17 986**

(c) Liquidity risk

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

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2017, meaning that under extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	36	23 783	**23 819**
Loans and advances to banks	1 009 809	619 622	**1 629 431**
Loans and advances to customers	3 775 902	6 853 185	**10 629 087**
Available for sale investments	166 496	3 596 405	**3 762 901**
Other assets	75 278	71 768	**147 046**
TOTAL FINANCIAL ASSETS	**5 027 521**	**11 164 763**	**16 192 284**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	37	23 219	**23 256**
Loans and advances to banks	596 182	727 096	**1 323 278**
Loans and advances to customers	3 785 669	7 087 292	**10 872 961**
Available for sale investments	330 630	2 816 076	**3 146 706**
Other assets	56 100	63 742	**119 842**
TOTAL FINANCIAL ASSETS	**4 768 618**	**10 717 425**	**15 486 043**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2017	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**1 258 484**	**(1 278 502)**	(428 763)	(108 642)	(289 114)	(451 983)
Deposits from customers	**15 512 999**	**(15 514 034)**	(12 084 894)	(1 205 691)	(1 819 921)	(403 528)
Unutilized credit lines	**-**	**(1 783 383)**	(26 751)	-	(329 926)	(1 426 706)
Total non-derivative instruments	**16 771 483**	**(18 575 919)**	**(12 540 408)**	**(1 314 333)**	**(2 438 961)**	**(2 282 217)**
Trading derivatives, net	**3 849**					
Outflow		**(4 154 475)**	(2 970 017)	(864 088)	(136 461)	(183 909)
Inflow		**4 164 823**	2 964 112	863 342	138 398	198 971
Derivatives used for hedging, net	**(36 559)**					
Outflow		**(138 096)**	(3 150)	(11 323)	(8 927)	(114 696)
Inflow		**99 373**	-	19	3	99 351
Total derivatives	**(32 710)**	**(28 375)**	**(9 055)**	**(12 050)**	**(6 987)**	**(283)**
Total financial liabilities	**16 738 773**	**(18 604 294)**	**(12 549 463)**	**(1 326 383)**	**(2 445 948)**	**(2 282 500)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	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	**2 315 468**	**(2 339 239)**	(409 983)	(181 012)	(629 481)	(1 118 763)
Deposits from customers	**14 838 200**	**(14 843 520)**	(10 489 800)	(1 433 738)	(2 253 510)	(666 472)
Unutilized credit lines	**-**	**(1 827 737)**	(27 416)	-	(338 131)	(1 462 190)
Total non-derivative instruments	**17 153 668**	**(19 010 496)**	**(10 927 199)**	**(1 614 750)**	**(3 221 122)**	**(3 247 425)**
Trading derivatives, net	**34 600**					
Outflow		**(2 936 531)**	(1 736 508)	(483 308)	(468 632)	(248 083)
Inflow		**2 978 982**	1 743 265	487 276	477 301	271 140
Derivatives used for hedging, net	**(62 001)**					
Outflow		**(147 310)**	(233)	(10 441)	(8 410)	(128 226)
Inflow		**86 383**	-	11	3	86 369
Total derivatives	**(27 401)**	**(18 476)**	**6 524**	**(6 462)**	**262**	**(18 800)**
Total financial liabilities	**17 126 267**	**(19 028 972)**	**(10 920 675)**	**(1 621 212)**	**(3 220 860)**	**(3 266 225)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2017 and December 31, 2016 is as shown in the next table:

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds		
Rated BB+	36	37
Loan		
Rated BBB	23 783	23 219
Derivatives (net)		
Banks and financial institution counterparties	(92 266)	(77 036)
Corporate counterparties	59 556	49 635
Total trading assets and liabilities	**(8 891)**	**(4 145)**

Government bonds presented as of December 31, 2017 and December 31, 2016 include only bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

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

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

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

During 2017 the Bank has performed 4 parallel runs on quarterly basis regarding loan loss provision according to IFRS 9, which becomes effective from 01.01.2018. According to new methodology under the standard, the scope of the assessment is extended and includes off-balance sheet items of credit instruments measured at amortized cost, loans to banks as well as debt securities evaluated according to amortised cost or fair value through other comprehensive income.

Further change is the removal of IBNR concept and introduction of expected credit loss concept for the performing loans, which is divided in two views – 12-month and lifetime expected loss, based on the stage of the transaction. In order to meet all criteria of the new standard, local modelling team developed IFRS9 compliant PD, LGD and EAD models and related transfer logic.

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

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures. The process of evaluation of contingent liabilities and allocation of provisions as per the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” is performed specifically whenever provision allocation indicator exists, as per the current Policy, and mandatory by the year-end for the purposes of drawing annual financial statements of the Bank.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as large exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2017 and December 31, 2016.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Biggest credit risk exposure to customers' group	312 933	313 422	306 803	313 422	11.2%	12.5%
Credit risk exposure to top five biggest customers' groups	1 089 380	1 123 069	964 974	831 608	35.4%	33.1%

The table below analyses the breakdown of impairment allowances as of December 31, 2017 and December 31, 2016 on loans and advances to customers:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Impaired	**923 166**	**1 334 157**	**684 832**	**921 697**	**238 334**	**412 460**
individually assessed	*412 176*	*586 287*	*265 578*	*352 531*	*146 598*	*233 756*
portfolio based	*510 990*	*747 870*	*419 254*	*569 166*	*91 736*	*178 704*
Collectively assessed performing exposures (IBNR)	**9 467 683**	**9 479 874**	**77 032**	**87 091**	**9 390 651**	**9 392 783**
Past due but not impaired	71 015	211 951	-	-	71 015	211 951
individually assessed	*46 797*	*174 448*	-	-	*46 797*	*174 448*
portfolio based	*24 218*	*37 503*	-	-	*24 218*	*37 503*
Past due comprises of:						
up to 90 days	*31 862*	*105 098*	-	-	*31 862*	*105 098*
from 91 to 180 days	*23 651*	*3 063*	-	-	*23 651*	*3 063*
over 181 days	*15 502*	*103 790*	-	-	*15 502*	*103 790*
	71 015	**211 951**	**-**	**-**	**71 015**	**211 951**
Neither past due nor impaired	**929 087**	**855 767**	**-**	**-**	**929 087**	**855 767**
Total	**11 390 951**	**11 881 749**	**761 864**	**1 008 788**	**10 629 087**	**10 872 961**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2017	31.12.2016
Impaired defaulted exposures		
Cash collateral	3 172	1 224
Property	834 585	1 034 136
Other collateral	429 958	586 592
Collectively assessed performing exposures (IBNR)		
Cash collateral	59 409	58 222
Property	8 733 480	8 731 975
Debt securities	430	430
Other collateral	9 523 498	8 789 189
Past due but not impaired defaulted exposures		
Cash collateral	315	868
Property	192 223	453 579
Other collateral	73 221	144 898
Neither past due nor impaired performing exposures		
Cash collateral	66 951	74 408
Property	1 610 819	1 548 703
Debt securities	6 900	10 300
Other collateral	99 915	61 751
Total	**21 634 876**	**21 496 275**

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

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2017 and December 31, 2016.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Concentration by sectors						
Sovereign	324 068	339 082	-	-	3 479 519	3 129 166
Manufacturing	2 416 832	2 541 657	-	-	-	-
Commerce	2 138 998	2 193 232	-	-	-	-
Construction and real estate	1 293 698	1 652 010	-	-	67	67
Agriculture and forestry	533 056	543 243	-	-	-	-
Transport and communication	509 221	523 083	-	-	-	-
Tourism	278 831	263 066	-	-	-	-
Services	427 983	564 682	-	-	655	-
Financial services	130 325	118 839	1 629 431	1 323 278	285 377	20 242
Retail (individuals)						
Housing loans	1 753 565	1 656 185	-	-	-	-
Consumer loans	1 386 957	1 365 799	-	-	-	-
Other loans	197 417	120 871	-	-	-	-
	11 390 951	**11 881 749**	**1 629 431**	**1 323 278**	**3 765 618**	**3 149 475**
Impairment allowances	(761 864)	(1 008 788)	-	-	-	-
Total	**10 629 087**	**10 872 961**	**1 629 431**	**1 323 278**	**3 765 618**	**3 149 475**
Concentration by geographic location						
Europe	11 280 893	11 817 827	1 620 667	1 319 247	3 758 552	3 143 940
North America	45 187	21 535	5 746	3 623	7 066	-
Asia	33 255	3 131	2 919	156	-	-
Africa	146	46	-	-	-	-
South America	232	29	-	-	-	5 535
Australia	31 238	39 181	99	252	-	-
	11 390 951	**11 881 749**	**1 629 431**	**1 323 278**	**3 765 618**	**3 149 475**
Impairment allowances	(761 864)	(1 008 788)	-	-	-	-
Total	**10 629 087**	**10 872 961**	**1 629 431**	**1 323 278**	**3 765 618**	**3 149 475**

(e) Operational Risk

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

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

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

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

The main activities of the Operational and Reputational Risk Unit in 2017 were focused on the further development of the Operational Risk management, with emphasis on preventive and mitigation actions to reduce future losses. In particular, Operational Risk Assessment for ICT Risk, was performed in UniCredit Bulbank AD - this is a bottom up approach for the identification and assessment of ICT risks and mitigating controls that facilitates the understanding and management of ICT risks. A significant part of the resources of the Operational and Reputational Risk Unit were also devoted towards the implementation and monitoring of the 2017 Operational Risk Strategies of the Bank (Operational risk strategies deploy their effect in a multiyear perspective) and include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk, etc. As part of the definition of the Operational Risk Strategies 2018, the Business Syndication activity was performed. This activity is performed by the Operational and Reputational Risk unit in order to collect information related to business strategies in a forward looking perspective. The aim is to measure the operational risk arising from Strategies implementation using also risk indicators.

Additionally, the Operational and Reputational Risk team was also deeply involved in several critical initiatives for the Bank, such as projects covering the General Data Protection Regulation (GDPR), the second Payment Services Directive (PSD2), Anti-money Laundering, the upgrade of the core banking system, etc.

Overall, the organization of operational and reputational risk management at UniCredit Bulbank AD is well established, at a high level of quality, as stated in the annual self-validation report. This was confirmed by the control verifications of UniCredit Group Internal Validation and Bank's Internal Audit inspections. Based on these independent assessments, the operational risk management and control system was found sound and well developed with focus on proactiveness, proposal and implementation of mitigation actions with the active involvement of the operational and reputational risk function, and all relevant units in the Bank.

(f) Basel III disclosure

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

Starting from July 2016, UniCredit Bulbank AD reports on a stand-alone basis regulatory capital for credit risk under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach (STA). STA is still applied by the Bank's subsidiaries for all their exposures. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2017 are 10%, 11.5% and 13.5%, respectively.

UniCredit Bulbank AD fulfils the minimum requirements, with sufficient excess, already from the first application of the new regulatory framework (more details presented in the following paragraphs).

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2017 is presented in the table below:

NAME		EIF JEREMIE
Type of securitisation:		First Loss Portfolio Guarantee
Originator:		UniCredit Bulbank
Issuer:		European Investment Fund
Target transaction:		Capital Relief and risk transfer
Type of asset:		Highly diversified and granular pool of newly granted SME loans
Quality of Assets as of December 31, 2017		Performing loans
Agreed maximum portfolio volume:		EUR 85,000 thousand
Nominal Value of reference portfolio:		BGN 41,306 thousand
Issued guarantees by third parties:		First loss cash coverage by EIF
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2017	BGN 9,648 thousand	BGN 23,397 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2017 and December 31, 2016 are as follows:

In thousands of BGN

	31.12.2017	31.12.2016
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 689 733	2 499 855
Tier 1 capital	2 689 733	2 499 855
Tier 2 capital	38 869	14 575
Total regulatory own funds	**2 728 602**	**2 514 430**
Risk Weighted Assets (RWA)		
RWA for credit risk	9 044 530	8 999 160
RWA for market risk	37 464	40 026
RWA for operational risk	903 338	972 000
RWA for credit valuation adjustments	1 150	2 563
Total Risk Weighted Assets (RWA)	**9 986 482**	**10 013 749**
CET 1 ratio	**26.93%**	**24.96%**
Tier 1 ratio	**26.93%**	**24.96%**
Total capital adequacy ratio	**27.32%**	**25.11%**
Minimum CET 1 capital requirements (4.5%)	**449 392**	**450 619**
Minimum Tier 1 capital requirements (6%)	**599 189**	**600 825**
Minimum total capital requirements (8%)	**798 919**	**801 100**
Additional capital requirements for conservation buffer (2.5%)	249 662	250 344
Additional capital requirements for systemic risk buffer (3%)	299 594	300 412
Combined buffers additional capital requirements (5.5%)	**549 256**	**550 756**
Adjusted minimum CET 1 capital requirements after buffers (10%)	998 648	1 001 375
Adjusted minimum Tier 1 capital requirements after buffers (11.5%)	1 148 445	1 151 581
Adjusted minimum total capital requirements after buffers (13.5%)	1 348 175	1 351 856
Free equity, after buffers	**1 380 427**	**1 162 574**

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

As of December 31, 2017 and December 31, 2016 the same requirements remained valid.

5. Use of estimates and judgements

For the purposes of preparation of these consolidated financial statements Management has used certain estimates and judgement in order to provide fair and true presentation of the financial position of the Bank. These estimates and judgement require Management to use all information available in order to assess and where possible to quantify potential impact on the Bank's financial position as a result of some uncertain events.

In general the estimates and judgement are widely used in assessing:

- Fair value determination of financial instruments;
- Fair value determination of non-financial assets;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations.

(a) Fair value determination of financial instruments

As described in note **3 (i) (vi)** the Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument;
- **Level 2**: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, various option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the fair value of the financial instrument at the reporting date that would have been determined by market participants and that represents the price that would be received to sell an asset or paid to transfer liability in an orderly transaction. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to liquidity, changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation. Management judgement and estimation are usually required for selection of appropriate valuation model, determination of probability of default and prepayment speeds and selection of appropriate discount rates.

Under IFRS 13 "Fair Value Measurement" requirements, the Bank paid specific attention on assessing and revising its valuation techniques, especially with regards to valuation of OTC derivatives and other Level 2 and Level 3 financial instruments, otherwise carried at amortized cost (loans and deposits to/from customers and banks). In doing such revision the Bank has adopted UniCredit Group valuation techniques and methodologies.

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2017 and 2016 see also Note **9**).

Loans and advances to banks and customers

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7.

In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2017, whenever risk-free FV deviates by more than 2% (2% in 2016) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2017 and December 31, 2016 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2017 and December 31, 2016.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Non-derivative financial assets held for trading		-	8 335	10 147	15 484	-	**23 819**	**10 147**
Derivatives held for trading	-	-	80 651	125 694	5 681	1 009	**86 332**	**126 703**
Derivatives used for hedging	-	-	6 339	13 455	-	-	**6 339**	**13 455**
Available for sale Investments	2 449 394	2 143 081	1 294 781	1 061 872	18 726	17 647	**3 762 901**	**3 222 600**
Loans and advances to banks	-	-	1 240 859	274 668	388 851	74 946	**1 629 710**	**349 614**
Loans and advances to customers	-	-	2 182 388	3 230 089	8 947 661	8 356 835	**11 130 049**	**11 586 924**
	2 449 394	**2 143 081**	**4 813 353**	**4 715 925**	**9 376 403**	**8 450 437**	**16 639 150**	**15 309 443**
Financial liabilities held for trading	-	-	81 086	100 154	1 397	-	**82 483**	**100 154**
Derivatives used for hedging	-	-	42 898	35 400	-	-	**42 898**	**35 400**
Deposits from banks	-	-	1 118 075	1 874 088	138 916	572 661	**1 256 991**	**2 446 749**
Deposits from customers	-	-	5 212 102	6 200 873	10 297 900	9 084 501	**15 510 002**	**15 285 374**
	-	**-**	**6 454 161**	**8 210 515**	**10 438 213**	**9 657 162**	**16 892 374**	**17 867 677**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2017 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2017)	**1 009**	**17 647**
Increases	**20 479**	**2 194**
Purchase	-	-
Profit recognized in income statement	736	-
Profit recognized in equity	-	2 194
Transfer from other levels	19 743	-
Decreases	**(323)**	**(1 115)**
Redemption	-	(452)
Losses recognized in income statement	(23)	-
Losses recognized in equity	-	(663)
Other decreases	(300)	-
Closing balance (December 31, 2017)	**21 165**	**18 726**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2017 and December 31, 2016.

In thousands of BGN

DECEMBER 2017	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	3 729 633	**3 729 633**	**3 729 633**
Non-derivative financial assets held for trading	36	23 783	-	-	-	**23 819**	**23 819**
Derivatives held for trading	86 332	-	-	-	-	**86 332**	**86 332**
Derivatives held for hedging	-	-	-	6 339	-	**6 339**	**6 339**
Loans and advances to banks	-	1 629 431	-	-	-	**1 629 431**	**1 629 710**
Loans and advances to customers	-	10 629 087	-	-	-	**10 629 087**	**11 130 049**
Available for sale Investments	-	-	3 762 901	-	-	**3 762 901**	**3 762 901**
TOTAL ASSETS	**86 368**	**12 282 301**	**3 762 901**	**6 339**	**3 729 633**	**19 867 542**	**20 368 783**
LIABILITIES							
Financial liabilities held for trading	82 483	-	-	-	-	**82 483**	**82 483**
Derivatives used for hedging	-	-	-	42 898	-	**42 898**	**42 898**
Deposits from banks	-	-	-	-	1 258 484	**1 258 484**	**1 256 991**
Deposits from customers	-	-	-	-	15 512 999	**15 512 999**	**15 510 002**
TOTAL LIABILITIES	**82 483**	**-**	**-**	**42 898**	**16 771 483**	**16 896 864**	**16 892 374**

In thousands of BGN

DECEMBER 2016	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	4 547 512	**4 547 512**	**4 547 512**
Non-derivative financial assets held for trading	37	23 219	-	-	-	**23 256**	**23 256**
Derivatives held for trading	108 905	-	-	-	-	**108 905**	**108 905**
Derivatives held for hedging	-	-	-	2 452	-	**2 452**	**2 452**
Loans and advances to banks	-	1 323 278	-	-	-	**1 323 278**	**1 328 795**
Loans and advances to customers	-	10 872 961	-	-	-	**10 872 961**	**11 790 345**
Available for sale Investments	-	-	3 146 706	-	-	**3 146 706**	**3 146 706**
TOTAL ASSETS	**108 942**	**12 219 458**	**3 146 706**	**2 452**	**4 547 512**	**20 025 070**	**20 947 971**
LIABILITIES							
Financial liabilities held for trading	74 305	-	-	-	-	**74 305**	**74 305**
Derivatives used for hedging	-	-	-	64 453	-	**64 453**	**64 453**
Deposits from banks	-	-	-	-	2 315 468	**2 315 468**	**2 310 397**
Deposits from customers	-	-	-	-	14 838 200	**14 838 200**	**14 839 900**
TOTAL LIABILITIES	**74 305**	**-**	**-**	**64 453**	**17 153 668**	**17 292 426**	**17 289 055**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2017 and December 31, 2016 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **27**).

(c) Impairment of financial instruments

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

Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. As of December 31, 2017 and December 31, 2016 the average applied loss confirmation period is 6 months.

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

(d) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2017	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	347 399	268 310	(22 664)	**593 045**
Dividend income	-	-	3 471	**3 471**
Net fee and commission income	141 839	87 960	(32)	**229 767**
Net gains from financial assets and liabilities held for trading and hedging derivatives	21 919	48 872	15 159	**85 950**
Net income from investments	-	9 153	143	**9 296**
Other operating expenses, net	(19 191)	(28 919)	(5 244)	**(53 354)**
TOTAL OPERATING INCOME	**491 966**	**385 376**	**(9 167)**	**868 175**
Personnel expenses	(58 346)	(23 584)	(56 857)	**(138 787)**
General and administrative expenses	(60 781)	(14 327)	(26 288)	**(101 396)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16 975)	(5 110)	(12 076)	**(34 161)**
Total direct expenses	**(136 102)**	**(43 021)**	**(95 221)**	**(274 344)**
Allocation of indirect and overhead expenses	(58 563)	(30 165)	88 728	**-**
TOTAL OPERATING EXPENSES	**(194 665)**	**(73 186)**	**(6 493)**	**(274 344)**
Provisions for risk and charges	-	(87)	(5 939)	**(6 026)**
Net impairment loss on financial assets	(10 605)	(129 828)	(2 380)	**(142 813)**
Net income related to property, plant and equipment	-	29	13 692	**13 721**
PROFIT BEFORE INCOME TAX	**286 696**	**182 304**	**(10 287)**	**458 713**
Income tax expense	(28 671)	(18 318)	518	**(46 471)**
PROFIT FOR THE YEAR	**258 025**	**163 986**	**(9 769)**	**412 242**
ASSETS	**3 857 871**	**9 453 284**	**6 949 192**	**20 260 347**
LIABILITIES	**8 686 900**	**7 984 599**	**389 102**	**17 060 601**

In thousands of BGN

DECEMBER 2016	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	342 931	279 815	(40 395)	**582 351**
Dividend income	-	-	1 337	**1 337**
Net fee and commission income	125 465	84 788	(46)	**210 207**
Net gains from financial assets and liabilities held for trading and hedging derivatives	20 772	48 713	11 764	**81 249**
Net income from investments	-	6 518	24 384	**30 902**
Other operating expenses, net	(17 867)	(24 928)	(5 565)	**(48 360)**
TOTAL OPERATING INCOME	**471 301**	**394 906**	**(8 521)**	**857 686**
Personnel expenses	(53 701)	(23 187)	(54 705)	**(131 593)**
General and administrative expenses	(60 405)	(13 625)	(24 745)	**(98 775)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 577)	(5 243)	(21 376)	**(44 196)**
Total direct expenses	**(131 683)**	**(42 055)**	**(100 826)**	**(274 564)**
Allocation of indirect and overhead expenses	(54 427)	(29 764)	84 191	**-**
TOTAL OPERATING EXPENSES	**(186 110)**	**(71 819)**	**(16 635)**	**(274 564)**
Provisions for risk and charges	-	(97)	14 456	**14 359**
Net impairment loss on financial assets	(42 152)	(154 942)	(682)	**(197 776)**
Net income related to property, plant and equipment	-	66	2 396	**2 462**
PROFIT BEFORE INCOME TAX	**243 039**	**168 114**	**(8 986)**	**402 167**
Income tax expense	(24 304)	(16 642)	124	**(40 822)**
PROFIT FOR THE YEAR	**218 735**	**151 472**	**(8 862)**	**361 345**
ASSETS	**3 644 033**	**9 504 369**	**7 238 279**	**20 386 681**
LIABILITIES	**7 842 004**	**8 187 566**	**1 415 363**	**17 444 933**

7. Net interest income

In thousands of BGN

	2017	2016
Interest income		
Financial assets held for trading	34	154
Derivatives held for trading	13	-
Loans and advances to banks	9 411	12 115
Loans and advances to customers	576 001	594 173
Available for sale investments	67 966	65 222
	653 425	**671 664**
Interest expense		
Derivatives held for trading	(16)	(20)
Derivatives used for hedging	(20 218)	(17 053)
Deposits from banks	(29 215)	(18 315)
Deposits from customers	(10 931)	(53 925)
	(60 380)	**(89 313)**
Net interest income	**593 045**	**582 351**

For the financial years ended December 31, 2017 and December 31, 2016 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 21 873 thousand and BGN 28 083 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2017	2016
Fee and commission income		
Collection and payment services	127 948	117 809
Lending business	21 382	20 527
Account services	24 457	17 654
Management, brokerage and securities trading	13 089	9 360
Documentary business	19 240	18 409
Package accounts	19 178	19 077
Other	30 996	29 324
	256 290	**232 160**
Fee and commission expense		
Collection and payment services	(22 716)	(18 558)
Management, brokerage and securities trading	(1 476)	(1 334)
Lending business	(143)	(120)
Other	(2 188)	(1 941)
	(26 523)	**(21 953)**
Net fee and commission income	**229 767**	**210 207**

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

In thousands of BGN

	2017	2016
FX trading income, net	78 353	68 794
Net income from debt instruments	710	783
Net income from derivative instruments	6 450	10 889
Net income from other trading instruments	564	1 431
Net income from hedging derivative instruments	(127)	(648)
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	**85 950**	**81 249**

The total CVA (net of DVA) for the years ended December 31, 2017 and December 31, 2016, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN (1 202) thousand and BGN 2 162 thousand, respectively.

10. Net income from investments

In thousands of BGN

	2017	2016
Realised gains on disposal of available for sale investments	9 153	6 518
Income from equity investments	-	24 166
Realised gains on disposal of unimpaired loans and advances	-	2
Effect of equity method consolidation on associates	143	216
Net income from investments	**9 296**	**30 902**

Realized gains on disposal of unimpaired loans and advances include the net profit out of sale of performing exposures. The realised gains (losses) on sale of impaired (defaulted) exposures are included under Net impairment loss on financial assets (see also note **17)**.

Income from equity investments as of December 31, 2016 consists of one-off gain from VISA ownership shift.

11. Other operating expenses, net

In thousands of BGN

	2017	2016
Other operating income		
Income from non-financial services	2 215	2 454
Rental income	617	833
Other income	3 946	6 071
	6 778	**9 358**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(53 546)	(48 399)
Impairment of foreclosed properties	(2 637)	(3 188)
Other operating expenses	(3 949)	(6 131)
	(60 132)	**(57 718)**
Other operating income (expenses), net	**(53 354)**	**(48 360)**

In 2017 and 2016 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

12. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2017 and December 31, 2016 the gains are in the amount of BGN 13 721 thousand and BGN 2 462 thousand respectively.

13. Personnel expenses

In thousands of BGN

	2016	2015
Wages and salaries	(115 157)	(108 511)
Social security charges	(15 302)	(14 763)
Pension and similar expenses	(607)	(585)
Temporary staff expenses	(2 138)	(2 220)
Share-based payments	(2 225)	(1 880)
Other	(3 358)	(3 634)
Total personnel expenses	**(138 787)**	**(131 593)**

As of December 31, 2017 the total number of employees, expressed in full time employee equivalent is 4 152 (December 31, 2016: 4 149).

As described in note 3 (p) (iii) ultimate parent company UniCredit S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2016	2017 COST (GAINS)	SETTLED IN 2017	ECONOMIC VALUE AT DECEMBER 31, 2017
Deferred Short Term Incentive (ordinary shares)	4 747	2 163	(644)	**6 266**
ESOP and shares for Talents	307	62	(257)	**112**
Total Options and Shares	**5 054**	**2 225**	**(901)**	**6 378**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **36**.

14. General and administrative expenses

In thousands of BGN

	2017	2016
Advertising, marketing and communication	(11 191)	(11 440)
Credit information and searches	(2 523)	(3 156)
Information, communication and technology expenses	(37 284)	(34 410)
Consulting, audit and other professionals services	(2 478)	(3 358)
Real estate expenses	(12 227)	(12 111)
Rents	(13 953)	(14 042)
Travel expenses and car rentals	(2 125)	(2 251)
Insurance	(1 491)	(1 505)
Supply and miscellaneous services rendered by third parties	(12 608)	(11 580)
Other costs	(5 516)	(4 922)
Total general and administrative expenses	**(101 396)**	**(98 775)**

For 2017 the fees for audit services provided by the auditing companies amounts to BGN 1 010 thousands (BGN 902 thousand for 2016).

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

In thousands of BGN

	2017	2 016
Depreciation charge	(34 161)	(33 468)
Impairment	-	(10 728)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(34 161)**	**(44 196)**

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, 2017 there is no impairment of fixed assets, while as of December 31, 2016 the impairment of fixed assets, is in the amount of BGN 10 728 thousand.

16. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **36**).

In thousands of BGN

	2017	2016
Additions of provisions		
Legal cases provisions	(4 352)	(2 021)
Other provisions	(250)	(200)
Provisions on letters of guarantee	(1 838)	-
	(6 440)	**(2 221)**
Reversal of provisions		
Legal cases provisions	414	16 579
Other provisions	-	1
	414	**16 580**
Net provisions charge	**(6 026)**	**14 359**

17. Net Impairment loss on financial assets

In thousands of BGN

	2017	2016
Balance January 1		
Loans and advances to customers	**1 008 788**	**1 071 315**
Increase		
Loans and advances to customers	348 416	333 856
Decrease		
Loans and advances to customers	(177 515)	(111 219)
Recoveries from loans previously written-off	(28 088)	(24 861)
Net impairment losses	142 813	197 776
FX revaluation effect on imparment allowances	(376)	1 178
Other movements	12	(26 475)
Written-off		
Loans and advances to customers	(417 461)	(259 867)
Balance December 31		
Loans and advances to customers	**761 864**	**1 008 788**

18. 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 2017.

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

In thousands of BGN

	2017	2016
Current tax	(59 715)	(51 365)
Deferred tax income (expense) related to origination and reversal of temporary differences	13 244	10 696
(Overprovided)/underprovided prior year deferred tax	(434)	88
(Overprovided)/underprovided prior year current tax	434	(241)
Income tax expense	**(46 471)**	**(40 822)**

The tax on the Bank's profit before taxation differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN

	2017	2016
Accounting profit before tax	458 713	402 167
Corporate tax at applicable tax rate (10% for 2017 and 2016)	(45 871)	(40 217)
Tax effect of non taxable revenue	375	563
Tax effect of non tax deductible expenses	(776)	(986)
Underprovided prior year income tax	(199)	(182)
Income tax expense	**(46 471)**	**(40 822)**
Effective tax rate	**10.13%**	**10.15%**

19. Cash and balances with Central bank

In thousands of BGN

	31.12.2017	31.12.2016
Cash in hand and in ATM	203 768	201 764
Cash in transit	104 662	71 936
Current account with Central Bank	3 421 203	4 273 812
Total cash and balance with Central Bank	**3 729 633**	**4 547 512**

20. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds	36	37
Trading loans	23 783	23 219
Total non-derivative financial assets held for trading	**23 819**	**23 256**

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

Trading loans consist of prepaid forward transaction with customer.

21. Derivatives held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Interest rate swaps	37 182	56 610
Equity options	2 731	8 771
FX forward contracts	8 031	22 856
Other options	-	1
FX swaps	2 609	8 404
Commodity swaps	10 897	9 401
Commodity options	24 882	2 862
Total trading derivatives	**86 332**	**108 905**

Derivatives consist of trading instruments that have positive market value as of December 31, 2017 and December 31, 2016. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

22. Derivatives held/used for hedging

As described in Note **3 (k)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits).

Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

23. Loans and advances to banks

In thousands of BGN

	31.12.2017	31.12.2016
Loans and advances to banks	1 276 391	1 268 584
Current accounts with banks	353 040	54 694
Total loans and advances to banks	**1 629 431**	**1 323 278**

24. Loans and advances to customers

In thousands of BGN

	31.12.2017	31.12.2016
Companies	6 927 408	7 550 320
Individuals		
Housing loans	1 753 565	1 656 185
Consumer loans	1 386 957	1 307 336
Other loans	98 813	120 871
Central and local governments	324 068	339 082
Finance leases	900 140	907 955
	11 390 951	**11 881 749**
Less impairment allowances	(761 864)	(1 008 788)
Total loans and advances to customers	**10 629 087**	**10 872 961**

25. Available for sale investments

In thousands of BGN

	31.12.2017	31.12.2016
Government bonds	3 479 519	3 128 715
Municipality bonds	-	451
Bonds of credit institutions	264 050	-
Equities	19 332	17 540
Total available for sale investments	**3 762 901**	**3 146 706**

Government and corporate bonds classified as available for sale investments are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

As of December 31, 2017 and December 31, 2016 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized.

As of December 31, 2017 there are no pledged available for sale investments. As of December 31, 2016 available for sale investments in the amount of BGN 310 629 thousand are pledged on open repo-deals and other funding deals (see also Note **40**).

26. Investments in associates

As of December 31, 2017 and December 31, 2016 there is only one associated company, where the Bank exercises significant influence by holding 20% of the share capital of that company. This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2017 and December 31, 2016 are as follows:

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2017
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with bank notes and coins to the banks	20.0%	2 717
		Total	**2 717**

In thousands of BGN

Cash Service Company AD	2017	2016
Total assets	14 256	14 478
Total liabilities	670	647
Revenue	6 774	7 205
Net profit for the year	722	1 075

27. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2016	**5 591**	**156 959**	**10 742**	**77 374**	**59 762**	**81 110**	**391 538**
Additions	-	5 133	1 121	7 803	19 213	70	**33 340**
Transfers	(2 000)	(10 125)	9	30	(39)	(909)	**(13 034)**
Write offs	-	(447)	(302)	(10 751)	(6 902)	-	**(18 402)**
Disposals	-	(160)	-	(6 749)	(340)	(1 241)	**(8 490)**
As of December 31, 2017	**3 591**	**151 360**	**11 570**	**67 707**	**71 694**	**79 030**	**(384 952)**
Depreciation							**193 179**
As of December 31, 2016	**-**	**75 554**	**6 322**	**56 374**	**41 601**	**13 328**	**25 910**
Depreciation charge	-	6 757	1 486	6 488	8 907	2 272	**(18 384)**
Write offs	-	(447)	(302)	(10 748)	(6 887)	-	**(7 257)**
On disposals	-	(82)	-	(6 716)	(253)	(206)	**(4 841)**
Transfers	-	(4 809)	-	-	-	(32)	**188 607**
As of December 31, 2017	**-**	**76 973**	**7 506**	**45 398**	**43 368**	**15 362**	**188 607**
Net book value as of December 31, 2017	**3 591**	**74 387**	**4 064**	**22 309**	**28 326**	**63 668**	**196 345**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 420**	**21 000**	**18 161**	**67 782**	**198 359**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2015	**5 628**	**150 958**	**9 681**	**72 336**	**54 610**	**48 171**	**341 384**
Additions	-	7 018	1 793	11 869	9 331	34 895	**64 906**
Transfers	(25)	(165)	141	12	(154)	341	**150**
Write offs	-	(683)	(869)	(2 339)	(2 515)	-	**(6 406)**
Disposals	(12)	(169)	(4)	(4 504)	(1 510)	(2 297)	**(8 496)**
As of December 31, 2016	**5 591**	**156 959**	**10 742**	**77 374**	**59 762**	**81 110**	**391 538**
Depreciation							**171 988**
As of December 31, 2015	**-**	**69 440**	**5 859**	**56 623**	**38 567**	**1 499**	**23 755**
Depreciation charge	-	6 930	1 338	6 593	6 925	1 969	**10 728**
Impairment	-	-	-	-	-	10 728	**(6 401)**
Write offs	-	(683)	(871)	(2 338)	(2 509)	-	**(6 891)**
On disposals	-	(68)	(4)	(4 504)	(1 382)	(933)	**193 179**
Transfers	-	(65)	-	-	-	65	**198 359**
As of December 31, 2016	**-**	**75 554**	**6 322**	**56 374**	**41 601**	**13 328**	**193 179**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 420**	**21 000**	**18 161**	**67 782**	**198 359**
Net book value as of December 31, 2015	**5 628**	**81 518**	**3 822**	**15 713**	**16 043**	**46 672**	**169 396**

Items of property, plant, equipment and investment property are carried at cost less any accumulated depreciation and adjusted for impairment, if any.

As part of the year-end closing procedure, Bank has assessed all items of property, plant, equipment and investment properties for existence of any impairment indicators. For non-real estate items, impairment is usually recognized when those items are found to be obsoleted or their usage is planned to be discontinued. In such cases the recoverable amount on those items is reasonably assessed to be immaterial (close to zero), therefore the remaining carrying amount is fully impaired.

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2017 and December 31, 2016 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2017 and December 31, 2016 amount to BGN 0 thousand and BGN 10 728 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2017 and December 31, 2016. The fair values of investment properties as of December 31, 2017 and December 31, 2016 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2017	2016	2017	2016
Investment properties				
Land	10 211	10 860	10 432	11 068
Buildings	53 457	56 922	55 349	58 313
Total investment properties	**63 668**	**67 782**	**65 781**	**69 381**

28. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2016	**92 530**
Additions	18 773
Write offs	(252)
As of December 31,2017	**111 051**
Depreciation	
As of December 31, 2016	**65 028**
Depreciation charge	8 251
Write offs	(252)
As of December 31, 2017	**73 027**
Net book value as of December 31, 2017	**38 024**
Net book value as of December 31, 2016	**27 502**

In thousands of BGN

Cost	
As of December 31, 2015	**96 583**
Additions	11 810
Write offs	(15 863)
As of December 31,2016	**92 530**
Depreciation	
As of December 31, 2015	**71 178**
Depreciation charge	9 713
Write offs	(15 863)
As of December 31,2016	**65 028**
Net book value as of December 31, 2016	**27 502**
Net book value as of December 31, 2015	**25 405**

29. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2017 and as of December 31, 2016 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the years 2017 and 2016 respectively.

30. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2017 and December 31, 2016 is as outlined below:

In thousands of BGN

	31.12.2017	31.12.2016
Property, plant, equipment, investment proparty and intangible assets	3 353	2 917
Available for sale investments	-	872
Provisions	(3 755)	(5 460)
Actuarial (losses)	(413)	(271)
Other liabilities	(7 799)	(8 332)
Tax losses carried forward	-	(773)
Net tax (assets)	**(8 614)**	**(11 047)**

The movements of deferred tax assets and liabilities on net basis throughout 2017 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2016	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2017
Property, plant, equipment, investment property and intangible assets	2 917	436	-	3 353
Available for sale investments	872	(15 344)	14 472	-
Provisions	(5 460)	1 705	-	(3 755)
Actuarial (losses)	(271)	-	(142)	(413)
Cash flow hedge	-	(913)	913	-
Other liabilities	(8 332)	533	-	(7 799)
Tax losses carried forward	(773)	773		-
Net tax (assets) liabilities	**(11 047)**	**(12 810)**	**15 243**	**(8 614)**

31. Non-current assets held for sale

Usually the Bank presents as non-current assets and disposal group held for sale properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends.

As of December 31, 2017 and December 31, 2016 the Bank has not classified any properties as non-current assets held for sale.

As of the end of 2016, the Bank has signed an agreement for sale of loan portfolio at gross amount of TEUR 93 000 (including balance sheet exposures, as well as written-off the balance sheet exposures). The deal is part of the Group plan aiming at strengthening the loan portfolio quality. Following the above, as of December 31, 2016 the Bank has reclassified the balance sheet loan exposures subject to sale in compliance with the requirements of IFRS 5. Loans evaluation and measurement is following the requirements of IAS 39 and as of December 31, 2016 their carrying value is equal to the cession price - TBGN 2 015.

As of the end of 2017 the Bank has not classified any assets as non-current assets held for sale.

32. Other assets

In thousands of BGN

	31.12.2017	31.12.2016
Receivables and prepayments	62 862	33 763
Receivables from the State Budget	1 775	18
Materials, spare parts and consumables	3 834	4 234
Other assets	6 807	8 688
Foreclosed properties	71 768	73 139
Total other assets	**147 046**	**119 842**

33. Financial liabilities held for trading

In thousands of BGN

	31.12.2017	31.12.2016
Interest rate swaps	20 906	34 665
FX forward contracts	22 532	11 420
Equity options	2 731	9 093
Other options	-	1
FX swaps	454	6 818
Commodity swaps	10 933	9 438
Commodity options	24 927	2 870
Total trading liabilities	**82 483**	**74 305**

34. Deposits from banks

In thousands of BGN

	31.12.2017	31.12.2016
Current accounts and overnight deposits		
Local banks	276 085	213 994
Foreign banks	60 386	89 350
	336 471	**303 344**
Deposits		
Local banks	47 715	47 934
Foreign banks	839 927	1 941 114
	887 642	**1 989 048**
Other	**34 371**	**23 076**
Total deposits from banks	**1 258 484**	**2 315 468**

35. Deposits from customers

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date.

As of December 31, 2017 and December 31, 2016 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

In thousands of BGN

	31.12.2017	31.12.2016
Current accounts		
Individuals	2 264 189	1 764 509
Corporate	6 216 407	5 410 233
Budget and State companies	261 149	274 625
	8 741 745	**7 449 367**
Term deposits		
Individuals	4 363 189	4 151 020
Corporate	755 093	1 486 759
Budget and State companies	62 543	96 615
	5 180 825	**5 734 394**
Saving accounts	**1 457 596**	**1 597 716**
Transfers in execution process	**106 936**	**32 625**
Other	**25 897**	**24 098**
Total deposits from customers	**15 512 999**	**14 838 200**

36. Provisions

The movement in provisions for the years ended December 31, 2017 and December 31, 2016 is as follows:

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2015	**16 441**	**28 147**	**6 410**	**1 573**	**591**	**53 162**
Allocations	-	2 021	585	-	200	**2 806**
Releases	-	(16 579)	-	-	(1)	**(16 580)**
Additions due to FX revaluation	2 335	2 914	-	-	-	**5 249**
Releases due to FX revaluation	(2 886)	(2 723)	-	-	-	**(5 609)**
Actuarial gains/losses recognized in OCI	-	-	745	-	-	**745**
Other movements	(15 498)	15 498	-	-	-	
Utilization	-	(884)	(384)	(1 271)	(267)	**(2 806)**
Balance as of December 31, 2016	**392**	**28 394**	**7 356**	**302**	**523**	**36 967**
Allocations	1 838	4 352	607	-	250	**7 047**
Releases	-	(414)	-	-	-	**(414)**
Additions due to FX revaluation	143	2 116	-	-	-	**2 259**
Releases due to FX revaluation	(190)	(2 819)	-	-	-	**(3 009)**
Actuarial gains/losses recognized in OCI	-	-	1 410	-	-	**1 410**
Utilization	-	(1 699)	(361)	-	(254)	**(2 314)**
Balance as of December 31, 2017	**2 183**	**29 930**	**9 012**	**302**	**519**	**41 946**

(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, 2017 the Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 2 183 thousand (BGN 392 thousand as of December 31, 2016).

(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, 2017 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 29 930 thousand has been recognized (BGN 28 394 as of December 31, 2016).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2017 defined benefit obligation are as follows:

- Discount rate – 1,00%;
- Salary increase – 5% p.a.;
- Retirement age: Men 64 years, women 61 years for 2016 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2017 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, 2016	**7 356**
Current service costs for 2017	475
Interest cost for 2017	132
Actuarial losses recognized in OCI in 2017	1 410
Benefits paid	(361)
Recognized defined benefit obligation as of December 31, 2017	**9 012**
Interest rate beginning of the year	1.94%
Interest rate end of the year	1.00%
Future increase of salaries	5.00%
Expected 2018 service costs	583
Expected 2018 interest costs	85
Expected 2018 benefit payments	1 281

Current service cost and interest cost are presented under Personnel expenses (See note **13**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2017	2016
Sensitivity - Discount rate +/- %	0.25%	0.25%
DBO Discount rate -	9 260	7 542
DBO Discount rate +	8 776	7 179
Sensitivity - Salary increase rate +/- %	0.25%	0.25%
DBO Salary increase rate -	8 784	7 184
DBO Salary increase rate +	9 250	7 536

(d) Provisions on constructive obligation

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

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2017 and December 31, 2016 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates.

(e) Other provision

Other provisions in the amount of BGN 519 thousand as of December 31, 2017 (BGN 523 thousand as of December 31, 2016) relates to coverage of claims related to credit cards business as well as other claims.

37. Other liabilities

In thousands of BGN

	31.12.2017	31.12.2016
Liabilities to the State budget	4 227	6 299
Liabilities to personnel	30 338	34 943
Liabilities for unused paid leave	5 805	5 558
Dividends	706	546
Incentive plan liabilities	6 510	5 255
Other liabilities	69 124	53 591
Total other liabilities	**116 710**	**106 192**

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 2017 and 2016 in accordance with the defined target settings and adopted incentive programs.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

As described in note **3 (p) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **13** above.

38. Equity

(a) Share capital

As of December 31, 2017 and December 31, 2016 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years.

The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 “Employee Benefits”.

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2017 and December 31, 2016 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 9 153 thousand and BGN (18 061) thousand, respectively, net of tax. For 2016 major part of the amount (BGN (14 811)) are due to one-off effect from derecognition of Visa Europe equity participation.

39. Contingent liabilities

In thousands of BGN

	31.12.2017	31.12.2016
Letters of credit and letters of guarantee	1 715 064	1 730 317
Credit commitments	1 783 383	1 827 737
Total contingent liabilities	**3 498 447**	**3 558 054**

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2017 and December 31, 2016 the Bank has made assessment in compliance with IAS 37 “Provisions, Contingent liabilities and Contingent assets”. Due to abnormal credit risk related to certain clients’ exposures, Bank’s Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **36**).

(b) Litigation

As of December 31, 2017 and December 31, 2016 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these consolidated financial statements as of December 31, 2017 are in the amount of BGN 29 930 thousand (BGN 28 394 thousand in 2016), (see also Note **36)**.

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients’ disposal.

As of December 31, 2017 and December 31, 2016 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

40. Assets pledged as collateral

In thousands of BGN

	31.12.2017	31.12.2016
Securities pledged fon repo deals	29 733	-
Securities pledged on other deals	-	310 629
Loans pledged for budget holders' account service	254 886	254 257
Loans pledged on other deals	95 923	17 843
	380 542	**582 729**
Pledged assets include:		
Available for sale assets	29 733	310 629
Loans and advances	350 809	272 100
	380 542	**582 729**

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

41. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as "parent companies"). In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit SpA was performed thus leading to change of the Bank's main shareholder to UniCredit SpA.

In addition the Bank has relatedness with associates (see also Note 26) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2017 and December 31, 2016 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2017	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Financial assets held for trading	473	-	14 752	**15 225**
Financial assets held for hedging	495	-	5 844	**6 339**
Current accounts and deposits placed	1 116 334	-	205 373	**1 321 707**
Extended loans	-	-	23 321	**23 321**
Other assets	3 093	-	2 330	**5 423**
LIABILITIES				
Current accounts and deposits taken	168 147	-	657 304	**825 451**
Derivatives held for trading	12 114	-	55 791	**67 905**
Derivatives used for hedging	32 712	-	10 186	**42 898**
Other liabilities	8 860	-	2 071	**10 931**
Guarantees received by the Group	**51 462**	**-**	**61 568**	**113 030**

In thousands of BGN

AS OF DECEMBER 31, 2016	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Financial assets held for trading	-	-	31 402	**31 402**
Financial assets held for hedging	-	-	2 452	**2 452**
Current accounts and deposits placed	1 186 925	-	38 723	**1 225 648**
Extended loans	-	-	13 190	**13 190**
Other assets	1 062	-	4 057	**5 119**
LIABILITIES				
Current accounts and deposits taken	452 079	-	1 108 555	**1 560 634**
Derivatives held for trading	611	-	45 872	**46 483**
Derivatives used for hedging	46 231	-	18 222	**64 453**
Other liabilities	6 592	-	2 336	**8 928**
Guarantees received by the Group	**55 057**	**-**	**65 958**	**121 015**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2017	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	8 562	-	288	**8 850**
Interest expenses	(12 631)	-	(25 559)	**(38 190)**
Dividend income	-	191	-	**191**
Fee and commissions income	1 016	-	1 919	**2 935**
Fee and commissions expenses	(42)	-	(476)	**(518)**
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	(21 384)	-	(151 606)	**(172 990)**
Other operating income	633	-	(428)	**205**
Administrative and personnel expenses	(2 131)	(914)	(11 155)	**(14 200)**
Total	**(25 977)**	**(723)**	**(187 017)**	**(213 717)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2016	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	12 050	-	205	12 255
Interest expenses	(9 360)	-	(33 519)	(42 879)
Dividend income	-	178	-	178
Fee and commissions income	242	-	2 417	2 659
Fee and commissions expenses	(45)	-	(271)	(316)
Net gains (losses) on financial assets and liabilities held for trading	2 331	-	21 182	23 513
Other operating income	64	-	621	685
Administrative and personnel expenses	(2 092)	(1 056)	(10 933)	(14 081)
Total	**3 190**	**(878)**	**(20 298)**	**(17 986)**

As of December 31, 2017 the loans extended to key management personnel amount to BGN 975 thousand (BGN 1 713 thousand in 2016). For the year ended December 31, 2017 the compensation paid to key management personnel amounts to BGN 6 663 thousand (BGN 6 332 thousand in 2016).

42. Cash and cash equivalents

In thousands of BGN

	31.12.2017	31.12.2016
Cash in hand and in ATM	203 768	201 764
Cash in transit	104 662	71 936
Current account with the Central Bank	3 421 203	4 273 812
Current accounts with banks	353 040	54 694
Placements with banks with original maturity less than 3 months	312 612	146 948
Total cash and cash equivalents	**4 395 285**	**4 749 154**

43. Leasing

The Bank is counterparty in numerous operating and finance lease agreements. After first consolidation of UniCredit Leasing EAD and HVB Leasing EOOD in December 2013, the finance lease agreements prevail, being those leasing companies' core activity.

In 2014 Bank has reassessed certain operating lease agreements originated in leasing subsidiaries, whereas the latter included an option at the discretion of the lessor to sell the leased assets. As the Management decides that all options available will always be exercised, all related operating lease agreements have been reclassified to finance ones. As a result of the reclassification, there are no more operation lease agreements covered within the core business activity of the leasing subsidiaries. Reported outstanding non-cancellable payments on operation lease agreements relate only to auxiliary Bank's stand-alone activity.

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

(a) Financial lease contracts, where the Bank is a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Up to one year	429 505	310 509	324 891	277 349
Between one and five years	494 869	424 007	460 939	432 314
Beyond five years	40 313	83 689	37 204	85 324
Total	**964 687**	**818 205**	**823 034**	**794 987**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2017	31.12.2016
Up to one year	7 097	5 738
Between one and five years	10 561	8 214
Beyond five years	6 808	4 829
Total	**24 466**	**18 781**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2017	31.12.2016
Up to one year	1 416	227
Between one and five years	4 974	-
Total	**6 390**	**227**

44. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2017 and December 31, 2016 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitate mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these consolidated financial statements or other mandatory reports are as follows:

In thousands of BGN

	2017	2016	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	868 175	857 686	Consolidated Income Statement and details in Notes 7,8,9,10 and 11
Profit before income tax	458 713	402 167	Consolidated Income Statement
Income tax expense	(46 471)	(40 822)	Consolidated Income Statement and details in Notes 18
Return on average assets (%)	2.0%	1.8%	2017 Annual Report on Activity
Full time equivalent number of personnel as of December 31	4 152	4 149	Note 13

UniCredit Bulbank AD has never requested or been provided any state grants or subsidies.

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

Bank Network

Aitos
27, Stancionna str. (0558) 29606, (0558) 29609, (0558) 29607

Asenovgrad
8, Radi Ovcharov str. (0331) 228 33; (0331) 228 31; (0331) 228 34

Balchik
34A, Cherno more str. (0579) 711 15; (0579) 711 16; (0579) 711 12

Obstina Balchik
3, Ivan Vazov str. (0579) 740 61

Bansko
3, Pirin str. (0749) 881 25

Berkovitsa
1, Yordan Radichkov sq. (0953) 884 84

Blagoevgrad
1, Macedonia sq. (073) 86 70 28; 86 70 16; 8670 17; 8670 27; 8670 25
5, St. Dimitur Solunski str. (073) 834 074
17, Zelenopolsko shose str. (02) 926 4786
22, Ivan Shishman str. (073)828 625; 828 637; 828 619
57, Vasil Levski blvd. (073) 828 475
18, St. Kiril and Metodius blvd. (073) 82 87 28; 82 87 11; 82 87 19

Bojurishte
85, Evropa blvd. (02) 993 8845; (02) 993 8844

Botevgrad
24, Saransk sq. (0723) 668 72; (0723) 668 71

Burgas
22, Alexandrovska str. (056) 877 246; (056) 877 291
Lukoil Neftohim (056) 898 036
103, Stefan Stambolov blvd. (052) 689 830
22, Alexandrovska str.
68 70, Hristo Botev str. (056)806 811; 806 813; 608 817
Izgrev district, 53, Transportna str. (052) 689 849
104, Democracia blvd. (056) 874 136, 056)874 114, 056)874 129, 059)874 130
Slaveikov district, block 46 (056) 89 66 81; (056) 89 66 85
94 block of Slaveikov District (056) 581 218
Burgas, Meden rudnik, A, building 1 (056) 871942; (056)871943
Burgas, zh.k. Izgrev, 187 (056) 598 281; (056) 598 282 (056) 598 283

Chepelare
1, Han Asparuh str. (03051) 20 35; (03051) 31 95

Chirpan
2, Yavorov str. (0416) 90100; (0416) 90103; (0416) 90104, (0416) 90105

Damyanitsa
Damyanitsa 48575; 0988121575

Devnia
Devnia in the building of Solvei Sodi (05131) 24 07

Dimitrovgrad
4B, Bulgaria blvd. (0391) 686 13; 686 14

Dobrich
3, Bulgaria str. (058) 655 732; (058) 655 733; (058) 655 728
7, Nezavisimost str. (058) 653 072
54, Okolovrusten put Dobrotica (058) 600 650

Dulovo
14, Vasil Levski str. (0864) 223 56

Dupnitza
3, Ivan Vazov str. (0701) 599 14; 599 13; 599 15; 599 12

Elena
1, Chr. Momchilov str. (06151) 61 13

Elin Pelin
5, Nezavisimost sq. (0725) 688 27; (0725) 688 12; (0725) 688 24

Etropole
22, M. Gavrailova str. (0720) 672 22; (0720) 623 11

Gabrovo
13, Radecki str. (066) 814 206; 814 245; 814 295

Galabovo
8, dr. Jekov str. (0418) 62 224; 62 380; 64 020

General Toshevo
5, Treti Mart str. (05731) 21 37

Godech
2, Svoboda sq. (0894) 517723

Gorna Orjahovitsa
1A, M. Todorv str. (0618) 681 12; 681 13; 681 22

Gotse Delchev
11, Byalo More str. (0751)69620; 696 23; 696 24; 696 31; 696 32

Harmanli
1, Vazrajdane sq. (0373) 80061, (0373) 80063, (0373) 80073, (0373) 80077

Haskovo
4, Han Kubrat str. (038) 602742; (038) 602741

Haskovo Technopolis
Haskovo Tehnopolis (032) 905891

Ihtiman
8, Polk. B. Drangov str. (0724) 820 91; (0724) 821 28

Kardzhali
51, Bulgaria blvd. (0361) 670 20; 670 21; 670 22; 670 17

Bank Network (continued)

Karlovo
2, Vodopad str.	(0335) 905 25; (0335) 905 26; (0335) 905 46 (0335) 905 45; (0335) 905 39; (0335) 905 18

Karnobat
14, Bulgaria blvd.	(0559) 28 821; 28 819; 28 803

Kavarna
37, Dobrotica str.	(0570) 811 11; 811 12; 811 16

Kazanlak
4, Rozova Dolina str.	0431) 681 35; 681 25; 681 32

Knezha
5, Nikola Petkov str.	(09132) 67 50; (09132) 73 94

Kostenets
2, Belmeken str.	(07142) 22 52; (07142) 35 58

Kostinbrod
7, Ohrid str.	(0721) 681 25; (0721) 681 27; (0721) 681 17; (0721) 681 28

Kozlodui
Kozlodui Nuclear Plant	(0973) 73 677
1, Kiril I Metodii str.	(0973) 80 004

Kardzhali
4, Belomorski blvd.	(0361) 61 077

Kyustendil
39, Democracy str.	(078) 559 613; 5596 15; 5596 11
5, Gueshevo shosse str.	(078) 541 234

Lom
14, Dunavska str.	(0971) 68762

Lovech
10, Akad Ishirkov str.	(068) 68 99 43; (068) 68 99 42

Malko Tarnovo
2, Malkoturnovska Komuna str.	(05952) 31 49; (05952) 34 70

Mezdra
8, Georgi Dimitrov str.	(0910) 92 078; 92 386

Montana
72, Treti Mart blvd	(096) 391 957, (096) 391 954, (096) 391 953
216 Treti Mart blvd.	(096) 300 393
51, Treti Mart blvd.	(096) 383 168; (096) 383 162; 383 170

Nessebar
Nesebar, 38, Han Krum str.	(0554) 219 20; 219 21; 219 22; 219 23; 219 24; 219 25
10, Zedelvais str.	(0554) 44 081

Nova Zagora
49, Vasil Levski str.	(0457) 612 60; 61 267

Novi Pazar
4, Rakovski sq.	(0537) 258 52; 258 53; 258 54; 258 55

Panagiurishte
1, G. Benkovski str.	(0357) 632 60; (0357) 640 87

Parvomai
2 B, Hristo Botev str.	(0336) 620 53; (0336) 620 54

Pavlikeni
20, Svoboda sq.	(6010) 511 80; 511 89

Pazardzhik
6, Bulgaria blvd.	(034) 405 131; (034) 405 129
RDVR Pazardzhik	(034) 440 993
Pazardzhik KAT	(034) 441 290
13, Stefan Stambolov blvd.	(034) 445 380
5, Esperanto str.	(034) 405 718; (034) 405 726

Pernik
41, Krakra str.	(076) 688 983; (076) 688 725
21, St Kiril and Methodius blvd.	(076) 605 387

Peshtera
19, Dimitar Gorov str.	(0350) 621 07

Petrich
48, Rokfeler str.	(0745) 695 28; 695 21; 695 30

Pirdop
Todor Vlaikov sq., block 2	(07181) 82 15; (07181) 82 13

Pleven
121, Vasil Levski str.	(064) 8907 30; 8907 32; 8907 36; 8907 38
4, Georgi Kochev blvd.	(064) 831 065
1, Kosta Hadzhipakev str.	(064) 880 225; 880 220; 880 208; 880 218; 880 229
13, Danail Popov str., block Volga	(064)89 21 63; 89 21 65; 89 21 64
11, Metro str.	(02) 9264787

Plovdiv
4, Ivan Vazov str.	(032) 601 615; (032) 601 697; (032) 601 626
8, Vasil Levski str.	(032) 905 860; (032) 905 864
41, Saedinenie str., Trakia	(032) 905 974; (032) 905 972; (032) 905 821
51, Raiko Daskalov str.	(032) 656 044; 045; 046; 049; 037
133, Sankt Peterburg blvd.	(032) 680 250
82, Hristo Botev blvd.	(032) 632 600
13, Kniaz Alexander Ist str.	(032) 905 816; (032) 905 808
135, Sankt Peterburg blvd.	(032) 905 895
15 A, Vasil Aprilov blvd.	(032) 905 837
66, Pestersko Shosse str.	(032) 905 841
24, Tsar Assen Str.	(032) 905 844
31, Ivan Vazov str.	(032) 905 935; (032) 905 938; (032) 905 835; (032) 905 839
1, Asenovgradsko Shosse str.	(032) 622 386
73A, Makedonia blvd.	(032) 271 920

Bank Network (continued)

Polski Trumbesh

55, Turgovska str.	(06141) 67 16

Pomorie

2a, Graf Ignatiev str.	(0596) 262 62; 262 63; 262 64; 262 65

Popovo

99, Bulgaria blvd.	(0608) 409 51; 409 53; 409 54

Primorsko

1, Chavdar str.	(0550) 337 82; 337 85; 337 84

Radnevo

10A, G. Dimitrov str.	(0417) 810 11; 810 12; 810 13

Rakovski

1, Moskva str.	(03151) 50 12; (03151) 60 37

Razgrad

1, Momina Cheshma sq.	084) 612 118; 622 632; 662 110
66, Aprilsko vastanie blvd.	(084) 609802

Razlog

1, Eksarh Iosif str.	(0747) 898 09, (0747) 898 05, (0747) 898 04

Russe

5, Sveta Troica sq.	(082) 818 258; 818 233
38, Hristo Botev str.	(082) 241 492
123 Lipnik blvd.	(082) 280 810
60, Treti Mart blvd.	(082) 611068
1, Kiril Starcev str.	(082) 818331; (082) 818341

Samokov

3, Prof V. Zahariev str.	(0722) 688 14; (0722) 688 13; (0722) 688 16

Sandanski

52, Macedonia str.	(0746) 348 52; 348 44; 348 45

Sapareva bania

2, Germaneya str.	(0707) 2 4054; (0707) 2 2228

Sevlievo

21, Svoboda sq.	(0675) 345 86

Shabla

4, Petko Balgaranov str.	(05743) 50 11

Shumen

8, Slavianski blvd.	(054) 858 126; (054) 858 122
5, Simeon Veliki blvd.	(054) 830 056

Silistra

4, Georgi S. Rakovski str.	(086) 878 342; (086) 878 341; (086) 878 332
33, 7mi septemvri blvd.	(086) 833 199

Slanchev Briag

Slanchev bryag, business building Sapfir	(0554) 28 023; 28 025

Sliven

14, Tzar Osvoboditel blvd.	(044) 613127; 613120; 613139
6, Stephan Karadzha str.	(044) 630 035

Slivnitsa

2, Saedinenie sq.	(0727) 489 35; (0727) 489 31; (0727) 489 34

Smolyan

59, Kolio Shishmanov str.	(0301) 673 14; (0301) 673 20

Sofia

7, Sveta Nedelya Sq.	
7, Sveta Nedelya Sq.	(02) 923 2488; (02) 923 2451
	(02) 923 2177; (02) 923 2693; (02) 923 2347
7, Sveta Nedelya Sq.	(02) 923 2582; (02) 923 2584; (02) 923 2583
1, Briuksel blvd.	(02) 980 9601
84, Veslec str.	(02) 810 5921
18, Parva Bulgarska Armiya blvd.	(02) 931 1846
Mladost; 265, Okolovrusten put	(02) 877 0473
2, Buzludzha str.	(02) 895 1019; (02) 895 1034
2, Lomsko shosse str.	(02) 890 4952; (02) 890 4951
13, 202 str.	(02) 833 4174
90, Al. Stamboliyski blvd.	(02) 810 2622; (02) 810 2611
	(02) 810 2617; (02) 810 2615; (02) 810 2616
14, Gueshevo str.	(02) 947 4560; (02) 947 4561
100, Cherni Vruh blvd.	(02) 969 0021; (02) 969 0029
90, Vitosha blvd.	(02) 917 3013; (02) 917 3014; (02) 917 3015;
105, Gotse Delchev blvd.	(02) 818 2722; (02) 818 2721; (02) 818 2720
1, P.U. Todorov blvd. block 1	(02) 818 6726; (02) 818 6756; (02) 818 6757
199A, Okolovrasten pat, Malinova dolina	(02) 965 8198
69, Bulgaria blvd.	(02) 926 4953; (02) 926 4954; (02) 926 4955
8, Vitosha blvd.	(02) 810 2936; (02) 810 2930; (02) 810 2934
444 A, Slivnica blvd.	(02) 892 6815 / (02) 892 6817
2, Sofroniy Vrachanski str.	(02) 937 7071; (02) 937 7077
Iliyanci	(02) 892 0512; (02) 892 0513; (02) 892 0514
Lyulin 4, block 417	(02) 814 5272
Tsaritsa Ioanna blvd.	(02) 825 8946
182, Europa blvd.	(02) 926 4784
22, Zlaten rog, str.	(02) 926 4850; (02) 926 4854; (02) 926 4715
41, Tzar Boris III blvd.	(02) 895 4028; (02) 895 4027
Sofia, 36 Gen. Totleben blvd.	(02) 926 4847
3, Todor Kableshkov blvd.	(02) 926 4870; (02) 926 4869
38, Liubliana str.	(02) 926 4867; (02) 926 4868
Lyulin center, block 752A	(02) 802 4211; (02) 802 4213; (02) 802 4214
127, Slivnica blvd.	(02) 802 1981; (02) 802 1983
1, Skopie blvd.	(02) 803 3582; (02) 803 3583; (02) 803 3584
56, Georgi Sofiiski str.	(02) 818 8773; (02) 818 8772
145, Georgi S. Rakovski str.	(02) 805 3162; (02) 805 3163; (02) 805 3166
12, Knyaz Aleksandar Batenberg str.	(02) 935 7841; (02) 935 7835
3, Tsar Kaloyan str.	(02) 890 2337; (02) 890 2311
1, Madrid blvd.	(02) 948 0971; (02) 948 0975; (02) 948 0987; (02) 948 0984
88, Yanko Sakuzov blvd.	(02) 861 3063; (02) 861 3066
SFA 459, Botevgradsko shosse blvd.	(02) 892 2199

Bank Network (continued)

Hotel Trivia, Botunec	(02) 994 5442
2, Ivan Asen IInd str.	(02) 942 3024; (02) 942 3028; (02) 942 3032
65, Shipchenski prohod str.	(02) 817 2924; (02) 817 2925; (02) 817 2926; (02) 817 2927
52, Kosta Lulchev str.	(02) 971 3495
133, Tsarigradsko Shosse blvd. 7th km	(02) 817 8029; (02) 817 8013 (02) 817 8027; (02) 817 8018
Tsarigradsko Shosse blvd. 7th 11th km	02) 9264783
147, Tsarigradsko Shosse blvd.	(02) 976 7864; (02) 976 7862
9, Dondukov blvd.	(02) 921 8954; (02) 921 8964; (02) 921 8951 (02) 921 8963; (02) 921 8955
115, Tsarigradsko shose blvd.	(02) 8063 741; (02) 8063 742; (02) 8063 743
9, Julio Kiuri str.	(02) 817 3729; (02) 817 3726; (02) 817 3718
28, Hristo Smirnenski blvd.	(02) 963 0988
140, Georgi S. Rakovski str.	(02) 815 7023; (02) 815 7029; (02) 815 7032
40, Vasil Levski blvd.	(02) 950 4650; (02) 926 4852
9A, Boris Stefanov str.	(02) 819 2872; 73; 74
Simeonovo, 14A Momina salza str.	(02) 8123 967
62, G.M. Dimitrov blvd.	(02) 816 9071; 816 9072
32, Zlatuvruh str.	(02) 819 0712; (02) 819 0715
9, Shipchenski prohod blvd.	(02) 892 4561; (02) 892 4563
22, Ierusalim str., MLADOST, Sofia	(02) 817 4921; (02) 817 4912; (02) 817 4922
3, Filip Avramov str.	(02) 812 3697
214, Okolovrusten put str.	(02) 967 6117
Business park Sofia, 2nd building	(02) 8173 322; 8173 23
1, Yanko Sakazov blvd.	(02) 814 5025; (02) 814 5011; (02) 814 5021

Sozopol

2, Parvi May str.	(0550) 26 320; 26 321

Stamboliiski

2, Osmi Mart str.	(0339) 624 87; (0339) 652 39; (0339) 622 64

Stara Zagora

126, Simeon Veliki blvd.	(042) 696 229; (042) 696 231; (042) 696 264
Nikola Petkov str.	(042) 260 106
80, Tzar Simeon Veliki blvd.	042)69 21 12; 69 21 25; 69 21 13; 69 21 23
Rudnik Troyanovo Sever	(0417) 82 402
115, Tsar Simeon Veliki blvd.	(042) 615 129; 615 130; 615 148; 615 132, 615 146
157, Tzar Simeon str.	(042) 610 783; 610 784

Sungurlare

15, Hristo Smirnenski str.	(05571) 52 50; 51 21

Svilengrad

60, Bulgaria blvd.	(0379) 707 28; 707 23; 707 20; 707 10 ; 707 29

Svishtov

16, Tzar Osvoboditel str.	(0631) 611 27; 611 26

Svoge

35, Tsar Simeon str.	(0726) 223 49

Targovishte

23, Vasil Levski str.	(0601) 612 20; 612 21; 612 25

Tervel

7, Sv. Sv Kiril I Metodii str.	(05751) 41 47

Troyan

1, Gen. Karzov str.	(0670) 68 885; 688 77; 688 81

Tzarevo

20, Kraimorska str.	(0590) 55 467; 55 466; 53 250

Varna

1, P. Karavelov str.	(052) 662 128; (052) 662 127; (052) 662 122
39, Maria Luiza str.	(052) 663 137; 136; 135
2, Gabrovo str.	(052) 689 803; (052) 689 809; (052) 689 808; (052) 663 136
13, Treti Mart str.	(05131) 24 07
36 38, Vladislav Varnenchik str.	(052) 687 949; (052) 687 947; (052) 687 935
43, Kniaz Boris str.	(052) 664 026; (052) 664 027; (052) 664 023
115, Osmi Primorski polk blvd.	(052) 785 711; (052) 785 712
20, Drujba str.	(052) 663 691; 663 692; 663 693
61, Pirin str.	(052) 661 346; 344
117, Republika blvd.	(052) 739 501; 739 502; 739 503; 739 508
Vladislavovo, Zapadna obikolna str.	(052) 689 829
267, Tsar Osvoboditel blvd.	(052) 689 832; (052) 689 833

Veliko Tarnovo

13, Vasil Levskli str.	(062) 611 029; 611 023; 611 089
4, Magistralna str.	(062) 611 088
78, Balgaria blvd.	062) 611 018

Velingrad

5, Aleksandar Stamboliyski str.	(0359) 570 20; (0359) 570 23

Vidin

3, Tzar Simeon Veliki str.	(094) 690 214; 690 212; 690 213; 690 215; 690 216

Vratsa

17a, Krastio Bulgariyata str.	(092) 66 88 52; 66 88 62; 66 88 61

Yakoruda

40, Kiril and Metodius str.	(07442) 23 88

Yambol

3, Gorg Papazov str.	(046) 685 122; (046) 685 116; (046) 685 111
173 175, Graf Ignatiev blvd.	(046) 641 153

Zlatitsa

1, Sofiisko shosse str.	(0728) 660 38

Bank Network (continued)

Corporate offices

Sofia	
8, Aksakov str.	02/930 96 52
Varna	
28, Slivnitsa blvd.	052/678 013; 678 020
Stara Zagora	
126 Tzar Simeon Veliki Blvd.	042/696 246; 696 268
Burgas	
22 Alexandrovska Str.	056/877 218; 877 236
Russe	
5 Sveta Troitsa Str.	082/818 265; 818 226
Veliko Tarnovo	
13 Vassil Levski Str.	062/611 017; 611 056
Pleven	
11 Tzar Simeon Str.	064/890 335; 890 332