UniCredit Bulbank

The world
is changing.

Let's change
together.

2014 Consolidated Reports and Accounts

This year's report depicts how innovative UniCredit products and ideas help our customers and businesses respond to the challenges of this changing world.

By spotlighting sophisticated, new multichannel products and services we have developed to meet the modern needs of our customers, we show how our bank is adapting to rapid changes – and how our solutions are helping our customers adapt at the same time.

At UniCredit, we make it easy for the people who bank with us to take full advantage of the technologies and customized services now available to them – so that they can achieve their goals and live their lives on their own terms. As their partner, we have a clear responsibility to provide them the flexibility, the foresight and the tools they need to overcome obstacles and seize new opportunities.

The world is changing. Let's change together.

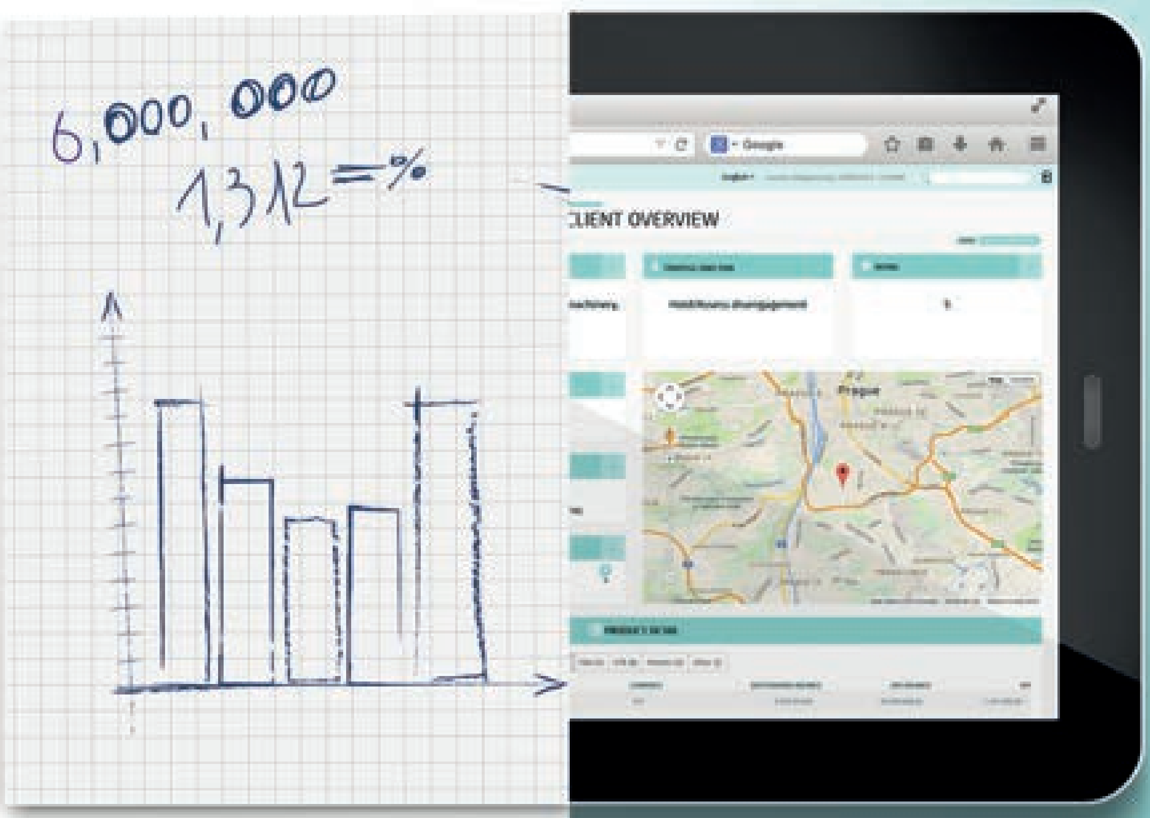
2014 Consolidated Reports and Accounts

The data is clear.

Personalized support services make it clearer.

Clear-cut answers for the future.

The path to knowledge begins with understanding.
Babel is an application that transforms data into useful and accurate information. With it, we can develop personalized products and services, just for you. Babel ensures that we will always meet your expectations and that we help you with important changes in your life. Because information is key to anticipating the future.



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Financial Highlights (Unconsolidated)[1]

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2014	YEAR 2013	CHANGE
Net interest income	445 308	409 861	8.6%
Net fee and commission income	177 140	165 099	7.3%
Net income from trading, investments and dividends	61 913	51 800	19.5%
Other operating income, net	2 091	12 235	-82.9%
Operating income	686 452	638 995	7.4%
Operating expenses	-262 508	-251 954	-4.2%
Gross operating profit	423 944	387 041	9.5%
Impairment losses on financial assets	-149 169	-217 962	-31.6%
Provisions for risk and charges	-5 923	-9 691	-38.9%
Income from PPE	167	922	-81.9%
Profit before tax	269 019	160 310	67.8%
Net profit	241 657	143 639	68.2%

Volume Figures

	YEAR 2014	YEAR 2013	CHANGE
Total assets (eop)	14 843 791	12 661 176	17.2%
Net customer loans (eop)	9 936 482	8 637 803	15.0%
Customer deposits (eop)	10 782 577	8 705 491	23.9%
Shareholders' equity (eop)	2 240 731	2 104 329	6.5%
RWA (eop)	9 538 760	9 427 964	1.2%

Key Performance Indicators (%)

	YEAR 2014	YEAR 2013	CHANGE
Return on average assets (ROA)	1.8	1.1	0.6pp
Return on average equity (ROE)	11.1	6.9	4.2pp
Cost/Income ratio	38.2	39.4	-1.2pp
Net profit margin	35.2	22.5	12.7pp
Capital/Asset ratio (eop)	15.1	16.6	-1.5pp
Total capital adequacy ratio (eop)[1]	20.9	20.0	0.9pp
Tier 1 capital ratio (eop)[1]	20.6	19.7	0.9pp
Risk weighted assets/Total assets ratio (eop)	64.3	74.5	-10.2pp
Non-performing loans/Gross loans	14.5	17.0	-2.6pp
Net Loan/Deposit ratio	92.2	99.2	-7.1pp

Resources (number) - (eop)

	YEAR 2014	YEAR 2013	CHANGE
Employees	3 538	3 553	-15
Branches	194	199	-5

[1] Total capital adequacy and Tier 1 ratio as per Basel III (CRD IV) regulatory framework introduced in 2014 and transposed in new BNB Ordinance N 8 on Banks' Capital Buffers. The corresponding ratios as of end-2013 are as per Basel II.

Financial Highlights (Consolidated)[2]

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR		CHANGE
	2014	2013	
Net interest income	529 895	460 419	15.1%
Net fee and commission income	192 235	177 917	8.0%
Net income from trading, investments and dividends	62 094	52 078	19.2%
Other operating income, net	3 608	12 952	-72.1%
Operating income	787 832	703 366	12.0%
Operating expenses	- 289 796	- 270 624	7.1%
Gross operating profit	498 036	432 742	15.1%
Impairment losses on financial assets	- 182 408	- 227 963	-20.0%
Provisions for risk and charges	629	- 9 691	-106.5%
Income from PPE	458	1 056	-56.6%
Profit before tax	316 715	196 144	61.5%
Net profit	284 535	175 909	61.8%

Volume Figures

	YEAR		CHANGE
	2014	2013	
Total assets (eop)	15 984 106	13 528 347	18.2%
Net customer loans (eop)	11 112 403	9 529 902	16.6%
Customer deposits (eop)	10 666 785	8 526 893	25.1%
Shareholders‘ equity (eop)	2 352 548	2 173 269	8.2%
RWA (eop)	10 588 014	10 247 239	3.3%

Key Performance Indicators (%)

	YEAR		CHANGE
	2014	2013	
Return on average assets (ROA)	1.9	1.3	0.6pp
Return on average equity (ROE)	12.6	8.2	4.3pp
Cost/Income ratio	36.8	38.5	-1.7pp
Net profit margin	36.1	25.0	11.1pp
Capital/Asset ratio (eop)	14.7	16.1	-1.3pp
Total capital adequacy ratio (eop)[2]	19.5	18.1	1.4pp
Tier 1 capital ratio (eop)[2]	19.2	18.1	1.2pp
Risk weighted assets/Total assets ratio (eop)	66.2	75.7	-9.5pp
Non-performing loans/Gross loans	14.5	17.7	-3.2pp
Net Loan/Deposit ratio	104.2	111.8	-7.6pp

Resources (number) - (eop)

	YEAR		CHANGE
	2014	2013	
Employees	4 136	4 139	-4
Branches	203	208	-5

[2] - Total capital adequacy and Tier 1 ratio as per Basel III (CRD IV) regulatory framework introduced in 2014 and transposed in new BNB Ordinance N 8 on Banks' Capital Buffers. The corresponding ratios as of end-2013 are as per Basel II.

Chairman's message to the Shareholders

LEVON HAMPARTZOUMIAN
Chairman of the Management Board and CEO

Dear Shareholders,

In 2014, Bulgarian economy and the banking sector in particular experienced significant tension. Political instability and frozen EU funds had negative impact on the pace of Bulgarian economy. Although external demand faltered, the surge in government capital expenditures together with household consumption buoyed economic activity and thus real GDP growth strengthened to 1.5%. With regard to the banking sector, the central event was the collapse and license withdrawal of the fourth largest local lender – Corporate Commercial Bank. It weighed on market sentiments and triggered a pronounced trend of customer deposits' rates decrease. Despite the challenges, banking system revenues increased by 5.3% and its after tax profit posted a solid 42% yoy growth, registering its strongest reading over the last five consecutive years.

During this period, UniCredit Bulbank not only sustained the turbulences in the system but also imposed itself as the strongest and most reputable bank. In 2014 UniCredit Bulbank, marked its 50th anniversary as the Number One Bank on the market with total assets of BGN 14.8 bln., net customer loans of BGN 9.9 bln. and customer deposits of BGN 10.8 bln.

Thanks to its irrefutable competitive advantages and a sustainable strategy addressed to innovations, the Bank's market share in gross customer loans increased to 20.1%, supported by the growth in both corporate and retail loans. The Bank remained the main partner of companies and households and in addition it supported Bulgarian government with bridge financing loan of BGN 1.0 bln. The top position on the customers' deposit market was further consolidated with 16.9% market share, gaining additional 294 bp compared to 2013, thanks to the extra liquidity on the market and above all – the bank's prominent reputation that attracted many depositors during the process of re-allocation of funds among commercial banks, triggered by the collapse of Corporate Commercial Bank. Furthermore, we consolidated our strong liquidity position and the net loans-to-deposits ratio marked an improved positive change to 92%, from 99% a year earlier. The total capital adequacy ratio reached 20.9%, fulfilling with sufficient excess the minimum requirement of 13.5% from the very first day of application of the new regulatory framework under Basel III.

UniCredit Bulbank also preserved its image as the most profitable and efficient bank in the market. The Bank reported a steady growth in the sustainable income components: net interest income increased by 8.6% and fee and commission income increased by 7.3% yoy, resulting into 7.4% yoy growth in total operating income to BGN 686 mln. Operating expenses increased by 4.2% compared to their level one year before, owing to the investments in innovative strategic business projects like establishment of the International Corporate Center, implementation of new service model in Retail network, enhancement of alternative channels, etc. The operating performance proved resistant to the external shocks and was strong enough to absorb the elevation in market uncertainty. The portfolio deterioration in 2014 slowed down and the impairment losses on financial assets decreased by 32% yoy to BGN 149 mln. As a result, the net profit increased impressively by 68% yoy to BGN 242 mln. and UniCredit Bulbank topped the market in terms of profitability with 32.4% market share in Net Profit of the banking system. UniCredit

Bulbank's strong profitability generation profile was confirmed by the significantly above market result of Return of Equity of 11.1% compared to 6.8% for the market.

In 2014 UniCredit Bulbank set its commercial focus on meeting clients' needs with flexible and tailor-made solutions. In Corporate area Capital Light products, financing solutions for mid-sized business and international coverage were the key success factors for sustainable growth over the period. A service model which aims to position UniCredit Bulbank as a "one stop" service location for international clients was launched and implemented in 2014 - UniCredit International Center. In Retail the main growth drivers were consumer financing, small business lending as well as investment products and alternative distribution channels. The concept of ''Branch of the Future'' was further enhanced increasing the number of branches operating under this model and it won recognition as high-level innovative bank environment. At the beginning of 2014 the Bank launched a product innovation initiative in the area of pension funds' offering which, together with already offered insurances, investment funds and saving products, assured a full range of investment products. In December 2014 UniCredit Bulbank started another innovative initiative "Car Corner" – a multichannel corner for cars and car related products and services.

For another consecutive year UniCredit Bulbank was selected as a pilot country for several business initiatives under the group strategic project "CEE 2020" which targets a profound transformation of the business model and a boost in profit generation.

In 2014 client centricity remained one of the main strategic pillars of UniCredit Group mission. The impressive performance of UniCredit Bulbank was backed by outstanding reputation and excellent customer satisfaction among all segments. The reputational survey proved that UniCredit Bulbank performs better than peers in all segments and has significant acquisition potential among non-customers. The survey of customer satisfaction positioned the Bank as the Best-in-Class in both Retail and Corporate Segments.

The Bank celebrated its 50th anniversary developing several streams of its corporate social responsibility program. In 2014 we supported valuable projects with a significant positive impact in the field of education, art and business with a focus on fostering excellence, entrepreneurship and innovation. In 2014 the Bank supported over 100 NGOs, institutions, organizations, universities, schools and individuals. UniCredit Bulbank was among the main drivers behind the Leadership Academy of the Council of Women in Business in Bulgaria, organized for the first time in 2014. The Bank kept strong focus on innovation, supporting and organizing events for digital technology, advertising and commerce as well as events for young developers. In 2014, UniCredit Foundation continued the second of the three year initiative for finding and funding the best program for social entrepreneurship for non-profit organizations. The exhibitions in the gallery for contemporary art UniCredit Studio were focused on young artists. The Bank's national volunteering network was devoted to educating, inspiring and mobilizing initiatives throughout the whole country.

UniCredit Bulbank asserted its image of a stable and reliable employer, supported by the strong brand of UniCredit. In 2014 the Bank kept on investing in employees' development through continuous learning initiatives, management pool development activities, training and internship programs.

During its first 50 years of existence UniCredit Bulbank built its partnerships and business relations reckoning on its principles and values, ensuring solid foundation for stirring development in the next 50 years. Being part of the rock-solid international group UniCredit, we are more than prepared to be Number One in the rapidly changing financial environment, with a clear vision for our social responsibility and solidarity. Our strategy for growth in 2015 will be based on even more effective cooperation and value-creating synergies within the company.

Sincerely,

Levon Hampartzoumian
Chairman

Supervisory Board and Management Board[3]

Supervisory Board

Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Simone Marcucci Mauro Maschio Gerhard Deschkan	**Members**

Management Board (MB)

Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Andrea Casini	**Deputy Chairman and Chief Operative Officer**
Emilia Palibachiyska Michele Amadei Tsvetanka Mincheva Patrick Schmitt	**Members**

- On 19.06.2014 Mr. Gerhard Deschkan became member of the Supervisory Board.
- On 08.05.2014 Mr. Patrick Schmitt became member of the Management Board.

[3] As of December 31st, 2014

Supervisory Board and Management Board (continued)

Art. 247, par. 2, pt. 4 from the Commercial Law
(01.01.2014 - 31.12.2014)

Members of the Supervisory Board

Robert Zadrazil
- SCHOELLERBANK AG – chairman of the SB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – member of SB
- UNICREDIT BANK AUSTRIA AG – member of MB
- ZAGREBACKA BANKA DD - member of SB

Alberto Devoto
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS - member of SB up to 30.11.2013

Heinz Meidlinger
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – member of SB
- UNICREDIT TIRIAC BANK S.A. – member of SB
- MEIDLINGER INVESTMENT & CONSULTING GMBH – 99% ownership and managing partner
- WIENER PRIVATRBANK SE, WIEN - Member of the 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
- BULLS AD - member of BD, 51% ownership
- INDUSTRIAL HOLDING BULGARIA – 49.5% ownership through both BULLS AD and DZH AD
- ALLIANZ BANK BULGARIA AD – chairman of SB
- ZAD ALLIANZ BULGARIA LIFE – member of BD

Simone Marcucci
- UNICREDIT BANK HUNGARY ZRT. – deputy chairman of SB and member of Audit Committee
- UNICREDIT BANK SERBIA JSC – member of SB
- RN BANK RUSSIA – member of the SB
- BARN B.V., NETHERLANDS – member of the BD

Mauro Maschio
- UNICREDIT BANK HUNGARY ZRT. – member of SB
- UNICREDIT BANK CZECH AND SLOVAKIA REPUBLIC A.S. - member of SB
- BANK AUSTRIA AG – Procurator
- RN BANK RUSSIA – member of the SB
- BARN B.V., NETHERLANDS – member of the BD

Gerhard Deschkan
- UniCredit Bank Hungary Zrt. – Member of the SB

Friederike Kotz
- Released from UniCredit Bulbank's SB, entered in the Commercial Registry on 19.06.2014.

Members of the Management Board

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

Andrea Casini
- UNICREDIT CONSUMER FINANCING AD – member of SB
- BULBANK LEASING EAD - member of SB
- UNICREDIT LEASING AD - member of SB
- INDACO EOOD – 100% ownership of BGN 5 000 capital

Emilia Palibachiyska
- UNICREDIT CONSUMER FINANCING AD – member of SB
- BULBANK LEASING EAD - member of SB
- UNICREDIT LEASING AD - member of SB

Michele Amadei
- UNICREDIT FACTORING EAD – member of BD
- BULBANK LEASING EAD – member of SB
- UNICREDIT LEASING AD - member of SB

Tsvetanka Mincheva
- UNICREDIT CONSUMER FINANCING AD – member of MB
- Cash Service Company AD - member of BD

Patrick Schmitt

Member of the Management Board from 08.05.2014 on

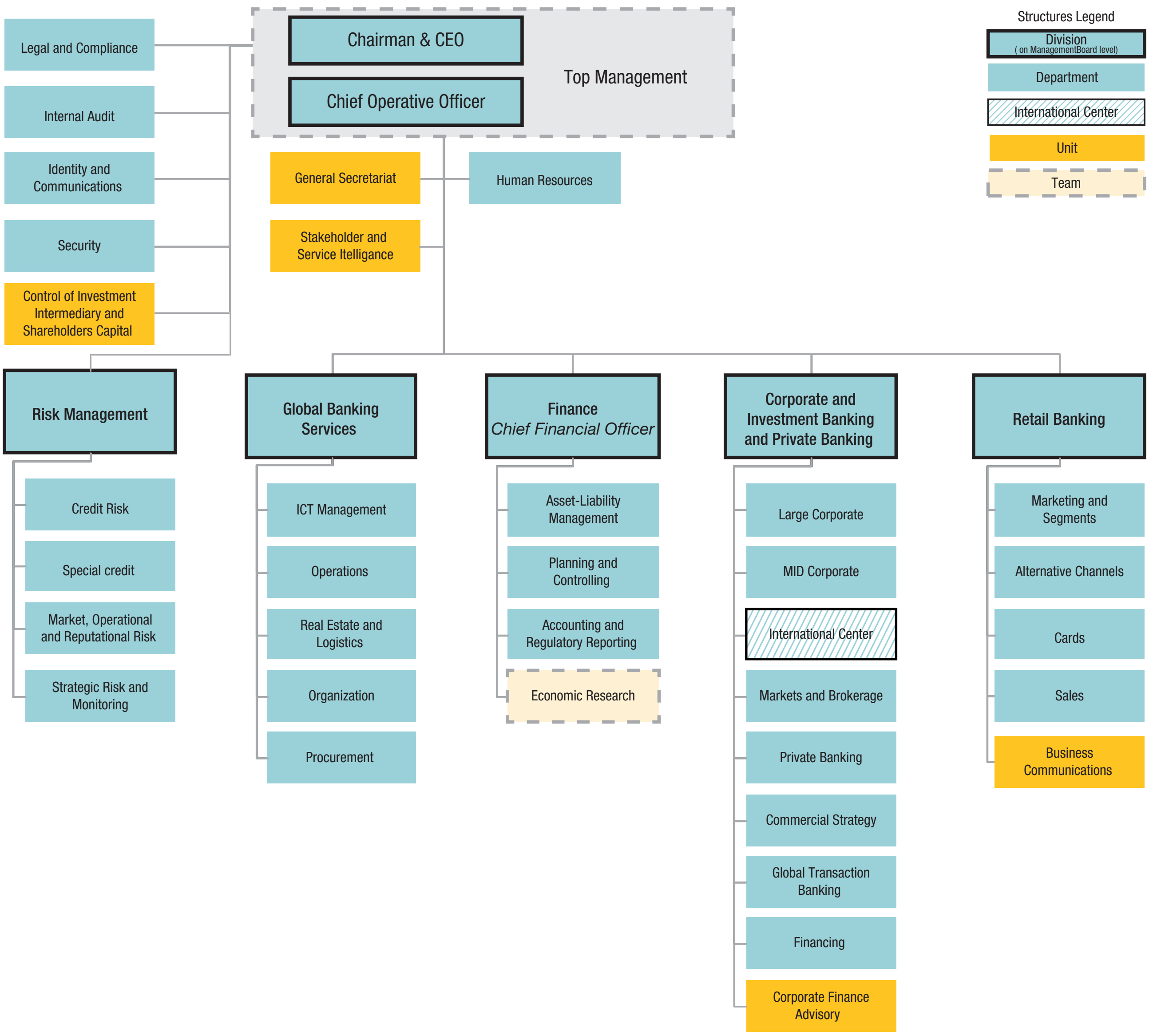
Ivaylo Glavchovski
Released from UniCredit Bulbank's SB, entered in the Commercial Registry on 31.07.2014

Alexander Krustev
Released from UniCredit Bulbank's SB, entered in the Commercial Registry on 24.03.2014

2014 AWARDS

- Top bank in “Stability and risk” category in the Capital Top 100 chart - Capital newspaper
- Primary dealer of securities that has purchased the largest number of securities in the primary market in 2014 - Ministry of Finance
- Best cash management bank for 2014 - Euromoney magazine
- Best Bank in Bulgaria - EMEA Finance magazine
- Most innovative bank product for 2013 for Cash M transfer - Card Payments Forum
- Best HR strategy for leadership development within the organization 2013 - Bulgarian Human Resources Management and Development Association
- Best Trade Finance Bank in Bulgaria 2014 - Global Finance magazine
- Best Custodian Bank in Bulgaria for 2014 - Global Finance magazine
- Best Foreign Exchange Providers in Bulgaria for 2014 - Global Finance magazine
- Bank of the Year 2014 in Bulgaria - The Banker magazine, a member of the Financial Times group

Organisation Chart[4]



Credit Rating

COUNTERPARTY CREDIT RATING (STANDARD & POOR'S)[5]

Long-term	**BB+**
Short-term	**B**
Outlook	**Stable**

[4] - As of December 31, 2014

[5] - Equal to and capped by the S&P sovereign credit rating of Bulgaria (BB+/B/Stable).

Highlights

UniCredit is a leading European commercial bank operating in **17** countries with more than **147,000** employees, over **8,500** branches and with an international network spanning in about **50** markets.
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.
Our strategic position in Western and Eastern Europe gives us one of the region's highest market shares.

OVER
147,000
Employees[1]

OVER
8,500
Branches[2]

Financial Highlights (€ mio)

OPERATING INCOME
22,513

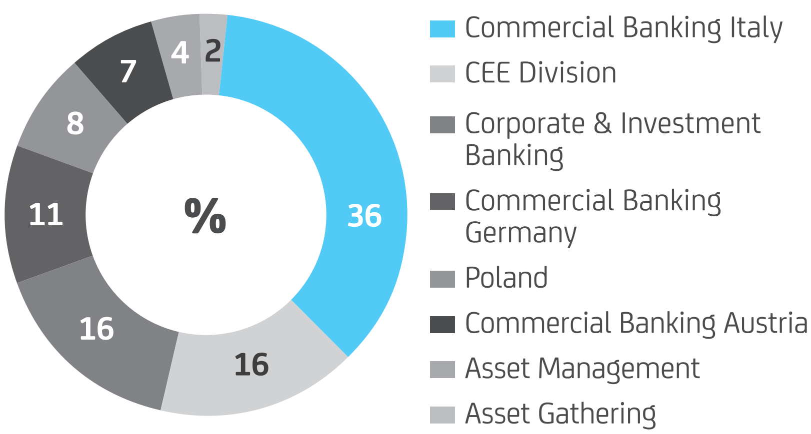
NET PROFIT
2,008

SHAREHOLDER'S EQUITY
49,390

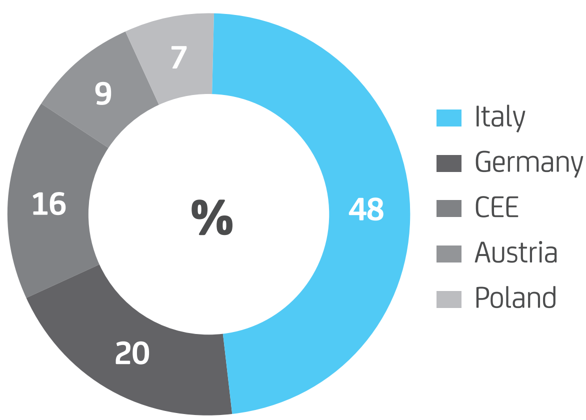
TOTAL ASSETS
844,217

COMMON EQUITY TIER 1 RATIO
10.41%

REVENUES BY BUSINESS LINES*

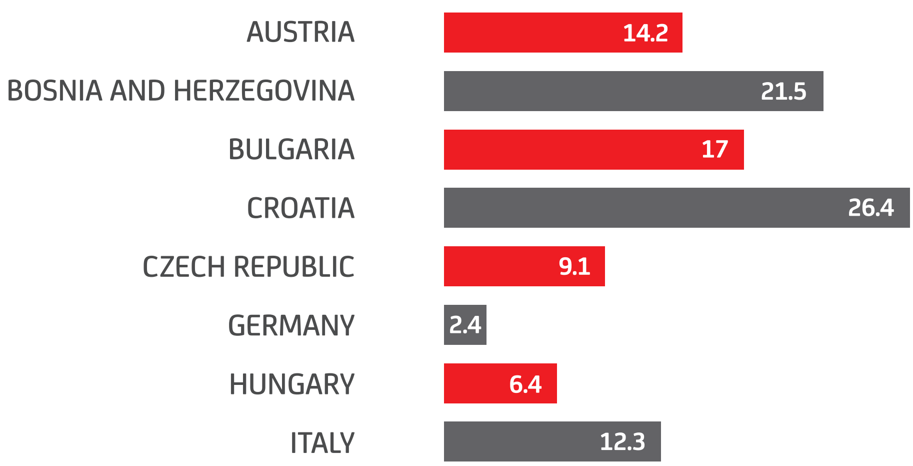


REVENUES BY REGION*

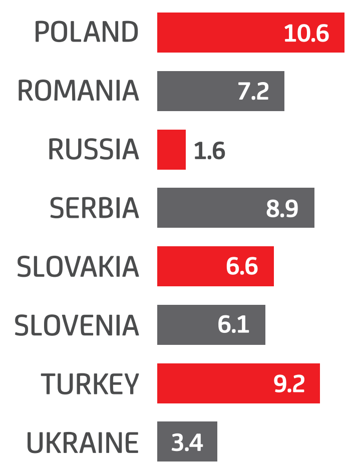


1. Data as at December 31, 2014. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of Yapi Kredi Group (Turkey).
2. Data as at December 31, 2014. Figures include all branches of Yapi Kredi Group (Turkey).
* Data as at December 31, 2014.

MARKET SHARE[3] (%)



MARKET SHARE (%)



3. Market Shares in terms of Total Assets as 31 December 2014 for CEE Countries. Market Shares in terms of Total Customer Loans as at December 31, 2014 for Italy, Germany and Austria.
Source: UniCredit National Center Banks, UniCredit Research, UniCredit CEE Strategic Analysis.
Data as of September 30, 2014 , except for Bosnia and Herzegovina, Slovenia (2Q 2014), Romania (1Q 2014), Hungary (FY 2013) and Bulgaria (3Q 2014).

Our Strategy

On March 11, 2014, our Board of Directors approved the five-year Strategic Plan with the object of ensuring sustained profitability over the coming years. The plan is based on solid fundamentals, a strong culture of risk management and an improving macroeconomic climate. Our goals are to consolidate our leading position in corporate financial services across Europe, to institute an innovative mindset throughout our retail network, and to establish a cutting-edge digital footprint.
UniCredit understands its role as part of a far-reaching system that leverages resources, or capital, to generate shared value. Indeed, the solidity of our business depends on the prosperity of our customers and of the communities in which we operate. To create greater value we, as a bank, develop innovative solutions that form attractive investment opportunities and also generate positive outcomes for our Group.
We adopted our five-year strategic plan building on our solid fundamentals, with the purpose of ensuring sustained profitability, and making the best possible use of the resources at our disposal.
This is how we continue to respond effectively to our stakeholders' priorities.

STRATEGIC PLAN 2013-2018

Strategic pillars and capitals aim at reinforcing capitals over time

STRATEGIC PILLARS

1. TRANSFORM COMMERCIAL BANKING IN WESTERN MARKETS

- A new approach to retail banking
- Serve growing non-lending needs of Corporate clients
- Enhance the Private Banking business model

2. INVEST IN BUSINESSES GROWTH

- Rebalance Group capital allocation towards CEE
- Focus on "expansion countries"
- Support capital-light businesses (Asset Gathering, Asset Management)

3. LEVERAGE ON GLOBAL PLATFORMS

- Maintain CIB leadership in its core business and fully exploit synergies
- Enhance cost reduction and simplification initiatives
- Foster operating efficiency

CONSERVATIVE RISK APPETITE FRAMEWORK

CAPITALS*

Financial

- Strong equity
- Balanced funding mix
- Long-term financial stability

Human

- Engaged people
- Diversified workforce
- Competent & skilled professionals

Social & Relationship

- Effective and safe ICT system
- Innovation capability
- Efficient and effective processes

Intellectual

- Long-term stakeholders relationship
- Socio-economic development/well-being

Natural

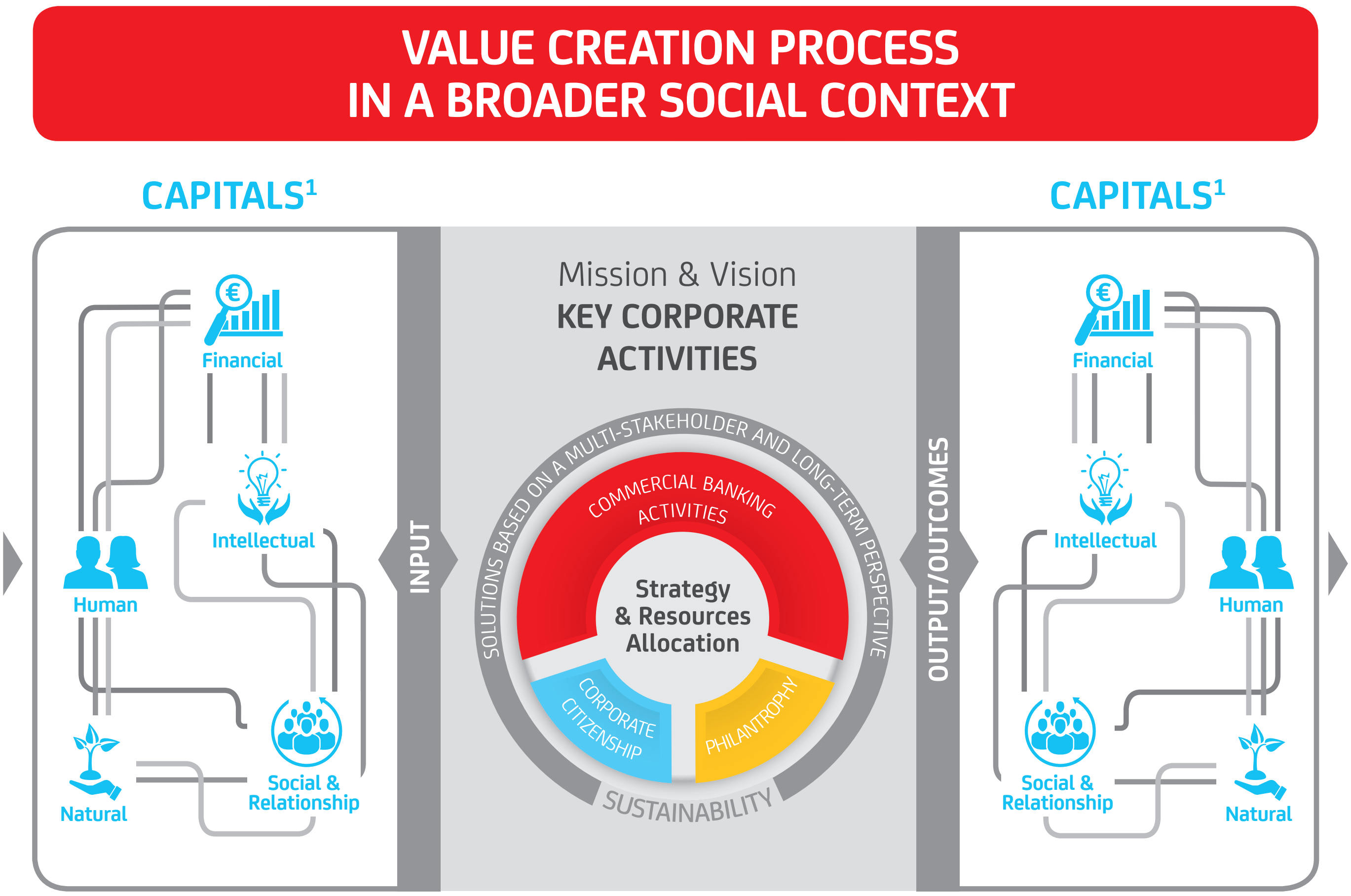
- High air quality
- Soil, water, flora and fauna preservation

* See 2014 Group Integrated Report for details.

Our Approach

UniCredit holds significant responsibilities within a complex value chain and we use different types of capitals -financial, human, social, intellectual and environmental as inputs to contribute to our economy and society at large. These inputs heavily influence our business model and the quality of the products and services that we provide, i.e., our outputs.

We have studied our impact extensively, and we have become ever more aware of the vital role we play in the real economies of the countries where we operate. A responsible approach guides everything we do, from our core banking activities to our corporate citizenship initiatives. These initiatives emphasize financial inclusion and education, complementing our philanthropy in the field of social inclusion. We strongly believe that communities that provide a genuine diversity of opportunities nurture the innovative environment that enables both people and businesses to thrive.



1. See 2014 Group Integrated Report for details.
Source: adapted from the IIRC framework.

Our Business Model

At UniCredit, we work relentlessly to offer outstanding banking services and to provide real support for economic growth in the communities where we operate. This requires developing new service models that enable connections between businesses in different places while making the bank more accessible and more transparent. It means being a sustainable bank.

The restructuring process that began at the start of 2012 has resulted in major simplification of our operating processes. In order to bring us closer to our customers, for example, our national offices now possess greater decision-making power. The object of this change is to simplify our business by implementing a more streamlined chain of command, a more efficient commercial network, and an expanded ability to create personalized solutions. Additionally, it enables our national offices to be more effective at developing the markets they serve.

OUR MISSION

We UniCredit people are committed to generating value for our customers. As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work. We aim for excellence and we consistently strive to be easy to deal with. These commitments will allow us to create sustainable value for our shareholders.

Our Business Key Strenghts:
Customer proximity - Risk culture - Global functions specialization

VALUE PROPOSITION

COMMERCIAL BANKING

INDIVIDUALS
Flexible and easy access to banking services through traditional and digital channels.

COMPANIES
Support for entrepreneurs - in their day-to-day business, or in executing new projects or strategies - through tailored, profit-driven solutions.

PRIVATE BANKING
A 360-degree advisory model, customized investment strategies and access to international markets through specialisted advisors.

CORPORATE & INVESTMENT BANKING

Traditional corporate and transaction banking services, along with full-fledged structured finance, capital markets and investment products. Strategic long-term partner that meets clients' specific needs and delivers access to Western, Central and Eastern Europe.

ASSET MANAGEMENT

Concrete investment solutions that satisfy real investment needs, providing an innovative and consistent global offering that manages risk and delivers attractive returns to investors.

ASSET GATHERING

Innovative financial services that combine the efficiency of digital channels with advisory expertise.

Our Multi-Channel Banking

One of the cornerstones of our business plan effectively represents the transformation of commercial banking in the markets where we operate. The continued expansion of our digital offerings and the rapid improvement of our Group's multichannel platform are at the heart of the profound changes we are making to our bank's distribution model.

Greater integration between our physical and virtual channels will bring us closer to our customers and allow us to provide them superior service. The associated challenges go beyond simply providing virtual banking. We need to maintain close ties to our customers, even as social and market trends generate new complexity and reshape the future of our business environment. These circumstances have resulted in a strategy designed to ensure the compatibility of sales and after-sales processes, high ease of access in connection with both in-branch and remote customer experiences, straightforward communication with relationship managers and specialists through our multimedia channels, and the refinement of the electronic network that underpins our digital content and communication.

A NEW APPROACH TO SERVE OUR CUSTOMERS

WELCOMING
- Proactive welcome in the branch
- New 'warm' and transparent layout, digital signage

ACCESSIBLE
- Off-Site Advisory at customer's house/ office
- Multimedia advice beyond the officehours and support on service and post-sales item outside the bank

SEAMLESS
- Fully integrated Digital-Physical channels
- Key moments managed in real time (recall on card cancellation)

INNOVATIVE
- Simple products, in line with client needs
- New non-banking services (E-Commerce, Real Estate, Market Place)

COMPETENT
- One access point, simple and intuitive
- A new advice service through a structured interview and reporting on investments, protection, welfare

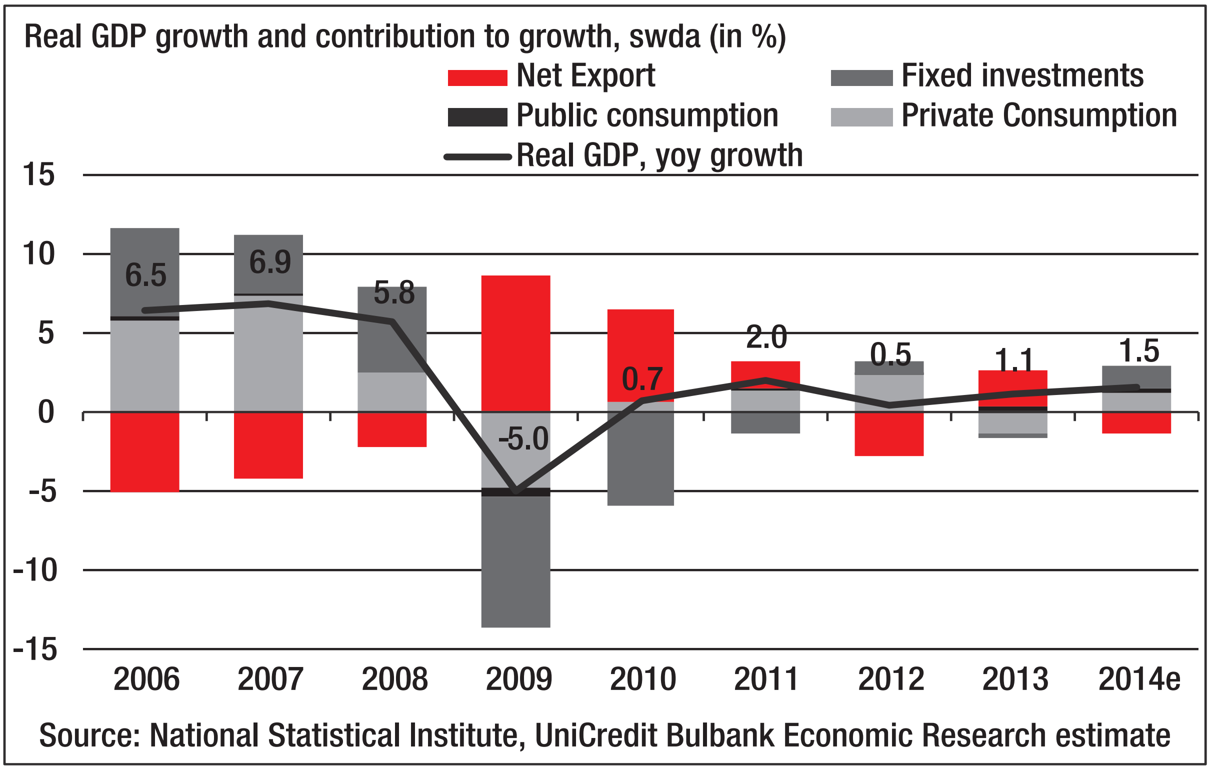
Pens and paper were once indispensable.

Today, you only need a signature.

Sustainability and safety make their mark.

Simplify your life by reducing consumption.
With **FirmaMia** you can view and sign documents electronically, reducing paper waste and saving time. Just go to your branch and register on our SignPad. This special tablet collects and stores your signature to ensure maximum safety and facilitate the archiving of your signed documents. Because we respect the environment and your time.

Bulgarian Economy in 2014[6]



The negative impact that political instability, frozen EU funds and June's bank crisis had on the pace of the Bulgarian economic recovery was offset by a pronounced shift towards a more growth supportive fiscal policy, which helped real GDP growth to strengthen to 1.5% last year, from 1.1% in 2013. Investments and to a lesser extent household consumption joined industry and exports, as drivers of economic recovery.

Government capital expenditure rose by 0.9 pp, to 6.0% of GDP in 2014, from 5.1% one year earlier and 4.5% on average in the period 2010 – 2012. Thus, more than half of the budget deficit widening in 2014, with 1.9 pp, to 3.7% of GDP, was in fact used to boost government capital spending to their highest level registered since the start of transition.

2014 was the best year for Bulgarian labor market since the start of global crisis in 2008. Practically all key labor market indicators last year impressed on the positive side. With some lag, strong exports growth seen in 2013 helped job numbers in economy to increase, starting with the jobs in the external demand oriented sectors. In turn, this was enough to push households' consumption expenditures moderately higher by 1.5% in real terms last year. For the first nine months of the previous year, 46 thousand jobs were added in the economy, when compared with the same period one year earlier, which corresponds to 1.6% yoy rise. This is very encouraging, when taking into account that external demand oriented sectors have continued losing jobs for the whole period since the start of the global crisis in 2008 until early 2014, despite the fact that real export in end-2013 was already more than a quarter above its level posted in the pre-crisis 2008.

But despite the shift toward more growth supportive fiscal policy and the long anticipated recovery of jobs in the external demand oriented sectors, the pace of GDP growth recovery failed to impress on the positive side. Crucial for this was that 2014 turned into another lost year for the implementation of the long-delayed structural reforms which led to an increase in the quasi fiscal deficits in a number of sectors of the economy. The prolonged period of uncertain economic growth is on course to inflict a permanent damage to the economy and to worsen its chances to press ahead with the processes of modernization and income convergence.

Geopolitical shock triggered by the Russian incursion in Ukraine further undermined already weak emerging markets demand for Bulgarian exports. In combination with ongoing political uncertainty, collapse of the fourth largest local lender and EU funds freezing, all added to the list of growth constraining factors observed in 2014.

In a low-export growth environment in combination with limited room for more expansionary fiscal policy, we expect that improved absorption of EU funds and support for private consumption, via lower energy prices and a gradually declining savings rate, will be the main growth drivers in 2015. Importantly, acceleration of some long-postponed structural measures will also help to preserve the pace of GDP growth in 2015 broadly in line with that seen in 2014.

[6] - Data cut-off as of 23.02.2015

Bulgarian Economy in 2014 (continued)

MACROECONOMIC INDICATORS	2014	2013	2012	2011	2010	CHANGE 2014/2013
Nominal GDP[1] (BGN million)	82 029	80 282	80 044	78 434	71 904	2.2%
GDP per capita[1] (BGN)	11 385	11 080	10 988	10 704	9 581	2.8%
Real GDP growth[1], swda (%)	1.5	1.1	0.5	2.0	0.7	+0.4 pp
Basic Interest Rate, avg (%)	0.03	0.02	0.10	0.20	0.18	+0.02 pp
Inflation, eop (%)	-0.9	-1.6	4.2	2.8	4.5	+0.7 pp
Inflation, avg (%)	-1.4	0.9	3.0	4.2	2.4	-2.3 pp
Unemployment rate, SA, eop (%)	10.8	12.8	12.5	11.7	11.3	-2.0 pp
Official exchange rate, eop (BGN/USD)	1.61	1.42	1.48	1.51	1.47	13.3%
Official exchange rate, avg (BGN/USD)	1.47	1.47	1.52	1.41	1.48	0.0%
Current account balance (BGN millions)	37	1 659	-896	65	-1 042	-97.8%
Current account balance / GDP[1] (%)	0.0	2.1	-1.1	0.1	-1.4	-2.0 pp
Net foreign direct investments (BGN millions)	1 949	2 140	1 705	2 372	1 911	-9.0%
Net foreign direct investments / GDP[1] (%)	2.4	2.7	2.1	3.0	2.7	-0.3 pp
Gross foreign debt[2], eop (BGN millions)	75 924	73 021	73 761	70 856	72 417	3.4%
Gross foreign debt[2] / GDP[1] (%)	92.6	91.0	92.2	90.3	100.7	+1.1 pp
Gross internal public debt, eop (BGN millions)	8 252	6 290	4 981	4 808	3 934	31.2%
BNB FX reserves (BGN millions)	32 338	28 215	30 418	26 108	25 380	14.6%
Budget balance / GDP (%)	-3.7	-1.8	-0.5	-2.1	-3.9	-1.9 pp
Acting commercial banks at the end of the period	28	30	31	31	30	-2

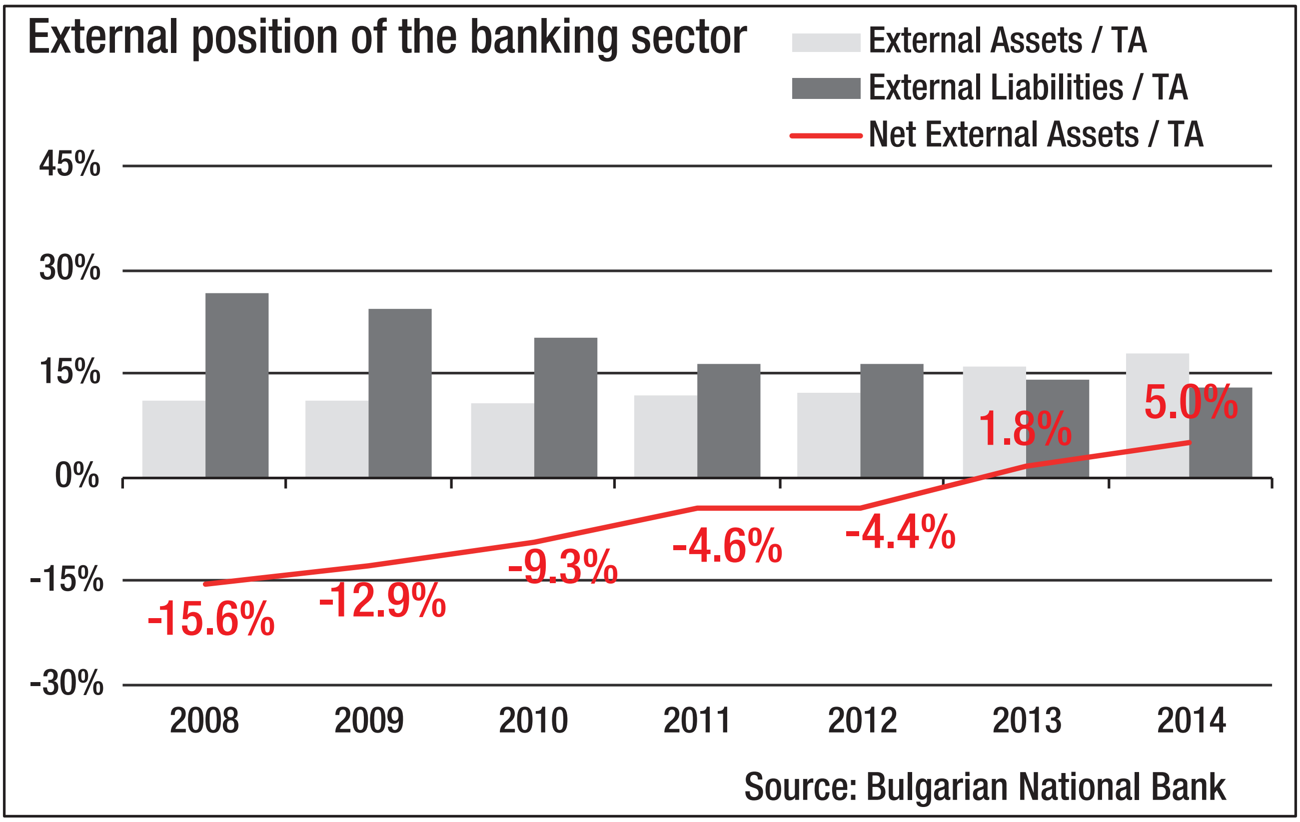
Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] UniCredit Bulbank forecast for 2014
[2] Data as of November 2014

Banking Sector Overview

The collapse of the fourth largest local lender – Corporate Commercial Bank – was the central event for the sector in 2014. After CoCB was placed under special supervision, the control authorities encountered a large number of loans to related parties, which along with other improper lending practices and in combination with excessive risk taking and violations of information disclosure requirements eventually led to CoCB's license withdrawal.

There have been no signs that CoCB's collapse has led to a shift in the behavior of the remaining banks in the sector, apart from accelerated decline in the interest rates on deposits. It helped reducing some of the stimulus for savings, thereby providing a much needed boost to households consumption and business investments. Following two consecutive years of contraction, the spread between interest rates on loans and deposits began widening again last year, with June's crisis apparently pushing this trend reversal even further. In turn it influenced favorably the profitability and efficiency indicators on the sectors' consolidated level.

CoCB's license withdrawal triggered large scale, one-off transformations practically in every key banking sector statistics. Financial intermediation indicators experienced a sharp weakening, after customer loans[7] posted 5% yoy drop, while customer deposits[7] added only 2.4% yoy in 2014. NPLs to total gross loans ratio edged up from 16.7% in Q1 2014 to 18.0% in Q2 2014, but receded to 16.7% in end-2014 apparently underpinned by some bad loans write-offs in December. Cost-to-income ratio edged down to 49.3% in end-2014 from 53.5% one year earlier. After-tax-profit posted a solid 42% yoy increase to BGN 746 mln registering its strongest reading over the last five consecutive years. Also on the positive side, provisions-to-NPLs ratio strengthened to 58% in end-2014, from 52% in end-2013, as Cost of Risk rose to 2.2% from 2.1% in 2013. External deleveraging progressed last year at a pretty much the same pace as that observed in 2013, pushing net foreign assets-to-total assets ratio further into positive territory (4.6% in end-2014 from 1.7% in end-2013). As CoCB's license withdrawal erased far more loans (BGN 5.9bn) than deposits (BGN 2.2bn non-guaranteed deposits), loan-to-deposit ratio receded further to just 86% in end-2014, making Bulgarian banking sector net lender to the rest of the world.



[7] - Including nonresident ones

BANKING SYSTEM KEY FIGURES	2014	2013	2012	2011	2010	CHANGE 2014/2013
INCOME STATEMENT (BGN MILLION)						
Operating income	3 905	3 709	3 816	3 914	3 932	5.3%
incl. Net interest income	2 632	2 541	2 625	2 869	2 917	3.6%
incl. Net non-interest income	1 272	1 169	1 190	1 045	1 015	8.9%
Operating costs	1 924	1 986	1 983	1 958	1 918	-3.1%
Operating profit	1 981	1 723	1 832	1 956	2 014	14.9%
Provisions (net)	1 161	1 144	1 212	1 306	1 328	1.5%
Pre-tax profit	838	588	636	664	694	42.5%
Net profit	746	527	567	586	617	41.6%
BALANCE SHEET (BGN MILLION)						
Total assets	85 135	85 689	82 416	76 811	73 726	-0.6%
Loans to customers (incl. non-residents)	55 590	58 489	57 841	56 044	53 854	-5.0%
thereof: Non-performing loans	9 309	9 870	9 614	8 365	6 409	-5.7%
Deposits from customers (incl. non-residents)	63 710	62 230	57 256	52 808	46 928	2.4%
Shareholders' equity	10 839	11 106	10 850	10 448	10 032	-2.4%
MAIN RATIOS (%)						
ROAE (after tax)	6.8	4.8	5.3	5.7	6.3	+2.0 pp
ROAA (after tax)	0.9	0.6	0.7	0.8	0.9	+0.2 pp
NPLs ratio	16.7	16.9	16.6	14.9	11.9	-0.1 pp
Cost / Income ratio	49.3	53.5	52.0	50.0	48.8	-4.3 pp

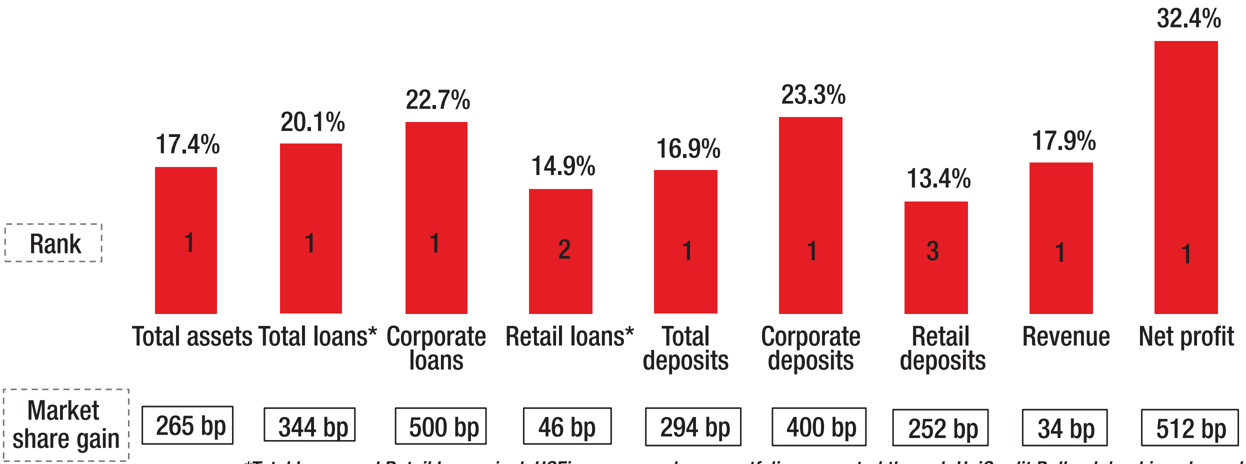
Source: Bulgarian National Bank

Even if June's banking crisis was taken out of the picture, the operating conditions for Bulgarian banks remained difficult for the whole 2014. No meaningful improvement is expected in 2015 either, given that economic recovery progresses only very slowly and there are little signs that ongoing deflationary pressure will come to an end any time soon. Demand for new loans is set to normalize only very gradually, while COR is likely to remain elevated for at least two more years, before provision coverage ratios reach levels comfortable enough to support more meaningful bad loans write offs.

Market Positioning

In 2014 UniCredit Bulbank marked its 50th anniversary. It reinforced its position of the major financial participant in the economic history of the Republic of Bulgaria and as the **NUMBER ONE BANK** in terms of both size and profitability. The Bank topped the rankings in total assets, customer loans and customer deposits as well as in revenues and net profit. It served a client portfolio of more than one million customers and at the end of 2014 possessed a branch network of 194 units throughout the country. The strong market positions have been achieved thanks to the Bank's outstanding reputation, customer centric commercial approach and a sustainable strategy with focus on innovations. UniCredit Bulbank was the **FIRST** to introduce on the market many innovative products and services like the First International Corporate Center, First Branch of the Future, First Debit card V-Pay, etc.

Market Shares



**Total Loans and Retail Loans, incl. UCFin consumer loans portfolio, generated through UniCredit Bulbank banking channel*

Source: Regulatory financial statements of UniCredit Bulbank and BNB

During the year the Bank registered impressive yoy growths in the key balance and P&L indicators. In December 2014, the Bank's total assets market share stood at 17.4% vs.14.8% a year ago, as UniCredit Bulbank scored higher growth in loan (15.1% yoy) and in securities portfolio (52.9% yoy), taking advantage of the high liquidity in the second half of the year.

In 2014, a year marked by banking sector tensions, UniCredit Bulbank based its **lending activities** on comprehensive clients' analysis and cross-selling initiatives, and provided tailored financing solutions to both corporate and individual customers. The Bank's market share in **total customer loans** increased by 344bp to 20.1%, supported by corporate loans and consumer loans, the latter of which were generated mainly through the Bank's subsidiary specialized in consumer financing. In loans to **Corporate and government sector,** UniCredit Bulbank generates significant growth in lending market share of + 500bp yoy to 22.7%. In addition to supplying new financing to the companies with economically effective projects, the loan growth was buoyed by the successful partnership with the government when in December UniCredit Bulbank granted BGN 1 billion short-term bridge loan to the Ministry of Finance.

Despite the market's trend of weak consumer and mortgage lending, **Retail loans market share**, when considering the contribution of UniCredit Consumer Financing, increased by 46bp to 14.9% at year-end, counting on products specialization, simplification of processes and enhancement in the service model.

In the customers' deposit market UniCredit Bulbank uplifted its leadership position in 2014, capitalizing on its trustworthiness and solid financial health that assured a stable inflow of funds. Following a license revocation for Corporate Commercial Bank, UniCredit Bulbank showed an excellent branch organization in the payout of guaranteed deposits and acquired additional wave of flows. In parallel, the deposit products were further diversified through the innovative concept, cleverly combining investment and insurance features. Thus UniCredit Bulbank obtained the biggest gain in **the customer deposits market share of +294 bp** yoy to **16.9%** at year-end. The Bank indisputably led the market in corporate deposits with a market share of 23.3% which is an impressive upsurge of 400bp yoy. In retail deposits it ranked third with a 13.4% market share and the impressive gain of 252 bp yoy.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

In 2014, a year of bank turbulences and market uncertainty elevation, UniCredit Bulbank not only successfully handle the external challenges but strengthened its market leadership and imposed itself as the most vigorous and fast growing bank. It set its strategic focus on businesses which revealed new possibilities for rigid successful development. UniCredit Bulbank reports a steady growth in the sustainable income components of +8.6% yoy in net interest income and +7.3% yoy in fee and commission income. Trading and investments' income also performed impressively and **total operating income** accelerated its growth to 7.4% yoy at BGN 686.5 mln. **Operating expenses** (BGN 262.5 mln) increased by 4.2% compared to their level one year before due to higher staff and administrative expenses. **Gross operating profit** increased by 9.5% and is in line with the positive market trend. Due to sound coverage of non-performing exposures and slow-down of the portfolio deterioration in 2014, the **impairment losses on financial assets** declined by 31.6% to BGN 149.2 mln and contributed to the impressive 68.2% yoy growth in **Net Profit** to BGN 241.7 mln.

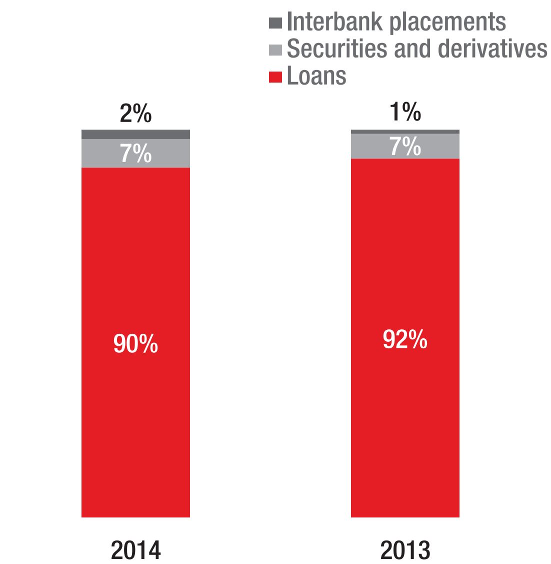
Thousands of BGN

OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2014	2013	%	AMOUNT
Net interest income	445 308	409 861	8.6%	35 447
Net fee and commission income	177 140	165 099	7.3%	12 041
Net trading income	58 460	48 459	20.6%	10 001
Net result from investment securities and dividend	3 453	3 341	3.4%	112
Other operating income, net	2 091	12 235	-82.9%	-10 144
OPERATING INCOME	**686 452**	**638 995**	**7.4%**	**47 457**
Operating expenses	-262 508	-251 954	4.2%	-10 554
GROSS OPERATING PROFIT	**423 944**	**387 041**	**9.5%**	**36 903**
Impairment losses on financial assets	-149 169	-217 962	-31.6%	68 793
Provisions for risk and charges	-5 923	-9 691	-38.9%	3 768
Income from property, plant and equipment	167	922	-81.9%	-755
Income tax expense	-27 362	-16 671	64.1%	-10 691
NET PROFIT	**241 657**	**143 639**	**68.2%**	**98 018**

The strong operating performance of the Bank was confirmed by the improved cost/income ratio from 39.4% in 2013 to 38.2% at the end of 2014 which is significantly better than market average of 49.3%. Along with their increase when compared to the prior year, the profitability KPIs remained much better than the average ones for the banking system. Return on average assets was 1.8% (1.1% in 2013) vs. 0.9% for the market. Return on average equity was 11.1% (6.9% in 2013) vs. 6.8% for the market. Net profit margin was up by 12.7pp to 35.2% vs market average at 19.1%.

UniCredit Bulbank retained its proceeds intact as it maintained the high quality of services and upgraded product offer to better fit customer needs. In addition, the Bank took advantage from the positive market trends while at the same time successfully resisted the negative ones. The pronounced decrease in interbank reference rates following several cuts done by the European Central Bank (ECB) put a pressure on revenues generation. On the other side the specific situation on the Bulgarian deposits market triggered a trend of downward re-pricing. Thus the diminished expenses due to historically low deposit interest rates fully offset the market-driven

Share in Interest Income



Unconsolidated Financial Results (continued)

declining yield on assets and the net interest margin[8] remained at its level a year before - 3.2%. The enhanced reduction in cost of customer deposits along with the increased volumes of bank's loans and securities portfolio contributed to the sound growth of **net interest income** by 8.6% yoy to BGN 445.3 mln in comparison to the 3.5% increase of market. Achieving a 65% share in total operating income in 2014, interest revenue is undoubtedly pointed as key revenue source for the period. Lending interest remained the main pillar of the interest income although decreasing by 1.6% yoy to a 90% share from total interest income in 2014. Interest income from securities remained flat yoy in its share at 7% and ticked up by 13.7% yoy, as a result of favorable investment opportunities. Interest income from interbank placements grew by 154% yoy and marked an increase in its share from 1% in 2013 to 2% a year later, signaling for the placements' yield optimization. In terms of interest expense – the highest share of 79% belongs to customer deposits. Despite the impressive yoy growth of customer deposits of 23.9%, the absolute amount of interest expenses for customer deposits decreased by 20.5% yoy.

In 2014 the Bank continued its activities for deeper penetration in traditional banking services. In parallel, it enriched its fee generating product portfolio by introducing the full range of investment products, providing specialized structured deposits to high net-worth individuals and enhancing the cards business and other alternative banking channels. 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 fee and commission income** an important growth driver of revenues. It grew by 7.3% yoy with its share remaining flat at 26%. **Net fee and commission income** amounted to BGN 177.1 mln increasing mainly in collection and payments services (up by 12.8% yoy), package accounts (up by 22.3% yoy) and other banking services (up by 18.4%).

REVENUE STRUCTURE	YEAR	
	2014	2013
Net interest income	65%	64%
Net fee and commission income	26%	26%
Net result from trading and securities and other income	9%	10%

The rest of the operating income components: net trading income, net result from investment securities, dividend income and other operating income taken altogether remained flat yoy, reaching BGN 64.0 mln. **Net trading income** marked an annual increase by 20.6% to BGN 58.5 mln due to the one-off effect in 2013 from booking the fair value adjustment on derivatives under the IFRS13 first adoption rules along with higher revenues from FX trading operation. If we exclude the one-off CVA effect from the trading result in 2013, trading income would remained flat yoy. The **dividend income** marked equal annual result of BGN 1.2 mln (BGN 1.2 mln in 2013). **Other operating income** amounted to BGN 2.1 mln and moved downward by 82.9% influenced by the recognized in 2013 income from the Bank's receivables under an intergovernmental agreements (BGN 10.1 mln).

Higher staff expenses and a deposits volume-driven increase in the costs for Bulgarian Deposit Insurance Fund determined the yearly expansion of **Operating expenses** (4.2% yoy). **Personnel costs** reported an annual growth of 6.1% reaching BGN 106.3 mln due to Bank's retention policy with respect to key employees and regulatory defined increase in the max threshold for social contributions (from BGN 2 200 in 2013 to BGN 2 400 in 2014). **Non-personnel costs** went up by 3.8% to BGN 125.3 mln. Excluding the regulatory defined contribution to the Deposit Insurance Fund at the amount of BGN 37.6 mln (9.1% growth yoy), the non-personnel expense increased by 1.6% to BGN 87.8 mln. The main drivers of the remaining costs' increase are expenses for strategic business projects like establishment of the International Corporate Center, implementation of new service model in Retail network, enhancement of alternative channels, etc. as well as ordinary costs for business support (i.e. marketing expenses for product campaigns).

Expenses for depreciation and impairment on non-current assets are almost flat yoy – slightly decreasing by 0.3% to BGN 30.8 mln.

In 2014 **impairment losses on financial assets** fell significantly by 31.6% yoy to BGN 149.2 mln as compared to BGN 218.0 mln in 2013, supported by the sound coverage of non-performing exposures and slow-down of the portfolio deterioration in 2014. It reflected on the shrinking of cost of risk ratio, based on average net loans, by 93bp yoy to 1.6% (2.5% in 2013).

Profit before tax had an impressive growth of 67.8% yoy reaching BGN 269 mln. The higher result of the latter predetermined the yoy upward movement of 64.1% of **Income tax,** pointed at BGN 27.4 mln.

[8] - Net interest income/Average total assets

Unconsolidated Assets and Liabilities

In the year of its 50th anniversary celebration, UniCredit Bulbank asserted its leading position on the market in terms of **total assets** which amounted to BGN 14 844 mln. They increased by BGN 2 183 mln yoy supported by the significant increase in funding sources, mainly customer deposits. **Net loans and advances to customers** added BGN 1 299 mln and ended up at BGN 9 936 mln. **Loans due from banks** posted 11.6% reduction yoy to BGN 1 627 mln. On the other side, **Securities** followed the upward trend, increasing by 53.9% to BGN 1 696 mln, which in the end translated into improved revenue generation capacity. On the other hand, **cash and balances with Central Bank** scored higher result by 49.9% yoy to BGN 1 092 mln, owing to the accumulated customers' liquidity in the second half of the year.

Thousands of BGN

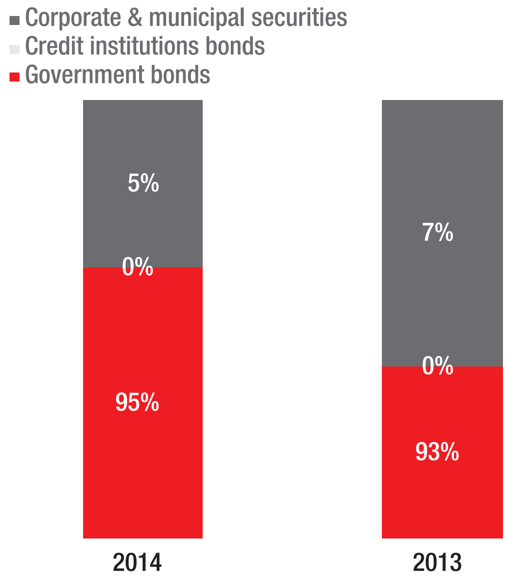
BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2014	2013	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	1 092 227	728 729	49.9%	363 498
Due from banks	1 627 489	1 841 958	-11.6%	-214 469
Securities	1 695 827	1 102 077	53.9%	593 750
Loans and advances to customers	9 936 482	8 637 803	15.0%	1 298 679
Property and equipment	180 160	129 729	38.9% 5	0 431
Other assets, net	311 606	220 880	41.1%	90 726
TOTAL ASSETS	**14 843 791**	**12 661 176**	**17.2%**	**2 182 615**
LIABILITIES AND EQUITY				
Customer deposits	10 782 577	8 705 491	23.9%	2 077 086
Deposits from banks	1 502 765	1 464 959	2.6%	37 806
Other liabilities	317 718	386 397	-17.8%	-68 679
TOTAL LIABILITIES	**12 603 060**	**10 556 847**	**19.4%**	**2 046 213**
SHAREHOLDERS' EQUITY	**2 240 731**	**2 104 329**	**6.5%**	**136 402**
TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY	**14 843 791**	**12 661 176**	**17.2%**	**2 182 615**

The strategic focus on sustainable development of commercial banking pre-determines the highest share of the **net loans and advances to customers** (67%) in the asset structure for the current period. Rational behavior and support to customers while developing their projects are among the key success factors for the trustworthy relationship.

The decrease in the share of due from banks to 11% (-358bp) resulted from the re-allocation of funds to the securities portfolio which was in line with the beneficial conditions on the market and Bank's liquidity management strategy.

The securities portfolio comprised almost entirely of government bonds at BGN 1 618 mln (up by 58.4% yoy) constituting 95.4% of the total, whereas the corporate and municipal securities amounted to BGN 78 mln (4.6% of total) downsizing by 3.2% yoy.

Securities Portfolio By Issuers



UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (continued)

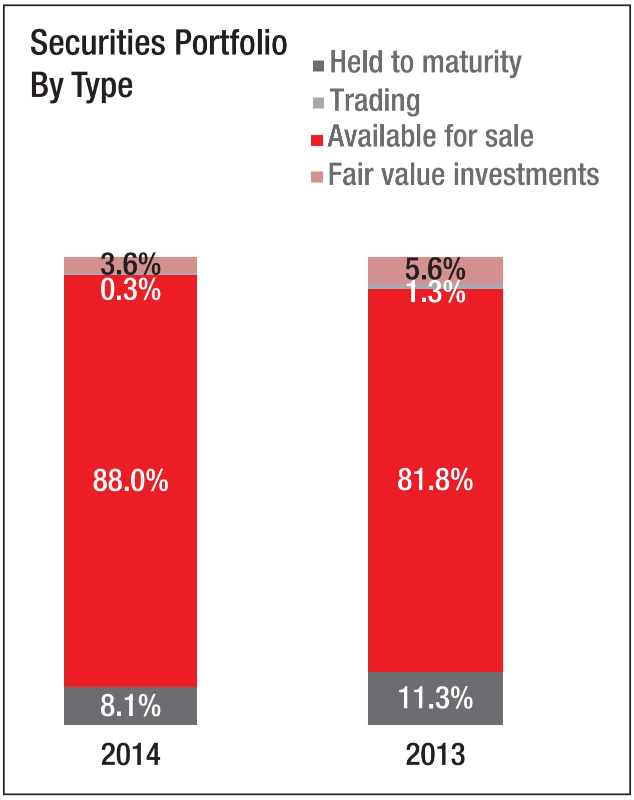
Taking advantage of the banking system liquidity and its steady market position, UniCredit Bulbank's **customer deposits** amounted to BGN 10 783 mln and their annual increase reached the notable 23.9%. In 2014 Retail deposits already constitute more than half of the total volume acquiring additional growth of 28.7% yoy (BGN 5 483 mln) and showing the potential which the Bank could unroll among individual customers. Corporate deposits were 19.2% higher yoy to BGN 5 299 mln.

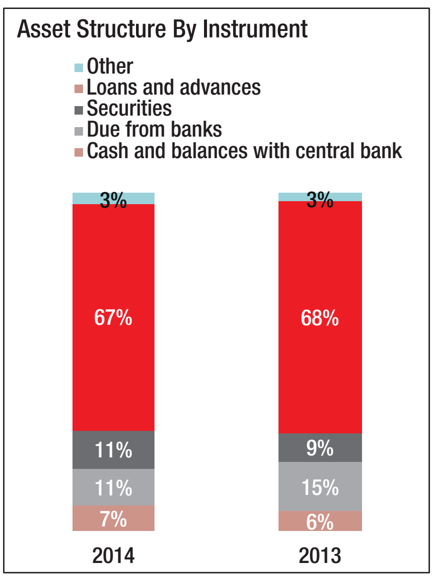
The share of customer deposits in total liabilities increased by 3.1pp to 86% indicating the strengthened balance sheet structure. Net loans-to-deposits ratio marked an improved positive change of 7.1pp reaching 92.2% in 2014 down from 99.2% in 2013 owing to successful balance sheet restructuring.

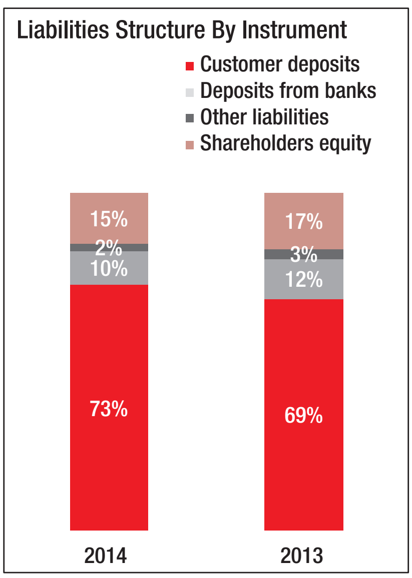
Deposits from banks acquired additional 2.6% growth yoy, pointing at BGN 1 503 mln, while the other components of the liabilities went down by 17.8% yoy to BGN 318 mln, following a prepayment and maturity of some subordinated loans tranches.

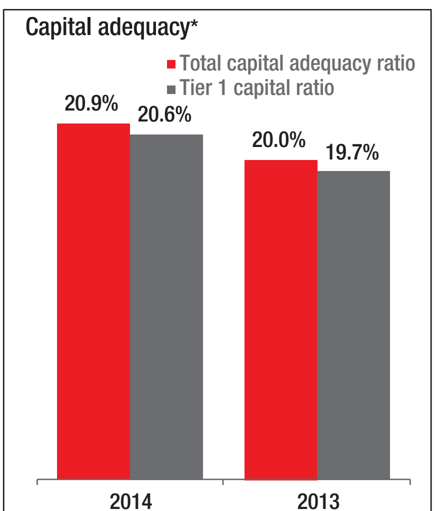
The capitalized part of the 2013 Net Profit along with the impressive financial result generation for 2014 led to continued upward trend of **shareholders' equity** which grew by 6.5% to BGN 2 241 mln.

In 2014, Basel III (CRD IV) regulatory framework has been effectively introduced in Bulgaria and became mandatory for all local institutions. UniCredit Bulbank fulfils with sufficient excess the minimum requirements of 13.5% for total capital adequacy ratio and 11.5% for Tier 1 ratio from the very first day of application of the new regulatory framework. Total capital adequacy ratio was 20.9% (20.0% in 2013 per Basel II), while Tier 1 ratio reported 20.6% (19.7% in 2013 per Basel II).









*Total capital adequacy and Tier 1 ratio for 2014 as per Basel III. Corresponding ratios as of end-2013 are as per Basel II.

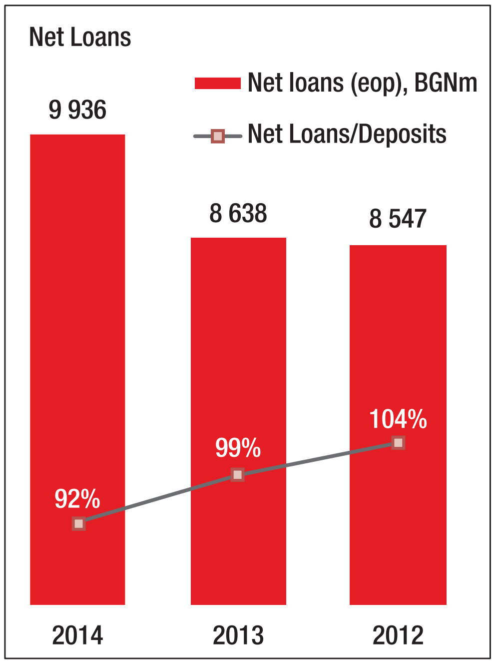
Unconsolidated Assets and Liabilities (continued)

Customer Loans

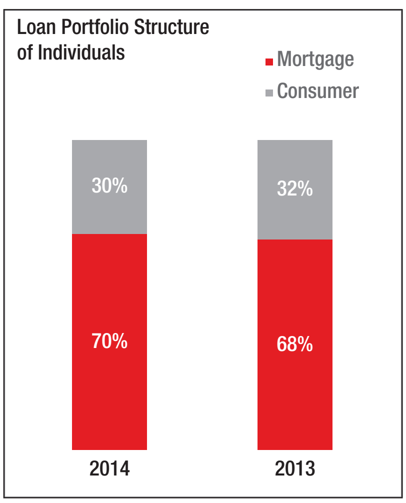
UniCredit Bulbank successfully penetrated and retained the existing clients and further focused on new businesses' acquisition despite the challenging economic environment and weak domestic demand. The commercial initiatives were addressed to providing a comprehensive range of Bank financing products supplemented also by factoring and leasing products to fully meet customer needs.

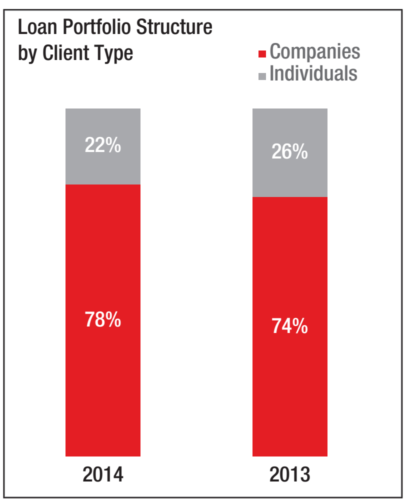
Net customer loans grew by 15.0% from BGN 8 638 mln in 2013 to BGN 9 936 mln in 2014. **Gross customer loans** increased by 13.8% yoy to BGN 10 843 mln while market registered even a decrease (-5.0% yoy) after the Bulgarian National Bank revoked the license and excluded the Corporate Commercial Bank from banking system. UniCredit Bulbank remained the most active player in the Bulgarian lending market with market share in gross loans of 19.5% (16.3% in 2013).

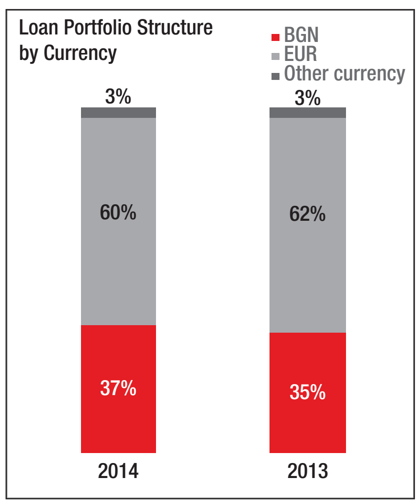
Loans to companies and government reported a 19.6% annual increase ending at BGN 8 480 mln. It represented the largest portion (78%) in the total loans volume. UniCredit Bulbank experienced mutually beneficial partnership with government which translated into a BGN 1bn bridge loan granted to Ministry of Finance. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. Long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers and new healthy revenue generation for the Bank. **Loans to individuals** amounted to BGN 2 364 mln, downsizing to 22% share of total volume (26% in 2013). Mortgage loans scored insignificantly negative trend of 0.1% in 2014 reflecting the stagnation on the real estate market. Their share in total loans decreased to 15% yoy (70% share in loans to individuals) from 17% in 2013. Consumer loans were down by 9.0% to BGN 713 mln mainly because of the transfer of new consumer loans production to Bank's external subsidiary UniCredit Consumer Financing which is specialized in consumer financing. They represent 7% share of total Bank loans (30% share in loans to individuals). If adding the consumer loans produced via UniCredit Consumer Financing, their growth approaches 7.3% yoy, higher than the market's average annual growth of 0.2%.



In the **currency structure** of the net loan portfolio, loans in EUR formed a predominant share of 60% albeit shrinking its share yoy (62% in 2013). They continued to grow and reached BGN 5 955 mln as recipients associated them with low currency risk. Loans in BGN also grew yoy by 23.3%, taking a share of 37%. Loans in other currencies remained immaterial with 3% share.





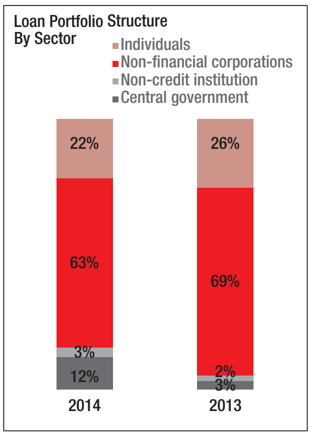


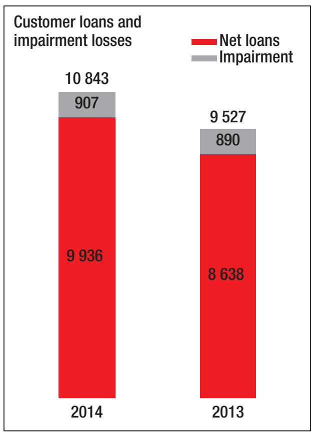
UniCredit Bulbank Activity Review (continued)

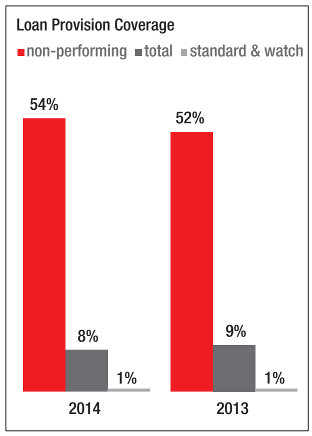
Unconsolidated Assets and Liabilities (continued)

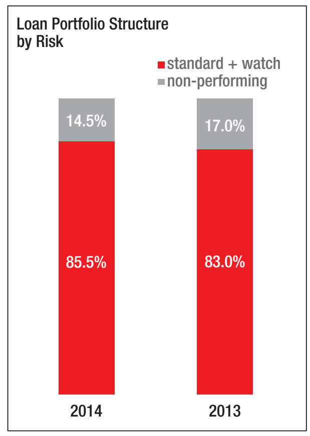
In terms of **structure by economic sectors**, over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume although it shrank to 63% (from 69% in 2013) at the expense of the share of loans to government sector (12% in 2014 vs. 3% in 2013). Loans to non-credit institutions constituted only 3% albeit they grew by the magnificent 86.1% yoy due to short-term funding provided to a local financial institution under a repurchased agreement.

In terms of **assets quality**, performing portfolio grew by 17.3% yoy to BGN 9 276 mln while at the same time non-performing loans declined by 3.3% yoy to BGN 1 567 mln supported by strong recovery activities. As of December 31, 2014 the Bank reported NPL ratio of 14.5% which is down by 256bp yoy. The loan loss provision coverage of non-performing exposures acquired additional 271bp to 54.4% at the end of 2014 compared to 51.7% at the end of 2013. Total impairment losses increased by 1.9% on an annual basis and reached 907 mln. Loans provisioning coverage ratio reached 8.4% (9.3% for 2013).









In 2014 the industry distribution showed a re-allocation to low-risk government exposures. The share of "Sovereign" increased to 12% compared to 3% in 2013. A positive sign is the decrease in the absolute amount of the exposure to the stagnating sector of "Construction and real estate" which fell by 7.7% yoy and respectively its share declined to 14% (18% in 2013). The share of "Commerce" remained unchanged at 19% despite it registered yoy upward trend of 11%. The largest areas of concentration were retail financing (22%), commerce (19%) and manufacturing (18%).

INDUSTRY STRUCTURE	2014		2013	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 002 245	18%	1 974 560	21%
Commerce	2 052 031	19%	1 848 318	19%
Construction and real estate	1 560 410	14%	1 690 299	18%
Services	420 536	4%	342 580	4%
Transport and communication	255 657	2%	260 757	3%
Agriculture and forestry	377 985	3%	300 881	3%
Financial services	366 004	3%	196 716	2%
Tourism	140 804	1%	164 456	2%
Sovereign	1 304 097	12%	313 270	3%
RETAIL	2 363 570	22%	**2 435 661**	**26%**
Housing loans	1 650 784	15%	1 652 031	17%
Consumer loans	712 786	7%	783 630	8%
TOTAL LOAN PORTFOLIO	10 843 339	100%	**9 527 498**	**100%**

Unconsolidated Assets and Liabilities (continued)

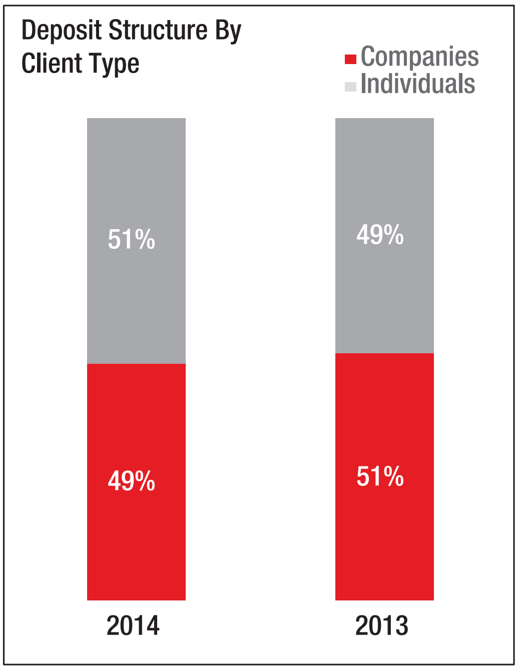
Customer Deposits

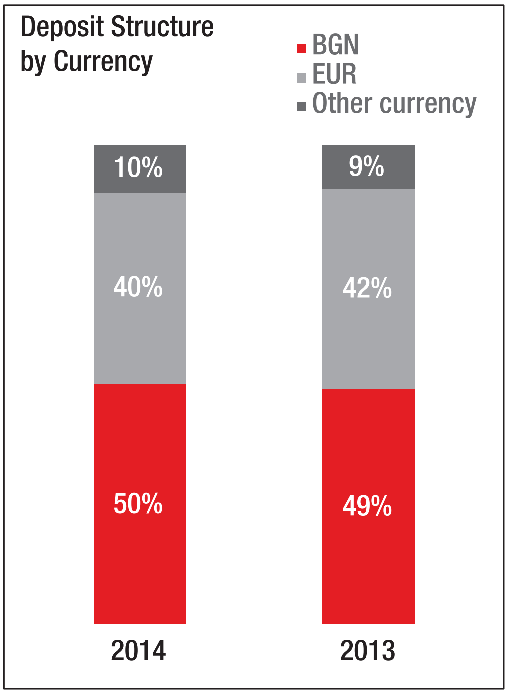
Facilitated by wide-ranging branch network, in 2014 UniCredit Bulbank deposit base grew by 23.9% yoy to BGN 10 783 mln. At the same time the market scored a modest 2.4% annual increase. Thus, UniCredit Bulbank strengthened its top position on the market in customer deposits with 16.9% market share. The significant positive difference in UniCredit Bulbank customer deposit's growth when compared to the market indicates the trust of the customers and the dominant role of the Bank as a deposit taking institution. 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. The growth was supported also by the deposit flood in the market caused by the revoked license of CoCB and subsequent payout of guaranteed deposits that was organized by the Deposit Insurance Fund in Dec'14. UCB was among the banks that paid out the guaranteed deposits of CoCB clients.

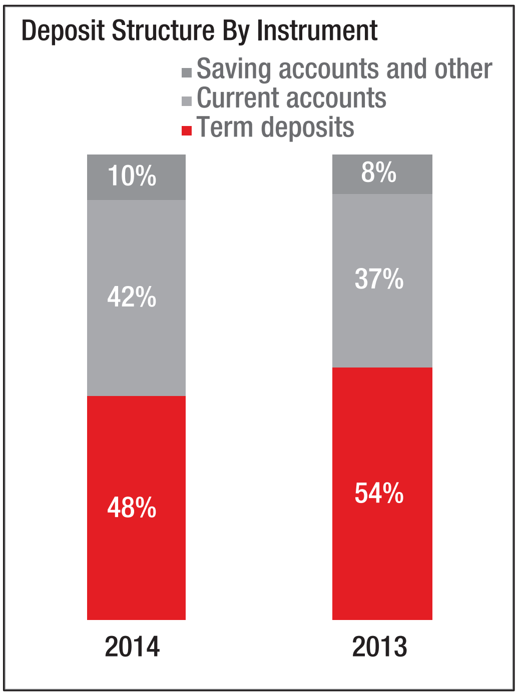
The structure of deposits in terms of **currency distribution** displayed an increase in the share of BGN denominated deposits to 50% of the total funds, compared to 49% in 2013. Deposits denominated in EUR shrank to 40% (42% in 2013) although they grew by 19.6% yoy. A significant growth is observed in deposits denominated in other currencies (+30.2% yoy).

With regard to the **product structure**, the share of current and saving accounts (42% and 10%, respectively) augmented at the expense of term deposits.

Deposits of individuals ticked up fine by 28.7% to BGN 5 483 mln, accounting for a 51% share from total deposits. **Company deposits** had an upward momentum of the impressive 19.2% and their share pointed at 49% of total deposits ending 2014 at BGN 5 299 mln. Following customer behavior trends, the Bank launched new saving products like Pension funds, variety of structured deposits, and enhanced its internet advisory service application "Your Financial Advisor" by adding new functionalities like financial calculators and investment modules.







Consolidated Financial Results

The following table represents the list of our subsidiaries, their consolidation method and respective participation in equity as of 31 December 2014:

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
Hypovereins Immobilien 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) as well as by the consolidation of UniCredit Leasing effectively since 31st of December 2013.

The **consolidated net profit** of UniCredit Group for 2014 was at BGN 284.5 mln increasing by 61.8% yoy. The growth was mainly driven by the improvement of the consolidated gross operating profit and the reduced provisions for impairment losses on financial assets, mainly in the Bank stand-alone financial statements. The net profit figure was positively impacted by significant increase of all components of the operating income except for net other operating income. Net interest income (+15.1% yoy), fees and commissions income (+8.0% yoy) and trading income (+19.2% yoy) scored higher performance yoy. In addition to the positive contribution of the growing revenues of the Bank, the growth in **consolidated revenues** (12.0% yoy) was supported by robust growth in the income from consumer lending channeled through UniCredit Consumer Financing and by consolidation of UniCredit Leasing in 2014.

Group's **consolidated operating expenses** had an upward momentum of 7.1% yoy to BGN 289.8 mln mainly due to growth in costs of the Bank (stand-alone) and additional costs relating to the full consolidation of UniCredit Leasing. The sound social policy conducted by the Bank justified the compelling increase yoy of the personnel costs.

The increase in some operating costs, were more than counterbalanced by the growth in operating income and thus **gross operating profit** was up by 15.1% yoy.

Consolidated Impairment losses on financial assets decreased by 20.0% yoy to BGN 182.4 mln, following the trend at Bank stand-alone financial statements.

Total **consolidated assets** reported 18.2% annual increase and reached BGN 15 984 mln.

	YEAR		CHANGE %
	2014	2013	
INCOME STATEMENT FIGURES			
Operating income	787 832	703 366	12.0%
Operating expenses	-289 796	-270 624	7.1%
Gross operating profit	498 036	432 742	15.1%
Impairment losses on financial assets	-182 408	-227 963	-20.0%
Net profit	284 535	175 909	61.8%
VOLUME FIGURES			
Total assets (eop)	15 984 106	13 528 347	18.2%
Net customer loans (eop)	11 112 403	9 529 902	16.6%
Customer deposits (eop)	10 666 785	8 526 893	25.1%

Risk Management

Credit Risk

The **risk environment** throughout 2014 remained similar to the one of the previous year. The positive trends in retail segment (private individuals and small business companies), which were observed at the end of 2013, continued also during 2014. The main focus was put on the impaired loans in corporate segment and the Bank managed to achieve a net decrease in the impaired exposures of BGN 54 mln or 3.3%. The reduction is mainly attributed to repossession of collateral assets, debt collection and write-offs of fully provisioned loans. It led to overall improvement in NPL ratio as of December 2014 to 14.5% (respectively 16.3% if adjusted by the short-term exposure to the Bulgarian government).

In 2014, Bank's loan portfolio was reviewed for the first time by the ECB during the **Asset Quality Review**. Borrowers from the large corporate segment and large SME segment were checked during the single file review. The overall feedback UniCredit Bulbank received was positive. The recommendation regarding additional loan loss provision coverage for the reviewed sample was fulfilled as of December 2014.

In 2014 the Bank performed its credit activities in compliance with the governing rules and policies and in respect of the defined risk appetite framework. The **credit underwriting** activity was carried out 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 new loans origination, the Bank conformed to the prescribed financing principles for probability of defaults, transaction's structural features, covenants and conditions and provision of collateral. In 2014 were introduced new approval competences for corporate customers, aiming at more flexible and efficient underwriting process. In approval process for retail exposures the Bank enlarged the use of implemented behavior scoring. A high priority project for change of the automated underwriting systems for retail customers was launched in 2014. It aims at enhancement in the loan origination process by addressing issues such as timely updates of the scoring cards, processing time, data management, improvement in the scoring process and the predictive power of the system.

Taking into consideration the importance of the collaterals' database, the **monitoring activity** in 2014 remained focused on the data quality, where the value added came from the warning signals adopted in 2013. Re-assessment of the existing warning signals applicable for corporate segment and re-calibration of the relevant thresholds were performed in the second half of 2014 and decision was taken to trigger some new events in order to cover more areas related to the risk profile of the customers. The monitoring scope will be further extended to the status of market evaluation of the collaterals along with the ongoing strengthening of the overall collateral management. With regard to retail monitoring, the Golden Standards were successfully implemented also in the small business segment in the last quarter of 2014 with the corresponding adjustments in the web-based IT tool. Thus the monitoring requirements as defined on group level are put in practice among all business segments. The process for small business clients similarly to Individuals defined new anomalies for triggering client classification as well as new client risk segmentation on the basis of the estimated expected loss and amount of the credit exposure on client level. Furthermore, the monitoring of individual clients was refined in terms of process and anomaly optimization.

Since 2011 UniCredit Bulbank is authorized to use the Internal Rating Base (IRB) Approach under Basel 2 for the calculation of minimum credit risk capital requirements (respectively RWA) and the Advanced Measurement Approach (AMA) for the calculation of operational risk requirements. The Bank applies Foundation IRB Approach, related to exposures of banking institutions and corporate clients and Standardized Approach to exposures of retail clients, public sector entities, multilateral development banks and municipalities. Activities in 2014 were focused on implementation of **Advanced IRB Approach** to corporate and retail clients' exposures, which is expected to take effect in 2015.

In 2014 the Bank undertook all necessary activities for the **implementation of the Basel III revised capital framework** and has redesigned its local reporting tools in order to meet the new regulatory requirements.

The central part of the internal assessment of capital adequacy is the quantification of the Bank's economic capital, used to evaluate the Bank's risk taking capacity which is an important risk appetite metric. Throughout 2014 considerable effort was directed to enhancing the stress testing framework by moving to more granular and detailed process.

Risk Management (continued)

Market, Counterparty and Liquidity Risk

In the area of market risk appetite and strategy, the risk management function supported regular reassessment of market and liquidity risk limits. Market risk policies and processes were timely adapted to ensure a Group-compliant risk measurement and control. In 2014 the Bank implemented new risk and front-office architecture that is expected to improve efficiency in managing market and liquidity risks.

Regarding limit control and reporting, the Market risk management function continued to supply management with daily limit compliance reports - VaR metric; stress-oriented FX, interest rate and credit spread sensitivity measures; stop-loss and operative liquidity triggers. On a monthly basis, the Bank's management was regularly supplied with analysis for potential PL impact of extreme shifts in FX, interest rates, credit spreads and market liquidity squeeze on major portfolios.

With reference to risk methodology and architecture, UniCredit Bulbank made use of the group-compliant VaR model "IMOD" about daily market risks control and economic capital assessment. Asset and liability management systems were adapted to allow for daily calculation and monitoring of Basel III liquidity ratios – Liquidity coverage ratio (assuming liquidity stress over 1 month horizon) and Net stable funding ratio over 1 year horizon. The system for counterparty risk measurement and control was upgraded to facilitate quantification of CVA risks in pricing and valuation.

Activities of Market risk management function in 2015 will be focused on implementation of tools and processes related to fair valuation of financial instruments in the context of IFRS 13. Major step ahead in counterparty risk management is the continuing upgrade of the systems for pricing and simulation of CVA risks in OTC business. Refinement of liquidity models as per Basel III rules will be another area for development, coupled with initiatives promoting liquidity-light products. Other important project in 2015 is the risk integration of consumer finance, leasing and factoring operations, with expected impact primarily on interest rate risks and liquidity.

Operational and Reputational Risk

The main activities of the Operational and Reputational Risk unit in 2014 were focused on the validation of the new Advanced Measurement Approach (new AMA) model for calculation of the Capital at Risk allocated for operational risk. The activity was carried out by the Bank of Italy at UniCredit Group level and by the Bulgarian National Bank at local level. The new model was approved by both regulators with no recommendations for UniCredit Bulbank. Furthermore, the reputational risk process was set within the Bank in compliance with UniCredit Group principles, policies and rules.

The Operational Risk management at UniCredit Bulbank was established at a high level of quality, as it was confirmed by the annual self-validation report. The control verifications of UniCredit Group Internal Validation and the Bank's Internal Audit inspections gave the highest possible score to the local system. According to these independent assessments, the operational risk management and control system was found fully adequate and compliant with regulatory and Group standards. The cooperation with other structures within the Bank in order to mitigate and minimize the exposure to Operational risk was also found satisfactory. The risk culture had been constantly spread out within the Bank, where all employees have passed the obligatory online trainings.

Having achieved an outstanding level of operational risk awareness among all bank employees, the efforts in 2015 will mainly be allocated to accomplish a similar level of understanding in the field of reputational risk. A significant part of the efforts will be devoted towards the training and monitoring of the Bank's subsidiaries, in regards to the identification, reporting and mitigation of the Operational and Reputational risk in compliance with the regulatory and UniCredit Group standards.

UniCredit Bulbank Activity Review (continued)

Corporate, Investment and Private Banking

General Overview

In 2014 due to slow market recovery and geopolitical turbulences, many of our corporate clients decided to postpone the investments and keep a selective approach toward their growth strategy.

In this scenario Corporate, Investment and Private Banking Division (CIB&PB) set its commercial focus on meeting clients' needs with flexible and tailor-made solutions. One of the main priorities was to have the sales force involved in understanding deeply the business environment. In line with UniCredit CEE2020 program, capital light products, financing solutions for mid-sized business and international coverage were the key success factors over the period. The synergy value was maximized via the full consolidation of Leasing, Factoring and Insurance Broker subsidiaries within the division. The business organization has been set up to enhance the expertise sharing across product owners and coverage functions.

CIB&PB revenues increased by 5.5% yoy, predominantly driven by net interest income (+9.8% yoy). Net fees and commissions result was 1.2% yoy, mainly stemming from payment transactions, trade finance products, POS and ATM. Before-tax profit was 87% higher vs. previous year, while risk costs decreased by 35%.

All sub-segments recorded higher revenues yoy, except for the real estate segment, where the Bank's strategy was to optimize the portfolio. Mid-sized domestic clients proved to be the back-bone of the sustained profitability of the division. Large domestic companies, on the other hand, reported the highest growth yoy (+13%), leveraging on the Bank's reputation, market leadership and exclusive offers. In parallel, the international companies' segment reported 5.9% higher revenue yoy, thanks to the international UniCredit Group franchise as well as an innovative commercial approach. Based on the market-driven deceleration of interest rates, the subsegment that services non-banking financial institutions, managed to significantly optimize deposit costs and respectively improve profitability.

The average deposit base at division level reached BGN 4.4bln in 2014, registering annual growth rate of 7.2%. The strategy was to focus on current accounts and structured term deposits. With regard to the distribution per segments, the largest share of deposit volumes came from large domestic clients, followed by mid-sized domestic corporates and international companies. The financial institutions, including insurance companies and pension funds, also distinguished the Bank as a preferred partner in attracting funds. The currency structure of the deposit base comprised of deposits in BGN (49%), EUR (44%), and USD (7%). Overall, the corporate deposits' market share of the Bank increased by 4.2pp yoy to 23% at year-end.

The average loan base reached BGN 6.4 bln in 2014 with a growth of 5.6% yoy. The front-runners in terms of loan volumes were mid-sized domestic and large domestic clients. Mid segment focused on client refinancing. Large domestic clients' distribution was almost equally split between working capital and investment facilities. International and real estate sub-segments had higher shares of investment loans. The loan currency structure included loans in EUR (69%), BGN (27%) and USD (4%). As a result of the strategy to address value-added advices and fast response to the client, CIB&PB division managed to grow the corporate loans market share of the Bank by 5pp yoy, up to 24% at year-end.

Special attention was also put on the market-imposed non-performing part of the loan portfolio. The commercial actions aimed to match restructuring plans with client characteristics. A dedicated initiative for disposal of NPL-related assets was started as a joint initiative between the business and risk divisions.

In corporate area, the main cross-sale initiatives with subsidiaries which took place were: (1) insurances of loans collaterals through UniCredit Insurance Broker; (2) offering non-recourse factoring to mid-sized corporate clients; (3) acquisition of all leasing clients as Bank clients; (4) active sale of insurances through Bulbank Online.

Service Model

Product/Coverage model

The essence of the service model lies in its cross-functional responsibility towards the clients from both product owners and segment coverage, which contributes to increase furthermore the customer satisfaction. Segment coverage delivers a personalized relationship via a dedicated professional who follows in depth client's business development, while the product owner provides a customized solution. CIB&PB sales force is specialized in granting financial services to companies in different segments and regions. They are supported by experienced product advisors in the areas of cash management, trade finance, project and structured finance, syndications, corporate finance solutions, leasing, insurance, factoring, markets and brokerage etc.

The corporate branch network, dedicated only to corporate customers, consists of 10 branches established in the major regions of the country and ensures a high-class operational service to the clients' daily bank transactions.

International Center

In relation to the international business, a service model which aims to position UniCredit Bulbank as a **one stop service location** for international clients was launched and implemented in 2014. The ambition is to have a physical place where the customers have the possibility to meet their prospect clients, their suppliers, their competitors as well as to promote their products and arrange their own events. Moreover it gives a possibility to book temporary offices and benefit from the lounge services. Content-wise, aside from the traditional banking services, it provides the opportunity to leverage on the expertise in the areas of a company set-up, accounting, taxation and European funds. Leveraging on its innovative concept, the UniCredit International Center is also attracting new foreign investors being a well-recognized promoter in enhancing the country opportunities.

Corporate, Investment and Private Banking (continued)

CEE2020 Initiatives

In the mid-sized companies' segment special attention was paid to small businesses through the **SME Value Proposition Enhancement** project which streamlined the lending process. Regional directors were given a higher underwriting authority, depending on certain eligibility criteria for client and loan characteristics. The project was launched in mid-2014, aiming at shorter time-to-decision, increased risk awareness in business units and new client acquisitions.

The **Capital Light project**, consisting of account planning, reference pricing and RWA optimization also started in 2014. The main goal is to grow economic value via implementing a capital light model and enhance customer relationship management. For that purpose, one-stop integrated software is being developed in order to support the capital light commercial process. The end-product is targeted to be a sales force automation system, facilitating the commercial process and ensuring competitive value proposition for the clients.

European Funds

In 2014 UniCredit Bulbank continued to support its clients through managing and coordinating the implementation of specialized financial engineering instruments in partnership with a large number of European banks and financial institutions as well as with local institutions.

The financial engineering instrument JEREMIE was the main focus during the year. The Bank achieved a full utilization of both JEREMIE FLPG (i.e. portfolio guarantee instrument) and JEREMIE FRSP (i.e. guarantee incl. attractive funding). Due to the top performance in utilization of JEREMIE FLPG, the Bank received an increase of the portfolio volume from EUR 50mln to EUR 85mln. As a result, the total JEREMIE portfolio amounted to EUR 135mln with committed volumes of EUR 104mln.

In order to better respond to market requirement, UniCredit Bulbank concluded two more guarantee agreements for financial instruments with the European Investment Fund. The first one (European Progress Microfinance Facility) provides 56% free guarantee supplementing the collateral for investment and working capital loans for micro enterprises and self-employed people. The second one (Risk Sharing Instrument) provides 50% paid guarantee, supplementing the collateral for investment and working capital loans for innovative, research and development oriented SMEs and small mid-caps (up to 499 employees).

The Bank was selected by the National Guarantee Fund as a partner for the Guarantee Scheme for small and medium-sized enterprises. The Guarantee Scheme provides 50% guarantee, supplementing the collateral for investment and working capital loans for SMEs and allows UniCredit Bulbank to finance a broad scope of economic sectors, including agriculture and food industry, which is not covered under other available guarantee instruments.

With 30% agro-customers' market share and 21% agro-loans' market share, UniCredit Bulbank considers agricultural sector a key growth area also in 2015. New business opportunities are expected to come from the start of seven new operational programs during the period 2015-2020, with agricultural subsidies totaling approximately EUR 15 bln.

Markets and Brokerage

In 2014 UniCredit Bulbank continued to keep its leading market role in the field of government securities trading, money market and foreign exchange trading. For a second consecutive year the Bank was awarded by the Ministry of Finance in two categories: (1) a Dealer that acquired the highest volume of government bonds on the primary market; (2) a Dealer that acquired the highest volume of government bonds for its own account on the primary market. Based on its strong liquidity position, the Bank's focus was on a balanced risk-reward approach in its trading activities.

A leadership position was maintained in the field of foreign currency exchange and different asset classes hedging. The corporate treasure sales (CTS) team successfully continued its customer oriented efforts, supporting the clients with their daily FX operations and providing financial risk management solutions. The wide product offer together with the broad team experience provided the customers with the opportunity to hedge FX and commodity price risks. The uptrend of the FX volumes is expected to continue in 2015, mainly supported by export.

UniCredit Bulbank delivered high level of financial instruments and brokerage services for institutional, private banking and retail clients. The investment intermediation activity gives the clients the opportunity to participate in the Bulgarian and international capital markets. Providing wide market coverage to its customers, the Bank retained its leading position in offering brokerage services for equity, fixed income and exchange traded derivatives.

Financing

In 2014 financing department designed customized innovative solutions with the aim to establish a sound financial profile and to optimize the capital structure of the project in order to ensure sufficient liquidity.

In an environment of moderate market expectations selective opportunities for new financings were captured and the real estate portfolio was optimized. Emphasis was put on investors with relatively small high quality residential and office developments.

Project finance unit demonstrated expertise in structuring complex deals while considering the risk strategy of the Bank and the risks of the local market environment. The changes in the regulations were crucial for the sustainability of the projects. Portfolio diversification was performed through penetration in selected industries with positive growth expectations. As a result, the weight of the renewable energy sector in the total project financing portfolio was reduced to 36%.

Corporate, Investment and Private Banking (continued)

The strategy for 2015 is to continue growing in selected export-oriented industries; to explore the opportunities for cooperation in Public Private Partnerships (PPPs) of various infrastructure projects; to participate in innovative and profit-driven projects under EU Operational Programs and to apply full debt repackaging and corporate solutions (including syndicated transactions) for existing and new clients.

Corporate Finance and Advisory

Despite the challenging market conditions, CFA supported its clients in several M&A transactions successfully closed and cashed in 2014. On the origination side, a solid pipeline is already developed for 2015, leveraging on regional team's efforts and local customer base of existing and prospect customers. With regards to capital markets issuance, the window of opportunity was very limited due to the general business and political environment in the country. The corporate finance solutions team supported the lending activity by reviewing more than 30 cases.

Global Transaction Banking

Global Transaction Banking (GTB) added value to the clients through its broad range of capital light products thus growing the cross-sale efficiency of the Bank. Anticipating the changes in customer behavior and business needs, UniCredit Bulbank kept investing in its product and services portfolio enhancement, focusing on the electronic channels and cutting the distance to the customer. In line with its strategy for long-term trustworthy partnership with the customers, the product owners adapted bank solutions so as to better meet clients' needs.

Leveraging on the Group expertize and the leading position on the local market, the Bank maintained its role as a preferred Cash Management, Trade Finance, Transactional Sales and Global Security Services partner for the clients in all segments. The customer-centric service model and the determination to constantly improve the product offer was also recognized by a number of reputable international financial sources: "Best Cash Manager in Bulgaria" by the Euromoney Cash Management Survey, "Best Trade Finance Provider in Bulgaria" by the Euromoney Trade Finance Survey, "Best Trade Finance Bank in Bulgaria" by Global Finance Magazine and "Best Sub-custodian Bank in Bulgaria" by Global Finance Magazine.

Private Banking

Given the macroeconomic volatilities in 2014, the main goal of the Private Banking department was to retain at reasonable prices the clients' financial assets within UniCredit Bulbank. Commercial actions consisted of asset allocation proposals and flexibility of services to clients' needs and preferences.

Private Banking reported annual revenues of BGN 5mln stemming from higher efficiency of client meetings and enhanced product offers. The main revenue drivers were net interest income on loans (38% of revenues), net fees and commissions (38%) and FX (12%).

The optimized deposit costs significantly contributed to the increased operating efficiency of the department.

Average loan volumes scored 3.7% lower yoy, down to BGN 48 mln. It consisted of mortgage loans (72%), overdraft facilities (19%), credit cards (6%) and consumer loans (2%).

Average deposit volumes were 6.9% lower yoy, as a major portion of those deposits were transformed into assets under management and assets under custody. The assets under management increased with 46% compared to previous year and assets under custody increased with 105%. As a result, the volume of total financial assets (TFA) in PB department reported 10% annual growth. At year-end, the TFA split comprised of term deposits (63%), assets under custody (19%), structured term deposits (12%) and assets under management (6%).

Following the strategy to shift clients' assets from deposits to fee generating products, the main focus fell on the structured products. Main idea was to differentiate the PB product offer on the domestic market and gain competitive advantage over main competitors by increasing the value proposition to the clients. At year-end, EUR 39 mln of customer's assets were put in structured term deposits.

The strategy for 2015 is to further develop the existing products offered to clients and introduce new investment solutions with above-deposit rate yields. Consistent with the aim to improve the loan-to-deposit ratio, the PB department will continue to play an important role for the attracted funds of the Bank.

Outlook for 2015

CIB&PB will continue to be preferred partner of the Bulgarian and international companies offering high quality service and innovative commercial approach. The division is starting the year as a renowned market leader, with high level of customer satisfaction and with strong ambition to attract foreign investors through the newly-opened International Center in Sofia. The latter is dedicated to facilitate the development of new business opportunities in the country and foster the coverage for international clients while leveraging on Group franchise and local market know-how. Domestic export-oriented companies will be also able to benefit from meeting international companies in the center. In this way, CIB&PB is aiming to support not only valuable business projects but also to boost the economic recovery of the country.

Given the above, the major focus of CIB&PB in 2015 is customer acquisition and penetration in the segments of International and Mid-sized local companies. The main objective continues to be the establishment of long-lasting relationships with the customers, managing sound businesses. Furthermore, priority is set on providing EU Funds related expertise and special products to companies and projects with growth potential so as to increase successful absorption of subsidized funding.

Retail Banking

General Overview

In 2014 Retail banking succeeded to generate significant business growth, despite the vulnerabilities in the banking sector, political instability and the regulatory changes in households lending. The main growth drivers were consumer financing, leveraging on the product specialization of UniCredit Consumer Financing (UCFin), small business lending as well as investment products and alternative distribution channels.

Retail revenues in 2014 grew more than 10%. Active customers grew with 8.4% yoy and the customers' recognition was evident in the customer satisfaction surveys according to which the Bank managed to consolidate its first position.

The market share in **deposits of households** grew by +259bp yoy to 13.4% in December, as the policy followed by UCB, along with its positive image, distinguished the Bank as a preferred partner for households and small business companies.

Following a license revocation for CoCB, a payout of guaranteed deposits was organized by the Deposit Insurance Fund in December. UCB was among the banks that paid out the guaranteed deposits of CoCB clients. Due to the excellent preparation and organization in Branch Network, more than 50% of the eligible funds were paid out in the first three days. The efficiency of customer service was highly appreciated by the customers.

The **deposit volumes of retail individuals and small business** clients reached BGN 5 861 mln in December, growing 35.6% yoy of which only individuals grew with 37.3%.

Total **Retail loans** (including small business and UniCredit Consumer Financing lending) reached BGN 3.7bln, growing with 3.3% yoy. Newly-extended loans volume touched BGN 1 076m, 13% increase compared to 2013. The main part of lending was due to consumer lending (39%) and small business lending (36%). During the year the market share in lending to households increased by 51bp to 14.6%. The retail lending market was negatively influenced by overall decrease in household consumption resulting from income stagnation, significant unemployment and lack of improving expectations. Competition among banks in consumer lending sector was supplemented by the impact of non-banking institutions.

In the area of **consumer lending**, the specialization of the Bank's fully consolidated subsidiary UniCredit Consumer Financing gave strong competitive advantage by increasing possibilities for new customer acquisition based on simplified and fast process as well as effective risk management. In line with retail commercial strategy, consumer lending was the main growth driver with 9% increase of consolidated portfolio, compared to 2.6% growth of the market, thus reaching +89bp yoy increase in the consolidated market share of 12.1% in December 2014.

On the **mortgage lending** market UniCredit Bulbank managed to consolidate the market position in mortgages, keeping stable market share of 18.5%, being one of the first banks to present attractive offers. A main priority was put on transparency of processes and strict compliance with changing legal framework. The Bank worked on making the process for clients easy when it comes to the fundamental decision in life to buy a real estate.

In **small business lending** the Bank followed its strategy of dedicated focus on different sectors: e.g. agricultural; personalized partnership approach as well as quick and simplified process. The loans to small business grew 4.5% yoy. Under the guarantee agreement with European Investment Fund (EIF) UniCredit Bulbank supported around 270 micro-enterprises in Bulgaria by providing them enhanced access to finance, especially those who faced difficulties in accessing credit from traditional banking sources. Under the European Progress Microfinance Facility (EPMF) the Bank created new products in order to further develop lending activities to start-ups, small and micro-enterprises, handicraft businesses and self-employed in Bulgaria. Advantages obtained from the EIF's guarantee are passed on to 94 final beneficiaries in amount of BGN 3 mln.

In parallel to the very strong business performance the Bank continued to invest in innovation of retail banking model and the way of serving and offering consultancy to its customers.

In 2014 UniCredit Bulbank continued to be one of the bank leaders in number of points of presence. The Bank serves around 1 million clients in 162 retail branches, 22 agencies and 59 distant working places spread in retailers, shopping centres and partners. In 2014 UCB continued to apply flexible working time and extended working hours in some offices located in big towns.

The number of branches applying the "Branch of the future" concept was increased. The concept won recognition as high-level innovative bank environment that gave customer satisfaction and promoted nonstop service in 24/7 self-service zones.

Retail Banking (continued)

New Products and Innovations

At the beginning of 2014 the Bank launched a product innovation initiative in the area of **pension funds offering** which, together with already offered insurances, investment funds and saving products, assured a full range of investment products.

With regard to the **Creditor Protection Insurance** (CPI), a complete symbiosis with the loan product was achieved by including various payment options. Special packages for customers above 66 years old and for those with a disability were designed and launched during the year.

In December 2014 UniCredit Bulbank launched another innovative initiative called **"Car Corner".** The Bank established dedicated multichannel corner for cars and car related products and services. It provides customers access to a "one stop shop" offers including purchasing the car itself in partnership with leasing and car vendors, as well as other related offers such as insurances, spare parts, tires, etc.

Service Model

In 2014 UniCredit Bulbank launched a project to improve its service model and to offer best-quality advisory service to its customers in parallel with product and process simplification and efficiency improvement. These actions are expected to lead to significant reduction of the customer's service time and further increase of customer satisfaction.

UniCredit Bulbank retained its successful business model in the area of Micro and Small enterprises segment with a highly qualified personal banker dedicated to each customer to serve specific business needs. In 2014 sales force participated in a special training focused on the agricultural sector.

At the end of 2014 the first small business informational bulletin was launched. It was sent to the Bank's business customers and its main subject was the agricultural sector.

With regard to the affluent customers' sub-segment, the Bank continued to apply high level consultancy model based on relationship management and started to use behavioral criteria in segmentation.

Customer Relationship Management System

The effective coordination between the different segments and distribution channels was enabled by the CRM approach, which contributed to improvement of quality and profitability of relations with the customers.

Main activities involved technology enhancement in order to support the better understating of the customers' behavior and to improve the proactive approach towards their needs. Operational CRM system has been improved in order to cover the business expectations and face the changes in the service model. The utilization of the channels was at a strong focus in 2014, having both outbound and inbound channels as integral part of all marketing activities.

Cards business overview

Throughout 2014 the Bank retained its leading position on the cards' market. Both the internal analysis of the performance indices and statistics of the International Card Organizations clearly display a sustainable business growth as compared to the previous years.

In 2014, the total number of transactions with cards issued from UniCredit Bulbank increased by 11% and the turnover – by 13%. The switch from ATMs cash withdrawals to purchases at POS terminals continued. The latter showed a significant increase in the number of transactions (22%) and customer expenditure volumes (22%), with impressive growth in purchases with debit cards – 34% compared to 2013. Another highlight was the international POS usage of UCB cards with 31% increase in transactions' number and 54% in transactions' volume. This was an indicator for the frequent, everyday use of card payments, even for small amounts, both locally and across the world.

These positive trends were facilitated by the launch of the **contactless payments** in 2014, where the Bank remained a key player throughout the whole year. By the end of 2014 UniCredit Bulbank has issued over 260,000 contactless cards (almost 20% of the market) and installed more than 4,000 terminals with contactless functionality (30% of the market). The strategic focus was oriented towards the new way of card payments reflected in commercial initiatives, communication campaigns and educational events for both merchant-partners and cardholders.

UniCredit Bulbank achieved 46% increase in the total number of POS terminals, closing 2014 as one of the most successful years in terms of business growth. The merchant-partners of UniCredit Bulbank accepting electronic payments reported 44% growth in the purchases and 34% - in the turnover, compared to 2013. The number of merchants that accept online payments also increased. At year end around 60% of the UCB terminals did not require customer signature on POS receipts for Chip&PIN transactions, which in turn improved the overall time for transaction processing and simplified the payment from merchant's perspective. In the same time the level of security is kept and even improved. One such improvement is the further expansion in the scope of the service "Activation during Shopping" (50% more cards using such service compared to 2013) – automatic system that invites customers to create their personal 3D Secure password while shopping online.

As a pioneer on the market with the first unattended ticketing machines in Pamporovo, the Bank worked on expanding its network of unattended terminals. There are such terminals also in the transportation area, parking lots servicing and express deliveries.

Channels

2014 was another year of dynamic development and innovations in the field of alternative distribution channels. Following customer behavior trends, UCB continued the development of the direct banking channels, with special focus on mobile banking

Retail Banking (continued)

enhancement, new internet services – YourFinancialAdvisor.bg, as well as introduction of new selling processes, resulting in 31% growth in the number of selling acts originated by the direct channels. Further enlarged was the network of second generation ATMs with cash-in functionalities and with other improved self-service features.

The number of internet and mobile banking users grew by total 57% yoy. The ATM network also expanded to a total of 728 terminals, indicating 3% growth. ATMs with deposit functionality increased by 30% compared to the previous year, in line with the gradual expansion of the Bank's self-service zones within the "Branch of the Future" project. As a result, around 30% of the targeted cash operations were migrated to the machines and thus the transaction migration index increased to 70% at the end of the year. The trend indicates the customer preference to execute the low value operations via direct channels and to visit the branches for cases that need more sophisticated and high-value consultancy.

During 2014 UniCredit Bulbank further enhanced the special internet service called Your Financial Advisor with innovative functionalities such as financial calculators, investment modules and attractive common initiatives with strategic partners such as Samsung and Mazda. In result, at 2014 EFMA Accenture Innovation awards, "Your Financial Advisor" of UniCredit Bulbank won 2nd position out of more than 600 World innovations.

The Bank's Call Center serviced more than 600,000 customer inquiries (both inbound and outbound), which represented about 36% yoy increase of the activity. New processes for direct sales and presales were implemented – such as credit cards, overdrafts and insurances.

Business volumes generated by agents (intermediaries - companies and individuals, offering the Bank's products), increased by about 10% yoy. The Bank continued to invest in building strong relationship with its partners, offering special stimulation schemes and special product features.

Overall, the channels outside the branch network accounted for 70% of the transactions and 10% of the selling acts in the retail business as of the end of 2014.

Outlook for 2015

Retail Division will continue the efforts on retaining the leading position in customer satisfaction, supported by service model improvement, as well as productivity and efficiency improvement. The direct channels development and transaction migration are expected to create more opportunities for a high-value consultancy in branches, thus achieving higher levels of customer satisfaction and faster service times.

Adapting to new customer needs and behavior, the Bank is planning to further invest in branch network and to offer one-stop-shop universal branches and personalized consultancy for sophisticated products, by exploring the knowledge gained from the "branch of the future" project. The commercial strategy will include strong focus on lending activities, both in individuals segment and small business segment.

Retail banking will continue enlarging the range of alternative investment products offered to the individual customers: mutual funds, saving insurances, pension funds, etc. Through high level of service and product offers to individual customers, the Bank is helping people understand the available instruments and diversification possibilities and take active decisions to save and invest for their financial stability.

Asset and Liability Management

In 2014, UniCredit Bulbank continued to maintain diversified mid-term and long-term wholesale funding sources:

On the part of the purpose-tied financing, funds under the existing EBRD Energy Efficiency & Green Economy Programme (incl. EU grants) were further allocated to final beneficiaries, supporting SMEs in improvement of their efficiency and productivity through application of environmentally friendly technologies. SME funding lines from EIF and CEB have also been made available to customers during the year. A new EUR-50-Mio EIB Global Loan was signed, targeting SMEs and Mid-Caps. Active utilization and allocation of EIB and CEB funding was planned for 2015, granting the Bank's customers further access to cheap sources of financing.

The general-purpose interbank funding was maintained optimal in terms of pricing, tenor and seniority, with the intra-group funding keeping the dominant share. The aim – successfully achieved – was to decrease overall cost of funding for the Bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. Austrian Supervisory Guidance and calculations of BASEL-3 ratios) and capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, abundant liquidity buffers being kept against the backdrop of the tense local financial environment. Adequate amount of intra-group funding was planned for 2015 too, so that gradually increasing opportunities for a sound lending growth can be taken advantage of.

Customer deposits remained the main funding source for the Bank, growing considerably more than loans in 2014 and contributing to a further decrease of the loan/deposit ratio compared to 2013, continuing the trend from the previous years. UniCredit Bulbank will maintain its focus on retail and corporate deposits also in 2015, taking advantage of its excellent reputation, international franchising, variety of products and service quality.

Given the excellent liquidity position of the Bank, no bonds were issued in 2014 or planned for 2015.

Over the course of the year 2014, UniCredit Bulbank maintained an active but prudent investment policy compliant with strict internal limits and rules and taking into consideration both the short-term and the structural liquidity position of the Bank. The investment portfolio was structured with the goal to invest surplus liquidity, earning sufficient 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 kept on optimizing its assets structure by gradually increasing the volume of ALM investment portfolio from BGN 570 mln to BGN 637 mln in face value terms. In line with the preliminarily approved investment policy, the only bonds acquired in 2014 were issued by the Bulgarian government. Thus, the share of Bulgarian government bonds (domestic and global) in the ALM investment portfolio was stabilized and even increased, reaching more than 99.5% as of the end of 2014. The average rating of the investment portfolio was "BB+" (as per S&P) and the average modified duration – 3.73 years.

Human Resources

In 2014 the HR department continued its focus on internal efficiency, high quality of processes and services and maintaining the achieved level of engagement and satisfaction of employees.

At the end of 2014, the number of employees of the Bank decreased slightly to 3 538, compared to 3 553 at the end of 2013. The HR costs remained under control, keeping the conservative approach, but also being at level that ensures competitive remuneration in comparison with the market. The individual productivity increased by almost 8%. The staff voluntary turnover showed slight increase – 5.4% in correlation with the increased dynamic on the labour market.

The Bank continued to be considered a good place to work and a stable and reliable employer, supported by the strong brand of UniCredit. It continued its presence in the career events and in the professional social media in order to be easily approached and to be able to address specific labour market segments. This resulted in sufficient number of job applications, which supported the ability of the HR Department to provide quality candidates for open positions. In 2014 were hired almost 400 new employees.

The Internship program continued to be one of the key priorities. It is very popular among the students thanks to the participation of the Bank in many events like career days/job fairs, students' competitions, cooperation with universities' career centers and with students' organizations. UniCredit Bulbank conducts one of the largest Internship programs on the local market with above 400 participants, out of which 100 have been hired for permanent jobs. The internship program was acknowledged as a socially responsible approach of the Bank towards the society, as it gives students opportunities to obtain practical knowledge and experience.

In 2014 HR department invested in continuous learning initiatives, which aim not only at enhancing our people's competencies but also directly foster their motivation. Specific training programs were organized to facilitate smooth transition of the Retail employees to the new roles as defined under the CEE2020 project. A variety of commercial oriented training initiatives were organized during the year, such as the so called "Client Obsession" project, a fully tailored banking simulation initiated with EU funding support; Strategic relationship management for CIB RMs, Academy for Personal banking / Customer service Advisors in Retail, etc. Development activities comprised of enhancement of the opportunities for temporary rotations, participation in innovative projects, cross-divisional experience of people (such as Generation L, UnBound, Open days).

As a constant priority, the Bank continued focusing on leadership development through initiatives supporting the key people in the organization and ensuring the continuity of the crucial processes – e.g. the participants in the Executive development plan (EDP), Talent management review (TMR), succession planning. The process of identification and assessment of potential successors for key middle managerial positions also progressed during the year. The efficiency of these initiatives is proved through the rate of internal promotions to managerial positions, which is about 90%. Tailor-made leadership initiatives consisting of local modular programs and training sessions, UniManagement learning labs, assessment and development centers were organized, leveraging on impactful behaviors and competencies.

HR Department is constantly looking for efficient and business liable opportunities to sustainably develop the learning culture. A variety of e-learning, classroom or on-the-job training solutions were provided to all employees also in 2014. The number of total training hours remained almost unchanged, amounting to around 135 000.

In 2014 the Bank introduced a new major benefit to its employees – the corporate kindergarten. The new facility provides high quality service to employees' children at preferential conditions.

In 2015 HR will continue to act as contributing and supporting partner for sustainable business and leadership growth. In alignment with the strategy of the organization, flexible programs for real-banking and project learning, rotations, cross-divisional collaborations, change management and functional learnings (especially in the CEE 2020 context) will be organized. Leadership development will be again one of the main focuses mainly through enforcing the feedback culture. Employer branding initiatives are going to be even stronger positioned through promoting innovation/ project competitions for students, enhanced Internship program, Bank open days for professionals. New HR projects will be launched in order to ensure even easier and comfortable access of the employees to performance management process, training information and resources.

Global Banking Services

The activities of GBS Division in 2014 were organized around several main priorities – to provide high-quality and on-time services, to manage and deliver business strategic and regulatory projects, to optimize costs as well as to improve internal efficiency and long-term sustainability of the services by implementation of internal projects focused on preventive, maintenance and optimizations activities.

The activities in **Organization Department** were consistently focused on demand and project management execution and efficiency of processes and organizational models. The number of critical and complex projects in the portfolio increased due to the new group strategic and regulatory projects and during the year more than 60 initiatives were ongoing. Critical and resourceful projects such as Consolidation of Subsidiaries, EuroMIB, Utility Payments, Loyalty project and several regulatory projects, among them FATCA and New Loan Regulation, were successfully developed. Projects under the CEE2020 program were the main priority. They comprise of several initiatives in Retail, Private Banking and Corporate and Investment Banking.

Activities under the Organizational models and process efficiency were in the area of new Lean SIX Sigma implementation where 18 new initiatives were undertaken. Six initiatives were successfully finalized throughout the year. The sizing activities covered regular monitoring in the most labor intensive areas with a special focus on new retail service model analysis.

In ICT department vital infrastructure projects were executed with a precise planning and synchronization in order to ensure normal business operations. There was no unplanned disruption in business services in the course of implementation. The Firewall improvement project contributed to faster and reliable request and problem resolution and costs optimization. Private Cloud project provided necessary capacity for virtual machines for the next three years. Flex Cube infrastructure upgrade project supported the increased workload after consolidation with UniCredit Consumer Financing, increased the database throughput and resulted in better stability and performance (around 20-30% decrease in automatic procedures duration and 30% decrease in end of the day duration). Remedy Upgrade project provided for extended system capacity and improved performance.

All the critical services KPI targets were kept on a very high level with 99.9% availability which signals the stable and predictable production environment.

In 2014 the total number of requests and incidents decreased by 5.2% yoy despite the 10% increase in the number of services to 562 (from 513 in 2013). Percentage of ICT related issues decreased to 63% in 2014. Reopened ICT incidents were 0.2% of all assigned to.

In **Operations department** the main success and contribution drivers were focused on quality and high proficiency in processes' execution. By applying the well-established Lean Six Sigma methodology, key processes related to payments processing, loan and E-channels administration were redesigned, targeting efficiency improvements, cost reduction and better exposition to end customers. Foreign Currency payments process was subject to constant improvements to reach the highest historical Straight through processing rate of 72%. In its role of competence center in transactional banking, the department was proactively engaged in implementation of all regulative changes related to SWIFT standards updates, SEPA rulebooks, MORO and FATCA.

Real Estate and Logistics Department was actively involved in implementing a new layout and new design of the working places in the branches under the CEE 2020 Retail project for implementation of a new service model. In 2014 several pilot locations were redesigned under the new model and based on it an overall program for refurnishing of the remaining bank locations was prepared. Another key activity was the construction of the International Corporate Center in Sofia, which was opened in October 2014. Thanks to the rent optimization activities, the rent costs in 2014 decreased by BGN 222 000 compared to previous year. In 2015, the main priority will be the Head Office Consolidation. After the project finalization over 1 200 bank employees from the head office structures and bank's subsidiaries will work in one common building.

The **Procurement Department** contributed significantly in optimizing the operating expenditures related to the running contracts about FlexCube maintenance, fixed & mobile telephony, software and security services. Furthermore, it achieved excellent results in negotiating expenditures under the new projects about core retail system hardware upgrade, Oracle licensing, advanced campaign management solution implementation, real estate and logistics initiatives, delivery of new ATMs and POS devices, etc. The above achievements were facilitated by the good cooperation between the local procurement office and the Group Global Procurement.

UniCredit Bulbank Activity Review (continued)

Customer Satisfaction Management

In 2014 client centricity remained one of the main strategic pillars of the UniCredit Group mission. Stakeholder and Service Intelligence department was focused on creating and managing listening activities and objective measurement of the perception of UCB, its products, services and image among various groups of stakeholders such as external customers, internal customers, community members and employees. Feedback surveys, direct management of complaints, compliments and recommendations filed by the stakeholders are supported at the base of the day-to-day operations.

External Customer Satisfaction

In **Retail banking** more than 4 300 own customers and 3 700 competitors' customers were interviewed in 2014. According to the established practice, the surveyed sample was expanded on regional level in order to achieve stable indicator on the performance of each region. The 2014 results confirmed the Best-In-Class position of UCB (81 TRI*M points) increasing both own result (+2pts) and the gap to competitors to +17pts. Sub-segment analysis revealed a stable positive gap to competitors in all segments with a statistically significant increase in Affluent segment yoy result (+3pts). As part of the internal program (BEST) for affluent and small business relationship managers, the customer satisfaction on portfolio level was measured for third consecutive year, with more than 10 800 interviews.

In **Corporate segment** UCB confirmed its leader's position increasing both yoy own result (+4pts) and the positive gap to market to +9 TRI*M pts. Over 800 own customers and over 300 competitors' clients were interviewed in 2014. Areas of "Relationship management" and "Loans" continued to be the ones with the best performance and of the highest impact on clients' satisfaction. Being area of attention in 2013, significant yoy increase was reported among GTB Accounts and domestic Payments and Electronic banking.

Regarding the **Private banking segment** UCB kept the outstanding result of 98 TRI*M points for a third consecutive year while increasing the CAI (Customer Advisory Index) result with +2pts to 92pts.

Internal Client Satisfaction

In order to better service clients and improve customer satisfaction, UniCredit Bulbank measured the satisfaction of interaction and internal service among the different structures in the Bank along the value chain. The Internal Customer Satisfaction Survey was conducted for a sixth consecutive year with the overall Bank's level of satisfaction increasing by 1 point compared to 2013. At the same time, response rate increased significantly with 13% to 70% on overall Bank level, providing very reliable base for analysis.

Complaints Management

Continuing with the best practice on the market, in 2014 85% of all complaints were answered within 3 working days. Additional analyses of results were performed in order to identify recurrent issues and system malfunctions and plan the respective corrective measures. A post-complaint study was conducted for 7th consecutive year among clients who filed a complaint, asking for their feedback. Central Complaints Management unit was in cooperation with all internal units in order not only to solve the problems in timely manner, but also to provide suggestions and support for preventing potential new occurrences. Regarding communication with regulatory bodies, the unit strictly complies with the required response deadlines.

Mystery Shopping

The Mystery Shopping Survey was performed continuously in the last eight years with a stable trend of improvement on an annual basis, starting from 60% compliance with the service standards and reaching an overall Bank result of above 93% in 2014. The result was measured by more than 1 600 mystery shopping visits covering all branches of the Bank. A diverse set of scenarios has been covered: current account, investment products, credit card, mortgage and consumer loans, plus cash scenarios with real transactions and business account scenarios.

Reputation Management

In 2014, according to Group guidelines, the survey methodology was changed towards new comprehensive approach to verify stakeholders' perception at all stages of the relationship with the Bank. A total of 2 500 individuals and 1 040 SME, corporate customers and non-customers were interviewed. The overall UCB Reputation measured through the Advocacy pyramid methodology was strong and stable. Among Affluent customers, UCB was recognized as the Best in Class where level of customers who would say something positive about UCB (Advocacy) is 79%. In Mass Market UCB Advocacy rate is 70%. In Affluent segment among non-customers, UCB marked the highest level of Advocacy (40%) among peers.

Among SME clients UniCredit Bulbank Reputation was recognized as solid as peers' (UCB Advocacy 84% vs. peers' average 82%), while in Corporate segment the Bank Advocacy is slightly higher than peers (UCB – 88%, Peers – 82%). Among non-customers in both business segments, the gap UCB vs. peers was emphasized (UCB Advocacy 59% vs. peers' average 40% among SME clients; UCB 50% vs. peers 38% among Corporate clients).

Customer Satisfaction Management (continued)

Instant feedback and other listening activities

Several instant feedback and other surveys were either launched or continued to be in the scope in 2014 to listen to customers' opinion immediately after their interaction with the Bank.

As a new service model in some of the Retail branches was implemented in 2014, a survey measuring customers' perception and satisfaction with the model took place at the end of the year. Results revealed that nearly 30% of the customers, regularly using the service of the pilot branches consider the new model as improved.

For a second consecutive year a survey among people who used the services of the Call Center was also conducted where respondents assessed as excellent the service provided by operators.

Instant feedback was also provided by customers who have visited corporate branches of the Bank increasing the overall satisfaction index to 94 (+3pts yoy).

Corporate Social Responsibility and Sustainable Development

In 2014 UniCredit Bulbank developed valuable projects with a significant positive impact in the field of education, art and business with a focus on fostering excellence, entrepreneurship and innovation. During the year the Bank supported directly more than 100 NGOs, institutions, organizations, universities, schools and individuals. In 2014 the Bank celebrated its 50th anniversary with a strong forward looking focus by development of several streams of its CSR program: FOR education, FOR business and innovation, FOR art, etc.

FOR education

UniCredit Bulbank is among the main drivers behind the Leadership Academy, organized in 2014 for the first time for the Women in Business Council in Bulgaria. The Leadership Academy program is entirely built and executed by bank professionals. It welcomed 40 women on middle management positions or owners of small and mid-sized businesses into 6 one-day professional training programs to pro-actively develop their leadership skills.

The Bank continued to support the Teach for Bulgaria foundation, whose mission is to facilitate equal access for every child in Bulgaria to quality education by adapting the model of the Teach For All network.

In 2014, UniCredit Bulbank sponsored for the third consecutive year the students from the American University in Blagoevgrad for the organization of TEDxAUBG. The participants dedicated their talks at TEDxAUBG to the topic Core of Inspiration.

For a third consecutive year in 2014 UniCredit Bulbank organized “My Bank of the Future” Program. It is implemented in cooperation with the online platform www.kosher.bg and is intended for students from various universities and profiles related to the banking business - finance, economy, business administration, marketing, information technologies, accounting, etc. The participants in “My Bank of the Future 3.0” had the opportunity to work on real business projects with the support of managers from the Bank.

UniCredit Bulbank committed in 2014 to ensure ten internship positions for young people of disadvantaged backgrounds. In this way the Bank supported the “Get Ready 2 Work” Project, which aims at integration and active employment of young people of disadvantaged backgrounds.

UniCredit Bulbank supported also Encho Keryazov Foundation award ceremony of talented children from Yambol region for 2014. The event was organized for a third consecutive year for the competitive areas of art, education and sport.

In addition three young managers took control of UniCredit Bulbank for a day within the initiative “Manager for a Day” organized every year by Junior Achievements Bulgaria.

FOR business and innovation

UniCredit Bulbank is an active member of most local and international business organizations and associations. With them the Bank organized numerous business seminars, conferences and initiatives. Among them the meetings of the EU Club at the Bulgarian Chamber of Industry and Commerce, the conference “Bulgaria and Italy: we build together” of Confindustria, networking meeting of AmCham and Confindustria, etc.

The Bank kept strong focus on innovation. Its corporate sponsoring program was also directed in that area with support for events like the WEBIT conference for digital technology, advertising and commerce, the organization of the second UniCredit App Challenge for young developers, partnership of MobCom mobile technologies conference, sponsorship for the the Financial innovations forum, etc.

FOR social entrepreneurship

In 2014, UniCredit Foundation continued the second of the three year initiative for finding and funding the best program for social entrepreneurship for non-profit organizations. The 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. UniCredit Foundation provides, in total, a grant of 70 000 euro. Experts from the Bank join as trainers at the initial training stages of the competition.

In 2014, the third edition of the 1000 Balkan Charity Challenge, organized by Bulgarian Charities Aid Foundation, UniCredit Bulbank and Begach Sports Club took place. The main goal is fund-raising in support of charity causes. Donations for various causes were collected through a dedicated online platform.

Art, culture and UniCredit Studio

The Bank organized numerous exhibitions during the year in its gallery for contemporary art UniCredit Studio with a focus on young artists. A collection of drawings by young painters from disadvantaged families was presented in UniCredit Studio as joint project of Hug me foundation and the Sovereign Order of Malta in Bulgaria. It followed the success of the first exhibition of children paintings of Bulgarian landmarks declared by UNESCO as world cultural heritage.

Two photo exhibtions – ‘’Legends for Tarnovo” and ‘’The Sky that talks to the Sea” - from the legendary photographer Toros Horisyan – were revived for the Bulgarian public by UniCredit Studio.

Velizar Enchev, the “young hope” of Stoyan Kambarev Foundation dedicated his project “Naked Eye” in the gallery to the renowned artist Kolyo Karamfilov.

UniCredit Studio presented also an innovative exhibition on mobile photography Freedom. The exhibition was part of Photography Month 2014 of which UniCredit Bulbank is the official bank through “FOR Art” programme in support of high quality projects from the Bulgarian cultural scene.

Corporate Social Responsibility and Sustainable Development (continued)

UniCredit Bulbank also supported the first edition of Photofactory International Festival for contemporary reportage and art photography.

For its 50th anniversary UniCredit Bulbank gave as a present to the Bulgarian public the concert "Overture to Perfection" with performances of the opera singers of one of the most prestigious stages in the world Arena di Verona, Italy. Another exciting project, the exhibition "Drawings by Michelangelo from Casa Buonarroti in Florence" in the National Art Gallery was sponsored by the Bank.

FOR Volunteering

In 2014 the traditional Christmas and Easter Charity Bazaars were organized by the Bank employees. In addition a national volunteering network was established for the first time. Its aim is to educate, inspire and mobilize volunteering initiatives in the whole country, decentralizing the decisions so as to match best the local communities' needs. The first wave of volunteers received appropriate training and guidance in order to start developing own local projects.

Recognition

The comprehensive CSR program of the Bank was awarded for third year in a row. UniCredit Bulbank was named as a company with one of the largest contributions by voluntary work of its employees. The award is presented by the Bulgarian Donor's forum for the volunteer initiatives Christmas Charity Bazaar and Easter Charity Bazaar. The funds raised are donated to initiatives chosen on a voting principle by the employees.

Major Subsidiaries and Associates

UniCredit Consumer Financing

In a stable but still weak consumer finance market, 2014 represented another extremely dynamic year for UniCredit Consumer Financing (UCFin).

In 2014 UCFin reported a net profit after taxes of BGN 39.5m growing by 26% yoy. The revenues reached BGN 71.4 mln increasing by 17% yoy, driven by banking loans productions. At the end of 2014 their share in total revenues reached 69% (61% in 2013), while the share of non-banking business decreased to 31% (39% in 2013). In another year of outstanding cost control the overall cost of UCFin amounted to BGN 15.7 mln, showing reduction by 2.3%. As a result, gross operating profit reached BGN 55.7 mln, well above the prior year performance. Considering ongoing uncertainty of the Bulgarian macroeconomic situation and the fast growing portfolio of UCFin, supplementary reserves for risk were made and Loan Loss Provisions charges reached 11.3 mln.

UCFin's fine profitability was also facilitated by the high quality of the loan portfolio due to strong underwriting activities and outstanding collection performance. As of December 2014 UCFin's performing loans portfolio was strong and stable and represented above 92% of total outstanding loans. All the above achievements led the Group's decision to keep a Risk Center of Excellence in Bulgaria, serving as reporting and modeling agent for consumer finance throughout UniCredit Group.

In 2014, the outstanding portfolio increased by 43% supported by an increase in new sales by 27%, mainly due to the banking channel. The new sales of consumer loans produced with the Bank increased by 40%, thanks to continuing joint commercial initiatives, focused on acquisition of new clients and cross-selling. POS distribution model remained stable through large (60%) and small (40%) dealers. Customer value management (CVM) showed a stable performance, reaching its mature development. In line with the strategy to cover all associated risks - FX, currency and liquidity risk, as of December 2014 the funding structure of UCFin comprised 95.5% BGN funding and 4.5% EUR funding.

At the end of 2014 the total number of FTEs was 419, thereof 260 were "desk employees" promoting UCFin financing at the points of sales.

In order to improve the overall performance and increase level of synergies with UCB, at the end of 2014 UCFin developed and implemented new IT system to enlarge the products offer and to be more integrated with UniCredit Bulbank.

In 2015 the slow economic recovery is expected to continue and the competition among the banking and non-banking players to remain fierce. In such an 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 2014 UniCredit Leasing's consolidated net profit amounted to BGN 3 mln, representing an increase of 39% yoy. Total revenues decreased by 3.4% yoy to BGN 27 mln, due to portfolio optimization and decrease in penalty income. Staff expenses amounted to BGN 5.8 mln, 4.4% higher yoy. Administrative expenses decreased by 11% yoy to BGN 3 mln. The level of loans provision charges decreased by 4.4% yoy to BGN 16 mln. As at the end of 2014, the net investment in finance lease amounted to BGN 643 mln, increasing by 18% yoy.

As far as the risk management area is concerned, a continuously positive trend of improvement in asset quality remains on track. Gross defaulted loans showed 21% annual reduction, reaching total volume of BGN 191mln at year-end. At the same time, gross performing loans increased by 34% yoy, reaching BGN 581mln in 2014. The company managed to significantly improve the coverage ratio of total defaulted loans to 66% in 2014 vs. 56% the previous year. Coverage ratio on total portfolio was 17% at the end of 2014.

The improvement in performance and efficiency continued in 2014. The volume of the new leasing contracts increased by 20% to BGN 318 mln. The number of new leasing contracts grew by 18% yoy.

UniCredit Leasing holds a leadership position on the local leasing market with 23% market share. The market share in passenger cars reached 21%, in commercial vehicles - 32%, and in equipment - 17%. Within the full integration with UniCredit Bulbank, an additional business generation opportunity for selling bank products through leasing channel was introduced.

Leveraging on its new business model, the company achieved better results in three main directions: 1) transportation; 2) specialized equipment and light equipment; and 3) industrial equipment and real estate. Reporting 40% annual growth in the automotive sector, the company was recognized as "Leasing Company of the Year" in December 2014. Special products for agricultural producers like subsidized products, campaigns and vendor initiatives were among the priorities in the area of specialized equipment. In May, a pilot initiative with a reputable multinational enterprise specialized in industrial equipment started to generate an add-on of over EUR 1mln in monthly volumes. Large corporate Clients with multi-purpose needs were offered joint bank and leasing financing for industrial equipment. In cooperation with UniCredit Bulbank, the subsidiary UniCredit Insurance Broker (UCIB) targeted the sale of insurance for loan portfolio collaterals. Combined with the growing leasing business, this resulted in UCIB growth of 12% vs. 2013.

Major Subsidiaries and Associates (continued)

UniCredit Factoring

2014 was a new challenging yet successful year for UniCredit Factoring. The net profit reached BGN 3.4mln, marking 13% increase yoy, based on new business growth, existing clients' development and asset management optimization. The company followed its strategy of enriching its product portfolio in order to meet the growing financial needs of its customers.

Net revenues grew by 13% yoy, reaching BGN 6.4mln. In respect of product distribution, the trend from 2013 continued (i.e. more products that include credit protection were delivered compared to the ones that include financing only). Recourse factoring volumes were up by 6% yoy, while non-recourse factoring was 15% higher. Export factoring scored 18% increase. Import factoring was 10% higher.

In terms of credit risk management UniCredit Factoring continued to perform an in-depth analysis of factoring debtors and borrowers as well as close monitoring of their payment behavior. An additional measure that was applied in the risk area was the monitoring of regular exposures through selected early warning signals. As a result, asset quality of the portfolio was sustained, allowing the maintenance of an excellent risk profile and a cost-of-risk ratio of 0.2%.

In 2015 the company will continue to provide first class receivables financing services by further product offer expansion and processes enhancement. Additionally, the company is planning to boost its penetration in clients' business via introduction of innovative technological solutions that will facilitate the daily operations between the company and its clients and will simplify access to factoring facilities. Following the trends of the economy, UniCredit Factoring will invest in promotion of the International Factoring products, both on export and import side, as a tool for assistance of the international trade, which is and will remain crucial for the local economy. Simultaneously, offering reverse factoring facilities as well as non-recourse products will assist the expansion of large, medium and small enterprises in all economic sectors. Thus, merging innovation with comprehensive product coverage, will further allow UniCredit Factoring to confirm its brand as a market maker, continuously working to anticipate customer demand.

Hypovereins Immobilien

Hypovereins Immobilien is a non-financial company specialized in providing transport and car fleet management services to UniCredit Bulbank AD (the sole owner of the capital). As of December 31, 2014 the company operates total 165 motor vehicles and the number of total FTEs counts to 5.5. For 2014 the company reports net profit in the amount of BGN 165 thousand (BGN 262 thousand previous year), which is around 37% decrease yoy. The main driver of that decrease is the decline in revenue as a result of reduced mileage and number of cars provided. In 2015 the company will continue to keep its focus on cost optimization without impacting the quality of the provided services.

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Goodbye receipts and daily ledgers. Hello online accounting. **UniCredit Family Budget**, a new web-based personal financial management service, sorts expenses into different categories and creates easy-to-understand charts and graphs to help you track transactions and balances. It offers an intuitive, practical approach to online banking, helping you manage savings and monitor accounts. Because the future begins with real answers.

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In a world that is always on the move, UniCredit saw the need for a network of high-tech services.
UniCredit Start Lab is our accelerator for innovative startups. From mentoring and network development to managerial coaching, we've got it covered.
MyZabaStart is a platform, lauched in Croazia da Zagrebačka Banca BB, that provides support for deserving business ideas in the green, creative and innovative sectors, to help drive their business growth.

Unconsolidated Financial Statements

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
UniCredit Bulbank AD

Report on the Separate Financial Statements

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

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

Independet Auditors' Report (continued)

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

Opinion

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

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

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

Deloitte Audit

Deloitte Audit OOD

София
Рег. №:033
"Делойт Одит" ООД

Sylvia Peneva
Statutory Manager
Registered Auditor

Sofia
March 5, 2015

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Income Statement

In thousands of BGN

	Notes	2014	2013
Interest income		589,775	584,982
Interest expense		(144,467)	(175,121)
Net interest income	7	**445,308**	**409,861**
Dividend income		**1,246**	**1,205**
Fee and commission income		188,372	174,581
Fee and commission expense		(11,232)	(9,482)
Net fee and commission income	8	**177,140**	**165,099**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	58,460	48,459
Net gains on other financial assets designated at fair value through profit or loss	10	(192)	310
Net income from investments	11	2,399	1,826
Other operating income, net	12	2,091	12,235
TOTAL OPERATING INCOME		**686,452**	**638,995**
Net income related to property, plant and equipment	13	167	922
Personnel expenses	14	(106,346)	(100,246)
General and administrative expenses	15	(125,344)	(120,801)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(30,818)	(30,907)
Provisions for risk and charges	17	(5,923)	(9,691)
Net impairment loss on financial assets	18	(149,169)	(217,962)
PROFIT BEFORE INCOME TAX		**269,019**	**160,310**
Income tax expense	19	(27,362)	(16,671)
PROFIT FOR THE YEAR		**241,657**	**143,639**

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

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

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

05.03.2015

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Statement of Comprehensive Income

	Notes	2014	2013
		In thousands of BGN	
Profit for the year		**241,657**	**143,639**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses)	40	(795)	3
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		79	-
		(716)	**3**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		1,684	1,664
Cash flow hedge		(38,040)	2,884
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		3,636	(454)
		(32,720)	**4,094**
Total other comprehensive income net of tax for the year		**(33,436)**	**4,097**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**208,221**	**147,736**

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

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

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05.03.2015

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Statement of Financial Position

In thousands of BGN

	Notes	31.12.2014	31.12.2013
ASSETS			
Cash and balances with Central Bank	20	1,092,227	728,729
Non-derivative financial assets held for trading	21	5,607	13,872
Derivatives held for trading	22	124,528	81,915
Derivatives held for hedging	23	-	326
Financial assets designated at fair value through profit or loss	24	60,754	61,549
Loans and advances to banks	25	1,627,489	1,841,958
Loans and advances to customers	26	9,936,482	8,637,803
Available for sale investments	27	1,492,803	901,585
Held to maturity investments	28	136,663	125,071
Investments in subsidiaries and associates	29	55,004	49,004
Property, plant, equipment and investment properties	30	180,160	129,729
Intangible assets	31	23,211	24,591
Current tax assets	32	6,598	6,602
Other assets	35	102,265	58,442
TOTAL ASSETS		**14,843,791**	**12,661,176**
LIABILITIES			
Financial liabilities held for trading	36	85,940	61,494
Derivatives used for hedging	23	41,925	4,079
Deposits from banks	37	1,502,765	1,464,959
Deposits from customers	38	10,782,577	8,705,491
Subordinated liabilities	39	70,596	220,005
Provisions	40	44,513	39,967
Current tax liabilities	32	4,310	-
Deferred tax liabilities	33	1,102	2,626
Other liabilities	41	69,332	58,226
TOTAL LIABILITIES		**12,603,060**	**10,556,847**
EQUITY			
Share capital		285,777	285,777
Revaluation and other reserves		(14,040)	19,396
Retained earnings		1,727,337	1,655,517
Profit for the year		241,657	143,639
TOTAL EQUITY	42	**2,240,731**	**2,104,329**
TOTAL LIABILITIES AND EQUITY		**14,843,791**	**12,661,176**

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

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

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05.03.2015

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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, 2013	**285,777**	**342,378**	**1,428,061**	**21,084**	**(5,018)**	**(767)**	**2,071,515**
Profit for the year			**143,639**				**143,639**
Actuarial gains (losses)	-	-	-	-	-	3	3
Change of revaluation reserve on available for sale investments	-	-	-	1,664	-	-	1,664
Change of revaluation reserve on cash flow hedges	-	-	-	-	2,884	-	2,884
Income tax related to components of other comprehensive income	-	-	-	(166)	(288)	-	(454)
Total other comprehensive income for the year net of tax	-	-	-	**1,498**	**2,596**	**3**	**4,097**
Total comprehensive income for the year net of tax	-	-	**143,639**	**1,498**	**2,596**	**3**	**147,736**
Business combinations under common control	-	-	(8,643)	-	-	-	(8,643)
Dividends paid	-	-	(106,248)	-	-	-	(106,248)
Other distribution	-	-	(31)	-	-	-	(31)
Balance as of December 31, 2013	**285,777**	**342,378**	**1,456,778**	**22,582**	**(2,422)**	**(764)**	**2,104,329**
Profit for the year	-	-	**241,657**	-	-	-	**241,657**
Actuarial gains (losses)	-	-	-	-	-	(795)	(795)
Change of revaluation reserve on available for sale investments	-	-	-	1,684	-	-	1,684
Change of revaluation reserve on cash flow hedges	-	-	-	-	(38,040)	-	(38,040)
Income tax related to components of other comprehensive income	-	-	-	(168)	3,804	79	3,715
Total other comprehensive income for the year net of tax	-	-	-	**1,516**	**(34,236)**	**(716)**	**(33,436)**
Total comprehensive income for the year net of tax	-	-	**241,657**	**1,516**	**(34,236)**	**(716)**	**208,221**
Dividends paid	-	-	(71,819)	-	-	-	(71,819)
Balance as of December 31, 2014	**285,777**	**342,378**	**1,626,616**	**24,098**	**(36,658)**	**(1,480)**	**2,240,731**

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

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

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

05.03.2015

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Statement of Cash Flows

	Notes	2014	2013
		In thousands of BGN	
Net profit		**241,657**	**143,639**
Current and deferred tax income, recognised in income statement		-	(1,847)
Current and deferred tax expenses, recognised in income statement		27,362	18,518
Adjustments for non-cash items			
Depreciation and amortisation	16	27,822	28,627
Impairment of financial assets	18	159,325	227,885
Impairment of property plant, equipment, investment properties and other assets	12,16	3,480	2,280
Provisions, net	40	5,923	9,692
Unrealised fair value losses (gains) through profit or loss, net		(17,992)	(24,175)
Unrealised fair value (gains) on FX revaluation		36,682	(14,539)
Net income from sale of property, plant and equipment		(162)	(975)
Net interest income		(445,308)	(409,861)
Dividend income		(1,246)	(1,205)
Increase in other accruals		16,213	14,820
Cash flows from profits before changes in operating assets and liabilities		**53,756**	**(7,141)**
Operating activities			
Change in operating assets			
(Increase) in loans and advances to banks		(293,842)	(346,705)
(Increase) in loans and advances to customers		(1,286,517)	(333,608)
(Increase) in available for sale investments		(569,862)	(268,855)
Decrease in financial instruments held for trading and hedging derivatives		8,133	66,202
Decrease in financial instruments at fair value through profit or loss		600	7,482
(Increase) in other assets		(15,724)	(16,372)
Change in operating liabilities			
Increase (Decrease) in deposits from banks		24,523	(367,532)
Increase in deposits from customers		1,978,633	514,438
Provisions utilization		(5,060)	(1,691)
Increase (Decrease) in other liabilities		11,338	(3,946)
Interest received		588,197	643,117
Interest paid		(149,138)	(228,069)
Dividends received on available for sale investments		1,246	1,205
Taxes paid		(20,857)	(25,012)
Net cash flows from operating activities		**325,426**	**(366,487)**

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Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2014	2013
Cash flows from investing activities			
Cash payments to acquire tangible assets		(26,363)	(12,524)
Cash receipt from sale of tangible assets		523	2,262
Cash payments to acquire intangible assets		(6,472)	(5,067)
Cash receipt from sale of intangible assets		-	1
Cash payment for capital increase in subsidiaries		(6,000)	-
Cash payment for acquisition of investments in subsidiaries		-	(30,068)
Cash receipts from liquidation of associates		-	7
Cash receipts from redemption of held to maturity investments		4,899	117,017
Net cash flows from investing activities		**(33,413)**	**71,628**
Cash flow from financial activities			
Dividends paid		(71,819)	(106,248)
Subordinated loans paid		(149,409)	-
Other cash payments related to financing activities		-	(31)
Net cash flows from financial activities		**(221,228)**	**(106,279)**
Effect of exchange rate changes on cash and cash equivalents		**14,886**	**3,371**
Net increase (decrease) in cash and cash equivalents		**85,670**	**(397,767)**
Cash and cash equivalents at the beginning of period	46	**1,980,027**	**2,377,794**
Cash and cash equivalents at the end of period	46	**2,065,697**	**1,980,027**

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

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

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033
"Делойт Одит" ООД

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

05.03.2015

7

Notes to Unconsolidated 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. The Bank is primarily involved in corporate and retail banking and in providing asset management services.
As of December 31, 2014 Bank operates through its network comprising of 194 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These separate financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act. They should be read in conjunction with the consolidated financial statements which were approved by the Management Board of the Bank on February 27, 2015. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.
These financial statements are approved by the Management Board of UniCredit Bulbank AD on February 27, 2015.

(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 financial statements, except as described below. Whenever certain information in the current period is presented in a different way for the purposes of providing more reliable and relevant view of the financial position of the Bank, prior period information is also recalculated for comparative reasons.

CHANGE IN ACCOUNTING POLICY

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

(i) Presentation of deferred tax assets and liabilities

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

(ii) Presentation of net income related to customers' driven derivative business

The Bank concludes interest rate swaps deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit Bank Austria AG and UniCredit Bank AG). In the annual financial statements of the Bank for the years ended up until December 31, 2013, the income on both deals (customers' and back-to-back ones) was presented gross and included as part of net interest income and net gains on financial assets and liabilities held for trading and hedging derivatives. In 2014 the Bank reassessed its presentation policy and considering the substance of the business involved, changed it, thus the whole realized and unrealized gains/losses on interest rate swaps related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading and hedging derivatives. The policy change represents reclassification and does not impact neither total revenue of the Bank nor net assets.

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

In thousands of BGN

SEPARATE STATEMENT OF FINANCIAL POSITION	REPORTED 31.12.2013	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON DEFERRED TAX PRESENTATION	RESTATED AMOUNT 31.12.2013
Deferred tax assets	8,996	(8,996)	-
Deferred tax liabilities	11,622	(8,996)	2,626

In thousands of BGN

SEPARATE INCOME STATEMENT	REPORTED FOR 2013	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON CUSTOMERS' DRIVEN DERIVATIVE BUSINESS	RESTATED AMOUNT FOR 2013
Interest income	639,081	(54,099)	584,982
Interest expense	(221,942)	46,821	(175,121)
Net gains on financial assets and liabilities held for trading and hedging derivatives	41,181	7,278	48,459

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

(a) 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 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.

(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.

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. 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 and derivative contracts that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.
Financial assets and derivatives held for trading are carried at fair value in the statement of financial position.

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

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

d) Loans and advances to banks and customers

Loans and advances to banks and customers are instruments where the Bank provides money to a debtor other than those created with the intention of short-term profit taking or selling in the near term.
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

e) Available for sale investments

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified in another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value.
Fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

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, in 2014 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, customers and subordinated liabilities

Deposits from banks, customers and subordinated liabilities are financial instruments related to attracted funds by the Bank, payable on demand or upon certain maturity and bearing agreed interest rate. Subordinated liabilities meet some additional requirements set by Bulgarian National Bank (see note **39**). Deposits from banks, customers and subordinated liabilities are carried at amortised cost using the effective interest rate method.

(iii) Reclassification

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

(iv) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

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

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

(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.

(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 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.

(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.

Since 2009 the Bank has developed hedge accounting methodology aiming at effective management of interest rate risk out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

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

FAIR VALUE HEDGE

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with the changes in the fair value of the hedged item attributable to the hedged risk.
If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, fair value hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item, for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortisation starts immediately when hedge relationship no longer exists.

CASH FLOW HEDGE

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss.
If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.
As Bank's hedging strategy covers forecast cash flows as hedged items, the cumulative amount, recognized in other comprehensive income from the period when the hedge was effective, is recycled in profit or loss when the forecast transactions occur. In case the forecast transaction is no longer expected to occur, the whole balance outstanding in other comprehensive income is reclassified in profit or loss.

(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 acquired upon collaterals foreclosure, which are neither intended to be used in the banking business nor kept as investment properties, but intended to be sold or constructed for the purposes to be sold, are presented in other assets in accordance with IAS 2 "Inventories" (see also Note **35**)
The gains or losses on disposal of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net in profit or loss.
Depreciation on all items of property, plant and equipment and investment property is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.
The applicable annual depreciation rates based on expected useful life on major assets categories are as follows:

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

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2014 and December 31, 2013 intangible assets include primarily investments in software and related licenses.
Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate.

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

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

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

(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, 2014 and December 31, 2013 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(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, 2014 and December 31, 2013 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

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

(ii) Reserves

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

(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, 2014 and December 31, 2013 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

In 2009 the Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. This adoption did not result in a change in accounting policy as the business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

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

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

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

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

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

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

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

IFRIC 21 Levies, adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of publication of these separate financial statements (the effective dates stated below is for IFRS in full):

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 Separate Financial Statements - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards Improvements to IFRSs (cycle 2012-2014) resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016).

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

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

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

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

4. Financial risk management

(a) General framework

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

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

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital. Different types of risks are managed by specialized departments and bodies within the Bank's structure. The applicable policies entirely correspond to the requirements of Risk Management Group Standards as well as all respective requirements set by Bulgarian banking legislation. Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. Starting from Q3 2014 UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk.

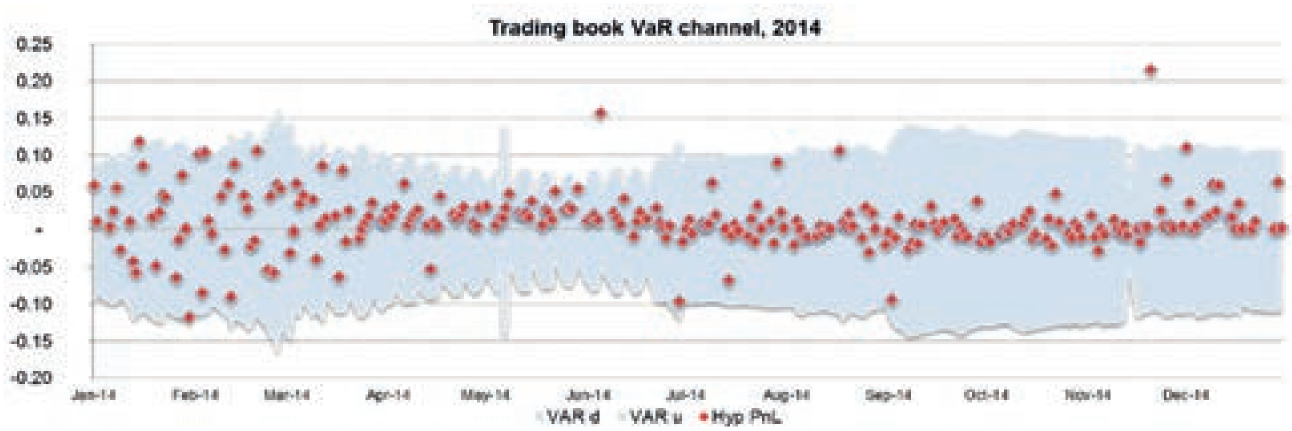
(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by Market Risk department. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in Market Risk Rule Book and Financial Markets Rule Book, reviewed at least annually. A product introduction process is established in which risk managers play a decisive role in approving a new product.
Market risk management in UniCredit Bulbank AD encompasses all activities in connection with Markets and Investment Banking operations and management of the assets and liabilities structure. Risk positions are aggregated at least daily, analysed by the independent Market risk management unit and compared with the risk limits set by the Management Board and ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily presentation of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.
UniCredit Bulbank AD applies uniform Group risk management procedures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) metric, the incremental risk charge (IRC) limit and granular limits by sensitivity.
For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the mark to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives in UniCredit Bulbank AD was further refined in 2014 and integrated in the presentation of results of market activities including Corporate Treasury Sales on quarterly basis.
During 2014, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 2.45 million and EUR 4.92 million, averaging EUR 3.32 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.
VaR of UniCredit Bulbank AD by risk category in EUR million for 2014 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.69	3.88	2.70	2.00
Credit spread	1.46	3.09	2.28	3.00
Exchange rate risk	0.00	0.10	0.03	0.09
Vega risk	0.00	0.00	0.00	0.00
VaR overall[9]	**2.45**	**4.92**	**3.32**	**3.25**

[9] - Net interest income/Average total assets

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



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

The sensitivities' table below provides summary of interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis (trading and banking book) as of December 31, 2014 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	9,208	15,020	(15,764)	(35,180)	(909)	(27,624)
BGN	2,671	(13,204)	(42,005)	(148,589)	(648)	(201,775)
USD	(118)	3,750	1,132	(784)	0	3,980
CHF	105	458	(46)	(113)	2	405
GBP	124	435	101	0	0	659
Other	(5)	0	0	0	0	(5)
Total ABS	**12,231**	**32,866**	**59,048**	**184,665**	**1,559**	**234,448**

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

SP BASIS POINT SHIFT

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

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2014 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

As of December 31, 2014 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	1,076,692	15,535	**1,092,227**
Non-derivative financial assets held for trading	5,607	-	**5,607**
Derivatives held for trading	100,111	24,417	**124,528**
Financial assets designated at fair value through profit or loss	60,754	-	**60,754**
Loans and advances to banks	1,478,766	148,723	**1,627,489**
Loans and advances to customers	9,642,277	294,205	**9,936,482**
Available for sale investments	1,492,803	-	**1,492,803**
Held to maturity investments	-	136,663	**136,663**
Investments in subsidiaries and associates	55,004	-	**55,004**
Property, plant, equipment and investment properties	180,160	-	**180,160**
Intangible assets	23,211	-	**23,211**
Current tax assets	6,598	-	**6,598**
Other assets	102,205	60	**102,265**
TOTAL ASSETS	**14,224,188**	**619,603**	**14,843,791**
LIABILITIES			
Financial liabilities held for trading	61,711	24,229	**85,940**
Derivatives used for hedging	41,223	702	**41,925**
Deposits from banks	1,269,043	233,722	**1,502,765**
Deposits from customers	9,745,576	1,037,001	**10,782,577**
Subordinated liabilities	70,596	-	**70,596**
Provisions	24,425	20,088	**44,513**
Current tax liabilities	4,310	-	**4,310**
Deferred tax liabilities	1,102	-	**1,102**
Other liabilities	67,377	1,955	**69,332**
TOTAL LIABILITIES	**11,285,363**	**1,317,697**	**12,603,060**
EQUITY	**2,240,731**	**-**	**2,240,731**
Net off-balance sheet spot and forward position	**(686,360)**	**700,922**	**14,562**
Net position	**11,734**	**2,828**	**14,562**

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

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	716,423	12,306	**728,729**
Non-derivative financial assets held for trading	13,872	-	**13,872**
Derivatives held for trading	67,385	14,530	**81,915**
Derivatives held for hedging	326	-	**326**
Financial assets designated at fair value through profit or loss	61,549	-	**61,549**
Loans and advances to banks	1,611,957	230,001	**1,841,958**
Loans and advances to customers	8,384,086	253,717	**8,637,803**
Available for sale investments	737,299	164,286	**901,585**
Held to maturity investments	1,532	123,539	**125,071**
Investments in subsidiaries and associates	49,004	-	**49,004**
Property, plant, equipment and investment properties	129,729	-	**129,729**
Intangible assets	24,591	-	**24,591**
Current tax assets	6,602	-	**6,602**
Other assets	58,255	187	**58,442**
TOTAL ASSETS	**11,862,610**	**798,566**	**12,661,176**
LIABILITIES			
Financial liabilities held for trading	47,849	13,645	**61,494**
Derivatives used for hedging	2,327	1,752	**4,079**
Deposits from banks	1,393,263	71,696	**1,464,959**
Deposits from customers	7,909,323	796,168	**8,705,491**
Subordinated liabilities	220,005	-	**220,005**
Provisions	22,230	17,737	**39,967**
Deferred tax liabilities	2,626	-	**2,626**
Other liabilities	56,325	1,901	**58,226**
TOTAL LIABILITIES	**9,653,948**	**902,899**	**10,556,847**
EQUITY	**2,104,329**	**-**	**2,104,329**
Net off-balance sheet spot and forward position	**(105,099)**	**104,874**	**(225)**
Net position	**(766)**	**541**	**(225)**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over 40 days horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2014, meaning that assuming extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2014	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	5,607	-	**5,607**
Financial assets designated at fair value through profit or loss	-	60,754	**60,754**
Loans and advances to banks	1,243,272	384,217	**1,627,489**
Loans and advances to customers	4,359,686	5,576,796	**9,936,482**
Available for sale investments	442,191	1,050,612	**1,492,803**
Held to maturity investments	136,663	-	**136,663**
Other assets	38,971	63,294	**102,265**
TOTAL FINANCIAL ASSETS	**6,226,390**	**7,135,673**	**13,362,063**

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2013	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	13,872	-	13,872
Financial assets designated at fair value through profit or loss	-	61,549	61,549
Loans and advances to banks	1,649,931	192,027	1,841,958
Loans and advances to customers	2,906,976	5,730,827	8,637,803
Available for sale investments	148,515	753,070	901,585
Held to maturity investments	1,532	123,539	125,071
Other assets	34,620	23,822	58,442
TOTAL FINANCIAL ASSETS	**4,755,446**	**6,884,834**	**11,640,280**

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2014	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**1,502,765**	**(1,544,499)**	(594,078)	(4,730)	(31,727)	(913,964)
Deposits from customers	**10,782,577**	**(10,811,243)**	(7,289,722)	(1,289,817)	(1,886,970)	(344,734)
Subordinated liabilities	**70,596**	**(70,797)**	-	-	(33,263)	(37,534)
Unutilized credit lines	**-**	**(1,319,242)**	(19,789)	-	(244,060)	(1,055,394)
Total non-derivative instruments	**12,355,938**	**(13,745,781)**	**(7,903,589)**	**(1,294,547)**	**(2,196,020)**	**(2,351,626)**
Trading derivatives, net	**38,588**					
Outflow	**-**	**(2,678,304)**	(1,309,821)	(542,009)	(522,303)	(304,171)
Inflow	**-**	**2,721,934**	1,315,675	548,106	530,589	327,564
Derivatives used for hedging, net	**(41,925)**					
Outflow	**-**	**(64,980)**	(988)	(1,604)	(4,659)	(57,729)
Inflow	**-**	**22,349**	47	62	146	22,094
Total derivatives	**(3,337)**	**999**	**4,913**	**4,555**	**3,773**	**(12,242)**
Total financial liabilities	**12,352,601**	**(13,744,782)**	**(7,898,676)**	**(1,289,992)**	**(2,192,247)**	**(2,363,868)**

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2013	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**1,464,959**	**(1,533,409)**	(203,649)	(15,415)	(76,190)	(1,238,155)
Deposits from customers	**8,705,491**	**(8,800,061)**	(5,576,174)	(1,195,249)	(1,773,534)	(255,104)
Subordinated liabilities	**220,005**	**(240,946)**	-	-	(52,851)	(188,095)
Unutilized credit lines	**-**	**(1,339,779)**	(20,097)	-	(247,859)	(1,071,823)
Total non-derivative instruments	**10,390,455**	**(11,914,195)**	**(5,799,920)**	**(1,210,664)**	**(2,150,434)**	**(2,753,177)**
Trading derivatives, net	**20,421**					
Outflow	**-**	**(2,271,009)**	(1,137,062)	(346,441)	(468,928)	(318,578)
Inflow	**-**	**2,296,619**	1,140,283	344,755	473,236	338,345
Derivatives used for hedging, net	**(3,753)**					
Outflow	**-**	**(72,737)**	(908)	(1,611)	(5,324)	(64,894)
Inflow	**-**	**71,821**	63	199	732	70,827
Total derivatives	**16,668**	**24,694**	**2,376**	**(3,098)**	**(284)**	**25,700**
Total financial liabilities	**10,407,123**	**(11,889,501)**	**(5,797,544)**	**(1,213,762)**	**(2,150,718)**	**(2,727,477)**

(d) Credit risks

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.
Bank effectively manages credit risk inherent to its trading and banking book.
Bank applies different approach and has established different departments with regard to monitoring the credit risk related to corporate clients, small and middle enterprises and individuals.

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e. g. foreign exchange and interest rate derivatives, equity / bond-related instruments, credit derivatives and commodity derivatives.
Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.
Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.
Regulatory trading book includes financial assets held for trading purposes and derivatives, not held in conjunction with banking book positions.
The analysis based on client credit quality and rating (where available) as of December 31, 2014 and December 31, 2013 is as shown in the next table:

In thousands of BGN

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

Government bonds presented as of December 31, 2014 and December 31, 2013 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, Bank accepts different types of collaterals depending on the product and client.
Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of Provisioning and Restructuring Committee (PRC) established in the Bank.
The Bank applies the principle of individual and collective assessment of credit risk exposures depending on existence or non-existence of objective impairment indicators and considering the adopted individually significant materiality threshold.
Objective impairment indicators are those "loss events" that have occurred after initial recognition of the exposure and which have an impact on the exposure estimated future cash flows. In order to provide consistency in the risk measurement, the Bank assumes existence of objective impairment indicators in case of occurrence of a default event as per applicable regulatory framework.
Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based). For all exposures that are not defaulted, impairment assessment is done on a portfolio basis combining exposures with similar credit characteristics. The Bank adopts Expected Loss (EL) concept for assessing impairment on portfolio basis, considering expected default probability within one year horizon, adjusted by Loss Confirmation Period (LCP) in order to translate it into incurred loss as defined by IFRS (IBNR concept).
Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures. The process of evaluation of contingent liabilities and allocation of provisions as per the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is performed specifically whenever provision allocation indicator exists, as per the current Policy, and mandatory by the year-end for the purposes of drawing annual financial statements of the Bank.
Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one

customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2014 and December 31, 2013.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2014	2013	2014	2013	2014	2013
Biggest credit risk exposure to customers' group	420,503	480,503	420,503	442,913	21.1%	23.5%
Credit risk exposure to top five biggest customers' groups	1,144,983	1,037,893	876,140	946,466	44.0%	50.2%

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

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Impaired	**1,420,250**	**1,424,134**	**852,679**	**838,117**	**567,571**	**586,017**
individually assessed	751,161	759,076	369,790	358,585	381,371	400,491
portfolio assessed	669,089	665,058	482,889	479,532	186,200	185,526
Collectively impaired	**7,089,719**	**6,795,826**	**54,178**	**51,578**	**7,035,541**	**6,744,248**
Past due but not impaired	147,001	197,097	-	-	147,001	197,097
individually assessed	83,999	135,714	-	-	83,999	135,714
portfolio assessed	63,002	61,383	-	-	63,002	61,383
Past due comprises of:						
up to 90 days	61,556	21,397	-	-	61,556	21,397
from 91 to 180 days	8,983	6,420	-	-	8,983	6,420
over 181 days	76,462	169,280	-	-	76,462	169,280
	147,001	197,097	-	-	147,001	197,097
Neither past due nor impaired	**2,186,369**	**1,110,441**	**-**	**-**	**2,186,369**	**1,110,441**
Total	**10,843,339**	**9,527,498**	**906,857**	**889,695**	**9,936,482**	**8,637,803**

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	
	31.12.2014	31.12.2013
Impaired defaulted exposures		
Cash collateral	1,584	237
Property	1,409,420	1,311,587
Other collateral	603,602	515,290
Collectively impaired performing exposures (IBNR)		
Cash collateral	64,175	53,754
Property	7,651,656	7,240,872
Other collateral	6,375,994	6,148,165
Past due but not impaired defaulted exposures		
Cash collateral	661	798
Property	364,445	475,658
Other collateral	98,879	79,388
Neither past due nor impaired performing exposures		
Cash collateral	92,431	83,754
Property	1,742,494	1,986,664
Debt securities	249,645	9,638
Other collateral	41,268	45,928
Total	**18,696,254**	**17,951,733**

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, 2014 and December 31, 2013.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Concentration by sectors						
Sovereign	1,304,097	313,270	-	-	1,617,407	1,014,662
Manufacturing	2,002,245	1,974,560	-	-	-	-
Commerce	2,052,031	1,848,318	-	-	-	-
Construction and real estate	1,560,410	1,690,299	-	-	67	97
Agriculture and forestry	377,985	300,881	-	-	-	-
Transport and communication	255,657	260,757	-	-	655	655
Tourism	140,804	164,456	-	-	-	-
Services	420,536	342,580	-	-	-	-
Financial services	366,004	196,716	1,627,489	1,841,958	66,341	60,246
Retail (individuals)						
Housing loans	1,650,784	1,652,031	-	-	-	-
Consumer loans	712,786	783,630	-	-	-	-
	10,843,339	**9,527,498**	**1,627,489**	**1,841,958**	**1,684,470**	**1,075,660**
Impairment allowances	(906,857)	(889,695)	-	-	-	-
Total	**9,936,482**	**8,637,803**	**1,627,489**	**1,841,958**	**1,684,470**	**1,075,660**
Concentration by geographic location						
Europe	10,842,386	9,466,671	1,584,633	1,836,387	1,684,470	1,075,660
North America	148	25,952	42,503	5,298	-	-
Asia	654	311	322	133	-	-
Africa	117	34,458	-	-	-	-
South America	32	16	-	-	-	-
Australia	2	90	31	140	-	-
	10,843,339	**9,527,498**	**1,627,489**	**1,841,958**	**1,684,470**	**1,075,660**
Impairment allowances	(906,857)	(889,695)	-	-	-	-
Total	**9,936,482**	**8,637,803**	**1,627,489**	**1,841,958**	**1,684,470**	**1,075,660**

(e) Operational Risk

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

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

The established Operational and Reputational Risk Committee (Reputational Risk function is included within the scope of the Committee since 2013) greatly enhanced the regular exchange of information and promotion of the operational risk awareness within the Bank. Meetings are held quarterly and are attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational and reputational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. The responsibilities of the function are expected to be extended through the adoption of new Group policies, governing a wide variety of economic sectors and transactions.

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

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

(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.

Bank applies Foundation Internal Rating Based (F-IRB) Approach for calculation of credit risk capital requirements for corporate clients and credit institutions and Advances Measurement Approach (AMA) for the calculation of capital requirements for operational risk. For all the remaining exposures, Bank applies Standardised Approach (STA).

The new regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2014 are 10%, 11.5% and 13.5%, respectively.

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

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. Summary of FLPG as of December 31, 2014 is presented in the table below:

NAME	EIF JEREMIE	
Type of securitisation:	First Loss Portfolio Guarantee	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction :	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2014	Performing loans	
Agreed maximum portfolio volume:	EUR 50,000 thousand	
Nominal Value of reference portfolio :	BGN 71,133 thousand	
Issued guarantees by third parties:	First loss cash coverage by EIF	
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2014	BGN 37,375 thousand	BGN 19,531 thousand

(i) Own funds and capital requirements

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

In thousands of BGN

	31.12.2014 BASEL III	31.12.2013 BASEL II
Regulatory own funds		
Core Equity Tier 1 (CET 1)	1,966,981	1,855,725
Tier 1 capital	1,966,981	1,855,725
Tier 2 capital	26,405	29,175
Total regulatory own funds	**1,993,386**	**1,884,900**
Risk Weighted Assets (RWA)		
RWA for credit risk	8,617,436	8,198,363
RWA for market risk	21,175	99,813
RWA for operational risk	900,149	1,129,788
Total Risk Weighted Assets (RWA)	**9,538,760**	**9,427,964**
CET 1 ratio	**20.62%**	**19.68%**
Tier 1 ratio	**20.62%**	**19.68%**
Total capital adequacy ratio	**20.90%**	**19.99%**
Minimum CET 1 capital requirements (4.5%)	**429,244**	**n.a**
Minimum Tier 1 capital requirements (6% in 2014 and 10% in 2013)	**572,326**	**942,796**
Minimum total capital requirements (8% for 2014 and 12% for 2013)	**763,101**	**1,131,355**
Additional capital requirements for conservation buffer (2.5%)	238,469	n.a
Additional capital requirements for systemic risk buffer (3%)	286,163	n.a
Combined buffers additional capital requirements (5.5%)	**524,632**	**n.a**
Adjusted minimum CET 1 capital requirements after buffers (10%)	**953,876**	**n.a**
Adjusted minimum Tier 1 capital requirements, including buffers (11.5%)	**1,096,957**	**n.a**
Adjusted minimum total capital requirements after buffers (13.5%)	**1,287,733**	**n.a**
Free equity, after buffers	**705,653**	**753,545**

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

1. additional deduction from own funds of the excess of regulatory provisions over recognized impairment allowances under IFRS for all exposures treated under standardized approach (no such deduction anymore under Basel III);

2. non-recognition of commercial real estates as eligible risk mitigation collateral (commercial real estates are already eligible collaterals under Basel III).

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

5. Use of estimates and judgements

For the purposes of preparation of these 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 get used all information available in order to assess and where possible to quantify potential impact on the Bank's financial position as a result of some uncertain events.
In general the estimates and judgement are widely used in assessing:

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

(a) Fair value determination of financial instruments

As described in note **3 (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 ba sed 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 2014 and 2013 see also Note **9**).

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.
As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2014, whenever risk-free FV deviates

by more than 2% (5% in 2013) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

DEPOSITS FROM BANKS AND CUSTOMERS

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, as of December 31, 2014 all demand deposits are mapped to Level 3 fair value hierarchy (generally mapped to Level 2 in 2013).

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

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Non-derivative financial assets held for trading	-	-	5,607	13,001	-	871	**5,607**	**13,872**
Derivatives held for trading	-	-	123,530	81,865	998	50	**124,528**	**81,915**
Derivatives used for hedging	-	-	-	326	-	-	**-**	**326**
Financial assets designated at fair value through profit or loss	-	-	-	-	60,754	61,549	**60,754**	**61,549**
Available for sale Investments	200,347	194,285	1,275,736	689,569	16,720	17,731	**1,492,803**	**901,585**
Held to maturity investments	136,723	128,965	-	1,538	-	-	**136,723**	**130,503**
Loans and advances to banks	-	-	1,341,932	1,843,091	276,375	-	**1,618,307**	**1,843,091**
Loans and advances to customers	-	-	3,732,081	6,526,073	7,111,739	2,533,426	**10,843,820**	**9,059,499**
	337,070	**323,250**	**6,478,886**	**9,155,463**	**7,466,586**	**2,613,627**	**14,282,542**	**12,092,340**
Financial liabilities held for trading	-	-	85,940	61,494	-	-	**85,940**	**61,494**
Derivatives used for hedging	-	-	41,925	4,079	-	-	**41,925**	**4,079**
Deposits from banks	-	-	437,412	1,413,521	1,039,675	-	**1,477,087**	**1,413,521**
Deposits from customers	-	-	5,207,399	8,727,933	5,590,452	-	**10,797,851**	**8,727,933**
Subordinated liabilities	-	-	-	212,847	70,588	-	**70,588**	**212,847**
	-	**-**	**5,772,676**	**10,419,874**	**6,700,715**	**-**	**12,473,391**	**10,419,874**

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

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2014)	**921**	**61,549**	**17,731**
Increases	**3,126**	**19**	**200**
Profit recognized in income statement	1,034	19	75
Profit recognized in equity		-	125
Transfer from other levels	2,092	-	-
Decreases	**(3,049)**	**(814)**	**(1,211)**
Sales	(1,850)	-	(105)
Redemption		(600)	(1,089)
Loses recognized in income statement	(1,098)	(211)	-
Transfer to other levels	(46)	-	-
Other decreases	(55)	(3)	(17)
Closing balance (December 31, 2014)	**998**	**60,754**	**16,720**

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

In thousands of BGN

DECEMBER 2014	FAIR VALUE THROUGH PROFIT OR LOSS	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank		-	-	-	-	1,092,227	**1,092,227**	**1,092,227**
Non-derivative financial assets held for trading	5,607	-	-	-	-	-	**5,607**	**5,607**
Derivatives held for trading	124,528	-	-	-	-	-	**124,528**	**124,528**
Financial assets designated at fair value through profit or loss	60,754	-	-	-	-	-	**60,754**	**60,754**
Loans and advances to banks	-	-	1,627,489	-	-	-	**1,627,489**	**1,618,307**
Loans and advances to customers	-	-	9,936,482	-	-	-	**9,936,482**	**10,843,820**
Available for sale Investments	-	-	-	1,492,803	-	-	**1,492,803**	**1,492,803**
Held to maturity Investments	-	136,663	-	-	-	-	**136,663**	**136,723**
TOTAL ASSETS	**190,889**	**136,663**	**11,563,971**	**1,492,803**	**-**	**1,092,227**	**14,476,553**	**15,374,769**
LIABILITIES								
Financial liabilities held for trading	85,940	-	-	-	-	-	**85,940**	**85,940**
Derivatives used for hedging	-	-	-	-	41,925	-	**41,925**	**41,925**
Deposits from banks	-	-	-	-	-	1,502,765	**1,502,765**	**1,477,087**
Deposits from customers	-	-	-	-	-	10,782,577	**10,782,577**	**10,797,851**
Subordinated liabilities	-	-	-	-	-	70,596	**70,596**	**70,588**
TOTAL LIABILITIES	**85,940**	**-**	**-**	**-**	**41,925**	**12,355,938**	**12,483,803**	**12,473,391**

In thousands of BGN

DECEMBER 2013	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	728,729	**728,729**	**728,729**
Non-derivative financial assets held for trading	13,872	-	-	-	-	-	**13,872**	**13,872**
Derivatives held for trading	81,915	-	-	-	-	-	**81,915**	**81,915**
Derivatives held for hedging	-	-	-	-	326	-	**326**	**326**
Financial assets designated at fair value through profit or loss	61,549	-	-	-	-	-	**61,549**	**61,549**
Loans and advances to banks	-	-	1,841,958	-	-	-	**1,841,958**	**1,843,091**
Loans and advances to customers	-	-	8,637,803	-	-	-	**8,637,803**	**9,059,499**
Available for sale Investments	-	-	-	901,585	-	-	**901,585**	**901,585**
Held to maturity Investments	-	125,071	-	-	-	-	**125,071**	**130,503**
TOTAL ASSETS	**157,336**	**125,071**	**10,479,761**	**901,585**	**326**	**728,729**	**12,392,808**	**12,821,069**
LIABILITIES								
Financial liabilities held for trading	61,494	-	-	-	-	-	**61,494**	**61,494**
Derivatives used for hedging	-	-	-	-	4,079	-	**4,079**	**4,079**
Deposits from banks	-	-	-	-	-	1,464,959	**1,464,959**	**1,413,521**
Deposits from customers	-	-	-	-	-	8,705,491	**8,705,491**	**8,727,933**
Subordinated liabilities	-	-	-	-	-	220,005	**220,005**	**212,847**
TOTAL LIABILITIES	**61,494**	**-**	**-**	**-**	**4,079**	**10,390,455**	**10,456,028**	**10,419,874**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2014 and December 31, 2013 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **30**)

(c) Impairment of financial instruments

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

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

(d) Provisions

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

6. Segment reporting

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

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 2014	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	225,488	241,967	(22,147)	**445,308**
Dividend income	-	-	1,246	**1,246**
Net fee and commission income	110,606	66,615	(81)	**177,140**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	17,497	41,780	(817)	**58,460**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(192)	-	**(192)**
Net income from investments	-	2,399	-	**2,399**
Other operating income	266	(546)	2,371	**2,091**
TOTAL OPERATING INCOME	**353,857**	**352,023**	**(19,428)**	686,452
Personnel expenses	(44,679)	(16,145)	(45,522)	**(106,346)**
General and administrative expenses	(79,777)	(26,583)	(18,984)	**(125,344)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16,221)	(3,531)	(11,066)	**(30,818)**
Total direct expenses	**(140,677)**	**(46,259)**	**(75,572)**	(262,508)
Allocation of indirect and overhead expenses	(45,201)	(24,708)	69,909	**-**
TOTAL OPERATING EXPENSES	**(185,878)**	**(70,967)**	**(5,663)**	(262,508)
Provisions for risk and charges	-	-	(5,923)	**(5,923)**
Net impairment loss on financial assets	(38,687)	(115,836)	5,354	**(149,169)**
Net income related to property, plant and equipment	-	-	167	**167**
PROFIT BEFORE INCOME TAX	**129,292**	**165,220**	**(25,493)**	269,019
Income tax expense			(27,362)	**(27,362)**
PROFIT FOR THE YEAR	**129,292**	**165,220**	**(52,855)**	241,657
ASSETS	**2,908,419**	**9,485,603**	**2,449,769**	14,843,791
LIABILITIES	**5,860,960**	**5,365,724**	**1,376,376**	12,603,060

In thousands of BGN

DECEMBER 2013	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	210,812	220,333	(21,284)	**409,861**
Dividend income	-	-	1,205	**1,205**
Net fee and commission income	97,569	65,813	1,717	**165,099**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	13,990	45,592	(11,123)	**48,459**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	310	-	**310**
Net income from investments	-	1,826	-	**1,826**
Other operating income	350	(353)	12,238	**12,235**
TOTAL OPERATING INCOME	**322,721**	**333,521**	**(17,247)**	**638,995**
Personnel expenses	(42,507)	(14,617)	(43,122)	**(100,246)**
General and administrative expenses	(77,373)	(25,168)	(18,260)	**(120,801)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16,347)	(3,240)	(11,320)	**(30,907)**
Total direct expenses	**(136,227)**	**(43,025)**	**(72,702)**	**(251,954)**
Allocation of indirect and overhead expenses	(43,919)	(23,531)	67,450	**-**
TOTAL OPERATING EXPENSES	**(180,146)**	**(66,556)**	**(5,252)**	**(251,954)**
Provisions for risk and charges	-	-	(9,691)	**(9,691)**
Net impairment loss on financial assets	(39,589)	(178,379)	6	**(217,962)**
Net income related to property, plant and equipment	-	-	922	**922**
PROFIT BEFORE INCOME TAX	**102,986**	**88,586**	**(31,262)**	**160,310**
Income tax expense	-	-	**(16,671)**	**(16,671)**
PROFIT FOR THE YEAR	**102,986**	**88,586**	**(47,933)**	**143,639**
ASSETS	**2,958,871**	**7,350,458**	**2,351,847**	**12,661,176**
LIABILITIES	**4,321,066**	**4,299,014**	**1,936,767**	**10,556,847**

7. Net interest income

In thousands of BGN

	2014	2013
Interest income		
Non-derivative financial assets held for trading	793	1,503
Derivatives held for trading	774	771
Financial assets designated at fair value through profit or loss	4,158	4,286
Loans and advances to banks	13,597	5,362
Loans and advances to customers	532,187	540,931
Available for sale investments	31,452	24,569
Held to maturity investments	6,814	7,560
	589,775	**584,982**
Interest expense		
Derivatives held for trading	(844)	(852)
Derivatives used for hedging	(7,133)	(2,513)
Deposits from banks	(16,759)	(22,608)
Deposits from customers	(114,656)	(144,250)
Subordinated debt	(5,075)	(4,898)
	(144,467)	**(175,121)**
Net interest income	**445,308**	**409,861**

For the financial years ended December 31, 2014 and December 31, 2013 the interest income recognized on impaired financial instruments (loans and advances to customers) is in the amount of BGN 24,366 thousand and BGN 25,693 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2014	2013
Fee and commission income		
Collection and payment services	103,574	91,495
Lending business	19,097	21,417
Account services	9,774	10,642
Management, brokerage and securities trading	5,187	6,756
Documentary business	17,490	16,612
Package accounts	15,136	12,381
Other	18,114	15,278
	188,372	**174,581**
Fee and commission expense		
Collection and payment services	(9,567)	(8,139)
Management, brokerage and securities trading	(1,123)	(1,036)
Lending business	(288)	(110)
Other	(254)	(197)
	(11,232)	**(9,482)**
Net fee and commission income	**177,140**	**165,099**

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

In thousands of BGN

	2014	2013
FX trading income, net	44,384	38,741
Net income from debt instruments	1,392	1,297
Net income from derivative instruments	12,684	8,418
Net income from hedging derivative instruments	-	3
Net gains on financial assets and liabilities held for trading and hedging derivatives	**58,460**	**48,459**

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

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

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

11. Net income from investments

In thousands of BGN

	2014	2013
Realised gains on disposal of available for sale investments	2,396	1,819
Income from liquidation of associates	-	7
Realised gains on disposal of unimpaired loans and advances	3	-
Net income from investments	**2,399**	**1,826**

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

12. Other operating income, net

In thousands of BGN

	2014	2013
Other operating income		
Income from intergovernmental agreements	-	10,146
Income from non-financial services	2,055	2,213
Rental income from investment property	895	495
Other income	2,104	1,398
	5,054	**14,252**
Other operating expenses		
Impairment of foreclosed properties	(484)	-
Other operating expenses	(2,479)	(2,017)
	(2,963)	**(2,017)**
Other operating income, net	**2,091**	**12,235**

In 2014 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.
In 2013 the Bank has recognized income related to letters of credit acquired by the Bank in previous periods, the final settlement of which is covered by intergovernmental agreements.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of long-term assets. For the years ended December 31, 2014 and December 31, 2013 the gains are in the amount of BGN 167 thousand and BGN 922 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2014	2013
Wages and salaries	(89,656)	(83,580)
Social security charges	(11,134)	(10,553)
Pension and similar expenses	(522)	(516)
Temporary staff expenses	(1,372)	(1,276)
Share-based payments	(452)	(988)
Other	(3,210)	(3,333)
Total personnel expenses	**(106,346)**	**(100,246)**

As of December 31, 2014 the total number of employees, expressed in full time employee equivalent is 3,538 (December 31, 2013: 3,553)
Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **40**.
As described in note **3 (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, 2013	2014 COST (GAINS)	SETTLED IN 2014	ECONOMIC VALUE AT DECEMBER 31, 2014
Deferred Short Term Incentive (stock options)	81	45	-	126
Deferred Short Term Incentive (ordinary shares)	2,204	304	(565)	1,943
ESOP and shares for Talents	385	103	(215)	273
Total Options and Shares	**2,670**	**452**	**(780)**	**2,342**

15. General and administrative expenses

In thousands of BGN

	2014	2013
Deposit guarantee fund annual contribution	(37,586)	(34,453)
Advertising, marketing and communication	(9,772)	(7,918)
Credit information and searches	(2,031)	(2,134)
Information, communication and technology expenses	(34,248)	(33,478)
Consulting, audit and other professionals services	(2,105)	(2,131)
Real estate expenses	(11,181)	(12,127)
Rents	(12,278)	(12,636)
Travel expenses and car rentals	(3,177)	(3,261)
Insurance	(1,136)	(1,161)
Supply and miscellaneous services rendered by third parties	(9,806)	(9,567)
Other costs	(2,024)	(1,935)
Total general and administrative expenses	**(125,344)**	**(120,801)**

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

In thousands of BGN

	2014	2013
Depreciation charge	(27,822)	(28,627)
Impairment	(2,996)	(2,280)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(30,818)**	**(30,907)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2014 and December 31, 2013 the impairment of long-term assets, is in the amount of BGN 2,996 thousand and BGN 2,280 thousand, respectively.

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **40**).

In thousands of BGN

	2014	2013
Additions of provisions		
Provisions on letters of guarantee	(5,675)	-
Legal cases provisions	(1,495)	(9,726)
Other provisions	(285)	(25)
Provisions on constructive obligations	-	(459)
	(7,455)	**(10,210)**
Reversal of provisions		
Legal cases provisions	1,532	519
	1,532	**519**
Net provisions charge	**(5,923)**	**(9,691)**

18. Net Impairment loss on financial assets

In thousands of BGN

	2014	2013
Balance 1 January		
Loans and advances to customers	**889,695**	**754,604**
Increase		
Loans and advances to customers	230,655	296,161
Decrease		
Loans and advances to customers	(71,330)	(68,276)
Recoveries from loans previously written-off	(10,156)	(9,923)
	(81,486)	(78,199)
Net impairment losses	**149,169**	**217,962**
FX revaluation effect on impairment allowances	2,794	(968)
Other movements	356	562
Written-off		
Loans and advances to customers	(145,313)	(92,388)
Balance December 31		
Loans and advances to customers	**906,857**	**889,695**

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2015.
The breakdown of tax charges in the income statement is as follows:

In thousands of BGN

	2014	2013
Current tax	(25,167)	(18,411)
Deferred tax income (expense) related to origination and reversal of temporary differences	(2,191)	1,847
Underprovided prior year income tax	(4)	(107)
Income tax expense	**(27,362)**	**(16,671)**

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

In thousands of BGN

	2014	2013
Accounting profit before tax	269,019	160,310
Corporate tax at applicable tax rate (10% for 2014 and 2013)	(26,902)	(16,031)
Tax effect of non-taxable revenue	125	120
Tax effect of non-tax deductible expenses	(718)	(786)
Overprovided prior year income tax	133	26
Income tax expense	**(27,362)**	**(16,671)**
Effective tax rate	**10.17%**	**10.40%**

20. Cash and balances with Central bank

In thousands of BGN

	31.12.2014	31.12.2013
Cash in hand and in ATM	240,659	181,428
Cash in transit	58,190	52,359
Current account with Central Bank	793,378	494,942
Total cash and balances with Central Bank	**1,092,227**	**728,729**

21. Non-derivative financial assets held for trading

In thousands of BGN

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

Financial assets held for trading comprise of bonds that the Bank holds for the purpose of short-term profit taking by, selling or repurchasing them in the near future.
In October 2008 Management has adopted amendments in IAS 39 "Financial instruments: Recognition and measurement" issued by IASB that same month. Considering the ongoing financial markets turmoil as an example of "rare circumstances", Management has changed its intention with regard to certain government bonds, previously classified as held for trading and reclassified them into held to maturity category.
The reclassification was performed retrospectively, as allowed by the amendments in IAS 39, with effective date July 1st, 2008. Additional information on the reclassification is presented in the table below.

In thousands of BGN

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

22. Derivatives held for trading

In thousands of BGN

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

Derivatives comprise of trading instruments that have positive market value as of December 31, 2014 and December 31, 2013. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (j)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book. As of December 31, 2014 and December 31, 2013 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits).

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

In thousands of BGN

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

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

25. Loans and advances to banks

In thousands of BGN

	31.12.2014	31.12.2013
Loans and advances to banks	1,355,233	1,802,769
Current accounts with banks	272,256	39,189
Total loans and advances to banks	**1,627,489**	**1,841,958**

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

26. Loans and advances to customers

In thousands of BGN

	31.12.2014	31.12.2013
Receivables under repurchase agreement	234,385	-
Companies	6,941,287	6,792,226
Individuals		
Housing loans	1,650,784	1,652,031
Consumer loans	712,786	783,630
Central and local governments	1,304,097	299,611
	10,843,339	9,527,498
Less impairment allowances	(906,857)	(889,695)
Total loans and advances to customers	**9,936,482**	**8,637,803**

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

27. Available for sale investments

In thousands of BGN

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

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

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

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

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

28. Held to maturity investments

As of December 31, 2014 and December 31, 2013 held to maturity investments comprise only of first class government bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2014 and December 31, 2013.
As of December 31, 2014 and December 31, 2013 held to maturity investments in the amount of BGN 133,672 thousand and BGN 123,114 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

29. Investments in subsidiaries and associates

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2014	SHARE IN CAPITAL DECEMBER 2013	CARRYING VALUE IN THOUSANDS OF BGN DEC 2014	CARRYING VALUE IN THOUSANDS OF BGN DEC 2013
UniCredit Factoring EAD	Factoring activities	100%	100%	3,000	3,000
Hypovereins Immobilien 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%	3,408	3,408
HVB Leasing EOOD	Leasing activities	100%	100%	6,203	203
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**	**49,004**

As described in Note **3 (h) (ii) g)**, investments in subsidiaries and associates comprise of equity participations in entities where Bank exercises either control or significant influence.
In 2014 the Bank has approved a decision for share capital increase of HVB Leasing EOOD in the amount of BGN 6,000 thousand, fully payable in cash. As of December 31, 2014 the payment is completed and the share capital increase is registered accordingly.

ACQUISITIONS PERFORMED IN 2013

Following UniCredit Group decision for strategic reorganization activities, several acquisitions have been performed in 2013.
In January 2013, UniCredit Bulbank AD finalized the deal for acquiring the remaining 50.1% from the capital of UniCredit Consumer Financing AD from UniCredit S.p.A thus the Bank became sole owner of the capital of the company. The acquisition was effectively completed on the first working day of January 2013, therefore control is presumed on full 2013 year basis. Upon deal completion the company was renamed to UniCredit Consumer Financing EAD.
In December 2013, UniCredit Bulbank AD acquired the remaining 75.6% from the capital of UniCredit Leasing AD and 97.6% from the capital of HVB Leasing OOD, both from UniCredit Leasing S.p.A. The deals were effectively completed in mid of December and the control over the two companies is considered effective as of year-end (December 31, 2013). Upon deal completion Bank became sole owner of the capital of both companies and they were renamed, respectively to UniCredit Leasing EAD and HVB Leasing EOOD. In parallel to gaining control over the above mentioned two leasing companies, Bank also became indirect sole owner of their subsidiaries, namely Bulbank Leasing EAD, UniCredit Auto Leasing EOD and UniCredit Insurance Broker EOOD being fully owned by UniCredit Leasing EAD, as well as HVB Auto Leasing EOOD and BA Creditanstalt Bulus EOOD, being fully owned by HVB Leasing EOOD.
All acquisitions performed in 2013 represent business combinations under common control as the ultimate parent before and after the deals remains unchanged – UniCredit S.p.A. In accordance with UniCredit Group accounting policy, such combinations are performed on arm’s length principle and purchase price is based on explicit external valuations. As such combinations have no effect on ultimate parent’s consolidation level, the values of the newly acquired shares are presented in these financial statements at the values they have been recorded in the separate financial statements of the seller and the difference in the amount of BGN (8,643) thousand, between these values and the purchase prices paid is presented in retained earnings (see the table below).

In thousands of BGN

Book values of newly acquired shares in subsidiaries in the separate financial statement of the transferee at the date of transfer	
UniCredit Consumer Financing EAD	19,664
UniCredit Leasing EAD	1,637
HVB Leasing EOOD	124
	21,425
Total purchase price paid for new acquisitions	(30,068)
	(30,068)
Business combination under common control reserve	**(8,643)**

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost. In addition 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.

30. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2013	**5,628**	**145,436**	**5,467**	**72,748**	**44,242**	**5,802**	**279,323**
Additions	-	3,864	1,066	4,542	5,042	59,244	**73,758**
Transfers	-	(198)	-	1	(1)	198	**-**
Write offs	-	(208)	(199)	(1,728)	(1,968)	(3,170)	**(7,273)**
Disposals	-	-	-	(1,250)	(323)	(416)	**(1,989)**
As of December 31, 2014	**5,628**	**148,894**	**6,334**	**74,313**	**46,992**	**61,658**	**343,819**
Depreciation							
As of December 31, 2013	**-**	**57,852**	**3,318**	**55,373**	**31,480**	**1,571**	**149,594**
Depreciation charge	-	6,696	636	6,385	5,471	947	**20,135**
Impairment	-	4	-	754	316	1,757	**2,831**
Write offs	-	(208)	(199)	(1,728)	(1,968)	(3,170)	**(7,273)**
On disposals	-	-	-	(1,244)	(287)	(97)	**(1,628)**
Transfers	-	(73)	-	-	-	73	**-**
As of December 31, 2014	**-**	**64,271**	**3,755**	**59,540**	**35,012**	**1,081**	**163,659**
Net book value as of December 31, 2014	**5,628**	**84,623**	**2,579**	**14,773**	**11,980**	**60,577**	**180,160**
Net book value as of December 31, 2013	**5,628**	**87,584**	**2,149**	**17,375**	**12,762**	**4,231**	**129,729**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2012	**5,739**	**146,067**	**5,204**	**76,500**	**41,473**	**8,694**	**283,677**
Additions	-	2,032	540	4,331	5,621	-	**12,524**
Transfers	(111)	(2,060)	13	74	(87)	2,171	**-**
Write offs	-	(603)	(284)	(2,813)	(2,280)	(3,757)	**(9,737)**
Disposals	-	-	(6)	(5,344)	(485)	(1,306)	**(7,141)**
As of December 31, 2013	**5,628**	**145,436**	**5,467**	**72,748**	**44,242**	**5,802**	**279,323**
Depreciation							
As of December 31, 2012	**-**	**51,910**	**2,911**	**55,761**	**29,138**	**2,733**	**142,453**
Depreciation charge	-	7,206	686	7,388	5,091	344	**20,715**
Impairment	-	14	3	39	48	1,905	**2,009**
Write offs	-	(603)	(284)	(2,813)	(2,280)	(3,757)	**(9,737)**
On disposals	-	-	(4)	(5,031)	(482)	(329)	**(5,846)**
Transfers	-	(675)	6	29	(35)	675	**-**
As of December 31, 2013	-	**57,852**	**3,318**	**55,373**	**31,480**	**1,571**	**149,594**
Net book value as of December 31, 2013	**5,628**	**87,584**	**2,149**	**17,375**	**12,762**	**4,231**	**129,729**
Net book value as of December 31, 2012	**5,739**	**94,157**	**2,293**	**20,739**	**12,335**	**5,961**	**141,224**

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

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

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2014 and December 31, 2013 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2014 and December 31, 2013 amount to BGN 1,757 thousand and BGN 1,905 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2014 and December 31, 2013. The fair values of investment properties as of December 31, 2014 and December 31, 2013 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT			FAIR VALUE
	2014	2013	2014	2013
Investment properties				
Land	13,662	354	14,184	988
Buildings	46,915	3,877	48,150	4,881
Total investment properties	**60,577**	**4,231**	**62,334**	**5,869**

31. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2013	**79,004**
Additions	6,472
Write offs	(331)
As of December 31, 2014	**85,145**
Amortisation	
As of December 31, 2013	**54,413**
Depreciation charge	7,687
Impairment	165
Write offs	(331)
As of December 31,2014	**61,934**
Net book value as of December 31, 2014	**23,211**
Net book value as of December 31, 2013	**24,591**

In thousands of BGN

Cost	
As of December 31, 2012	**74,520**
Additions	5,067
Write offs	(583)
As of December 31, 2013	**79,004**
Amortisation	
As of December 31, 2012	**46,813**
Depreciation charge	7,912
Impairment due to obsolescence	271
Write offs	(583)
As of December 31,2013	**54,413**
Net book value as of December 31, 2013	**24,591**
Net book value as of December 31, 2012	**27,707**

32. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overprovided prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Should by the year-end advance instalments exceed the overall annual current tax liability, the excess cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration. Based on that, as of December 31, 2014 the current tax assets, reported by the Bank, represent overprovided current tax for 2013, while current tax liabilities represent net payable current tax position for 2014.

33. Deferred tax

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

In thousands of BGN

	31.12.2014	31.12.2013
Property, plant, equipment, investment properties and intangible assets	7,025	7,774
Available for sale investments	872	872
Provisions	(2,666)	(2,292)
Actuarial gains (losses)	(164)	(85)
Other liabilities	(3,965)	(3,643)
Net deferred tax liabilities	**1,102**	**2,626**

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

In thousands of BGN

	BALANCE 31.12.2013	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2014
Property, plant and equipment	7,774	(749)	-	7,025
Available for sale investments	872	(168)	168	872
Provisions	(2,292)	(374)	-	(2,666)
Actuarial gains (losses)	(85)		(79)	(164)
Cash flow hedge	-	3,804	(3,804)	-
Other liabilities	(3,643)	(322)		(3,965)
Net deferred tax (assets) liabilities	**2,626**	**2,191**	**(3,715)**	**1,102**

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

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

35. Other assets

In thousands of BGN

	31.12.2014	31.12.2013
Receivables and prepayments	31,577	29,034
Materials, spare parts and consumables	1,302	778
Other assets	6,092	4,851
Foreclosed properties	63,294	23,779
Total other assets	**102,265**	**58,442**

36. Financial liabilities held for trading

In thousands of BGN

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

37. Deposits from banks

In thousands of BGN

	31.12.2014	31.12.2013
Current accounts and overnight deposits		
Local banks	148,003	89,541
Foreign banks	118,013	48,096
	266,016	**137,637**
Deposits		
Local banks	28,587	137,297
Foreign banks	1,195,993	1,173,887
	1,224,580	**1,311,184**
Other	**12,169**	**16,138**
Total deposits from banks	**1,502,765**	**1,464,959**

38. Deposits from customers

In thousands of BGN

	31.12.2014	31.12.2013
Current accounts		
Individuals	1,002,455	749,642
Corporate	3,239,343	2,217,725
Budget and State companies	290,635	288,491
	4,532,433	**3,255,858**
Term deposits		
Individuals	3,463,272	2,898,209
Corporate	1,671,006	1,778,912
Budget and State companies	57,847	52,250
	5,192,125	**4,729,371**
Saving accounts	**1,017,611**	**612,564**
Transfers in execution process	**40,408**	**107,698**
Total deposits from customers	**10,782,577**	**8,705,491**

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date.
As of December 31, 2014 and December 31, 2013 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

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

In thousands of BGN

START DATE	TERM TO MATURITY	AMOUNT OF THE ORIGINAL PRINCIPAL	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2014	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2013
November 26, 2004	10 years	19,558	-	26,070
December 20, 2004	10 years	19,558	-	26,102
February 3, 2005	10 years	25,426	33,229	32,881
August 2, 2005	10 years	29,337	37,367	37,020
November 19, 2008	10 years	97,792	-	97,932
Total		**191,671**	**70,596**	**220,005**

In 2014 two of the prior years' subordinated loans matured and were fully repaid. In addition one subordinated loan with original principal amount of EUR 50,000 thousand and original maturity in 2018 was early prepaid. For the latter Bank has requested and received permission from the Bulgarian national Bank.
All active subordinated loans meet the requirements of Bulgarian National Bank for Tier II inclusion for which Bank has received written approval. No principal repayments are allowed prior to final maturity of the loans unless explicitly approved by Bulgarian National Bank. Under the clauses of subordinated agreements UniCredit Bank Austria has agreed that all the subordinated indebtedness is unsecured, and that any repayment of these liabilities in case of insolvency, liquidation or dissolution of the Borrower (UniCredit Bulbank AD) shall be admitted after all other Borrowers' creditors have been reimbursed and satisfied.

40. Provisions

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

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 12, 2012	**13,626**	**12,429**	**4,685**	**756**	**765**	**32,261**
Allocations	-	9,726	516	459	25	**10,726**
Releases	-	(519)	-	-	-	**(519)**
Additions due to FX revaluation	5,592	2,016	-	-	-	**7,608**
Releases due to FX revaluation	(6,185)	(2,230)	-	-	-	**(8,415)**
Actuarial gains/losses recognized in OCI	-	-	(3)	-	-	**(3)**
Utilization	-	(1,033)	(256)	(168)	(234)	**(1,691)**
Balance as of December 31, 2013	**13,033**	**20,389**	**4,942**	**1,047**	**556**	**39,967**
Allocations	5,675	1,495	522	-	285	**7,977**
Releases	-	(1,532)	-	-	-	**(1,532)**
Additions due to FX revaluation	5,577	2,010	-	-	-	**7,587**
Releases due to FX revaluation	(3,838)	(1,383)	-	-	-	**(5,221)**
Actuarial gains/losses recognized in OCI	-	-	795	-	-	**795**
Utilization		(3,986)	(444)	(326)	(304)	**(5,060)**
Balance as of December 31, 2014	**20,447**	**16,993**	**5,815**	**721**	**537**	**44,513**

(a) Provisions on letters of guarantees

Provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events. As of December 31, 2014 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 20,447 thousand (BGN 13,033 thousand as of December 31, 2013).

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future. As of December 31, 2014 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 16,993 thousand has been recognized (BGN 20,389 as of December 31, 2013).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.
Major assumptions underlying in 2014 Defined benefit obligation are as follows:

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

The movement of the defined benefit obligation for the year ended December 31, 2014 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

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

Current service cost and interest cost are presented under Personnel expenses (See note **14**).
The major factors impacting the present value of 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

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

(d) Provisions on constructive obligation

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

In thousands of BGN

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

As of December 31, 2014 and December 31, 2013 the Bank has recorded provisions on constructive obligations in accordance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises and safe-deposits boxes.
In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2014, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2014 law amendments moved the deadline for the above mentioned assessment to December 31, 2015. The balances as of December 31, 2014 and December 31, 2013 represent unutilized provision amounts as of the reporting dates

(e) Other provision

Other provisions in the amount of BGN 537 thousand (BGN 556 thousand in 2013) relates to coverage of claims related to credit cards business as well as other claims.

41. Other liabilities

In thousands of BGN

	31.12.2014	31.12.2013
Liabilities to the State budget	4,394	4,301
Liabilities to personnel	28,459	23,745
Liabilities for unused paid leave	5,349	5,486
Dividends	471	460
Incentive plan liabilities	2,342	2,670
Other liabilities	28,317	21,564
Total other liabilities	**69,332**	**58,226**

Liabilities to the State Budget include current liabilities related to different tax positions of the Bank.

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2014 and 2013 in accordance with the defined target settings and adopted incentive programs.
Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.
As described in note **3 (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 **14** above.

42. Equity

(a) Share capital

As of December 31, 2014 and December 31, 2013 share capital comprises of 285,776,674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

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

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer. In 2013 following the acquisitions in UniCredit Consumer Financing EAD, UniCredit Leasing EAD and HVB Leasing EOOD, that difference is in the amount of BGN (8,643) thousand.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 "Employee Benefits".
Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.).
For the years ended December 31, 2014 and December 31, 2013 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 1,856 thousand and BGN 323 thousand, respectively, net of tax.

43. Contingent liabilities

In thousands of BGN

	31.12.2014	31.12.2013
Letters of credit and letters of guarantee	1,318,137	1,551,887
Credit commitments	1,319,242	1,339,779
Total contingent liabilities	**2,637,379**	**2,891,666**

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.
The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.
As of December 31, 2014 and December 31, 2013 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

(b) Litigation

As of December 31, 2014 and December 31, 2013 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these financial statements as of December 31, 2014 are in the amount of BGN 16,993 thousand (BGN 20,389 thousand in 2013), (see also Note **40)**.

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients' disposal. As of December 31, 2014 and December 31, 2013 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

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

Securities and loans pledged on other deals include those contractually pledged on long-term financing provided to the Bank by local and foreign institutions.
Information on the collaterals received on open reverse repo deals as of December 31, 2014 and December 31, 2013 is as follows:

In thousands of BGN

	31.12.2014		31.12.2013	
	CARRYING AMOUNT	COLLATERAL VALUE	CARRYING AMOUNT	COLLATERAL VALUE
Receivables under repurchase agreements with banks	-	-	84,071	82,477
Receivables under repurchase agreements with customers	234,385	243,865	-	-
Total	**234,385**	**243,865**	**84,071**	**82,477**

45. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as "parent companies").
In addition the Bank has relatedness with its subsidiaries and associates (see also Note **29**) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).
The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2014 and December 31, 2013 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2014	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	1	-	-	34,004	**34,005**
Current accounts and deposits placed	1,441,137	-	-	1,089	**1,442,226**
Extended loans	-	37,230	-	3,139	**40,369**
Other assets	2,143	8,476	-	2,286	**12,905**
Financial liabilities held for trading	2,670	-	-	52,158	**54,828**
Derivatives used for hedging	38,895	-	-	3,030	**41,925**
Current accounts and deposits taken	959,079	148,834	653	12,009	**1,120,575**
Subordinated liabilities	70,596	-	-	-	**70,596**
Other liabilities	3,558	36	-	3,113	**6,707**
Guarantees received from the Group	**56,578**	**-**	**-**	**49,706**	**106,284**

In thousands of BGN

AS OF DECEMBER 31, 2013	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	-	-	-	11,675	**11,675**
Current accounts and deposits placed	1,667,452	-	-	683	**1,668,135**
Extended loans	-	86,539	-	15,268	**101,807**
Other assets	1,635	6,517	-	2,174	**10,326**
Financial liabilities held for trading	-	-	-	46,143	**46,143**
Derivatives used for hedging	59	-	-	4,020	**4,079**
Current accounts and deposits taken	638,801	-	-	7,894	**646,695**
Subordinated liabilities	220,005	-	-	-	**220,005**
Other liabilities	1,270	28	-	513	**1,811**
Guarantees received by from Group	**35,238**	**-**	**-**	**35,640**	**70,878**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2014	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest income	13,217	1,814	-	527	**15,558**
Interest expenses	(22,685)	(1,381)	(3)	(2,602)	**(26,671)**
Fee and commissions income	883	8,709	-	1,284	**10,876**
Fee and commissions expenses	(87)	-	-	(10)	**(97)**
Net gains (losses) on financial assets and liabilities held for trading	(4,396)	-	-	(5,688)	**(10,084)**
Other operating income	25	346	-	12	**383**
Administrative and personnel expenses	(1,013)	(1,690)	(945)	(6,732)	**(10,380)**
Total	**(14,056)**	**7,798**	**(948)**	**(13,209)**	**(20,415)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2013	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest income	4,548	3,525	-	529	8,602
Interest expenses	(23,201)	(2,507)	-	(31,307)	(57,015)
Fee and commissions income	836	6,546	-	999	8,381
Fee and commissions expenses	(89)	(1)	-	(14)	(104)
Net gains (losses) on financial assets and liabilities held for trading	2,499	-	-	-	2,499
Other operating income	10	294	-	13	317
Administrative and personnel expenses	(737)	(1,396)	(889)	(6,810)	(9,832)
Total	**(16,134)**	**6,461**	**(889)**	**(36,590)**	**(47,152)**

As of December 31, 2014 the loans extended to key management personnel amount to BGN 524 thousand (BGN 680 thousand in 2013). For the year ended December 31, 2014 the compensation paid to key management personnel amounts to BGN 3,835 thousand (BGN 3,685 thousand in 2013).

46. Cash and cash equivalents

In thousands of BGN

	31.12.2014	31.12.2013
Cash in hand and in ATM	240,659	181,428
Cash in transit	58,190	52,359
Current account with the Central Bank	793,378	494,942
Current accounts with banks	272,256	39,189
Receivables under repurchase agreements	234,385	84,071
Placements with banks with original maturity less than 3 months	466,829	1,128,038
Total cash and cash equivalents	**2,065,697**	**1,980,027**

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

47. Leasing

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, 2014 and December 31, 2013 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	
	31.12.2014	31.12.2013
Up to one year	4,831	5,493
Between one and five years	4,626	6,475
Beyond five years	1,119	1,119
Total	**10,576**	**13,087**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2014	31.12.2013
Up to one year	85	110
Total	**85**	**110**

48. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.
UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2014 and December 31, 2013 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

	2014	2013	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	686,452	638,995	Separate Income Statement and details in Notes 7,8,9,10,11 and 12
Profit before income tax	269,019	160,310	Separate Income Statement
Income tax expense	(27,362)	(16,671)	Separate Income Statement and details in Note 19
Return on average assets (%)	1.8%	1.1%	2014 Annual Report on Activity
Full time equivalent number of personnel as of December 31	3,538	3,553	Note 14

UniCredit Bulbank AD has never requested or been provided any state grants or subsidies.

Hospitality is important.

But the welcome is crucial.

The real star is the customer.

Going to the branch becomes a unique experience.
A **revolutionary branch format**, combining technological innovation and design to guide the customer in an easy, enjoyable and interactive world. A branch tailored to the customer where opening hours are no longer a constraint, with multiple access channels and ways to use the services.
A multifunctional space where Customers and consultants sit side by side to experience the bank service in total comfort.
Because reliability is part of our way of doing things.

Technology is for young people.

Young people of all ages.

The future is for everyone.

Simplicity and clarity appeal to all of us. That's way UniCredit created **Subito Banca via Internet**, a practical online banking interface with common sense graphics, intuitive navigation buttons and large fonts. We are making our online services easy to use even by people unfamiliar with new technologies. We are offering solutions based on the preferences of more than 300 customers over the age of 60, collected during workshops and laboratories in Italy. We are proof that you can always innovate in a new way.

Independent Auditors’ Report

Deloitte.

Deloitte Audit OOD
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
UniCredit Bulbank AD

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

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

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Statutory Manager
Registered Auditor

София
Рег. №033
"Делойт Одит" ООД

Sofia
March 5, 2015

Income Statement

In thousands of BGN

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

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

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033
"Делойт Одит" ООД

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

05.03.2015

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Statement of Comprehensive Income

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

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Registered auditor

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Statement of Financial Position

In thousands of BGN

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

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

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05.03.2015

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

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

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Emilia Palibachiyska
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Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

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05.03.2015

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Statement of Cash Flows

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

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Statement of Cash Flows (continued)

In thousands of BGN

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

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

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

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

София
Рег. №033

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05.03.2015

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes **4** and **5**.

3. Significant accounting policies

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

CHANGE IN ACCOUNTING POLICY

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

(i) Presentation of deferred tax assets and liabilities

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

(ii) Presentation of net income related to customers' driven derivative business

The Bank concludes interest rate swaps deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit Bank Austria AG and UniCredit Bank AG). In the annual financial statements of the Bank for the years ended up until December 31, 2013, the income on both deals (customers' and back-to-back ones) was presented gross and included as part of net interest income and net gains on financial assets and liabilities held for trading and hedging derivatives. In 2014 the Bank reassessed its presentation policy and considering the substance of the business involved, changed it, thus the whole

realized and unrealized gains/losses on interest rate swaps related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading and hedging derivatives. The policy change represents reclassification and does not impact neither total revenue of the Bank nor net assets.
The actual restatement amounts impacting the consolidated statement of financial position and consolidated income statement are as follows:

In thousands of BGN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	REPORTED 31.12.2013	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON DEFERRED TAX PRESENTATION	RESTATED AMOUNT 31.12.2013
Deferred tax assets	11,254	(9,038)	2,216
Deferred tax liabilities	11,720	(9,038)	2,682

In thousands of BGN

CONSOLIDATED INCOME STATEMENT	REPORTED FOR 2013	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON CUSTOMERS' DRIVEN DERIVATIVE BUSINESS	RESTATED AMOUNT FOR 2013
Interest income	696,907	(54,099)	642,808
Interest expense	(229,210)	46,821	(182,389)
Net gains on financial assets and liabilities held for trading and hedging derivatives	41,175	7,278	48,453

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

(a) Basis of consolidation

These financial statements are prepared on consolidated basis whereas all entities where UniCredit Bulbank AD exercises control are consolidated applying full consolidation method and all participations in entities where UniCredit Bulbank AD exercises significant influence are consolidated applying equity method.
In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

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

Following the above criterion, the Bank has performed assessment in two areas focused on:

- 1. Control existence assessment over all directly and indirectly owned equity participations;
- 2. Control existence assessment over entities where the Bank has no direct or indirect equity participation.

Upon completion of the first area of assessment, Bank reconfirmed that it has control over the investees in all the cases where it holds directly or indirectly more than 50% of the investee's voting rights. In addition Bank reconfirmed to exercise significant influence over investee's activities in all the cases where it does not exercise control or joint control but owns 20% and more of the investee's voting rights.

For the purposes of the second area of assessment, Bank primarily focused on so called "troubled loans" analysis. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted loans and advances to corporate customers with material outstanding amount as of the reporting dates (for practical reasons materiality threshold of EUR 1 million was applied). As a result of performing the above mentioned assessment, the Bank concluded that in no cases the definition of control is met, therefore no consolidation procedures on such customers have been applied as of December 31, 2013 and December 31, 2014.

PRIOR YEAR CHANGES IN CONSOLIDATION SCOPE

Following UniCredit Group decision for strategic reorganization, several business combinations under common control were performed throughout 2013.
In January 2013, UniCredit Bulbank AD finalized the deal for acquiring the remaining 50.1% from the capital of UniCredit Consumer Financing AD from UniCredit S.p.A thus the Bank became sole owner of the capital of the company. The acquisition was effectively completed on the first working day of January 2013, therefore control is presumed on full 2013 year basis. Upon deal completion the company was renamed to UniCredit Consumer Financing EAD.
In December 2013, UniCredit Bulbank AD acquired the remaining 75.6% from the capital of UniCredit Leasing AD and 97.6% from the capital of HVB Leasing OOD, both from UniCredit Leasing S.p.A. The deals were effectively completed in mid of December and the control over the two companies is considered effective

as of year-end (December 31, 2013). Upon deal completion Bank became sole owner of the capital of both companies and they were renamed, respectively to UniCredit Leasing EAD and HVB Leasing EOOD. In parallel to gaining control over the above mentioned two leasing companies, Bank also became indirect sole owner of their subsidiaries, namely Bulbank Leasing EAD, UniCredit Auto Leasing EOD and UniCredit Insurance Broker EOOD being fully owned by UniCredit Leasing EAD, as well as HVB Auto Leasing EOOD and BA Creditanstalt Bulus EOOD, being fully owned by HVB Leasing EOOD. All acquisitions performed in 2013 represent business combinations under common control as the ultimate parent before and after the deals remains unchanged – UniCredit S.p.A. In accordance with UniCredit Group accounting policy, such combinations are performed on arm's length principle and purchase price is based on explicit external valuations.

Considering the above, all the entities where the Bank exercises control are consolidated under full consolidation method and all entities where the Bank exercises significant influence are consolidated under equity method. As of December 31, 2014 and December 31, 2013 there are no significant restrictions on the ability of all consolidated subsidiaries and associates to transfer cash or to repay loans to the parent company.

The consolidation scope as of December 31, 2014 remained unchanged to the one applied as of December 31, 2013 and it covers the following entities:

COMPANY	PARTICIPATION IN EQUITY	DIRECT/INDIRECT PARTICIPATION	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.0%	Direct	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100.0%	Direct	Full consolidation
UniCredit Leasing EAD	100.0%	Direct	Full consolidation
HVB Leasing EOOD	100.0%	Direct	Full consolidation
Bulbank Leasing EAD	100.0%	Indirect	Full consolidation
UniCredit Auto Leasing EOOD	100.0%	Indirect	Full consolidation
UniCredit Insurance Broker EOOD	100.0%	Indirect	Full consolidation
HVB Auto Leasing EOOD	100.0%	Indirect	Full consolidation
BA Creditanstalt Bulus EOOD	100.0%	Indirect	Full consolidation
Cash Service Company AD	20.0%	Direct	Equity method

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

In thousands of BGN

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

(b) Interest income and expense

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

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis;
- interest on available for sale investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments.

(c) Fee and commission income and expenses

Fee and commission income and expense arise on financial services provided/received and are recognized upon rendering/receiving of the corresponding service.
Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

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

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

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at the official Bulgarian National Bank foreign exchange rate effective at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate effective at the date of the transaction.
As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

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

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

(g) Dividend income

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

(h) Lease payments made

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

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

(i) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

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

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

d) Loans and advances to banks and customers

Loans and advances to banks and customers are instruments where the Bank provides money to a debtor other than those created with the intention of short-term profit taking or selling in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in associates

Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities.

In these consolidated financial statements the Bank has adopted the policy of carrying all investments in associates at equity method. All investments in subsidiaries are fully consolidated.

h) Deposits from banks, customers and subordinated liabilities

Deposits from banks, customers and subordinated liabilities are financial instruments related to attracted funds by the Bank, payable on demand or upon certain maturity and bearing agreed interest rate. Subordinated liabilities meet some additional requirements set by Bulgarian National Bank (see note **39**). Deposits from banks, customers and subordinated liabilities are carried at amortised cost using the effective interest rate method.

(iii) Reclassification

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

(iv) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.
The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.
In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
In accordance with IFRS 7 "Financial instruments: Disclosures" Bank applies three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note **5**).

(vii) Offsetting

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

(viii) Repurchase agreements

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

(j) Impairment

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

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

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

(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.

Since 2009 the Bank has developed hedge accounting methodology aiming at effective management of interest rate risk out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

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

FAIR VALUE HEDGE

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with the changes in the fair value of the hedged item attributable to the hedged risk.

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

CASH FLOW HEDGE

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss.
If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.
As Bank's hedging strategy covers forecast cash flows as hedged items, the cumulative amount, recognized in other comprehensive income from the period when the hedge was effective, is recycled in profit or loss when the forecast transactions occur. In case the forecast transaction is no longer expected to occur, the whole balance outstanding in other comprehensive income is reclassified in profit or loss.

(l) Property, plant, equipment and investment property

All items of property, plant and equipment are carried at cost less accumulated depreciation or impairment losses.
Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Investment property is measured at cost less any accumulated depreciation.
Properties acquired upon collaterals foreclosure, which are neither intended to be used in the banking business nor kept as investment properties, but intended to be sold or constructed for the purposes to be sold, are presented in other assets in accordance with IAS 2 "Inventories" (see also Note **35**)
The gains or losses on disposal of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net in profit or loss.
Depreciation on all items of property, plant and equipment and investment property is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.

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

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

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2014 and December 31, 2013 intangible assets include primarily investments in software and related licenses.
Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate.

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

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

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2014 and December 31, 2013 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (equity settled) granted by the ultimate parent UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Bank.
Whenever the vesting period of the stock options or performance shares ends, UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments. Thereafter the parent effectively grants the instruments to the respective managers.
As of December 31, 2014 and December 31, 2013 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

As described in Note **1**, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of UniCredit bank Austria AG and ultimately under control of UniCredit S.p.A. The merger represented a share-exchange transaction, where share-exchange ratios based on fair valuation of the net assets of the three Banks, certified by independent auditor, as required by the Bulgarian Commercial Act, were applied. The share capital of UniCredit Bulbank AD as of the date of the merger was in the amount of BGN 239,256 thousand and comprise of the share capital of Bulbank AD before the merger in the amount of BGN 166,370 thousand, increased by the newly issued ordinary shares exchanged for the ordinary shares of the merging Banks - HVB Bank Biochim AD and Hebros Bank AD (increase in the amount of BGN 72,886 thousand).
In September 2010 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 179,000 thousand through issuing 24,655,650 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2010 the share capital of the Bank amounted to BGN 263,911 thousand.
In May 2011 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 158,744 thousand through issuing 21,865,500 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2011 the share capital of the Bank amounts to BGN 285,777 thousand. No changes in the share capital were performed in 2014 and 2013.

(ii) Reserves

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

(r) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Income tax is recognized in the Income statement except to the extent that it relates to items recognized directly to other comprehensive income, in which case it is recognised in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.
Deferred tax is provided using the liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the Income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income.
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are

reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2014 and December 31, 2013 balances of deferred tax are presented net in the Statement of financial position on single entity level within the consolidation scope and then consolidated in the Statement of financial position. All respective netting requirements set out in IAS 12 are fully met on single entity level.

(s) Segment reporting

In 2009 the Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. This adoption did not result in a change in accounting policy as the business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

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

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

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

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

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

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

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

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of publication of these consolidated financial statements (the effective dates stated below is for IFRS in full):

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of

Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 Separate Financial Statements - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards Improvements to IFRSs (cycle 2012-2014) resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements in the period of initial application, except for the one noted below which might have material effect on the financial statements:
- IFRS 9 Financial Instruments uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

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

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

4. Financial risk management

(a) General framework

UniCredit Bulbank AD is exposed to the following risks from financial instruments:
- market risk;
- liquidity risk;
- credit risk;
- operational and reputational risk.

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. Starting from Q3 2014 UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk on stand-alone level. In these consolidated financial statements total operational risk requirements are presented as the sum of AMA amount calculated for the Bank stand-alone plus the respective additions from consolidated entities, calculated under standardized approach.

(b) Market risks

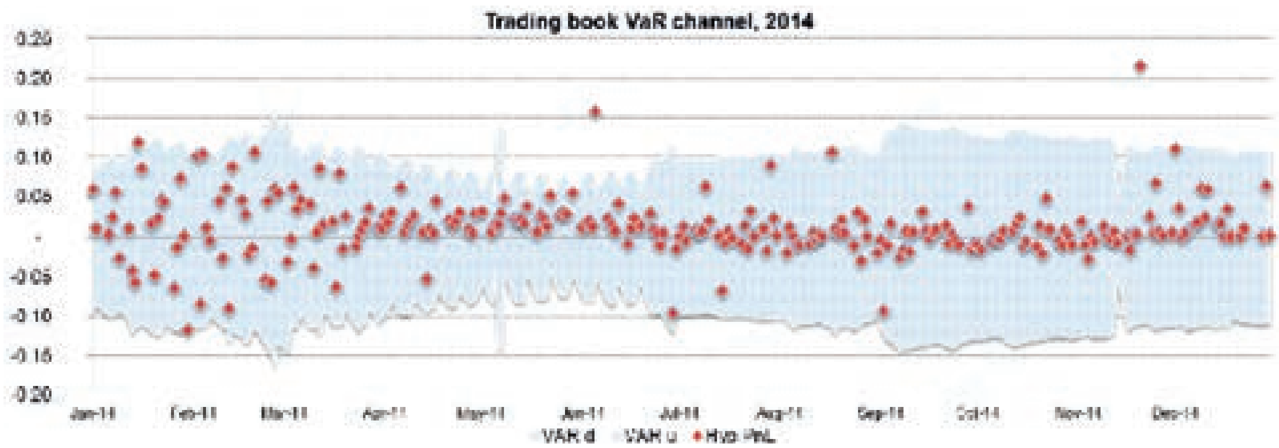
Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by Market Risk department. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in Market Risk Rule Book and Financial Markets Rule Book, reviewed at least annually. A product introduction process is established in which risk managers play a decisive role in approving a new product.
Market risk management in UniCredit Bulbank AD encompasses all activities in connection with Markets and Investment Banking operations and management of the assets and liabilities structure. Risk positions are aggregated at least daily, analysed by the independent Market risk management unit and compared with the risk limits set by the Management Board and ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily presentation of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.
UniCredit Bulbank AD applies uniform Group risk management procedures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) metric, the incremental risk charge (IRC) limit and granular limits by sensitivity.
For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the mark to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives in UniCredit Bulbank AD was further refined in 2014 and integrated in the presentation of results of market activities including Corporate Treasury Sales on quarterly basis.
During 2014, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 3.02 million and EUR 5.23 million, averaging EUR 4.09 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.
VaR of UniCredit Bulbank AD by risk category in EUR million for 2014 on consolidated basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	2.10	5.23	3.74	2.51
Credit spread	1.46	3.09	2.28	3.00
Exchange rate risk	0.00	0.09	0.03	0.09
Vega risk	0.00	0.00	0.00	0.00
VaR overall[10]	**3.02**	**5.23**	**4.09**	**3.60**

[10] - Including diversification effects between risk factors

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

Back-testing results for 2014 confirm the reliability of used internal model with only 3 (three) negative excesses.



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

The sensitivities' table below provides summary of interest rate risk exposure of UniCredit Bulbank AD on consolidated basis (trading and banking book) as of December 31, 2014 (change in value due to 1 basis point shift, amounts in EUR):

IR Basis point shift (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	9,182	15,184	(16,698)	(35,192)	(909)	(28,433)
BGN	2,972	(13,860)	(57,890)	(187,726)	(655)	(257,159)
USD	(118)	3,750	1,132	(784)	0	3,980
CHF	105	458	(46)	(113)	2	405
GBP	124	435	101	0	0	659
Other	(5)	0	0	0	0	(5)
Total ABS	**12,506**	**33,687**	**75,867**	**223,814**	**1,566**	**290,641**

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

SP Basis point shift

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

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2014 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

UniCredit Bulbank AD is exposed to exchange rate risk through transactions in foreign currencies. Net FX open positions in trading and banking book are monitored on daily basis and are restricted by volume overnight limits.
As of December 31, 2014 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

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

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

In thousands of BGN

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

(c) Liquidity risk

In line with Group standards, UniCredit Bulbank deals with liquidity risk as a central risk in banking business by monitoring and steering short-term and medium-term liquidity requirements. In this context, liquidity situation is analysed against standard and stress scenarios. Methods of liquidity analysis, management responsibilities, as well as contingency plan and funding plan procedures are laid down in the Bank's Liquidity Management Policy.
Liquidity is operationally managed through Markets/Treasury Department and the structural liquidity through Asset-Liability Management Department. According to the Liquidity Policy, Asset-Liability Management Department monitors on a daily basis short term flows, arising from interbank activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under going concern scenario. For the purposes of liquidity management short-term limits are monitored daily, defined as function of the primary funds and liquidity stress-test results. Structural liquidity limit ratios define minimum required coverage of long-term assets with coherent liabilities.
Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over 40 days horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2014, meaning that assuming extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.
The following tables provide basic analysis of the financial assets expected recoverability and financial liabilities of the Bank split into relevant maturity bands based on the remaining contractual periods to repayment for items with defined maturity and model mapping for items with no defined maturity or roll over assumptions. The gross amounts include also estimated contractual interest payments. Actual outflows may materially differ from those presented in the tables as historically most of the clients' attracted deposit have economic maturity much longer than the contractual one (deposits are consistently rolled over).

In thousands of BGN

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

In thousands of BGN

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

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2014	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non-derivative instruments						
Deposits from banks	**2,635,100**	**(2,748,876)**	(598,854)	(27,826)	(274,883)	(1,847,313)
Deposits from customers	**10,666,785**	**(10,695,424)**	(7,175,875)	(1,291,830)	(1,882,985)	(344,734)
Subordinated liabilities	**70,596**	**(70,797)**	-	-	(33,263)	(37,534)
Unutilized credit lines	**-**	**(1,285,375)**	(19,281)	-	(237,794)	(1,028,300)
Total non-derivative instruments	**13,372,481**	**(14,800,472)**	**(7,794,010)**	**(1,319,656)**	**(2,428,925)**	**(3,257,881)**
Trading derivatives, net	**38,588**					
Outflow		**(2,678,304)**	(1,309,821)	(542,009)	(522,303)	(304,171)
Inflow		**2,721,934**	1,315,675	548,106	530,589	327,564
Derivatives used for hedging, net	**(41,925)**					
Outflow		**(64,980)**	(988)	(1,604)	(4,659)	(57,729)
Inflow		**22,349**	47	62	146	22,094
Total derivatives	**(3,337)**	**999**	**4,913**	**4,555**	**3,773**	**(12,242)**
Total financial liabilities	**13,369,144**	**(14,799,473)**	**(7,789,097)**	**(1,315,101)**	**(2,425,152)**	**(3,270,123)**

In thousands of BGN

MATURITY TABLE AS OF DECEMBER 31, 2013	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non-derivative instruments						
Deposits from banks	**2,425,197**	**(2,540,813)**	(204,185)	(16,225)	(365,769)	(1,954,634)
Deposits from customers	**8,526,893**	**(8,620,723)**	(5,404,393)	(1,192,700)	(1,768,526)	(255,104)
Subordinated liabilities	**220,005**	**(240,946)**	-	-	(52,851)	(188,095)
Unutilized credit lines		**(1,265,900)**	(18,989)	-	(234,192)	(1,012,719)
Total non-derivative instruments	**11,172,095**	**(12,668,382)**	**(5,627,567)**	**(1,208,925)**	**(2,421,338)**	**(3,410,552)**
Trading derivatives, net	**20,421**					
Outflow	**-**	**(2,271,009)**	(1,137,062)	(346,441)	(468,928)	(318,578)
Inflow	**-**	**2,296,619**	1,140,283	344,755	473,236	338,345
Derivatives used for hedging, net	**(3,753)**					
Outflow	**-**	**(72,737)**	(908)	(1,611)	(5,324)	(64,894)
Inflow	**-**	**71,821**	63	199	732	70,827
Total derivatives	**16,668**	**24,694**	**2,376**	**(3,098)**	**(284)**	**25,700**
Total financial liabilities	**11,188,763**	**(12,643,688)**	**(5,625,191)**	**(1,212,023)**	**(2,421,622)**	**(3,384,852)**

(d) Credit risks

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.
Bank effectively manages credit risk inherent to its trading and banking book.
Bank applies different approach and has established different departments with regard to monitoring the credit risk related to corporate clients, small and middle enterprises and individuals.

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e. g. foreign exchange and interest rate derivatives, equity / bond-related instruments, credit derivatives and commodity derivatives.
Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.
Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.
Regulatory trading book includes financial assets held for trading purposes and derivatives, not held in conjunction with banking book positions.
The analysis based on client credit quality and rating (where available) as of December 31, 2014 and December 31, 2013 is as shown in the next table:

In thousands of BGN

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

(ii) Credit risk in the banking book

Credit risk, inherent in the banking book, is managed as the creditworthiness of Bank's clients is assessed for the whole life of the loan, from the date of initial loan application till the date of final repayment. Issued Letters of Guarantees, Letters of Credit and all other irrevocable credit commitments fell also within the scope of Bank's credit risk monitoring. As a credit risk mitigation policy, Bank accepts different types of collaterals depending on the product and client.
Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of Provisioning and Restructuring Committee (PRC) established in the Bank.
The Bank applies the principle of individual and collective assessment of credit risk exposures depending on existence or non-existence of objective impairment indicators and considering the adopted individually significant materiality threshold.
Objective impairment indicators are those "loss events" that have occurred after initial recognition of the exposure and which have an impact on the exposure estimated future cash flows. In order to provide consistency in the risk measurement, the Bank assumes existence of objective impairment indicators in case of occurrence of a default event as per applicable regulatory framework.
Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based). For all exposures that are not defaulted, impairment assessment is done on a portfolio basis combining exposures with similar credit characteristics. The Bank adopts Expected Loss (EL) concept for assessing impairment on portfolio basis, considering expected default probability within one year horizon, adjusted by Loss Confirmation Period (LCP) in order to translate it into incurred loss as defined by IFRS (IBNR concept).
Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures. The process of evaluation of contingent liabilities and allocation of provisions as per the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is performed specifically whenever provision allocation indicator exists, as per the current Policy, and mandatory by the year-end for the purposes of drawing annual financial statements of the Bank.
Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank.

The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2014 and December 31, 2013.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2014	2013	2014	2013	2014	2013
Biggest credit risk exposure to customers' group	420,503	480,503	420,503	442,912	20.4%	23.9%
Credit risk exposure to top five biggest customers' groups	1,151,906	1,046,998	883,063	955,571	42.9%	51.6%

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

In thousands of BGN

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

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

In thousands of BGN

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

Other collaterals include mostly pledges on non-real estate long-term assets, going concerns, and inventories.
The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2014 and December 31, 2013.

In thousands of BGN

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

(e) Operational Risk

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

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

The established Operational and Reputational Risk Committee (Reputational Risk function is included within the scope of the Committee since 2013) greatly enhanced the regular exchange of information and promotion of the operational risk awareness within the Bank. Meetings are held quarterly and are attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational and reputational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. The responsibilities of the function are expected to be extended through the adoption of new Group policies, governing a wide variety of economic sectors and transactions.

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

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

(f) Basel III disclosure

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

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

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

The new regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2014 are 10%, 11.5% and 13.5%, respectively. UniCredit Bulbank AD fulfils the minimum requirements, with sufficient excess, already from the first application of the new regulatory framework (more details presented in the following paragraphs).

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. Summary of FLPG as of December 31, 2014 is presented in the table below:

NAME		EIF JEREMIE
Type of securitisation:		First Loss Portfolio Guarantee
Originator:		UniCredit Bulbank
Issuer:		European Investment Fund
Target transaction :		Capital Relief and risk transfer
Type of asset:		Highly diversified and granular pool of newly granted SME loans
Quality of Assets as of December 31, 2014		Performing loans
Agreed maximum portfolio volume:		EUR 50,000 thousand
Nominal Value of reference portfolio :		BGN 71,133 thousand
Issued guarantees by third parties:		First loss cash coverage by EIF
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2014	BGN 37,375 thousand	BGN 19,531 thousand

(i) Own funds and capital requirements

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

In thousands of BGN

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

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

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

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

5. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

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

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

OTC DERIVATIVES

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2014 and 2013 see also Note **9**).

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.
As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2014, whenever risk-free FV deviates by more than 2% (5% in 2013) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

DEPOSITS FROM BANKS AND CUSTOMERS

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, as of December 31, 2014 all demand deposits are mapped to Level 3 fair value hierarchy (generally mapped to Level 2 in 2013).
The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2014 and December 31, 2013.

In thousands of BGN

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

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

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2013)	**921**	**61,549**	**17,731**
Increases	**3,126**	**19**	**200**
Profit recognized in income statement	1,034	19	75
Profit recognized in equity	-	-	125
Transfer from other levels	2,092	-	-
Decreases	**(3,049)**	**(814)**	**(1,211)**
Sales	(1,850)	-	(105)
Redemption	-	(600)	(1,089)
Loses recognized in income statement	(1,098)	(211)	-
Transfers to other levels	(46)	-	-
Other decreases	(55)	(3)	(17)
Closing balance (December 31, 2014)	**998**	**60,754**	**16,720**

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

In thousands of BGN

DECEMBER 2014	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	1,092,229	**1,092,229**	**1,092,229**
Non-derivative financial assets held for trading	5,607	-	-	-	-	-	**5,607**	**5,607**
Derivatives held for trading	124,528	-	-	-	-	-	**124,528**	**124,528**
Financial assets designated at fair value through profit or loss	60,754	-	-	-	-	-	**60,754**	**60,754**
Loans and advances to banks	-	-	1,627,489	-	-	-	**1,627,489**	**1,618,307**
Loans and advances to customers	-	-	11,112,403	-	-	-	**11,112,403**	**12,205,721**
Available for sale Investments	-	-	-	1,492,803	-	-	**1,492,803**	**1,492,803**
Held to maturity Investments	-	136,663	-	-	-	-	**136,663**	**136,723**
TOTAL ASSETS	**190,889**	**136,663**	**12,739,892**	**1,492,803**	**-**	**1,092,229**	**15,652,476**	**16,736,672**
LIABILITIES								
Financial liabilities held for trading	85,940	-	-	-	-	-	**85,940**	**85,940**
Derivatives used for hedging	-	-	-	-	41,925	-	**41,925**	**41,925**
Deposits from banks	-	-	-	-	-	2,635,100	**2,635,100**	**2,654,484**
Deposits from customers	-	-	-	-	-	10,666,785	**10,666,785**	**10,681,531**
Subordinated liabilities	-	-	-	-	-	70,596	**70,596**	**70,588**
TOTAL LIABILITIES	**85,940**	**-**	**-**	**-**	**41,925**	**13,372,481**	**13,500,346**	**13,534,468**

In thousands of BGN

DECEMBER 2013	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	728,730	**728,730**	**728,730**
Financial assets held for trading	13,872	-	-	-	-	-	**13,872**	**13,872**
Derivatives held for trading	81,915	-	-	-	-	-	**81,915**	**81,915**
Derivatives held for hedging	-	-	-	-	326	-	**326**	**326**
Financial assets designated at fair value through profit or loss	61,549	-	-	-	-	-	**61,549**	**61,549**
Loans and advances to banks	-	-	1,841,961	-	-	-	**1,841,961**	**1,843,094**
Loans and advances to customers	-	-	9,529,902	-	-	-	**9,529,902**	**9,963,949**
Available for sale Investments	-	-	-	901,585	-	-	**901,585**	**901,585**
Held to maturity Investments	-	125,071	-	-	-	-	**125,071**	**130,503**
TOTAL ASSETS	**157,336**	**125,071**	**11,371,863**	**901,585**	**326**	**728,730**	**13,284,911**	**13,725,523**
LIABILITIES								
Financial liabilities held for trading	61,494	-	-	-	-	-	**61,494**	**61,494**
Derivatives used for hedging	-	-	-	-	4,079	-	**4,079**	**4,079**
Deposits from banks	-	-	-	-	-	2,425,197	**2,425,197**	**2,347,513**
Deposits from customers	-	-	-	-	-	8,526,893	**8,526,893**	**8,572,785**
Subordinated liabilities	-	-	-	-	-	220,005	**220,005**	**212,847**
TOTAL LIABILITIES	**61,494**	**-**	**-**	**-**	**4,079**	**11,172,095**	**11,237,668**	**11,198,718**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2014 and December 31, 2013 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **30**)

(c) Impairment of financial instruments

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

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

(d) Provisions

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

6. Segment reporting

Business segments pay and receive interest from the Asset-Liability Management Department (ALM) on arms' length basis, through given Fund Transfer Pricing rate (FTP) to reflect the funding costs per currencies/tenors. Allocation of capital is also carried out, in proportion to respective RWA. Following UniCredit Group decision for strategic reorganization activities, in December 2013 UniCredit Bulbank AD obtained control over several leasing entities (see also Note **3 a**). Due to the specifics of leasing business, the latter is presented as separate business segment.

The Bank operates the following main business segments:

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

In thousands of BGN

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

In thousands of BGN

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

7. Net interest income

In thousands of BGN

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

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

8. Net fee and commission income

In thousands of BGN

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

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

In thousands of BGN

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

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

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

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

11. Net income from investments

In thousands of BGN

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

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

12. Other operating income, net

In thousands of BGN

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

The depreciation costs related to assets under operating lease, whenever this business represents core business (e.g. originating from leasing subsidiaries) are presented as other operating expenses.
In 2014 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.
In 2013 the Bank has recognized income related to letters of credit acquired by the Bank in previous periods, the final settlement of which is covered by intergovernmental agreements.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of long-term assets. For the years ended December 31, 2014 and December 31, 2013 the gains are in the amount of BGN 458 thousand and BGN 1,056 thousand respectively.

14. Personnel expenses

In thousands of BGN

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

As of December 31, 2014 the total number of employees, expressed in full time employee equivalent is 4,136 (December 31, 2013: 4,139)
Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **40**.
As described in note **3 (p) (iii)** ultimate parent company UniCredit S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.
The table below analyses the costs and movement in the Bank's liability by type of instruments granted:

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2013	2014 COST (GAINS)	SETTLED IN 2014	ECONOMIC VALUE AT DECEMBER 31, 2014
Deferred Short Term Incentive (stock options)	81	45	-	126
Deferred Short Term Incentive (ordinary shares)	2,382	535	(565)	2,352
ESOP and shares for Talents	507	119	(303)	323
Total Options and Shares	**2,970**	**699**	**(868)**	**2,801**

15. General and administrative expenses

In thousands of BGN

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

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

In thousands of BGN

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

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2014 and December 31, 2013 the impairment of long-term assets, is in the amount of BGN 2,998 thousand and BGN 2,291 thousand, respectively.

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **40**).

In thousands of BGN

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

18. Net Impairment loss on financial assets

In thousands of BGN

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

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

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2015.
The breakdown of tax charges in the income statement is as follows:

In thousands of BGN

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

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

In thousands of BGN

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

20. Cash and balances with Central bank

In thousands of BGN

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

21. Non-derivative financial assets held for trading

In thousands of BGN

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

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

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

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

In thousands of BGN

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

22. Derivatives held for trading

In thousands of BGN

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

Derivatives comprise of trading instruments that have positive market value as of December 31, 2014 and December 31, 2013. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (k)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book. As of December 31, 2014 and December 31, 2013 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits).

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

In thousands of BGN

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

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

25. Loans and advances to banks

In thousands of BGN

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

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

26. Loans and advances to customers

In thousands of BGN

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

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

27. Available for sale investments

In thousands of BGN

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

Government and corporate bonds classified as available for sale investments are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.
Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.
As of December 31, 2014 and December 31, 2013 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized for the years.
As of December 31, 2014 and December 31, 2013 available for sale investments in the amount of BGN 284,350 thousand and BGN 381,121 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

As of December 31, 2014 and December 31, 2013 held to maturity investments comprise only of first class government bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2014 and December 31, 2013.
As of December 31, 2014 and December 31, 2013 held to maturity investments in the amount of BGN 133,672 thousand and BGN 123,114 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

29. Investments in associates

As of December 31, 2014 and December 31, 2013 there is only one associated company, where the Bank exercises significant influence by holding 20% of the share capital of that company. This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2014 and December 31, 2013 are as follows:

In thousands of BGN

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

30. Property, plant, equipment and investment properties

In thousands of BGN

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

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

In thousands of BGN

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

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

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

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2014 and December 31, 2013 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2014 and December 31, 2013 amount to BGN 1,757 thousand and BGN 1,905 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2014 and December 31, 2013. The fair values of investment properties as of December 31, 2014 and December 31, 2013 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2014	2013	2014	2013
Investment properties				
Land	13,662	354	14,184	988
Buildings	46,915	3,877	48,150	4,881
Total investment properties	**60,577**	**4,231**	**62,334**	**5,869**

31. Intangible assets

In thousands of BGN

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

In thousands of BGN

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

32. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overprovided prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank stand-alone and its subsidiaries pay during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Corporate income tax in Bulgaria is charged in single entity basis. Should by the year-end advance instalments on single entity level exceed the overall annual current tax liability, the excess cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.
Based on that, as of December 31, 2014 the consolidated current tax assets, reported by the Bank, represent overprovided current tax for 2013, while current tax liabilities represent net payable current tax position for 2014.

33. Deferred tax

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

In thousands of BGN

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

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

In thousands of BGN

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

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

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

35. Other assets

In thousands of BGN

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

36. Financial liabilities held for trading

In thousands of BGN

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

37. Deposits from banks

In thousands of BGN

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

38. Deposits from customers

In thousands of BGN

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

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest on them as of the reporting date. As of December 31, 2014 and December 31, 2013 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

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

In thousands of BGN

START DATE	TERM TO MATURITY	AMOUNT OF THE ORIGINAL PRINCIPAL	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2014	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2013
November 26, 2004	10 years	19,558	-	26,070
December 20, 2004	10 years	19,558	-	26,102
February 3, 2005	10 years	25,426	33,229	32,881
August 2, 2005	10 years	29,337	37,367	37,020
November 19, 2008	10 years	97,792	-	97,932
Total		**191,671**	**70,596**	**220,005**

In 2014 two of the prior years' subordinated loans matured and were fully repaid to the creditors. In addition one subordinated loan with original principal amount of EUR 50,000 thousand and original maturity in 2018 was early prepaid. For the latter Bank has requested and received permission from the Bulgarian National Bank. All active subordinated loans meet the requirements of Bulgarian National Bank for Tier II inclusion for which Bank has received written approval. No principal repayments are allowed prior to final maturity of the loans unless explicitly approved by Bulgarian National Bank. Under the clauses of subordinated agreements UniCredit Bank Austria has agreed that all the subordinated indebtedness is unsecured, and that any repayment of these liabilities in case of insolvency, liquidation or dissolution of the Borrower (UniCredit Bulbank AD) shall be admitted after all other Borrowers' creditors have been reimbursed and satisfied.

40. Provisions

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

In thousands of BGN

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

(a) Provisions on letters of guarantees

Provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events. As of December 31, 2014 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 14,772 thousand (BGN 13,033 thousand as of December 31, 2013).

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future. As of December 31, 2014 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 20,090 thousand has been recognized (BGN 23,046 thousand as of December 31, 2013).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.
Major assumptions underlying in 2014 Defined benefit obligation are as follows:

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

The movement of the defined benefit obligation for the year ended December 31, 2014 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

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

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

The major factors impacting the present value of defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

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

(d) Provisions on constructive obligations

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

In thousands of BGN

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

As of December 31, 2014 and December 31, 2013 the Bank has recorded provisions on constructive obligations in accordance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises and safe-deposits boxes.
In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2014, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2014 law amendments moved the deadline for the above mentioned assessment to December 31, 2015. The balances as of December 31, 2014 and December 31, 2013 represent unutilized provision amounts as of the reporting dates.

(e) Other provision

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

41. Other liabilities

In thousands of BGN

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

Liabilities to the State Budget include current liabilities related to different tax positions of the Bank.

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2014 and 2013 in accordance with the defined target settings and adopted incentive programs.
Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.
As described in note **3 (p) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **14** above.

42. Equity

(a) Share capital

As of December 31, 2014 and December 31, 2013 share capital comprises of 285,776,674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

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

(c) Retained earnings

Under Retained earnings Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position Bank also shows the difference between the net assets value of the newly acquired subsidiaries in business combinations under common control and the consideration transferred at the date of first consolidation. In 2013 following the acquisitions in UniCredit Consumer Financing EAD, UniCredit Leasing EAD and HVB Leasing EOOD, that difference is in the amount of BGN 6,221 thousand.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 “Employee Benefits”.
Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2014 and December 31, 2013 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN 1,856 thousand and BGN 323 thousand, respectively, net of tax.

43. Contingent liabilities

In thousands of BGN

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

(a) Letters of credit and letters of guarantee

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.
The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted.
These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part. As of December 31, 2014 and December 31, 2013 the Bank has made assessment in compliance with IAS 37 “Provisions, Contingent liabilities and Contingent assets”. Due to abnormal credit risk related to certain clients’ exposures, Bank’s Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

(b) Litigation

As of December 31, 2014 and December 31, 2013 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these financial statements as of December 31, 2014 are in the amount of BGN 20,090 thousand (BGN 23,046 thousand in 2013), (see also Note **40)**.

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients’ disposal. As of December 31, 2014 and December 31, 2013 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

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

Securities and loans pledged on other deals include those contractually pledged on long-term financing provided to the Bank by local and foreign institutions.
Information on the collaterals received on open reverse repo deals as of December 31, 2014 and December 31, 2013 is as follows:

In thousands of BGN

	12/31/2014		12/31/2013	
	CARRYING AMOUNT	COLLATERAL VALUE	CARRYING AMOUNT	COLLATERAL VALUE
Receivables under repurchase agreements with banks	-	-	84,071	82,477
Receivables under repurchase agreements with customers	234,385	243,865	-	-
Total	**234,385**	**243,865**	**84,071**	**82,477**

45. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as "parent companies").
In addition the Bank has relatedness with its subsidiaries and associates (see also Note **29**) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2014 and December 31, 2013 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2014	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	1	-	34,004	**34,005**
Current accounts and deposits placed	1,441,137	-	1,089	**1,442,226**
Extended loans	-	-	4,548	**4,548**
Other assets	2,427		2,286	**4,713**
Current accounts and deposits taken	1,855,525	653	14,802	**1,870,980**
Subordinated liabilities	70,596	-	-	**70,596**
Derivatives held for trading	2,670	-	52,158	**54,828**
Derivatives used for hedging	38,895	-	3,030	**41,925**
Other liabilities	4,145	-	3,113	**7,258**
Guarantees received from the Group	**56,578**		**49,706**	**106,284**

In thousands of BGN

AS OF DECEMBER 31, 2013	PARENT COMPANIES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	-	11,675	**11,675**
Current accounts and deposits placed	1,667,452	683	**1,668,135**
Extended loans	-	16,777	**16,777**
Other assets	1,978	2,174	**4,152**
Derivatives used for hedging	59	4,020	**4,079**
Current accounts and deposits taken	1,340,767	9,592	**1,350,359**
Subordinated liabilities	220,005	-	**220,005**
Other liabilities	1,685	744	**2,429**
Guarantees received from the Group	**35,238**	**35,640**	**70,878**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2014	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	13,218	-	542	**13,760**
Interest expenses	(44,043)	(3)	(2,602)	**(46,648)**
Fee and commissions income	883	-	1,284	**2,167**
Fee and commissions expenses	(126)	-	(11)	**(137)**
Net gains (losses) on financial assets and liabilities held for trading	(4,397)	-	(5,687)	**(10,084)**
Other operating income	887	-	12	**899**
Administrative and personnel expenses	(2,090)	(945)	(8,819)	**(11,854)**
Total	**(35,668)**	**(948)**	**(15,281)**	**(51,897)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2013	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest income	4,548	-	529	**5,077**
Interest expenses	(30,811)	-	(31,307)	**(62,118)**
Fee and commissions income	836	-	999	**1,835**
Fee and commissions expenses	(92)	-	(15)	**(107)**
Net gains (losses) on financial assets and liabilities held for trading	2,499	-	-	**2,499**
Other operating income	879	-	13	**892**
Administrative and personnel expenses	(737)	(889)	(9,572)	**(11,198)**
Total	**(22,878)**	**(889)**	**(39,353)**	**(63,120)**

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

46. Cash and cash equivalents

In thousands of BGN

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

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

47. Leasing

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

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Up to one year	312,942	278,596	263,599	249,623
Between one and five years	492,924	370,947	304,032	329,825
Beyond five years	108,624	121,139	74,140	103,405
Total	**914,490**	**770,682**	**641,771**	**682,853**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2014	31.12.2013
Up to one year	4,831	5,493
Between one and five years	4,626	6,475
Beyond five years	1,119	1,119
Total	**10,576**	**13,087**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2014	31.12.2013
Up to one year	85	1,455
Between one and five years	-	2,860
Total	**85**	**4,315**

48. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2014 and December 31, 2013 the Bank has no subsidiaries or branches established outside Republic of Bulgaria. Summary of consolidated quantitate mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these consolidated financial statements or other mandatory reports are as follows:

In thousands of BGN

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

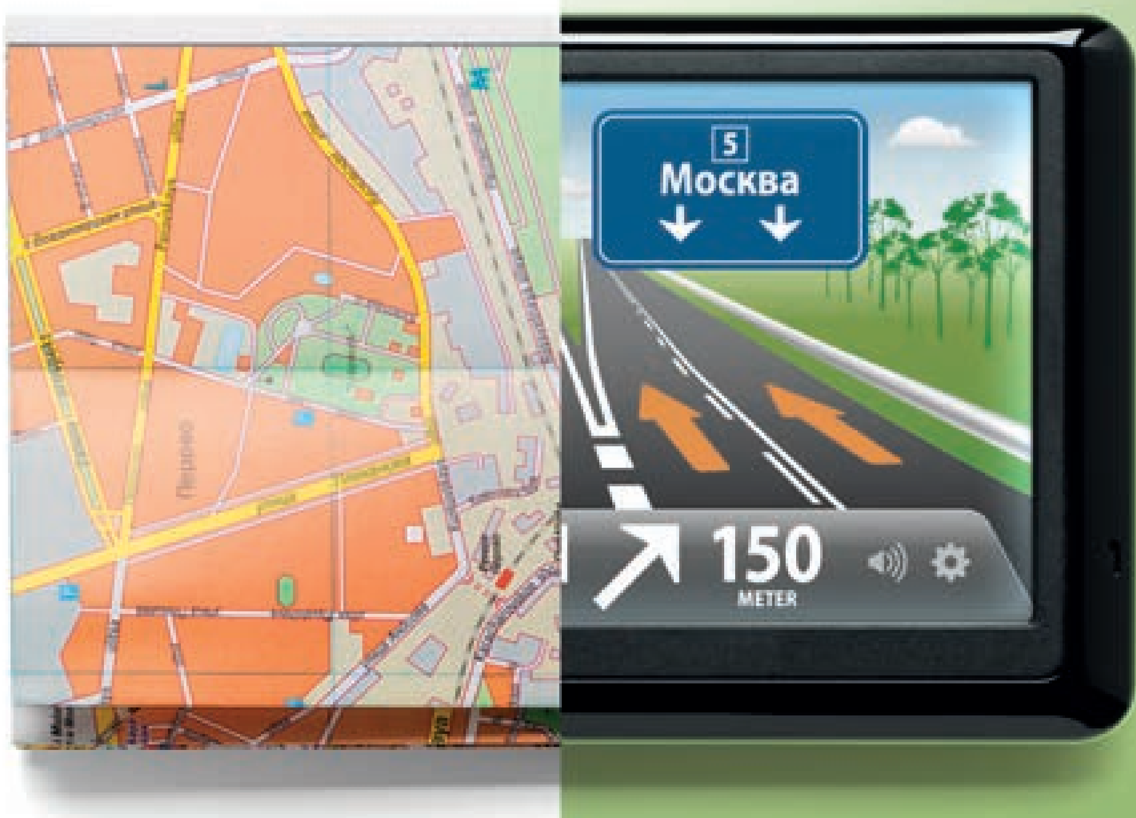
UniCredit Bulbank AD and its subsidiaries have never requested or been provided any state grants or subsidies.

There is a whole world to discover.

Better discover it now.

At home when you're abroad.

Together, we can go far.
UniCredit has more than 8,500 branches and over 147,000 employees in roughly 50 markets across the world. That means we have the tools, the knowledge and the manpower to help your business go international. Our **UniCredit International Centers** gather our most experienced cross-border experts into a single, powerful network that can provide your business with the information and services it needs to succeed abroad. From evaluating investments, to identifying optimal financial solutions and, of course, providing basic banking services, UniCredit is always with you, anywhere you choose to be.



Time
is precious.

Give it more value.

Advice when you want it.

Everyone needs advice. And no one wants to waste time. That is why we created **Video Advice@home**. This convenient service delivers expert advice online, allowing you to connect with our consultants from the comfort of home. Easy-to-install software enables us to respond quickly to questions about your current account, car loan or mortgage. We can create value for you, whenever and wherever you need us.

Bank Network

Aitos

27, Stancionna str.	0558/26 164; 22 115

Asenovgrad

8, Radi Ovcharov str.	0331/62 655

Balchik

34A Cherno more str	0579/71 120
3, Ivan Vazov str.	0579/74 061

Bansko

3, Pirin str.	0749/88 125

Berkovitsa

1, Yordan Radichkov sq.	0953/88 484
100, Nikolaevska str.	0953/88 686

Blagoevgrad

1, Macedonia sq.	073/867 028
5, St. Dimitur Solunski str.	073/834 074
17, Zelenopolsko shose str.	02/9 264 785
22, Ivan Shishman str.	073/828 634
57, Vasil Levski blvd	073/885 065
18, St. Kiril and Metodius blvd.	073/828 718

Bojuriste

85, Evropa blvd, Bojuriste	02/993 88 45

Botevgrad

24 Saransk sq.	0723/66 872

Burgas

22, Alexandrovska str.	056/877 262
68-70 Hristo Botev	056/806 811
Lukoil Neftohim	056/898 036
Burgas Airport	056/872 532
Burgas Port	056/840 277
94 block of Slaveikov District	056/581 218
30, Todor Aleksandrov blvd	056/589 913
22, Alexandrovska str.	056/877 262
4-6, P. Yavorov str.	056/874 133
Slaveikov district, block 46	056/896 681
Burgas, Meden rudnik, A, building 1	056/871 942
103, Stefan Stambolov blvd	056/689 830

Chepelare

1, Han Asparuh str.	03051/20 35

Chirpan

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