UniCredit Bulbank

Make it simple. It's *easy* with UniCredit.

2009 Annual Report

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.

UniCredit Bulbank

Times change, but commitments do not. We emerged from 2009 with a renewed sense of purpose and direction. What was important to us before is even more important today. Namely, our customers.

Accordingly, we developed a new mission statement in 2009 to reinforce those principles and practices that we believe to be drivers of greater customer centricity. Emphasized in this mission is the desire to make banking as easy as possible for our customers by offering the kind of simple, straightforward solutions that can assist them in achieving their financial goals reliably and efficiently.

This is what we call “real-life banking”. It means providing our clients with more than just financial services by giving them the right support at the right time and in the right way. It is about looking our customers in the eye, working closely with them to assess their real-life needs, and then using our expertise to deliver effective solutions through smooth and easy interactions.

We believe that our rigorous dedication to simplicity and transparency will continue to advance excellence in all that we do. It will also maintain and grow the trust of our customers - a trust that is exemplified in the following pages.

This year’s report features photographs and personal stories from UniCredit Group customers across Europe, highlighting the concrete role that our company has played in their lives. Each of these individuals, who represent the foundation upon which we are structuring our shared future, has told us about a time we made their life easier.

2009 Annual Report

Plamen Dilkov
CEO of VEZ SVOGHE
Corporate Banking Client
Bulgaria

«We have devoted ourselves to green energy and we would have never had two already working water plants and a project for seven more in the pipeline without the trust and the support of UniCredit Bulbank.»

It's easy with UniCredit.

Contents

Financial Highlights (Unconsolidated)

(Thousands of BGN, unless otherwise stated)

	2009	2008	Growth (2009/2008)
Key figures			
Net profit	194,753	291,703	-33.2%
Shareholders' equity (eop)	1,635,940	1,373,065	19.1%
Total assets (eop)	11,518,774	11,014,704	4.6%
Bank customer deposits (eop)	6,421,385	6,029,191	6.5%
Bank customer deposits (av.)	6,225,288	6,178,870	0.8%
Bank customer loans (eop)	7,370,496	7,232,251	1.9%
Bank customer loans (av.)	7,301,374	6,216,875	17.4%
Earnings per share (in BGN)	0.81	1.22	-33.2%
Income			
Net interest income	408,081	463,369	-11.9%
Net fee and commission income	150,676	155,238	-2.9%
Net trading income	1,777	(24,019)	n.a.
Net income from investment securities	2,234	(1,093)	n.a.
Gross operating income	572,456	611,876	-6.4%
Net operating income	327,602	352,670	-7.1%
Expenses			
Operating expenses	244,854	259,206	-5.5%
Personnel costs	96,483	102,248	-5.6%
Non-personnel costs	113,896	125,654	-9.4%
Depreciation	34,475	31,304	10.1%
Impairment losses on financial assets and provisions	110,765	28,302	291.4%
Income tax expense	22,084	32,665	-32.4%
Ratios (%)			
Return on average assets (ROA)	1.7	2.9	-1.2pp
Return on average equity (ROE)	12.9	23.0	-10.1pp
Capital/Asset ratio (eop)	14.2	12.5	1.7pp
Total capital ratio (eop)	16.7	13.2	3.5pp
Tier 1 capital ratio (eop)	13.4	10.3	3.1pp
Risk weighted assets/Total assets ratio (eop)	80.4	82.8	-2.5pp
Non-performing loans/Gross loans	4.1	2.1	1.9pp
Loan/Deposit ratio	114.8	120.0	-5.2pp
Cost/Income ratio	42.8	42.4	0.4pp
Net profit margin	34.0	47.7	-13.7pp
Resources (number) - (eop)			
Bank operating outlets	234	260	-26
Employees	3,803	3,869	-66
Foreign exchange rate at period-end (BGN/USD)	*1.3641*	*1.3873*	*-1.7%*
Average annual exchange rate over the period (BGN/USD)	*1.4053*	*1.3339*	*5.4%*

Financial Highlights (Consolidated)

(Thousands of BGN, unless otherwise stated)

	2009	2008	Growth (2009/2008)
Key figures			
Net profit	197,397	292,944	-32.6%
Shareholders' equity (eop)	1,640,134	1,378,289	19.0%
Total assets (eop)	11,523,729	11,034,209	4.4%
Customer deposits (eop)	6,413,097	6,024,506	6.5%
Customer loans (eop)	7,378,678	7,238,633	1.9%
Earnings per share (in BGN)	0.83	1.22	-32.6%
Income			
Net interest income	409,510	463,714	-11.7%
Net fee and commission income	151,899	156,007	-2.6%
Net trading income	1,751	(23,930)	n.a.
Net income from investment securities	2,234	(1,093)	n.a.
Gross operating income	578,040	613,976	-5.9%
Net operating income	331,481	354,095	-6.4%
Expenses			
Operating expenses	246,559	259,881	-5.1%
Personnel costs	97,781	103,392	-5.4%
Non-personnel costs	113,691	124,502	-8.7%
Depreciation	35,087	31,987	9.7%
Impairment losses on financial assets and provisions	111,261	28,436	291.3%
Income tax expense	22,823	32,715	-30.2%
Ratios (%)			
Return on average assets (ROA)	1.8	2.9	-1.2pp
Return on average equity (ROE)	13.1	23.0	-9.9pp
Loan/Deposit ratio	115.1	120.2	-5.1pp
Cost/Income ratio	42.7	42.3	0.3pp
Net profit margin	34.1	47.7	-13.6pp

Letter to Shareholders

Dear shareholders,

In the past year we were standing against a systematic challenge – the global financial and economic crisis. Our major objective, as a banking leader in Bulgaria, was to design and undertake strategic moves that would ensure our successful exit out of the crisis. By setting our business targets and taking the road to a socially responsible institution, there is a common understanding that our goals cannot be accomplished unless each one of us truly commits to and fully participates in the process.

UniCredit Bulbank has always highly appreciated and will keep respecting its human capital, believed as the most valuable asset. All decisions of the Bank's Management take into consideration the impact on its people. In the year 2009, despite the economic situation, we managed to preserve our employees and avoided massive staff layoffs.

In 2009 UniCredit Bulbank continued to be understanding of its customers' needs at times of changing economic conditions. In this respect, loans with difficulties were reviewed and restructured, depending on the requirements and abilities of their beneficiaries. Given the healthy financial condition of the Bank, it not only managed to maintain the deposit volumes of its loyal clients, but also attracted fresh sources of funding at very competitive prices.

In order to overcome the challenges of the worsened business environment, the Bank followed a very strict and conservative policy regarding expenses. A basic principle of the business organization is to be effective and, applying this principle, we kept monitoring the operational performance and profoundly analyzed the financial results of all our structures. If there was a need to expand the processes and activities or to optimize the structures, so that improved efficiency is accomplished, appropriate actions were taken.

While performing an analysis of the banking sector, we provided all structures with the opportunity to prove their efficiency. Namely, continuous effectiveness and positive financial results, with a trend in the generation of a return on investment at least equal to the average of the Bank, was a main measure of the success of our branches and offices. As a result of this approach, we took the tough decision to close few locations of the retail branch network, mainly due to their inefficiencies.

In 2009 UniCredit Bulbank managed to retain its reputation of one of the most stable and socially responsible financial institutions, with focus on serving the needs and interests of its customers. The Bank maintained its position of a distinguished leader and dominated the Bulgarian banking market by market share of 16.3% in total assets, 14.8% in total loans, 14.8% in total deposits and 24.7% in net profit.

The good economic standing and positive financial results of the Bank, signifying the improved customer satisfaction, were also approved by the high level of our employees' satisfaction. Starting on January 2010, the annual UniCredit People Survey, one of the key initiatives of the Group, demonstrated that our people see it very important to share their opinion with the Top Management. Indeed, the Management thoroughly examined the feedback provided and, based on this survey, an Action Plan was developed. In effect, various internal customer-tailored solutions were implemented, such as Know Your People meetings, Responsible to Society initiative, Customer Satisfaction Training Program, etc.

Aiming at increasing the efficiency along the entire value chain, adopting some proof positive business practices and making its operations and structures more straightforward, the Bank started the Divizionalization program in the second half of 2009. The purpose of the program is to implement the business model of UniCredit Group in the Central Eastern Europe banks, including UniCredit Bulbank. Key principles of the program include: increasing the quality and promptness of customer service, while putting the client at the centre of our business model; improving the effectiveness and achieving a more flexible approach in the presence of changed market environment through simplification of the organization, operations and governance.

While 2009 was a year of serious challenges, 2010 will not be much different. Not long ago, the intensive and dynamic competition used to be the major challenge. Now, this is the changed economic environment. As of date, the economy does not show many clear signs of financial stabilization. Working as a team of qualified professionals, we can once again prove that we are better than the competition. For that purpose, we will support our loyal clients, find new opportunities and stay prepared for the eventual recovery and growth of the economy, so that we can fully take advantage of it.

In the end, we would like to thank our customers, partners and shareholders for their trust, loyalty and patience in a year of global financial and economic disturbances. We are also grateful to our managers and employees, whose dedicated efforts and competence contributed to another year of profitable operations. And finally, let us thank all Supervisory Board and Management Board members who managed the institution confidently and prudently through this period of change.

Levon Hampartzoumian
Chairman of the Management Board
and CEO

Robert Zadrazil
Chairman of the Supervisory Board

20 May 2010
Sofia

Supervisory Board and Management Board[1]

Supervisory Board

Robert Zadrazil	Chairman
Alberto Devoto	Deputy Chairman
Dimitar Zhelev	Member
Heinz Meidlinger	
Maria-Elisabeth Sochstl-Kugler	
Claudio Cesario	
Graciano Cameli	

Management Board

Levon Hampartzoumian	Chairman and Chief Executive Officer
Andrea Casini	Deputy Chairman and Chief Operative Officer
Emilia Palibachiyska	Member
Lyubomir Punchev	
Monika Fuernsinn	

On 22.01.2009 a change in the composition of the Supervisory Board of UniCredit Bulbank was entered in the Commercial registry of the Registry Agency, based on the decision of the Extraordinary General Meeting of the Shareholders of UniCredit Bulbank, held on 19 December 2008:

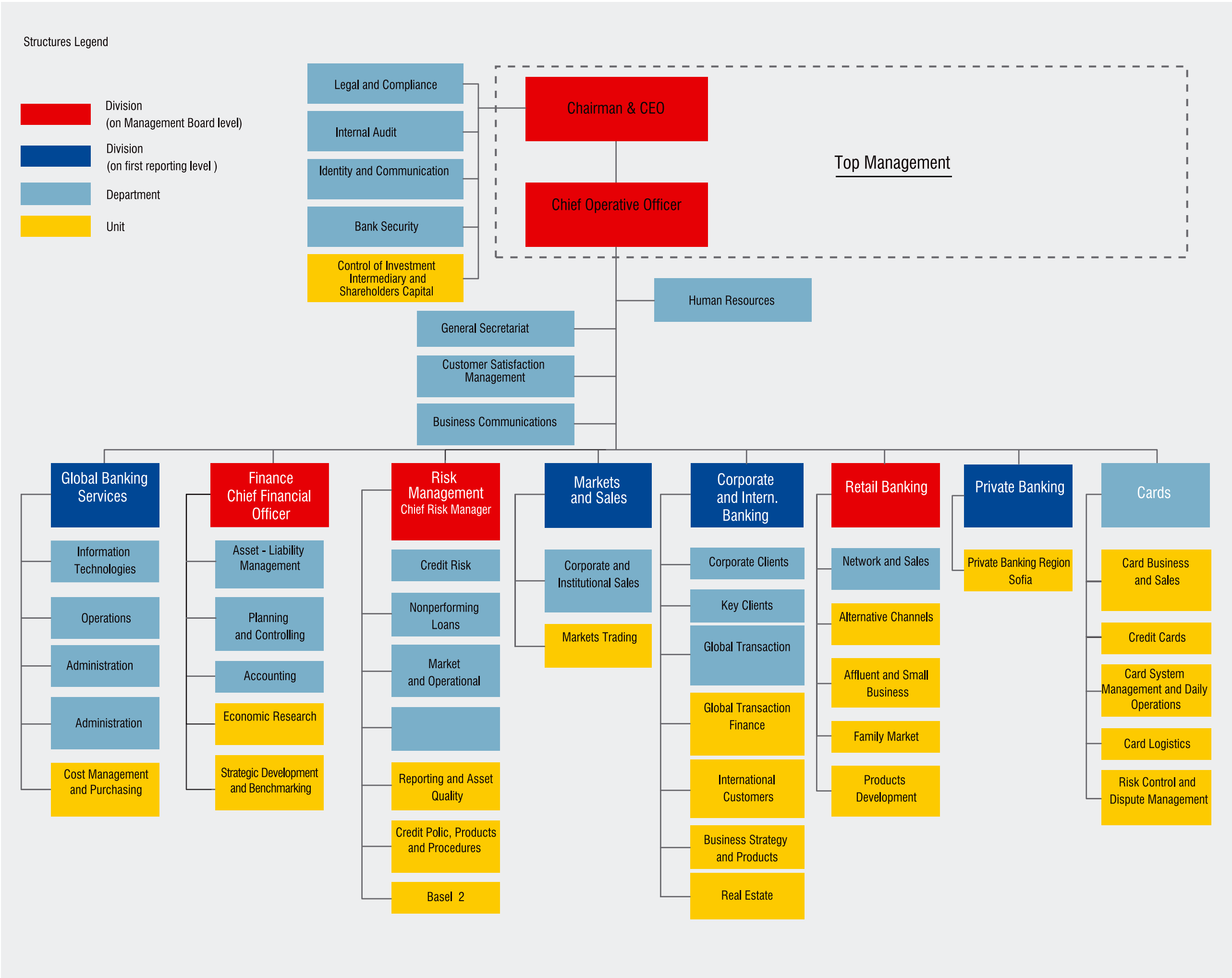
- Election of: Ms. Maria-Elisabeth Sochstl – Kugler, Mr. Claudio Cesario, Mr. Graciano Cameli as Members of SB.
- Release of: Mr. Tomas Gross, Ms. Elena Patrizia Goitini and Mr. Marco Iannaccone as Members of SB.

On 4.01.2010 Mr. Alexander Krustev was entered in the Commercial registry of the Registry Agency as a member of the Management Board, thus replacing Ms. Monika Fuernsinn.

On 5.05.2010 Mr. Gert Hebenstreit was entered in the Commercial registry of the Registry Agency as a member of the Management Board.

[1] As of 31 December 2009

Organisation Chart[1]



[1] As of 31 December 2009

Credit Rating and Awards

Counterparty Credit Rating
Standard & Poor's

Long-term	BBB[2]
Short-term	A-3
Outlook	Negative

[2]Equal to the S&P sovereign rating of Bulgaria in foreign currency

Awards received by UniCredit Bulbank in 2009

- Financial Central Europe magazine - The best bank in Bulgaria on capital, assets, profit
- Pari magazine - Bank of the year on market share
- The Banker - Bank of the year in Bulgaria
- The Banker -The best investment bank inCEE for UniCredit
- Euromoney - The best bank in cash management
- Euromoney - The best bank in Bulgaria
- emeafinance - The best bank in Bulgaria and the best foreign bank in Bulgaria
- Global Custodian - The best custodian services
- Global Finance - UniCredit Group is best trade finance provider
- APOZ - Corporate social responsibility
- Burov Foundation - Bank management

Andreas Schmidt,
Bayerische Börse AG
Corporate Banking Client
Germany

«We have frequent personal contact with our relationship manager, whom we can easily reach anytime. We set great store by the offers we receive from him that are precisely tailored to our needs. We value the expertise and many product offerings we fi nd at HypoVereinsbank - UniCredit Group. Our interactions with the bank go quickly and smoothly. We have been a loyal and satisfi ed customer for many years.»

It's easy with UniCredit.

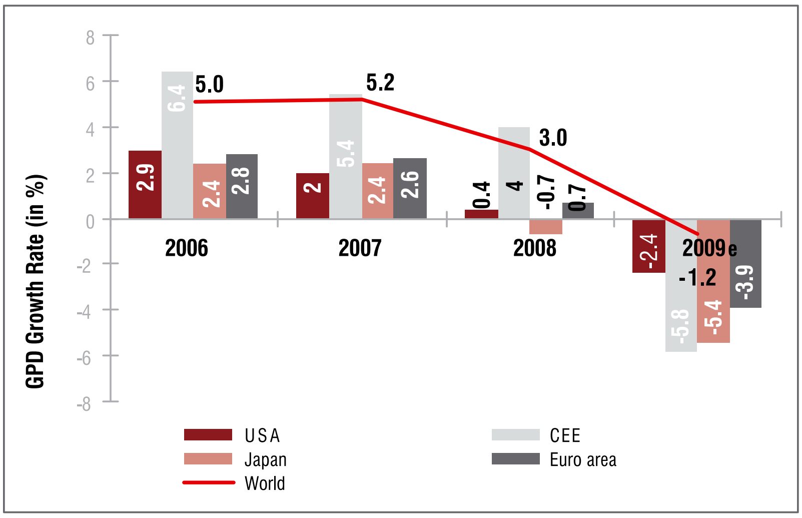
József Varga,
Valid Dental-Medical Nagykereskedőház Kft.
Retail Client - Hungary

«We had already been enjoying a good relationship with UniCredit for several years when our employees raised the idea of opening retail bank accounts that offered favorable terms on fees and interest rates.
After we contacted UniCredit Bank, they offered us the opportunity to open new accounts as part of a special "Employee Benefit Package" to the great satisfaction of my employees.»

It's easy with UniCredit.

Bulgarian and World Economy

Economic Overview



In contrast to many other EU countries the global recession hit the Bulgarian economy with a considerable time lag. In 1Q2009 only, GDP growth fell into negative territory as the economy was battered hard by the falling external demand and the collapse of foreign capital inflows. The situation was further aggravated by the large current account gap which made the Bulgarian economy particularly vulnerable to the dry-up in foreign capital inflow, triggered by the Leman Brothers failure. Thus, the economy fell in a recession with GDP estimated to have contracted by real 5.2% over the course of 2009. However, the substantial buffers accumulated during the booming years gave a strong starting position to the authorities, who faced the challenges presented by the global downturn. The large fiscal stimulus undertaken in the last two months of 2008, in combination with easing of the minimum reserve requirements, helped the economy cushion the initial blow of the downward spiral.

Following the general elections in June, the new administration adopted a more decisive stance against corruption and embarked on an aggressive cost cutting to stabilize public finances. The new government downsized the public administration, adjusted wage growth to productivity and shifted financing of public investments towards better EU funds absorption. To help the economy, the authorities speeded up VAT refunds and slashed the social security contribution rate while at the same time committing to streamline public procurement and cut market entry and exit barriers. The policy approach of the Bulgarian authorities seemed the right one. Given the limited room for fiscal and monetary policy expansion under the fixed exchange rate regime, the attention was shifted to pressing ahead with the structural measures needed to improve the competitiveness in the medium to long-run. In parallel, the absorption of EU aids was boosted, which is expected to provide the necessary stimulus for domestic demand in the short-run.

As a result of the recession home prices fell by almost 30% (from levels during the boom), which caused a decline in the net worth of the household sector of significant proportions. The unemployment rate increased to estimated 9.3% in the end of 2009, with job losses being highest in the export-oriented industries, construction and the overheated real estate sector. On the positive side, the weaker domestic demand caused CPI to fall to just 2.8% on average in 2009 vis-á-vis 12.4% one year earlier.

Bulgarian and World Economy (Continued)

Selected economic indicators	2009	2008	2007	2006	2005	Growth 09/08
Official exchange rate at the end of the period (BGN/USD)	1.36	1.39	1.33	1.49	1.66	-1.7%
Average Official exchange rate (BGN/USD)	1.41	1.34	1.43	1.56	1.57	5.2%
Avg. Basic Interest Rate (%)	2.41	5.12	3.92	2.68	2.04	-2.7
Inflation at the end of the period (%)	0.6	7.8	12.5	6.5	6.5	-7.2
Avarage inflation (%)	2.8	12.4	8.4	7.3	5.0	-9.6
Nominal GDP (EUR million)[e]	33,295	34,118	28,898	25,238	21,882	-2.4%
Real GDP growth (%)[e]	-5.2	6.0	6.2	6.3	6.2	-11.2
GDP per capita (EUR)[e]	4,395	4,485	3,782	3,268	2,835	-2.0%
Balance of payments final balance (EUR millions)*	(655)	674	3,164	1,786	569	-129.3%
Current account balance (EUR millions)	(2,556)	(8,376)	(7,862)	(4,468)	(2,470)	-66.8%
Foreign trade turnover, FOB (EUR millions)*	25,333	39,005	34,322	29,499	23,276	-30.6%
Trade balance, FOB (EUR millions)*	(3,727)	(8,597)	(7,298)	(5,475)	(4,343)	-53.2%
Net foreign direct investments (EUR millions)	2,523	6,064	8,382	6,081	3,226	-54.7%
Gross foreign debt at the end of the period (EUR millions)**	36,992	36,974	28,989	20,691	15,507	-2.0%
Gross foreign debt / GDP (%)[e]	110.7	108.4	99.8	81.7	70.9	2.3
Gross internal public debt at the end of the period (EUR millions)**	1,513	1,571	1,636	1,511	1,453	-3.8%
BNB FX reserves (EUR millions)	12,919	12,713	11,937	8,926	7,370	1.6%
Budget balance/GDP (%)[e]	-0.7	3.0	3.5	3.6	2.3	-3.7
Unemployment rate at the end of the period (%)	9.1	6.3	6.9	9.1	10.7	2.8
Acting commercial banks at the end of the period	30	30	29	32	34	-

Source: BNB, NSI, Ministry of Finance and UniCredit Bulbank projections

[e] Economic Research Estimates for 2009 GDP growth;

* data Jan - Nov. 2009;

** data as of Nov. 2009

CA adjustment proceeded faster than expected helping slash the country's external funding needs to more sustainable levels. Though falling by slightly more than a half, FDI still continued to cover the CA gap in full.

Although the recession is not over and 2010 is likely to present its own challenges, the long-term outlook of the Bulgarian economy remains promising. Bulgaria continues to be the lowest cost provider in the EU. The country offers a favourable taxation and flexible labour markets. It also is traditionally perceived as a gateway for the countries in the Western Balkans and the Black Sea region. The efforts to cut corruption and modernize the economy regained momentum after the new administration took office in mid 2009. All these factors continue to make Bulgaria a very attractive destination for delocalization of production activities, particularly for those western European companies which will be forced to restructure in response to the global financial crisis.

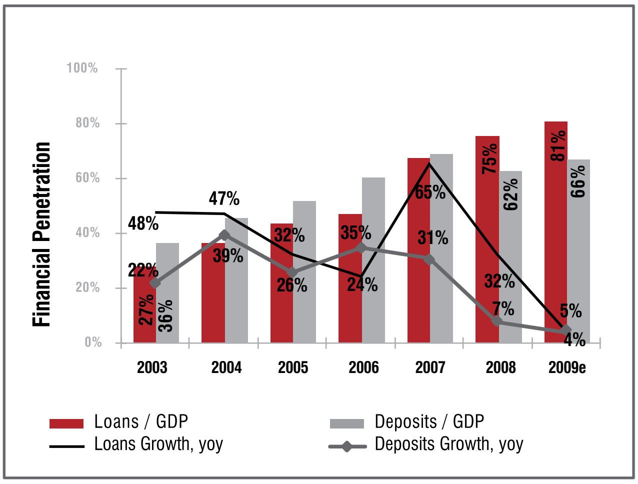
Banking Sector Overview

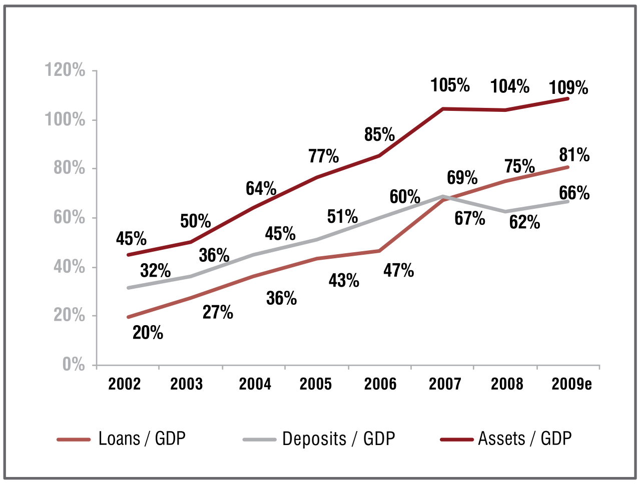
The twelve-month growth in outstanding loans to households and non-financial corporations declined to 4.5% in the end of 2009. This was a reflection of the collapse in the demand for new loans. The demand for investment loans weakened on the back of a mounting risk for excess production capacities in the post-crisis economy. The demand for mortgage loans, on the other hand, lost momentum as housing prices declined sharply and more time will be needed before mortgage seekers start perceiving prices as stable. At the same time, the banks became more risk averse once it was clear that the short-to-medium term outlook for the economy has deteriorated. They tightened the eligibility standards for new borrowers and increased the applicable interest rates on loans in response to a marked deterioration in funding conditions.

Highlighting the severity of the downturn in the real economy, customer deposits posted a twelve-month increase of just 3.7% in 2009. Corporate deposits (excl. NBFI) declined (-10.5% YoY) as the companies were under pressure to deleverage their own positions, while the contraction of government deposits (-40% YoY) mostly reflected the need for fiscal tightening in 2H2009. Attracted by the higher real interest rates and the strengthened deposit insurance standards, household deposits posted a strong 11% YoY growth.

The competition for locally attracted deposits pushed the interest rates significantly upwards (by 115 bps from 3.22% in 2008 to 4.37% in 2009). To help the economy, the banks increased the lending interest rates in smaller proportions. BNB on its part aligned the prudential regulations regarding provisioning and classification of risk exposures with the standards applied elsewhere in the EU in order to make it easier for banks to deal with the recession's impact on their loan books. In addition, BNB generated liquidity for BGN 1.5bn, using the minimum reserve requirements channel, and persuaded banks to boost the capital position by abstaining from dividend payments.

CEE banking sectors have traditionally been dependent on foreign funding and Bulgaria is no exception. The international liquidity crisis was reflected in a drying up of international interbank and debt markets and in a much higher cost of external funding. Thus, the banking sector in Bulgaria was forced to deleverage its external position, with net external assets to total consolidated assets ratio improving from minus 15.1% in the end of 2008 to minus 12.3% one year later. The troubles in the real economy pushed NPL upward to 6.1% in the end of 2009, from 3.2% in 2008. The reduced business volumes growth and the accelerated non-performing loans constrained the banks' profitability. Thus 2009 after tax profit declined by 44% YoY to BGN 780m from BGN 1 387m in the previous year.





Dace Markeviča
Uralchem Trading Sia
Corporate Banking Client - Latvia

«Uralchem Trading has the assurance that every time, even when it comes to fairly simple banking transactions like payments, UniCredit Bank will look for and find mutually benefi cial solutions. The bank's professional staff always offers helpful advice on successful business operations, thereby laying the foundation for mutual trust and a long-term partnership.»

It's easy with UniCredit.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

In 2009 UniCredit Bulbank's total gross operating income was BGN 572.5m (6.4% lower than the year before). Operating expenses decreased by 5.5% to BGN 244.9m. This caused a fall of 7.1% in net operating income, down to BGN 327.6m. Due to a fourfold hike in impairment losses and provisions, net profit reported an annual drop of 33.2% to BGN 194.8m.

Thousands of BGN

Summary of Unconsolidated Operating Income Statement	2009	2008	Growth (%)	Growth (amount)
Net interest income	408,081	463,369	-11.9	(55,288)
Net fee and commission income	150,676	155,238	-2.9	(4,562)
Net trading income	1,777	(24,019)	n.a.	25,796
Net result from investment securities	2,234	(1,093)	n.a.	3,327
Other income	9,688	18,381	-47.3	(8,693)
GROSS OPERATING INCOME	**572,456**	**611,876**	**-6.4**	**(39,420)**
Operating expenses	(244,854)	(259,206)	-5.5	14,352
NET OPERATING INCOME	**327,602**	**352,670**	**-7.1**	**(25,068)**
Impairment losses on financial assets and provisions	(110,765)	(28,302)	291.4	(82,463)
Income tax expense	(22,084)	(32,665)	-32.4	10,581
NET PROFIT	**194,753**	**291,703**	**-33.2**	**(96,950)**

UniCredit Bulbank's profitability and efficiency remained fairly stable regardless of the harsh economic environment in 2009. Return on average assets was 1.7% and return on average equity was 12.9%, both of which positioned well above the ones of the banking system. Earnings per share decreased by 33.2% to BGN 0.81 and net profit margin was down by 13.7pp to 34.0%. Cost/income ratio was 42.8%, remaining below the average of the market.

Revenue Structure	2009	2008
Net interest income	71%	76%
Net fee and commission income	26%	25%
Net result from trading and securitties and other income	2%	-1%
GROSS OPERATING INCOME	**100%**	**100%**

Net interest income remained the major earnings contributor, generating 71% of gross operating income as at the end of 2009. It reported an annual decrease of 11.9% to BGN 408.1m and also changed its structure a bit. In particular, loans and advances to customers generated 1.4% less revenue in 2009 but still increased their share in interest income to 89%. Given the highly volatile 2009, securities reported a negative YoY growth and now account for 8% of interest income. Interbank placements preserved their 3% contribution to interest income.

The interest income reduction was caused by a overwhelming decrease in loan interest rates which could not be offset by 1.9% increase in volumes. Interest expense on customer deposits went up by 44% due to the double effect of increasing deposit prices and increasing volume (+6.5% YoY). Net interest margin was down by 1pp to 3.6%.

UniCredit Bulbank Activity Review (Continued)

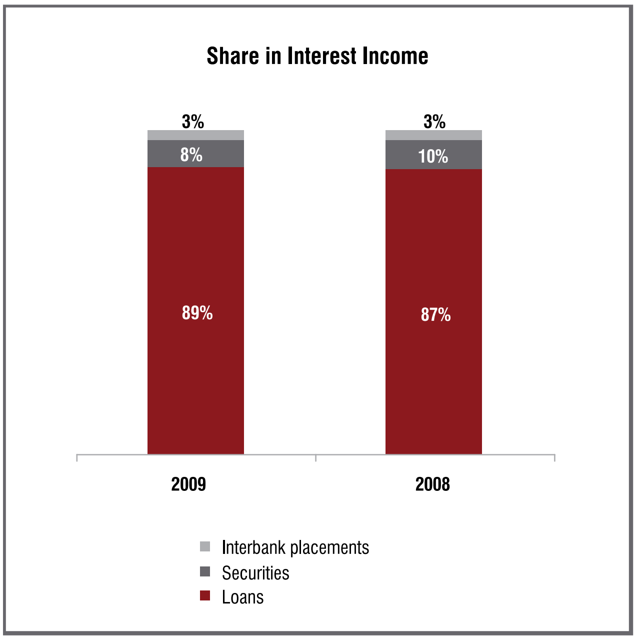
Net fees and commissions income, accounting for 26% of gross operating income, was down by 2.9% to BGN 150.7m. The drop was mainly attributable to the decreases of 16% in currency trading fees, 32% in management, brokerage and securities trading, 5% in fees from collection and payment services and 8% in lending business fees.

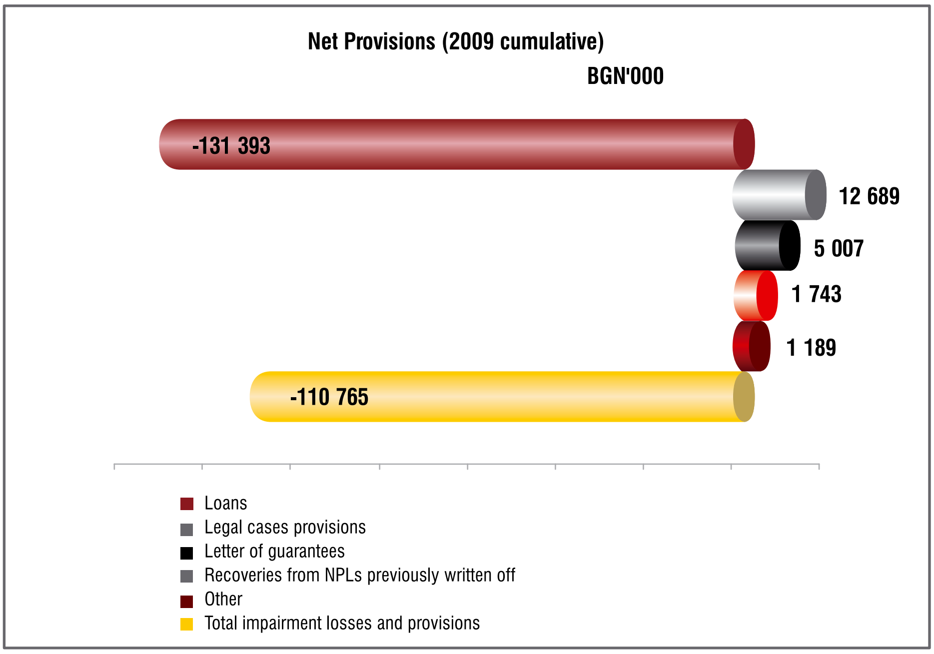
The rest of the gross operating income components: net trading income, net results from investment securities, and other operating income, taken altogether reported a positive annual growth of BGN 20.4m.

The 5.5% decrease in operating costs was a logical consequence of the economic shrinkage. Personnel costs were down by 5.6%, while non-personal costs recorded a drop of 9.4%.

Net impairment losses on financial assets and provisions quadrupled to BGN 110.8m compared to BGN 28.3m in 2008. A small proportion of the impairment was offset by the positive effects of BGN 12.7m in legal case resolutions, BGN 5.0m due to reduced risk on letters of guarantee and BGN 1.7m in write-off recoveries. At times of worsened economic conditions the Bank's NPL ratio increased from 2.1% in 2008 to 4.1% a year later. Yet, on account of the prudent risk assessment and the strict provisioning policy of the Bank, NPL ratio positioned below the one of the banking system (6.1%).

Income tax was BGN 22.1m, down by 32.4% YoY driven by the reduced gross profit figure.





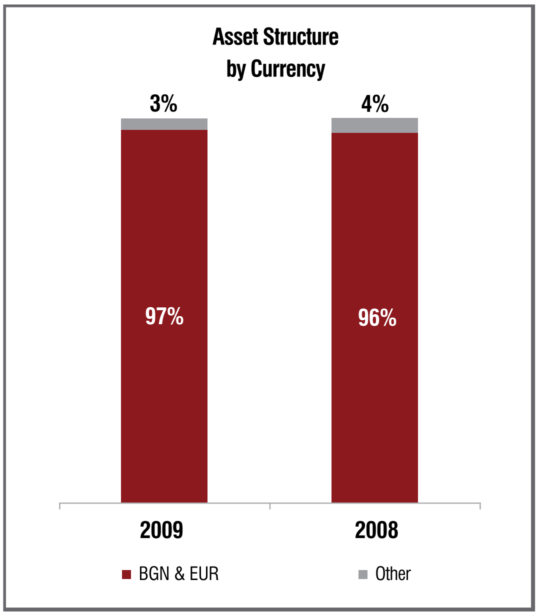
Unconsolidated Assets and Liabilities

Total assets on unconsolidated basis reached BGN 11,519m, up by 4.6% compared to the end of 2008.

Thousands of BGN

Summary of Unconsolidated Balance Sheet	2009	2008	Growth (%)	Growth (amount)
Assets				
Cash and balances with Central Bank	832,158	905,929	-8.1	(73,771)
Due from banks	2,071,567	1,549,996	33.6	521,571
Securities	851,755	1,020,617	-16.5	(168,862)
Loans and advances to customers	7,370,496	7,232,251	1.9	138,245
Property and equipment	245,463	185,129	32.6	60,334
Other assets, net	147,335	120,782	22.0	26,553
Total assets	**11,518,774**	**11,014,704**	**4.6**	**504,070**
Liabilities and shareholders' equity				
Customer deposits	6,421,385	6,029,191	6.5	392,194
Deposits from banks	3,105,352	3,218,594	-3.5	(113,242)
Other liabilities	356,097	393,854	-9.6	(37,757)
Total liabilities	**9,882,834**	**9,641,639**	**2.5**	**241,195**
Shareholders' equity	**1,635,940**	**1,373,065**	**19.1**	**262,875**
Total liabilities and shareholders' equity	**11,518,774**	**11,014,704**	**4.6**	**504,070**

The currency structure of assets changed slightly. EUR and BGN-denominated assets increased their share from 96% to 97% of total balance sheet.

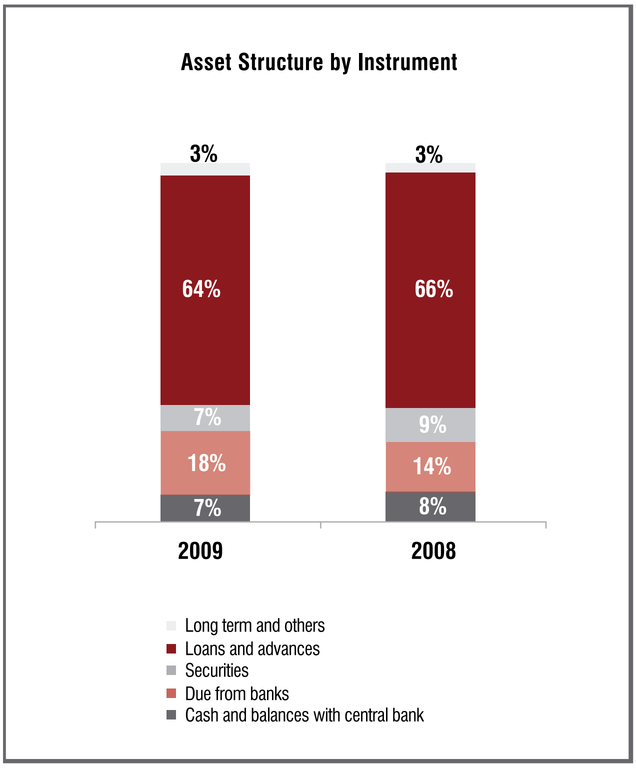


The weight of the loan portfolio decreased a bit (to 64% of total assets), reaching BGN 7,370m in net terms (up 1.9% YoY). A modest business growth was envisaged in both retail and corporate business areas. The underlying gross loan volumes advanced by 3.4%, with company loans increasing by 5.6% and residential mortgages rising by 6.4%, while consumer loans were down by 12.8%.

The securities portfolio declined by 16.5% to BGN 852m and its share of total assets decreased from 9% to 7%. Inter-bank placements were up by 33.6% at the end of 2009, and their share of total assets increased from 14% to 18%. Cash and balances with BNB decreased by 8.1% to BGN 832m. Property and equipment increased by 32.6% to BGN 245m.

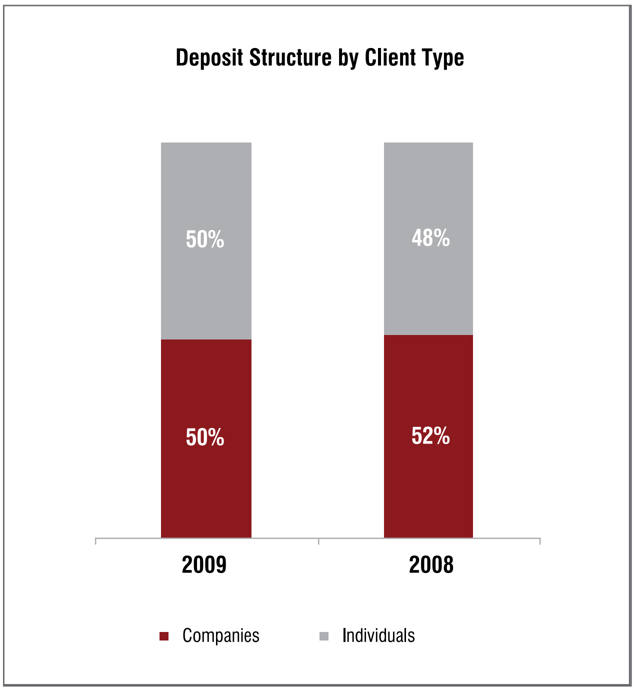
The Bank continued to finance its operations predominantly through customer deposits and internal funds. Customer deposits were up by 6.5%, reaching BGN 6,421m.

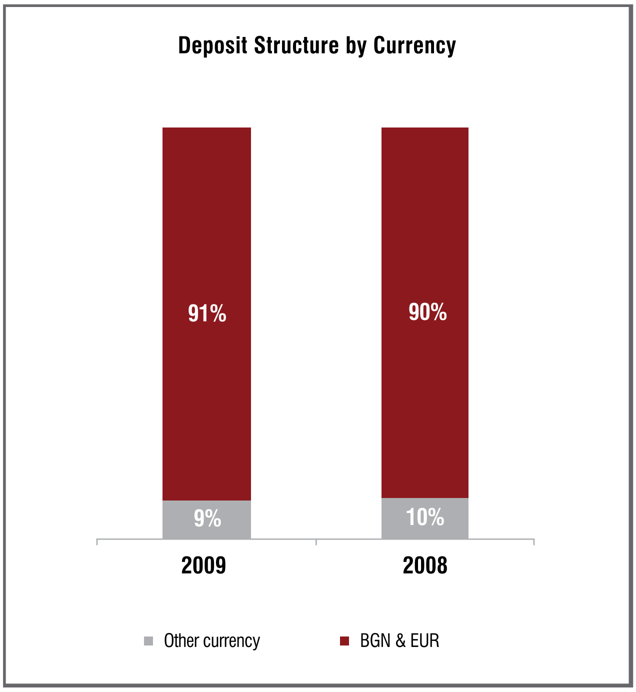
Unconsolidated shareholders' equity amounted to BGN 1,636m, up by 19.1% for the year (BGN 1,373m in 2008). The equity ratio increased from 12.5% in 2008 to 14.2% in 2009. Total capital adequacy ratio was 16.7% (13.2% in 2008), and Tier 1 ratio was 13.4% (10.3% in 2008). Risk-weighted assets to total assets ratio was down by 2.5pp to 80.4%. These ensured a complete compliance with BNB Regulation 8 on Capital Adequacy.

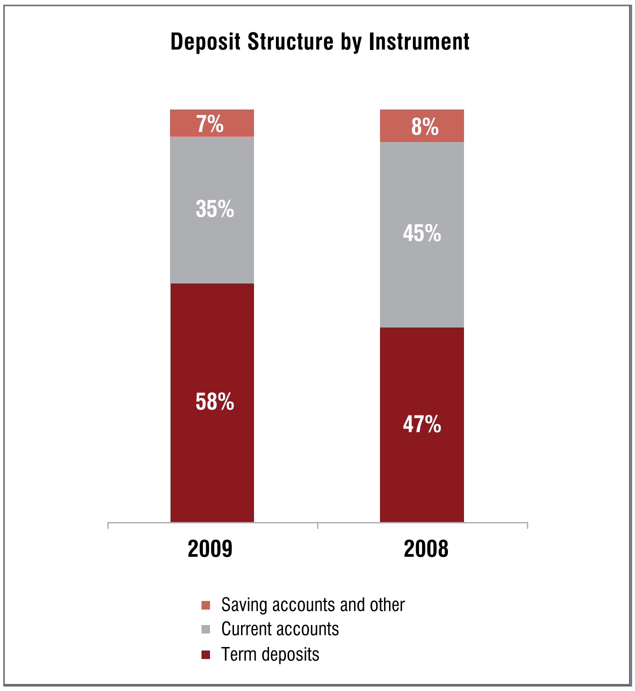


Customer Deposits

In 2009, customer deposits reached BGN 6,421m, 91% of which were denominated in EUR and BGN. Deposits of individuals increased to BGN 3,186m at the end of 2009, 50% of total. The other half consisted of company deposits, which amounted to BGN 3,235m. Given the differences in interest rates, the customers continued to shift funds away from current accounts to time deposits, thus affecting the net margin. The term deposit weight increased to 58% (47% in 2008) reaching 3,727m (up 30.6% YoY).





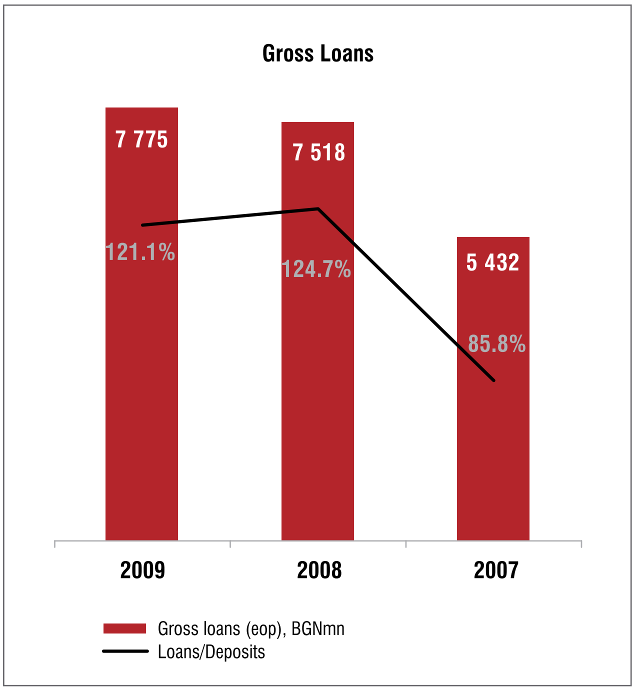


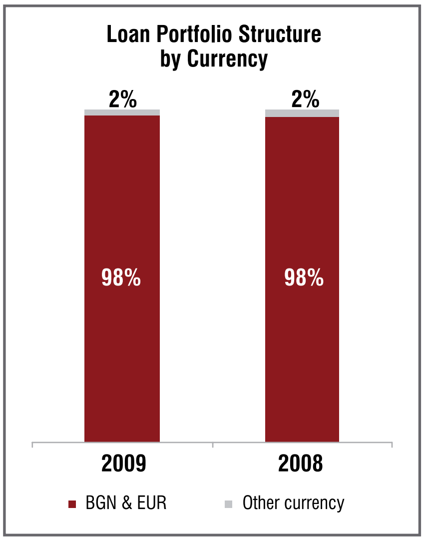
Bank Loan Portfolio

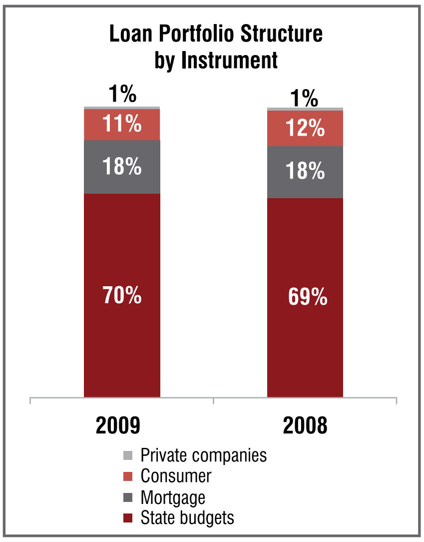
The gross loan portfolio of the Bank grew by 3.4% to BGN 7,775m, up from BGN 7,518m a year earlier. The average annual gross loan portfolio was BGN 7,646m in 2009, up by 18.1% as compared to 2008. The gross loan-to-deposit ratio decreased by 3.6pp on an annual basis to 121.1% (compared to 121.2% for the banking sector). The currency structure of the loan portfolio remained almost unchanged, with loans in BGN and EUR accounting for 98% of the total portfolio.

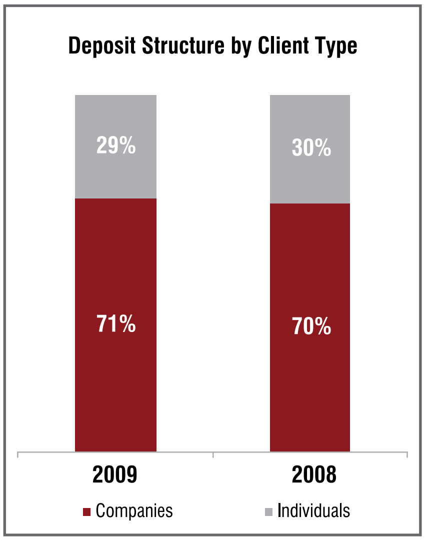
Loans to companies grew by 5.6% to BGN 5,531m, which accounted for 71% of the total portfolio. Loans to individuals decreased by 1.5% to BGN 2,243m, thus representing 29% of total portfolio. Mortgages were up by 6.4% YoY to BGN 1,425m and their share in total loans amounted to 18% (the same as in 2008). Consumer loans decreased by 12.8% YoY to BGN 818m. That was largely affected by the Bank's transfer of the new business in this type of product to UniCredit Consumer Financing.

The industry structure did not change much in 2009. The share of transport and communication declined by 2pp, while the one of construction increased by 3pp. The three largest areas of concentration were manufacturing (20%), commerce (21%), and retail (29%).









Thousands of BGN

Industry structure	2009		2008	
	Amount	**Share**	**Amount**	**Share**
Sovereign	57,584	1%	59,733	1%
Manufacturing	1,541,948	20%	1,439,630	19%
Commerce	1,653,631	21%	1,577,385	21%
Construction	825,378	11%	574,398	8%
Agriculture and forestry	138,058	2%	157,578	2%
Transport and communication	169,948	2%	331,610	4%
Tourism	265,929	3%	276,708	4%
Services	576,279	7%	545,303	7%
Financial services	302,682	4%	277,461	4%
Retail				
Housing loans	1,425,488	18%	1,339,927	18%
Consumer loans	817,953	11%	937,804	12%
Total loan portfolio	**7,774,878**	**100%**	**7,517,537**	**100%**

Consolidated Financial Results

The following list of companies reveals their consolidation method and respective participation in equity:

Company	**Participation in equity**	**Consolidation method**
UniCredit Factoring EAD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing AD	24.4%	Equity method
Cash Sevice Company AD	20.0%	Equity method
Pirelli Real Estate Bulgaria AD	25.0%	Equity method

In 2009 UniCredit Bulbank Group reported a consolidated net profit of BGN 197.4m, down by 32.6% for the year. Consolidated earnings per share decreased by the same percentage, settling at BGN 0.83.

The negative net operating income growth (-6.4%) of the Group was caused by negative annual growths in both net interest income (-11.7%) and net fees and commissions (-2.6%). The total net non-interest income improved in 2009 and returned to levels close to the ones before the crisis. The recoveries on the world equity markets raised the Group's net trading income by BGN 25.7m.

Maintaining a strict cost control and successfully applying innovative efficiency procedures, the Group achieved a decrease of 5.1% in its operating expenses, which amounted to BGN 246.6m at the end of the year. Staff costs decreased by 5.4% to BGN 97.8m, while non-staff costs and depreciation were down by 4.9% to BGN 148.8m.

Total assets were 4.4% up on a consolidated basis and totalled BGN 11,524m. The Group's return on average assets amounted to 1.8% in 2009; return on average equity was 13.1%.

Risk Management

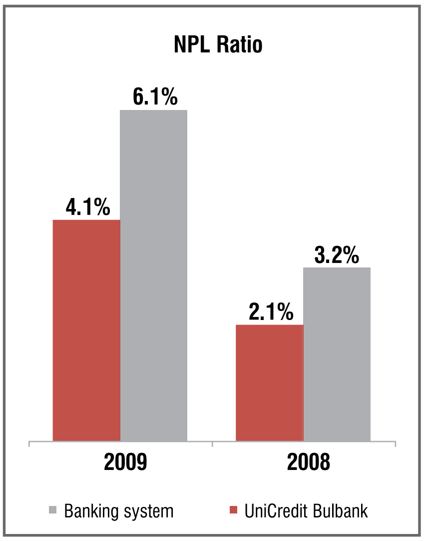
Reflecting the market conjuncture, the liquidity tension on the market substantially reduced demand and the repayment capacity of the existing clients from all segments of the Bank was impacted. The share of standard exposures decreased by 5pp to 90%. Hence, the share of watch exposures doubled to 6% while the one of non-performing was up by 2pp to 4%. The overall loan loss provision coverage reached 5.2%.

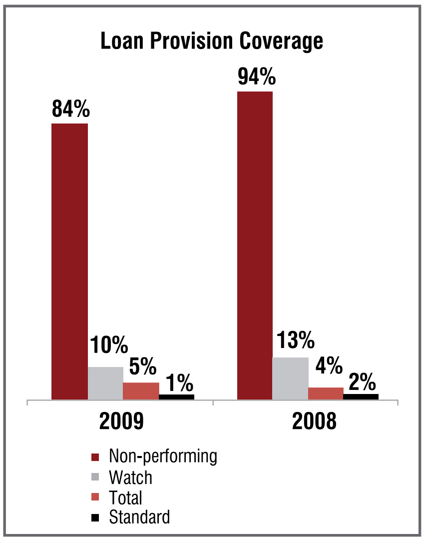
The main focus of the credit underwriting units was on the stabilization of the existing exposures and the alignment of the repayment schemes to the existing cash generating capacities of the borrowers. Emphasis was put on the active application of adequate measures for all the segments, including both standard stabilization schemes and tailored approaches. Effective monitoring of the business and financial performance of the existing borrowers was exercised semi-annually (in some cases even quarterly). The specialized Credit Support Unit was more actively involved in the reevaluation of the existing collateral pool and the monitoring and control of the real estate projects.

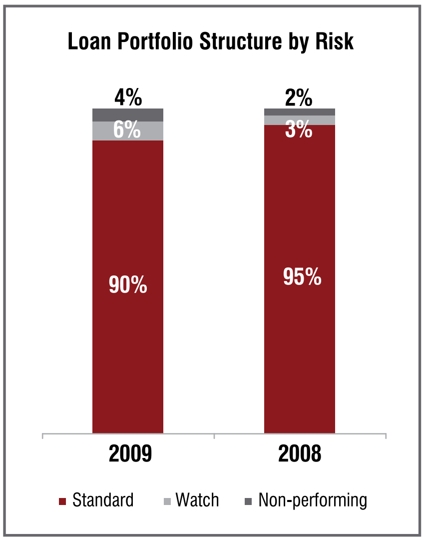
Specific measures in the internal evaluation and provisioning policy were approved and put in practice in order to effectively cope with the economic conjuncture. In the first quarter of 2009 the internal evaluation policy for risk exposures was amended in the part of the standard exposure evaluation of consumer loans. Since the new business related to consumer lending was moved to UniCredit Consumer Financing, UniCredit Bulbank decreased the coverage of its existing consumer loan portfolio.

In May, the Bank adopted the new criteria for exposure classification purposes, as introduced by the Bulgarian National Bank's Regulation No9 two months earlier. In June, a renegotiation program for individual loans was started. With it UniCredit Bulbank gave an opportunity to households with liquidity problems to customize their monthly installments according to their new financial standing.

In parallel with the stabilization of the existing lending portfolio, new lending was also conducted but under more conservative conditions. The lending products offered to individuals, small businesses, and middle and large corporations were amended in order to match the reduced risk appetite of UniCredit Bulbank.







Market Risk

In the area of risk appetite and strategy the Bank reassessed its limits in a post-crisis environment, analyzed extreme values and supported granular limit split between risk-taking units. Besides, we supported the adoption of an action plan which reduced the credit spread risk in the contributing positions to the bond portfolio. In due course, we implemented a new Group liquidity policy and a stress-test methodology.

Regarding risk measurement and limit compliance control, we continued to supply the management with daily group-compliant risk measurements and limit compliance reporting. These consisted of VaR measure complemented by stress-oriented FX, interest rate and credit spread position limits, total return loss-warning limits and short-term liquidity limits. Furthermore, the Bank continued to report in ALCO the stress-tests' impact of extreme shifts in FX, interest rates and credit spreads.

With reference to risk methodology and architecture, we continued to use Bank Austria's model for group-compliant risk measurement and internal capital assessment. Moreover, we supported the enhancement of the Group's risk-tool for monitoring liquidity risks. As to fair value measurement, improvements were implemented in fair value hierarchy definitions and rules.

In late 2009 the Group's market risk division started test simulations of a new internal model, expecting for a rollout to CEE subsidiaries in 2010. The division assessed the impact of the new regulatory capital requirements that encompass incremental risk. Also, it stressed VaR measures, in line with the revisions to Basel II market risk framework.

Operational Risk (OpRisk)

A major objective of the Unit was to prepare all the necessary prerequisites for the Advanced Measurement Approach (AMA) application to the Bulgarian National Bank, as UniCredit Bulbank was the first bank in Bulgaria to start official application proceedings. For that purpose, all internal documents (incl. Group OpRisk framework, methodological manual and OpRisk control rulebook) were updated and officially approved by the Management Board (MB). In addition, the Operational Risk Committee was founded with the purpose of OpRisk management optimization within the Bank through a regular exchange of information.

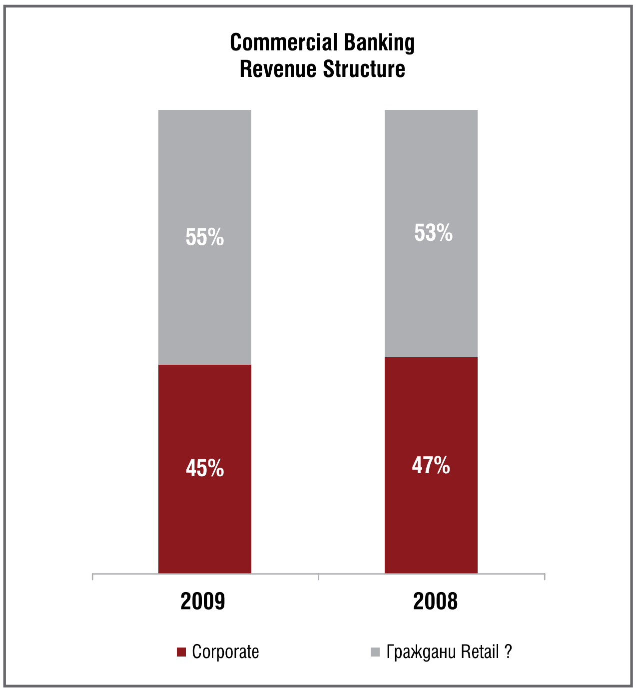
Along with the 100% completion of the predefined yearly Group Plan for the local OpRisk Unit, the Unit was also involved in a variety of projects focused on risk mitigations. For instance, the credit application forms were amended to include the condition for names written in the clients' own handwriting. Furthermore, the internal rules for loans to individuals of the Bank were updated accordingly (i.e. the loan contract and relevant documents were signed in the presence of a bank employee). Also, a product development and implementation procedure was created and approved by the MB in cooperation with market risk and ALM.

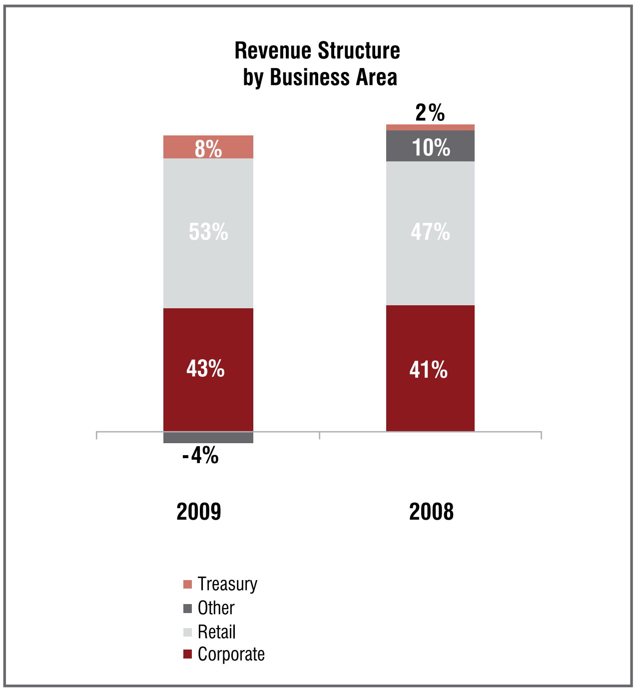
In view of the economic situation, credit risk capital adequacy reporting and calculation processes (Standardized Approach) were marked with Risk Weighted Assets (RWA) optimization activities. Along with regulatory required capital requirements, UniCredit Bulbank, following Group guidelines, developed a process of capital requirements, called ICAAP, whose calculation adds on a stress test methodology and a risk parameter stress testing based on baseline and pessimistic macroeconomic scenarios.

Regarding Basel II, the Bank initiated the preparation of its rating models and rules related to the Internal Ratings-based (IRB) compliant level. A new tool for client default identification was released. Also, the usage of Group-wide rating model for banks, sovereigns, multinational companies and other was rolled out. Considering the achievements in the IRB preparation of UniCredit Bulbank, the local team is expected to present the foundation IRB application package to the Bank of Italy for approval in July, 2010.

Business Areas Development

The growth of gross operating income turned into different directions for corporate and retail banking (-1.1% and +4.4% YoY respectively). Commercial banking (incl. retail and corporate) strengthened its position as the main revenue growth driver. It generated revenues of BGN 549.4m in 2009, up 1.9% YoY. These represented 96% of total gross operating income of the Bank (compared to 88% a year earlier). Unlike the organic loan growth of previous years, in 2009 the Bank concentrated its efforts towards attracting fresh sources of financing at relatively low prices and adjusting its products to the needs of the worsened economic conditions of its customers.





Corporate Banking

The impact of the global economic downturn was the major factor which influenced the operations of the corporate banking business throughout 2009. Rather than giving in to the worsened environment, the Corporate Banking Division of UniCredit Bulbank took advantage of the emerging opportunities, which considerably contributed to the Bank's overall success on the local market. Despite the difficult economic environment in which many of the corporate clients operated (particularly in the real estate and export-oriented sectors) the performance of the division further demonstrated its role of an acknowledged market leader. In addition, the organizational improvements developed rapidly as the division was able to achieve substantial progress in streamlining both its operational structure and communication process.

Given the demanding situation, the Corporate Banking Division of UniCredit Bulbank set as a top priority the social responsibility. Special policies were created and adopted in order to support the recovery of the local community. For that purpose, the specific needs of the businesses were taken into consideration and adequate efforts were directed towards them. Responding with a flexible behavior, the dedicated professionals of Corporate Baking adopted the individual examination of each case as a standard procedure. In such a way, various customer-tailored solutions were proposed thus ensuring successful and beneficial outcomes in each individual case. Furthermore, the relationship managers pro-actively monitored the business development of the companies in their portfolios so as to catch early signals of product quality deteriorations and work for minimizing their risks and defaults.

In 2009, the Bank was able to not only retain its current customers but also attract new valuable ones. The revenues of the Corporate Division were BGN 249m, down by 3% y/y. Net interest income was BGN 190m, down by 1.5% y/y. The loan volume of all company clients (including SMEs) was up by 5.6% to BGN 5,531m. In effect, the market share of corporate loans was up by 41bp y/y. The market share of corporate deposits recorded a gain of 168bp.

The responsible reaction of the professionals of Corporate Banking to the complicated environment was unambiguously appreciated by our customers. The satisfaction survey, carried out at year end, revealed strong improvements in the customers' perceptions of the Bank. The survey also provided a clear signal that the Bank was able to successfully capitalize on the worsened economic environment through a transformation of the broad public awareness into positive attitude. The latter was a critical factor in the resourceful utilization of the limited growth opportunities.

There were numerous achievements within the diverse areas of Corporate Banking. First, the level of cooperation was raised between the local corporate departments and UniCredit Group's product factories in order to offer a higher level of expertise and a wider range of international products (i.e. leasing, factoring and transaction services). Second, the Division initiated and executed a large variety of supporting tools, which markedly augmented the performance along the entire value chain. Third, the long-term focus on sustainable business practices and environmental protection was promoted by several subsidized credit facilities by International Financial Institutions in the fields of energy efficiency and renewable energy resources.

Going into 2010 the key challenges from the previous year will continue to exert pressure on the operating performance of the division. There are clear indications for further contraction in both turnover and new business initiatives of the corporate clients. Nonetheless, the strategic approach of the Bank is expected to partially mitigate the negative impact of the exogenous factors.

Among the key initiatives in this direction is the introduction and full utilization of a customer centric service model concept. The driving philosophy of the new service model envisages appropriate segmentation and grouping of the corporate clients thus ensuring the highest possible level of expertise and the most flexible financial solutions. In terms of expansion, the division will continue to exploit its successful selective approach by focusing on the most promising projects on the market. From a strategic perspective, we will closely monitor the latest macroeconomic developments and maintain a high level of preparedness in order to fully capitalize on the expected export-fuelled recovery of the economy.

Private Banking

In 2009, the policy of the Private Banking Division (PB) was focused on finding the best financial solutions for the demanding needs of the private customers. The primary goal of the Division was to support its customers' growth orientation without allowing any increases in the risk for both Bank and customer. In that aspect, a MiFID compliant investment cycle was introduced with regard to building up and updating the financial instruments' exposures of our clients.

In particular, the investment process began with the completion of a questionnaire, which was used to determine each client's risk profile. Based on the clients' answers, a model of asset allocation was developed, thus determining their risk awareness, investment horizon and long-term goals. In the end, a tailor-made asset allocation, including the market overview, was presented and discussed with the customer.

Over the year, we made additional steps in improving our customers' portfolio management in terms of flexibility, transparency and supervision. For that purpose, various sources of information were used so that we stay in line with the investment environment and ensure quick reaction to changes. A conference call with the Global Investment Committee (GIC) was held every month, during which the most important events of the period were underlined. In addition, the GIC's expectations and forecasts of the entire financial market and the different asset classes were taken into consideration. Given these guidelines, Private Banking prepared a local investment report and organized meetings with high net worth individuals to discuss the most plausible solutions.

The monitoring of the existing portfolios was performed on a daily basis. In case a given portfolio reached the preliminary requirements of its beneficiary, the professionals of the department were responsible to notify them immediately. Moreover, a newsletter portraying the major events of the global financial markets was prepared and distributed every week.

Despite the unfavorable economic situation of the past year, the focused efforts of our dedicated staff managed to not only satisfy the challenging requirements of the customers but also improve the performance on several indicators. The deposit volume of PB grew by 3% YoY reaching BGN 382m. Assets under management increased by 39% to BGN 32m, mainly as a result of new sales and market revaluations of the existing portfolios. The total financial assets of PB clients registered a 5% increase, reaching BGN 414m.

Retail Banking

The past year was a challenging one for the economy in general and the retail business in particular. The macroeconomic indicators followed a strongly negative trend, while Bank's abilities to recognize the emerging market opportunities and deliver continuous increases in value were impacted. Unemployment soared, while the industrial and commercial production went down thus triggering many difficulties in the service of the existing loan portfolio, and logically complicating the retail lending approach. Hence, the Bank's efforts were directed towards a further refinement of both customer and employee satisfaction. Also, the quality level of service was sustained and an environment of business as usual was maintained.

The Bank continued its work on the already-developed service model and successfully implemented it nationwide. As a consequence, the efforts of the different retail segments were concentrated so that they guarantee the largest coverage in terms of functionality and efficiency. It is already a year that the modernized branches in across the country have been operating with full commitment to serve all types of clients (incl. business, affluent, individual, etc.). This is perceived as one of the prerequisites for strong improvements in the area of customer satisfaction.

The revenues of Retail Banking grew by 7.3% y/y, reaching BGN 295m in 2009. The deposit volumes of individuals and small businesses reached BGN 3,342m, going up by 3.3%. The funds attracted from individuals only grew by 9%, slightly less than the market, reflecting the Bank's strategic choice of keeping its cost of deposits low. The loan portfolio remained practically flat as compared to 2008 levels. That originated from the conservative lending approach, given the deteriorating market environment, and the transfer of newly-contracted consumer loans in BGN to UniCredit Consumer Financing.

UniCredit Bulbank was extremely active in assisting its clients in the present market situation. That included both repayments of loans and restructuring of the ones with difficulties, depending on the customers' requirements and abilities at times of economic hardship. A serious amount of effort was exerted by our sales force regarding this activity. In effect, a total of 2,566 individual loans were restructured, showing understanding to our clients' difficulties.

Other important commercial and business initiatives with strategic character that were executed successfully in 2009 involved the optimization of the communication with the customers and easing their access to banking transactions. For instance, in 2009 the Bank almost doubled its customers using Bulbank Online. Also, the Customer Contact Center increased its output by 30%, thus reaching 225,000 of successful in and outbound calls.

Disregarding the unfavorable economic environment, the Bank continued its profitable sales of investment products (incl. Pioneer mutual funds and Allianz life insurance). The assets under management portfolio of retail clients grew by more than 50% to BGN 63m. This was a result of the strong customer confidence in the Group's positioning on the Bulgarian market.

Money Market and Capital Market Operations

Regardless of the diverse developments as a result of the global economic disturbances, the financial markets worked their way out of the downturn and attained some gradual recovery. Over the course of such a challenging year, the Bank's strategy was adjusted in order to fully take advantage of the key economic variables and market conditions. The exceptionally low interest rates on a global level affected the local costs of funding, which had a positive effect on the money market trading portfolio. As to the market of government bonds, UniCredit Bulbank successfully retained its position of a primary dealer and further increased its share on the secondary market.

On the Bulgarian Stock Exchange the Bank acted as the leading broker of both international and local institutional investors, ranking at the top in terms of turnover. UniCredit Bulbank also performed the role of a primary provider of foreign brokerage services to the local institutional investors.

Despite the many challenges faced by the local economy during the past year and the negative trends in foreign trade the Bank remained a first class partner and a leader on the foreign exchange market in Bulgaria. Offering the widest variety of derivative products on the local market, UniCredit Bulbank strictly followed its policy of supporting the customers in the process of financial risk management. Yet, the historically low interest rates on the international markets allowed customers with credit exposures to hedge their positions at very attractive levels.

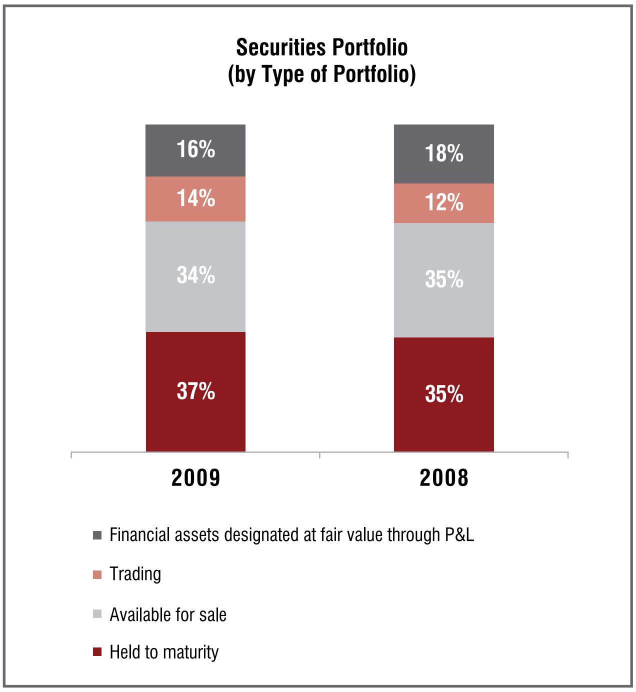
For a third consecutive year UniCredit Bulbank ranked number one in terms of capital volume raised with more than BGN 344m. The Bank was the sole lead manager and book runner of the largest equity-linked issue in Bulgaria (BGN 200m of mandatory convertible preferred shares). That was also the largest local capital increase for the year and among the Top 5 in CEE. UniCredit Bulbank acted in the same capacity for the first and only IPO in the country for 2009. It was a deal that paved the way for the revival of the local IPO market.

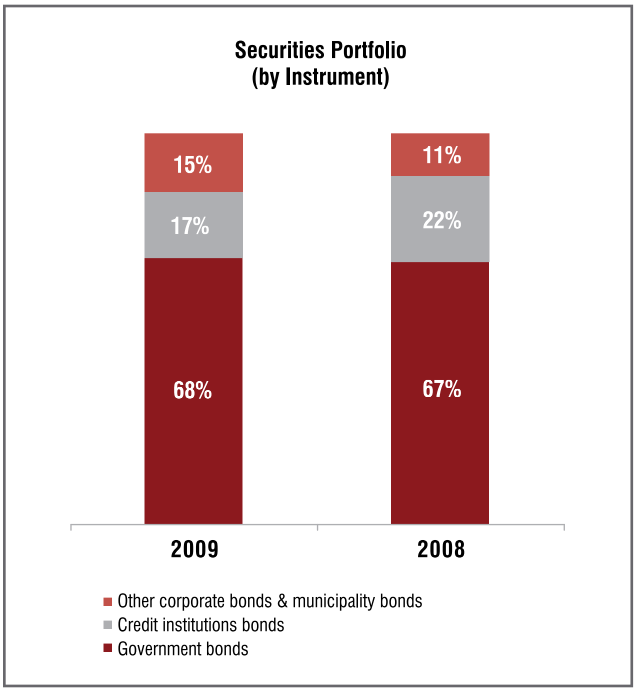
Asset and Liability Management

In 2009, UniCredit Bulbank kept on using a large selection of diversified mid-term and long-term funding sources. Funds under various intermediate loans, many of them supplemented by EU grants, were allocated to final beneficiaries. These funds were released from several supranational and international institutions (incl. EIB, EIF, EBRD and KfW) and aimed at supporting lending to SMEs as well as investments in energy efficiency and municipal development. Additional financial support was rendered to SMEs through a specifically dedicated facility of the Bulgarian Bank for Development. As to interbank funding, it was maintained optimal in terms of price, tenor and seniority with the aim of diminishing overall cost of funding, while at the same time ensuring compliance with both liquidity and capital adequacy requirements.

UniCredit Bulbank continued to implement an active and risk prudent investment policy. The investment portfolio was structured with the goal to invest surplus liquidity, earning sufficient return on an acceptable risk basis. The securities portfolio also served as a collateral for funds attracted from state budget entities and banking institutions. The Bank kept on optimizing its assets structure by gradually reducing the volume of its investment bond portfolio from BGN 608m to BGN 483m. The respective liquidity was directed towards satisfying the needs of the customers' businesses. As of the end of 2009, more than 50% of the investment portfolio consisted of Bulgarian government bonds (domestic and global). The average rating of the investment portfolio was „BBB+" (as per S&P) and the average duration - 2.3 years.

During 2009 the policy of optimizing the structure of investments was continued, closing some minor positions and consolidating the stakes in companies of strategic importance. Pursuing such a policy, the Bank decreased its participation in VISA Inc. and sold its shareholdings in MasterCard Inc., Bulbank Leasing and Varnenska Borsova Corporacia. As of the end of the year, UniCredit Bulbank was a shareholder in 17 companies and the book value of its equity investments amounted to BGN 31m as compared to BGN 18m in 2008.





Human Resources

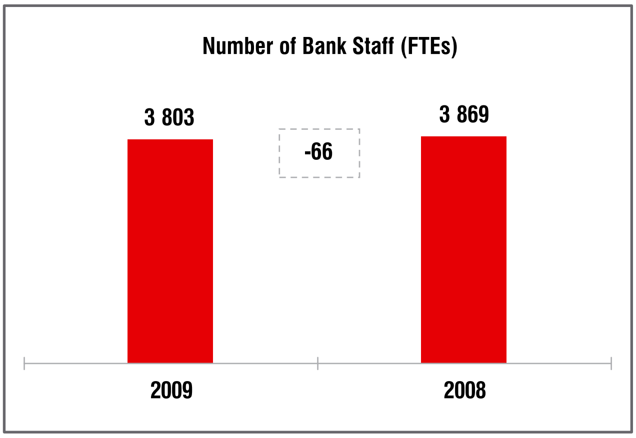
In 2009 the strategy of the Human Resources Division was focused on keeping the current number of employees and maintaining the HR costs at an acceptable level. Visible cost synergies were achieved by aligning HR activities and programs to the stretched staff costs budget. Driven by its social responsibility and motivation for sustainable growth, the Bank succeeded in preserving its employees at times of economic turmoil. The voluntary turnover decreased significantly, from 11.2% in 2008 to 3.6% in 2009. The total number of active employees (FTE) decreased slightly, by 1.7% (from 3869 to 3803). A total of 311 new employees were hired in order to replace the voluntary leavers and to set-up the new Centralized Domestic Payments unit.

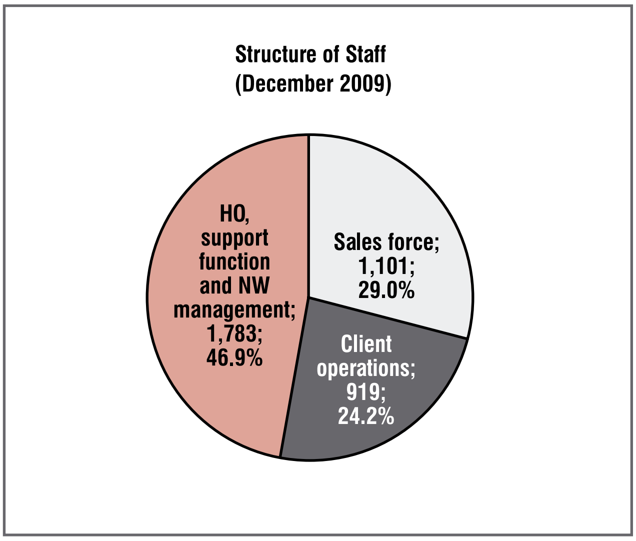
The Internship program continued to supply young graduates for the vacant entry level positions. In that respect, 44 participants (from a total of over 250) were hired on permanent contracts. In contrast, a strong focus was put on internal promotions and development of existing employees. The Internal Job Market initiative was also implemented in order to provide all employees with access to the vacant international positions within UniCredit Group. The HR Segmentation process was carried out so that the managers on all levels have a tool for giving feedback to subordinates, planning their professional development, ensuring business continuity and improving employee satisfaction.

Customer satisfaction, one of the key business challenges for the Bank, was a major determinant of the HR priorities in 2009. To support the substantial improvement of customer service quality a Customer Satisfaction Training Program (CSTP) was designed and launched. The program aimed at building a unified approach towards customer care and sale skills in all bank branches. More that 1,000 people participated in 2009 but the program is planned to also continue in the future.
In addition, several other training campaigns were initiated. Most of them were related to the professional business academy for sellers, commercial support specialists, and corporate relationship managers which covered the subjects of portfolio management, financial analysis and interest rate risk management.

The establishment of a leadership culture was another HR priority for 2009. The Executive Development Plan and Talent Management Review processes of UniCredit Group, which are fostering the leadership pipeline across the entire Group, were used in identifying, evaluating and developing the future leaders. Over the past year 134 key employees of the Bank participated in the process. Another five joined UniQuest, the Group's program for young employees showing high potential.

The leadership skills enhancement was supported by the launch of the Leadership for Customers Training Program (involving all middle managers) and the leadership learning labs of UniManagement - UniCredit Group's programs for senior managers. The talents' development was boosted by the Group's mentoring and coaching





programs. A site, specifically dedicated to HR products and services, was started on the internal portal of the Bank, so that its employees are well-informed of HR activities.

Taking into consideration the needs of its people, the Bank continued to guarantee their satisfaction. For that purpose, the annual People Survey of UniCredit Group was once again conducted and more than 84% of the Bank's employees gave their voice and expressed their opinion. As a result several initiatives were implemented, which included CEO letters, Know Your People meetings with Top Management, A Day in the Head Office, CSTP, etc.

In the middle of the year a new Group Compensation Policy was adopted. The new compensation approach is performance-oriented, market-aware and aligned with both business strategy and stakeholder interests. It provides for a balanced package of fixed and variable, monetary and non-monetary elements, each designed to impact in a specific manner the motivation and retention of employees. The so-developed and approved policy was also an answer to the increased regulatory requirements of the Bulgarian National Bank.

The already-applied incentive systems were reviewed and adapted so as to ensure business continuity and cost control. First, a new Executive Incentive System was launched on a Group level. It was exclusively designed for top management and endeavored to reward their contributions to the long-term growth and financial success of the Group. Second, the promotion of the New Retention Program was extended and further modified in order to honor and motivate the employees who achieved excellent results and demonstrated the highest commitment. Third, a project titled the Global Job Model was kicked off with the intention to simplify our business by creating a standardized job structure for processes and governance.

In the end, the Group International Mobility Policy was updated so as to grant a sound base for the execution of all expatriation cases. As a consequence, the number of outbounds increased and the tendency of sending people abroad continues to be in force at present. This was assessed as recognition of the high quality and potential of the employees of UniCredit Bulbank.

UniCredit Bulbank Activity Review (Continued)

Global Banking Services

Major changes were implemented in the overall strategy of UniCredit Bulbank in 2009. They targeted improvements in operating efficiency, enhancement of monitoring processes and increases in the quality of services. While some initiatives from 2008 were continued and further developed, new ones were also started and applied. All areas of GBS (i.e., Operations, IT, Organisation, Administration, and Logistics and Procurement) were so managed as to ensure continuous progress in both employee and customer satisfaction.

After the implementation of our new hardware architecture and several modifications to our core banking environment by June 2009, we were able to achieve constant advance in all KPIs. The subsequent upgrade of our data warehouse, combined with the introduction of various functional ameliorations in other key applications, also contributed to the process. The centrally managed help desk showed improving results every consecutive month, thus lowering the percentage of delayed responses from 14% in January to less than 1% in December. IT successfully established and signed service level agreements which ensured better control and management, and adherence to services in the related companies such as UniCredit Leasing, UniCredit Consumer Financing and UniCredit Factoring.

The internal customer survey measured increases in the overall satisfaction of the employees. According to the survey, some of the back office units in Operations achieved the highest marks which was expected as the Operations department was a major contributor to the improved efficiency of the Bank. Continuing the initiatives from 2008, the back office's efficiency was increased by 20%, out of which the centralisation of the domestic payments processing contributed the most.

The good collaboration between Logistics, IT and Procurement enabled us to offer better services while still optimizing the cost structure. In the area of Real Estate and Logistics, UniCredit Bulbank continued its investments in the branch refurbishment program that dates from 2007. Moreover, a new operational model, workflow and system were approved and adopted, targeting (1) significant upgrading in the quality of the internal services provided and (2) enhanced monitoring of all activities across the network. These initiatives not only resulted in both consumer and employee friendlier environment but also emphasized on the Bank's commitment to and trust in the Bulgarian market. As the optimization of operations and services turned out to be quite successful in 2009, the division is dedicated to further develop the quality of services to both employees and clients in the forthcoming 2010.

Jerzy Owsiak,
The Great Orchestra of Christmas
Charity Foundation
Corporate Banking Client - Poland

«When the climax of the Great Orchestra of Christmas Charity gets under way, some 120,000 volunteers take to the streets of cities, towns and villages. Their donation boxes fi ll up in an absolutely magical way. Everybody knows we raise money to buy life-saving medical equipment. Sometimes people wonder if their spare change can really help.
But of course that is exactly how millions of Poles join to make this happen. But before we can put that spare change to use, it all has to be counted and deposited to our accounts. Sorting, counting, balancing and managing our accounts - by doing these things, Bank Pekao SA helps us immensely and makes our job that much easier.»

It's easy with UniCredit.

Unconsolidated Financial Statements

Independent Auditors Report

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF UNICREDIT BULBANK AD

18 February 2010

Introduction

We have audited the accompanying unconsolidated financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2009, and the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summery of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards adopted by European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 unconsolidated financial statements give a true and fair view of the unconsolidated financial position of UniCredit Bulbank AD as at 31 December 2009, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by European Commission.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Bank according to article 33 of the Accountancy Act

As required under the Accountancy Act, we also report that the unconsolidated historical financial information prepared by Management and presented in the annual report of the activities of the Bank, as required under article 33 of the Accountancy Act, is consistent, in all material aspects with the financial information disclosed in the unconsolidated financial statements of the Bank as of and for the year ended 31 December 2009. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 17 February 2010.

Gilbert McCaul
Partner

KPMG Bulgaria OOD
45A Bulgaria Blvd.
1404 Sofia
Bulgaria

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Income statement

INCOME STATEMENT

In thousands of BGN

	Notes	2009	2008
Interest income		635,940	654,633
Interest expense		(227,859)	(191,264)
Net interest income	7	**408,081**	**463,369**
Dividend income		134	139
Fee and commission income		159,292	164,891
Fee and commission expense		(8,616)	(9,653)
Net fee and commission income	8	**150,676**	**155,238**
Net gains (losses) on financial assets and liabilities held for trading	9	1,777	(24,019)
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	65	184
Net income from investments	11	2,169	(1,277)
Net income related to subsidiaries, associates and property, plant and equipment	12	2,661	12,965
Other operating income, net	13	6,893	5,277
TOTAL OPERATING INCOME		**572,456**	**611,876**
Personnel expenses	14	(96,483)	(102,248)
General and administrative expenses	15	(113,896)	(125,654)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(34,475)	(31,304)
Provisions for risk and charges	17	18,885	3,634
Restructuring costs	18	-	17,986
Net impairment loss on financial assets	19	(129,650)	(49,922)
PROFIT BEFORE INCOME TAX		**216,837**	**324,368**
Income tax expense	20	(22,084)	(32,665)
PROFIT FOR THE PERIOD		**194,753**	**291,703**

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

KPMG Bulgaria OOD

Gilbert McCaul
Partner

Специализирано одиторско предприятие
София
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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

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

1

Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

In thousands of BGN

	Notes	2009	2008
Profit for the period		194,753	291,703
Other comprehensive income:			
Available for sale investments		10,422	(17,571)
Cash flow hedge		1,757	-
Revaluation of non current assets	31	63,960	-
Income tax relating to components of other comprehensive income		(7,615)	1,757
Other distribution		(402)	(511)
Total other comprehensive income for the year net of tax		**68,122**	**(16,325)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**262,875**	**275,378**

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

KPMG Bulgaria OOD

Gilbert McCaul
Partner

Специализирано одиторско предприятие София Рег. №045 "КПМГ България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева Регистриран одитор

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

2

Statement of financial position

STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Notes	2009	2008
ASSETS			
Cash and balances with Central Bank	21	832,158	905,929
Financial assets held for trading	22	115,450	122,594
Derivatives held for trading	23	45,142	38,303
Derivatives used for hedging	24	1,521	-
Financial assets designated at fair value through profit or loss	25	136,071	184,567
Loans and advances to banks	26	2,071,567	1,549,996
Loans and advances to customers	27	7,370,496	7,232,251
Available for sale investments	28	285,485	357,454
Held to maturity investments	29	314,749	356,002
Investments in subsidiaries and associates	30	27,499	14,932
Property, plant, equipment and investment properties	31	245,463	185,129
Intangible assets	32	34,823	38,122
Current tax assets	33	9,795	-
Deferred tax assets	34	6,681	9,631
Non-current assets and disposal group classified as held for sale	35	2,236	3,136
Other assets	36	19,638	16,658
TOTAL ASSETS		**11,518,774**	**11,014,704**
LIABILITIES			
Financial liabilities held for trading	37	40,211	60,111
Derivatives used for hedging	24	6	-
Deposits from banks	38	3,105,352	3,218,594
Deposits from customers	39	6,421,385	6,029,191
Subordinated liabilities	40	212,123	209,368
Provisions	41	36,564	56,774
Current tax liabilities	33	-	759
Deferred tax liabilities	34	21,041	15,272
Other liabilities	42	46,152	51,570
TOTAL LIABILITIES		**9,882,834**	**9,641,639**
EQUITY			
Share capital		239,256	239,256
Revaluation reserves		130,109	61,932
Retained earnings		1,071,822	780,174
Profit for the period		194,753	291,703
TOTAL EQUITY	43	**1,635,940**	**1,373,065**
TOTAL LIABILITIES AND EQUITY		**11,518,774**	**11,014,704**

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

KPMG Bulgaria OOD

Gilbert McCaul
Partner

Margarita Goleva
Registered auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България" ООД

0202 Маргарита Голева Регистриран одитор

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

3

Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property revaluation reserve	Available for sale investments revaluation reserve	Cash flow hedges reserves	Total
Balance as of January 1, 2008	**239,256**	**51,155**	**793,033**	**89,100**	**(10,258)**	**-**	**1,162,286**
Profit for the period	-	-	291,703	-	-	-	291,703
Transfer of revaluation reserve on non-current assets disposed of	-	-	1,096	(1,096)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(17,571)	-	(17,571)
Other distribution	-	-	(511)	-	-	-	(511)
Income tax relating to components of other comprehensive income	-	-	-	-	1,757	-	1,757
Total other comprehensive income for the year net of tax	**-**	**-**	**585**	**(1,096)**	**(15,814)**	**-**	**(16,325)**
Total comprehensive income for the year net of tax	-	-	292,288	(1,096)	(15,814)	-	275,378
Dividends paid	-	-	(64,599)	-	-	-	(64,599)
Balance as of December 31, 2008	**239,256**	**51,155**	**1,020,722**	**88,004**	**(26,072)**	**-**	**1,373,065**
Profit for the period			194,753				194,753
Revaluation of non current assets				63,960	-	-	63,960
Transfer of revaluation reserve on non-current assets disposed of	-	-	347	(347)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	10,422	-	10,422
Change of revaluation reserve on cash flow hedges	-	-	-	-	-	1,757	1,757
Other distribution	-	-	(402)	-	-	-	(402)
Income tax relating to components of other comprehensive income	-	-	-	(6,397)	(1,042)	(176)	(7,615)
Total other comprehensive income for the year net of tax	**-**	**-**	**(55)**	**57,216**	**9,380**	**1,581**	**68,122**
Total comprehensive income for the year net of tax	-	-	194,698	57,216	9,380	1,581	262,875
Balance as of December 31, 2009	**239,256**	**51,155**	**1,215,420**	**145,220**	**(16,692)**	**1,581**	**1,635,940**

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KPMG Bulgaria OOD

Gilbert McCaul
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Margarita Goleva
Registered auditor

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Регистриран одитор

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

4

Statement of cash flows

STATEMENT OF CASH FLOWS

In thousands of BGN

	Notes	2009	2008
Net profit		**194,753**	**291,703**
Current and deferred tax income, recognised in income statement		(3,176)	(2,475)
Current and deferred tax expenses, recognised in income statement		25,260	35,140
Adjustments for non-cash items			
Depreciation and amortisation	31,32	32,114	29,911
Impairment	16,19,30	133,754	61,560
Provisions, net		(18,885)	(21,620)
Unrealised fair value gains (losses) through profit or loss, net		3,667	5,311
Net (gains)/losses on sale of investments		(1,444)	(12,881)
Increase in other accruals		20,790	22,144
Cash flows from profits before changes in operating assets and liabilities		**386,833**	**408,793**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		(24,381)	30,170
Increase in loans and advances to customers		(269,638)	(2,090,919)
Decrease in available for sale investments		82,391	149,638
Decrease (increase) in financial instruments held for trading		(22,279)	14,975
Decrease in financial instruments at fair value trough profit or loss		47,755	159,565
Increase in other assets		(12,089)	(2,752)
Change in operating liabilities:			
Increase (decrease) in deposits from banks		(113,242)	1,922,309
Increase (decrease) in amounts owed to customers		392,194	(301,680)
Provisions utilization		(1,801)	(199)
Decrease in other liabilities		(44,716)	(54,040)
Net cash flow from operating activities		**421,027**	**235,860**
Cash flow from investing activities			
Cash payments to acquire tangible assets		(19,563)	(20,473)
Cash receipt from sale of tangible assets		1,486	10,949
Cash payments to acquire intangible assets		(7,884)	(11,916)
Cash receipt from sale of intangible assets		69	17
Cash payments for the investment in associates		(12,567)	(4,740)
Cash payments to acquire held to maturity investments		-	(89,886)
Cash receipts from the sale of held to maturity investments		41,253	-
Net cash flow from investing activities		**2,794**	**(116,049)**
Cash flow from financial activities			
Dividends paid		-	(64,599)
Cash proceeds from the issuance of subordinated liabilities		-	97,792
Other cash payments related to financing activities		(402)	5,856
Net cash flows from financial activities		**(402)**	**39,049**
Effect of exchange rate changes on cash and cash equivalents		**4**	**1,527**
Net increase in cash and cash equivalents		**423,423**	**160,387**
Cash and cash equivalents at the beginning of period	47	**2,374,447**	**2,214,060**
Cash and cash equivalents at the end of period	47	**2,797,870**	**2,374,447**

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева Регистриран одитор

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5

Notes to unconsolidated financial statements

1. Reporting entity

UniCredit Bulbank AD (the Bank) is a universal Bulgarian bank established upon triple legal merger of Bulbank AD, HVB Bank Biochim AD and Hebros Bank AD, performed on April 27th, 2007.
UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria, with registered address Sofia, 7 “Sveta Nedelya” sq.
The Bank is primarily involved in corporate and retail banking and in providing asset management services.
The Bank operates through its network comprising of 234 branches and offices.

2. Basis of preparation

(a) Statement of compliance

These unconsolidated 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 unconsolidated basis as required by Bulgarian Accountancy Act. These unconsolidated financial statements should be read in conjunction with the consolidated financial statements which were approved by the Management Board of the Bank on February 17, 2010. 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 17, 2010.

(b) Basis of measurement

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

- derivative financial instruments measured at fair value;
- trading instruments and other instruments designated at fair value through profit or loss measured at fair value, where such can be reliably determined;
- available for sale financial instruments measured at fair value, where such can be reliably determined;
- investments in property measured at revalued amount based on independent appraiser’s valuation;
- liability for defined benefit obligation presented as fair value of defined benefit obligation plus unrecognized actuarial gains and less unrecognized actuarial losses.

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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**.

(e) Changes in accounting policy

For the purposes of presentation the current financial statements Bank applies for the first time revised IAS 1 Presentation of Financial Statements (2007), which became effective since of January 1, 2009. Bank also chose to present all items of income and expenses recognized for the period in two separate statements:

- Statement presenting components of profit or loss (Income statement);
- Statement beginning with profit or loss and presenting components of other comprehensive income (Statement of other comprehensive income).

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation, there is no impact on overall financial position of the bank.

3. Significant accounting policies

The accounting policies set below have been applied consistently to all periods presented in these financial statements, except as described in note **2 e)** and **3 (h) (ii) b)**.

(a) Interest income and expense

Interest income and expense is 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 expense includes 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 basis;
- interest on available for sale investment securities calculated on an effective interest 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 the corresponding service.

Fees 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 includes 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 ruling 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 ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the values were determined. As of each reporting date, all foreign currencies 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 so as to produce 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 trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities and derivative contracts that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives in a net receivable position (positive fair value) and purchased options are reported separately as derivatives held for trading. All derivatives in a net payable position (negative fair value) and written options are reported as financial liabilities held for trading. Financial assets and derivatives held for trading are carried at fair value in the statement of financial position.

Previous change in accounting policy
In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits in "rare circumstances" an entity to transfer from held for trading to held to maturity category, a non-derivative financial asset that is quoted on active market for which entity has the intention and ability to hold until maturity. The deterioration of the world's financial markets that has occurred during the third quarter of 2008 is a possible example of "rare circumstances" cited in the IFRS amendments and therefore justifies amendments' application.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Bank reclassified certain non-derivative financial assets out of held for trading into held to maturity investments. For details on the impact of these reclassifications, see also note **22**.

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 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 equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity 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.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:
- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after Bank has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated (such as material creditworthiness deterioration of the issuer).

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

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

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

In the unconsolidated financial statements Bank has adopted the policy of carrying all investments in subsidiaries and associates at cost in accordance with IAS 27 "Consolidated and Separate Financial Statements".

h) Deposits from banks, customers and subordinated liabilities
Deposits from banks customers and subordinated liabilities are financial

instruments related to attracted funds by the Bank, payable on demand or upon certain maturity and bearing agreed interest rate.

Subordinated liability meets some additional requirements set by Bulgarian National Bank (see note **40**).

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

(iii) Reclassification

Bank does not reclassify financial instruments in or out of any classification category after initial recognition except as described in **3 (h) (ii) b)**.

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on the reporting date. The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that requires enhanced disclosures about fair value measurements in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments.

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

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

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

(vii) Offsetting

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

(viii) Repurchase agreements

UniCredit Bulbank AD enters into purchases (sales) of financial instruments under agreements to resell (repurchase) substantially identical investments 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 and held to maturity financial assets – semi-annually based on review performed the Bank and decision approved by ALCO;
- for non-financial assets – by the end of each year for the purposes of preparing annual financial statements.

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

(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. Interest on the impaired asset continues to be recognised through the unwinding of the discount. 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 an asset measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the asset was previously recognized in other comprehensive income, the increase in fair value of the asset recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss.

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

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

(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.

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

In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis, as to weather 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 weather 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 weather 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 derivate is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with the changes in the fair value of the hedged item attributable to the hedged risk.

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

Cash flow hedge

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

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

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

(k) Property, plant and equipment and investment property

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

Items of property are stated at fair value determined periodically by independent registered appraisers.

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

As of December 31, 2009 Bank has engaged independent registered appraisers to assess the fair value of its property investments. To the extent that provided valuations differed materially form the properties' carrying amount, revaluation has been performed.

Plant and equipment are carried at historical cost less any accumulated depreciation or impairment losses.
Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. The Bank holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at cost less any accumulated depreciation.

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, 2009 the entire class of intangible assets includes only investments in software and related licenses.

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

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

(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, 2009 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 the Bank has to settle should the employment contract is terminated as of the reporting date. Short-term employees' benefits are presented as other liabilities and disclosed separately in the Notes.

(ii) Defined benefit obligation
Defined benefit obligations are those agreed in the Collective Labour Agreement.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary, hired by the Bank, using the projected unit credit method. To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the "corridor" approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

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

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

(iii) UniCredit Group Medium and Long-Term incentive plans
UniCredit Group Medium and Long-Term incentive plans compose of Stock Options and Performance share granted by the ultimate parent UniCredito Italiano S.p.A. They are allocated to selected group of top and senior managers of the Bank.

Whenever the vesting period of the Stock options or Performance shares is ended, UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments.

As of December 31, 2009 and December 31, 2008 UniCredit Bulbank presents the corresponding part of the economic value of the Stock Options and Performance shares as payroll costs under personnel expenses in the Income statement and the related obligation for payment as other liability.

(p) Share capital and reserves

(i) Share capital

As described in Note 1, HVB Bank Biochim and Hebros Bank merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of Bank Austria Creditanstalt AG and ultimately under control of UniCredito Italiano S.p.A. The merger represents a share-exchange transaction, where share-exchange ratios based on fair valuation of the net assets of the three Banks, certified by independent auditor, as required by the Bulgarian Commercial Act, were applied. The share capital of UniCredit Bulbank AD is 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).

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve.

(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.

(r) Segment reporting

As of January 1, 2009 the Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. This adoption does not represent a change in accounting policy as the business segments that has been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been adopted in preparing these financial statements:

- IFRS 9 “Financial Instruments”, published on 12 November 2009 as part of phase I of the IASB’s comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently in the process of evaluating the potential effect of this standard.

- Revised IFRS 3 "Business Combinations" (2008) is effective for annual periods beginning on or after 1 July 2009. Management does not expect Revised IFRS 3 to have an effect on the Bank's consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendments to IAS 27 "Consolidated and Separate Financial Statements" are effective for annual periods beginning on or after 1 July 2009. Management does not expect Amendments to IAS 27 to have an effect on the Bank's consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues" is effective for annual period beginning on or after 1 February 2010. Management does not expect Amendment to IAS 32 to have an effect on the Bank's consolidated financial statements as the Bank has not issued such instruments at any time in the past.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items are effective for annual periods beginning on or after 1 July 2009". Management does not expect Amendments to IAS 39 to have an effect on the Bank's consolidated financial statements.

- IFRIC 12 "Service Concession Arrangements" is effective, at the latest, for first annual reporting period beginning on or after 1 April 2009. Management does not expect IFRIC 12 to have an effect on the Bank's consolidated financial statements as none of the Bank entities have entered into any service concession arrangements.

- IFRIC 15 "Agreements for the Construction of Real Estate" is effective for annual periods beginning on or after 1 January 2010. Management does not expect IFRIC 15 to have an effect on the Bank's consolidated financial statements as the Bank does not provide real estate construction services or develop real estate for sale.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation Estate" is effective for annual periods beginning on or after 1 July 2009. Management does not expect IFRIC 16 to have an effect on the Bank's consolidated financial statements as the Bank does not have any investments in a foreign operation.

- IFRIC 17 "Distributions of Non-cash Assets to Owners" is effective prospectively for annual periods beginning on or after 1 November 2009. As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

- IFRIC 18 "Transfers of Assets from Customers" is effective prospectively for annual period beginning on or after 1 November 2009. IFRIC 18 is not relevant to the Bank's financial statements as the Bank does normally receive contributions from customers.

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

- Improvements to IFRSs 2009 (issued April 2009), various effective dates, generally 1 January 2010;

- Amendment to IFRS 2 „Group Cash-Settled Share-based payment Transactions" (issued June 2009), effective from 1 January 2010;

- Amendments to IFRS 1 Additional exemptions for first-time adopters (issued July 2009), effective date 1 January 2010;

- Amendments to IAS 32 "Classification of Rights Issues" (issued October 2009), effective date 1 February 2010;

- Revised IAS 24 "Related Party Transactions" (issued November 2009), effective date 1 January 2011;

- IFRS 9 Financial Instruments (issued November 2009), effective date 1 January 2013;

- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement (issued November 2009), effective date 1 January 2011;

● IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009), effective date 1 July 2010.

As at the date of preparation of these financial statements, Management have not completed the process of evaluating the impact that will result from adopting these revised standards, new interpretations and amendments to current standards in future, once they are endorsed by the European Commission for adoption by the European Union.

4. Financial risk management

(a) General framework

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

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

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

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

As part of the internal management, UniCredit Bulbank has approved by the Management, Financial Instruments Management Policy, where all deals and exposures in financial instruments, excluding loans, are defined.

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.

Additionally a system for operational risk management, approved by the Management Board, is introduced in the Bank.

(b) Market risk

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 International Markets Rule Book, reviewed at least annually.

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

UniCredit Bulbank applies uniform Group risk management procedures. These procedures make available the major risk parameters for the various trading operations at least once a day. Besides Value at Risk, other factors of equal importance are stress-oriented volume and position limits. Additional element is the loss-warning level limit, providing early indication of any accumulation of position losses.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Bank Austria's internal model NoRISK. It is based on historical and Monte Carlo simulation of returns and accounts for risk reducing effects between the risk categories interest, credit spread, foreign exchange, equity, volatilities, and commodities. 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 marking to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return").

During 2009, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 1.6 million and EUR 10.4 million, averaging EUR 4.1 million, with the credit spreads being main driver of total risk in both, trading and banking books.

VaR of UniCredit Bulbank AD by risk category in EUR million for 2009 is as follows:

Risk Category	Minimum	Maximum	Average	Year-end
Interest rate risk	0.6	3.8	1.2	0.6
Credit spread	1.3	9.7	3.8	1.4
Exchange risk	0.0	0.3	0.1	0.2
VaR overall [1]	**1.6**	**10.4**	**4.1**	**1.7**

[1]Amount is lower from a simple sum of single factor VaRs due to risk reducing factors' correlations.

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 2009 continued to confirm the reliability of the model.

Apart from VaR figures, daily reporting includes details of volume-oriented sensitivities that are compared with respective limits. The most important detailed presentations include: basis point shift value (interest rate /spread changes of 0.01 % by maturity bucket) and FX sensitivities. In the interest rate sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (trading and banking book) as of December 31, 2009 (change in value due to 1 basis point shift, amounts in EUR):

Currency	0-3M	3M-1Y	1Y-3Y	3Y-10Y	Above 10Y	Total
BGN	1,215	4,401	(10,729)	(14,331)	(596)	(20,040)
CHF	323	17	(54)	(252)	(76)	(42)
EUR	9,741	9,885	(7,006)	18,064	(1,731)	28,953
GBP	70	118	5	-	-	193
JPY	(3)	-	-	-	-	(3)
USD	616	1,728	(2,011)	(12,766)	-	(12,433)
Total sensitivity [1]	**11,968**	**16,149**	**19,805**	**45,413**	**2,403**	**61,664**

[1] Total sensitivity for each maturity band is sum of the each currency absolute sensitivity for that band.

Value-at-risk calculations are complemented by various stress scenarios to identify the potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and dramatic deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up to 60 days are reported at least monthly to ALCO. In 2009 markets rebounded and volatilities went down from 2008 record levels. The Management continued vigilant risk management practices by limiting risk taking and focus on client-driven business solutions.

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. During 2009, the Bank maintained long EURBGN position of EUR 105 million on average, with insignificant open position in other crosses.

As of December 31, 2009 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	824,881	7,277	**832,158**
Financial assets held for trading	115,450	-	**115,450**
Derivatives held for trading	42,987	2,155	**45,142**
Derivatives used for hedging	84	1,437	**1,521**
Financial assets designated at fair value through profit or loss	127,516	8,555	**136,071**
Loans and advances to banks	2,050,172	21,395	**2,071,567**
Loans and advances to customers	7,244,084	126,412	**7,370,496**
Available for sale Investments	283,912	1,573	**285,485**
Held to maturity Investments	147,462	167,287	**314,749**
Investments in subsidiaries and associates	27,499	-	**27,499**
Property, plant, equipment and investment properties	245,463	-	**245,463**
Intangible assets	34,823	-	**34,823**
Current tax assets	9,795	-	**9,795**
Deferred tax assets	6,681	-	**6,681**
Non-current assets and disposal group classified as held for sale	2,236	-	**2,236**
Other assets	19,561	77	**19,638**
TOTAL ASSETS	**11,182,606**	**336,168**	**11,518,774**
LIABILITIES			
Financial liabilities held for trading	38,165	2,046	**40,211**
Derivatives used for hedging	6	-	**6**
Deposits from banks	3,090,763	14,589	**3,105,352**
Deposits from customers	5,827,876	593,509	**6,421,385**
Subordinated liabilities	212,123	-	**212,123**
Provisions	19,256	17,308	**36,564**
Deferred tax liabilities	21,041	-	**21,041**
Other liabilities	45,021	1,131	**46,152**
TOTAL LIABILITIES	**9,254,251**	**628,583**	**9,882,834**
EQUITY	**1,635,940**	**-**	**1,635,940**
Net off-balance sheet spot and forward position	**(291,379)**	**295,179**	**3,800**
Net position	**1,036**	**2,764**	**3,800**

As of December 31, 2008 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	893,507	12,422	**905,929**
Financial assets held for trading	122,594	-	**122,594**
Derivatives held for trading	34,933	3,370	**38,303**
Financial assets designated at fair value through profit or loss	172,527	12,040	**184,567**
Loans and advances to banks	1,540,268	9,728	**1,549,996**
Loans and advances to customers	7,072,735	159,516	**7,232,251**
Available for sale Investments	354,182	3,272	**357,454**
Held to maturity Investments	154,976	201,026	**356,002**
Investments in subsidiaries and associates	14,932	-	**14,932**
Property, plant, equipment and investment properties	185,129	-	**185,129**
Intangible assets	38,122	-	**38,122**
Deferred tax assets	9,631	-	**9,631**
Non-current assets and disposal group classified as held for sale	3,136	-	**3,136**
Other assets	16,602	56	**16,658**
TOTAL ASSETS	**10,613,274**	**401,430**	**11,014,704**
LIABILITIES			
Financial liabilities held for trading	57,031	3,080	**60,111**
Deposits from banks	3,178,285	40,309	**3,218,594**
Deposits from customers	5,426,477	602,714	**6,029,191**
Subordinated liabilities	209,368	-	**209,368**
Provisions	33,862	22,912	**56,774**
Current tax liabilities	759	-	**759**
Deferred tax liabilities	15,272	-	**15,272**
Other liabilities	50,367	1,203	**51,570**
TOTAL LIABILITIES	**8,971,421**	**670,218**	**9,641,639**
EQUITY	**1,373,065**	**-**	**1,373,065**
Net off-balance sheet spot and forward position	**(291,534)**	**267,793**	**(23,741)**
Net position	**(22,746)**	**(995)**	**(23,741)**

(c) Liquidity risk

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

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

The liquidity is operationally managed through Markets and Sales Division and the structural liquidity through Assets and Liabilities Division. According to the Liquidity Policy, Assets and Liabilities Division monitors on a daily basis short term flows, arising form treasury activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under three scenarios – going concern, liquidity crisis and name crisis. For the purposes of liquidity management are monitored daily short-term limits, 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. During 2009 the Bank was in compliance with the Group liquidity limit requirements.

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

In thousands of BGN

Maturity table as at 31 December 2009	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Non derivative instruments							
Deposits from banks	3,105,352	(3,151,647)	(2,190,219)	(5,775)	(58,165)	(813,674)	(83,814)
Deposits from customers	6,421,385	(6,469,319)	(3,269,606)	(1,481,731)	(1,306,588)	(411,382)	(12)
Subordinated liabilities	212,123	(256,051)	-	-	-	(52,784)	(203,267)
Issued financial guarantee contracts	19,285	(19,285)	-	-	-	(19,285)	-
Unutilized credit lines	-	(928,597)	(13,929)	-	-	(914,668)	-
Total non-derivative instruments	**9,758,145**	**(10,824,899)**	**(5,473,754)**	**(1,487,506)**	**(1,364,753)**	**(2,211,793)**	**(287,093)**
Trading derivatives, net	4,931						
Outflow		(880,472)	(619,490)	(100,617)	(30,809)	(116,921)	(12,635)
Inflow		889,617	622,591	101,271	35,919	117,169	12,667
Derivatives used for hedging, net	1,515						
Outflow		(13,599)	(350)	(33)	(1,175)	(11,415)	(626)
Inflow		15,388	68	22	930	13,718	650
Total derivatives	**6,446**	**10,934**	**2,819**	**643**	**4,865**	**2,551**	**56**
Total financial liabilities	**9,764,591**	**(10,813,965)**	**(5,470,935)**	**(1,486,863)**	**(1,359,888)**	**(2,209,242)**	**(287,037)**

In thousands of BGN

Maturity table as at 31 December 2008	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Non derivative instruments							
Deposits from banks	3,218,594	(3,298,513)	(2,130,695)	-	(504,459)	(356,295)	(307,064)
Deposits from customers	6,029,191	(6,053,641)	(2,986,339)	(1,118,486)	(1,087,176)	(502,173)	(359,467)
Subordinated liabilities	209,368	(304,952)	-	-	-	-	(304,952)
Issued financial guarantee contracts	24,292	(24,292)	-	-	-	(24,292)	-
Unutilized credit lines	-	(1,442,245)	(21,634)	-	-	(1,420,611)	-
Total non-derivative instruments	**9,481,445**	**(11,123,643)**	**(5,138,668)**	**(1,118,486)**	**(1,591,635)**	**(2,303,371)**	**(971,483)**
Trading derivatives, net	(21,808)						
Outflow		(2,327,358)	(2,133,737)	(81,249)	(29,191)	(64,155)	(19,026)
Inflow		2,315,728	2,109,542	83,523	33,323	70,303	19,037
Total derivatives	**(21,808)**	**(11,630)**	**(24,195)**	**2,274**	**4,132**	**6,148**	**11**
Total financial liabilities	**9,459,637**	**(11,135,273)**	**(5,162,863)**	**(1,116,212)**	**(1,587,503)**	**(2,297,223)**	**(971,472)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

Regulatory trading book includes financial assets held for trading purposes and derivatives.

The analysis based on client credit quality and rating (where available) as of December 31, 2009 and December 31, 2008 is as shown in the next table:

In thousands of BGN

	2009	2008
Government bonds		
Rated BBB	331	15,325
Rated BBB+	5,187	377
Bonds of credit institutions		
Rated AAA	35,220	40,970
Rated BB	39,637	40,848
Unrated	1,165	15,910
Corporate bonds		
Unrated	30,570	9,164
Equities	3,340	-
Derivatives (net)		
Banks and financial institution counterparties	(31,642)	(33,714)
Banks and financial institution counterparties	36,573	11,906
Total trading assets and liabilities	**120,381**	**100,786**

(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. As a rule collaterals are registered on behalf of the Bank prior to the effective disbursal of the loans.

The competent body for assessing impairment allowances is the Provisioning and Restructuring Committee (PRC). Risk exposures are classified in four major classes:

- Regular exposures;
- Watch exposures;
- Non-performing;
- Loss exposures.

PRC regularly assess whether there is objective evidence that a loan or a group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

The Bank establishes an allowance for loan losses that represents the estimate of impairment losses in the loan portfolio. The components of this allowance are the individually and the collectively assessed loss allowance. The Bank first assess whether objective evidence of impairment exists individually for loans that are significant. Then collectively impairment assessment is performed for those loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment.

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 practice adopted in the Bank is to prepare internal rules for all credit products, especially in the Retail banking, setting the loan parameters, acceptable collaterals and the documentation required from the clients for credit risk assessment.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one client or group of related clients exceeding 10% of the capital base are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one client or group of related clients must not exceed 25% of the capital base of the Bank and in addition the total of all big exposures must not exceed 800% capital base.

As of December 31, 2009 and December 31, 2008 the Bank has fulfilled all statutory lending limits.

The table below analyses the breakdown of impairment allowances as of December 31, 2009 and December 31, 2008.

In thousands of BGN

	Carrying amount before impairment		Impairment allowance		Carrying amount	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Individually impaired						
Watch	450,791	214,049	44,929	27,041	405,862	187,008
Non-performing	97,295	24,290	48,621	15,714	48,674	8,576
Loss	218,155	135,375	218,028	134,666	127	709
	766,241	**373,714**	**311,578**	**177,421**	**454,663**	**196,293**
Collectively impaired	**4,529,370**	**4,814,666**	**92,804**	**107,865**	**4,436,566**	**4,706,801**
Past due but not impaired						
Watch	-	173	-	-	-	173
Non-performing	35	13	-	-	35	13
Loss	165	160	-	-	165	160
	200	**346**	**-**	**-**	**200**	**346**
Past due comprises	-	-	-	-	-	-
from 31 to 60 days	*2*	*188*	-	-	*2*	*188*
from 61 to 90 days	-	*22*	-	-	-	*22*
over 91 days	*198*	*136*	-	-	*198*	*136*
	200	*346*	-	-	*200*	*346*
Neither past due nor impaired	**2,479,067**	**2,328,811**	**-**	**-**	**2,479,067**	**2,328,811**
Total	**7,774,878**	**7,517,537**	**404,382**	**285,286**	**7,370,496**	**7,232,251**

The breakdown of the fair value of 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	
	2009	**2008**
Against individually impaired		
Cash collateral	579	443
Property	1,161,043	496,045
Debt securities	-	12,925
Other collateral	1,947,415	337,566
Against collectively impaired		
Cash collateral	1,308	983
Property	9,227,381	8,396,134
Debt securities	12	30,462
Other collateral	11,779,026	7,026,930
Against past due but not impaired		
Cash collateral	1,396	1,228
Property	646	832
Debt securities	-	-
Other collateral	1,417	3,535
Against neither past due nor impaired		
Cash collateral	58,354	46,223
Property	2,629,238	3,034,630
Debt securities	29,630	274,267
Other collateral	8,423,299	6,835,101
Total	**35,260,744**	**26,497,304**

The concentration of risk exposures in different sectors of the economy as well as geographical spread out as is as outlined in table below:

In thousands of BGN

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Concentration by sectors						
Sovereign	57,584	59,733	-	-	552,973	641,847
Manufacturing	1,541,948	1,439,630	-	-	-	-
Commerce	1,653,631	1,577,385	-	-	-	-
Construction	825,378	574,398	-	-	-	-
Agriculture and forestry	138,058	157,578	-	-	-	-
Transport and communication	169,948	331,610	-	-	-	-
Tourism	265,929	276,708	-	-	-	-
Services	576,279	545,303	-	-	-	-
Financial services	302,682	277,461	2,071,567	1,549,996	74,760	86,541
Retail (individuals)						
Housing loans	1,425,488	1,339,927	-	-	-	-
Consumer loans	817,953	937,804	-	-	-	-
	7,774,878	**7,517,537**	**2,071,567**	**1,549,996**	**627,733**	**728 388**
Impairment allowances	(404,382)	(285,286)	-	-	-	-
Total	**7,370,496**	**7,232,251**	**2,071,567**	**1,549,996**	**627,733**	**728,388**
Concentration by geographic location						
Europe	7,772,702	7,514,500	2,059,214	1,542,697	611,281	692,916
North America	113	5	12,033	6,533	5,491	8,368
Asia	1,807	2,867	164	567	10,961	27,104
Africa	153	113	-	-	-	-
South America	11	23	-	-	-	-
Australia	92	29	156	199	-	-
	7,774,878	**7,517,537**	**2,071,567**	**1,549,996**	**627,733**	**728,388**
Impairment allowances	(404,382)	(285,286)	-	-	-	-
Total	**7,370,496**	**7,232,251**	**2,071,567**	**1,549,996**	**627,733**	**728,388**

(e) Operational Risk

UniCredit Bulbank defines as operational the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.

Operational events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Company's physical assets, business disruption and system failures, process management.

The Operational risk unit in the bank is an independent unit in charge of regular operational risk monitoring and control. The unit's activity is regulated in the approved by the Management Board "Operational risk control rulebook", in compliance with "Operational risk control rulebook" of UniCredit Group, "Operational risk control rulebook" of Bank Austria Group and the national regulatory framework (Ordinance 8 on the Capital Adequacy of Credit Institutions). The Management Board is responsible for operational risk oversight with the support of the Operational Risk Committee, which has deliberative and suggestion functions on the decisions related to improvement of internal communication for finding proper risk mitigation solutions through information exchange among different units.

The operational risk information, such as loss data, key risk indicators and scenarios is collected in the UniCredit Group database; a Group built decentralized risk management application. While the main task of the Operational risk unit is to define the methods used and to perform risk measurement and analysis, the risk managers in different areas working on decentralized basis are responsible for taking measures to reduce and prevent risks.

The Operational risk unit is also responsible for carrying out the following activities: monitoring and analyzing the bank's operational risks exposure; verifying that operational loss data is regularly collected in the UniCredit Group database; validating that risk limits are respected and reporting breaches to the Management Board; cooperating in the analysis of the operational risk impact in significant new product introduction, providing regular training on operational risk control; developing and promoting an operational risk culture within the Bank. Other activities carried out are in compliance with the requirements of Basel II and Ordinance 8 of the Bulgarian National Bank.
Since 2008 UniCredit Bulbank has reported the capital requirement for operational risk based on the Standardized Approach methodology, attesting that the bank's operational risk system is conceptually sound and implemented with integrity and closely built into the risk management process of the bank.

In December 2009 UniCredit Bulbank was the first Bulgarian bank to start official application proceedings with the Bulgarian National Bank to use the Advanced Measurement Approach (AMA) for the calculation of capital requirements for operational risk. AMA is the most sophisticated calculation approach, the use of which implies that the operational risk management system in the institution meets various quantitative and qualitative standards and its output is a fundamental part of the process of monitoring and controlling the exposure to risks.

(f) Basel II disclosure

Since January 1st, 2007 Bulgarian banks apply BASEL II requirements for measurement of the capital adequacy.

Under the regulatory framework, Bank allocates capital for covering three major types of risk, namely credit risk, market risk and operational risk. For the year 2007 UniCredit Bulbank applied allowing standardized approach for credit and market risks and the basic indicator approach for operational risk. In 2008 Bank has been given permission by Bulgarian National Bank to apply standardized approach also for operational risk.

Statutory limits exposed to Banks require Bank to maintain total capital adequacy ratio not less than 12% and Tier I ratio not less than 6%. As a response to the ongoing world financial crisis Bulgarian National Bank strongly recommended all the Banks in Bulgaria to reached minimum Tier I ratio of 10% latest by June 2009. UniCredit Bulbank AD is in full compliance with this requirement even as of December 31, 2008.

(i) Capital base (own funds)

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

As of December 31, 2009 and December 31, 2008 the unconsolidated Capital base of UniCredit Bulbank AD comprises as follows:

In thousands of BGN

	2009	2008
Share capital	239,256	239,256
Statutory reserve	51,155	51,155
Retained earnings	1,019,874	727,075
Total capital and reserves	**1,310,285**	**1,017,486**
Deductions		
Unrealized loss on available-for-sale instruments	(18,789)	(29,216)
Intangible assets	(34,823)	(38,122)
Total deductions	**(53,612)**	**(67,338)**
Total Tier I capital	**1,256,673**	**950,148**
Revaluation reserve on real estate properties occupied by the Bank	136,070	80,975
Subordinated long-term debt	183,848	191,671
Total Tier II capital	**319,918**	**272,646**
Additional deductions from Tier I and Tier II capital	**(30,391)**	**(17,823)**
Total Capital base (Own funds)	**1,546,200**	**1,204,971**

The additional deductions from the Capital base relates to Bank's participation in unconsolidated entities which represent 10% or more than 10% of the registered capital of such entities. For regulatory purposes the deduction is split equally between Tier I and Tier II capital. Subordinated long-term debt represents five loans provided by UniCredit Bank Austria AG for initial principal amount of EUR 98 million (see also Note **40**).

(ii) Capital requirements

As of December 31, 2009 and December 31, 2008 the capital requirements for credit, market and operational risks are as follows:

In thousands of BGN

	2009	2008
Capital requirements for credit risk		
Exposures to:		
Central Governments and Central Banks	6,859	11,342
Regional Governments and local authorities	4,247	2,791
Administrative bodies and non-commercial undertakings	11	191
Institutions	12,569	14,193
Corporates	204,773	228,102
Retail	63,047	74,803
Exposures secured on real estate property	304,469	283,756
Past due items	2,582	-
High risk exposures	26	20
Short-term exposures to institutions and corporates	30,675	20,388
Other exposures	21,181	16,778
Total capital requirements for credit risk	**650,439**	**652,364**
Capital requirements for market risk	**12,147**	**8,994**
Capital requirements for operational risk	**77,986**	**68,608**
Total capital requirements for credit, market and operational risk	**740,572**	**729,966**
Additional capital requirements subject to National discretions from the Regulator	**370,285**	**364,983**
Total regulatory capital requirements	**1,110,857**	**1,094,949**
Capital Base (Own funds)	1,546,200	1,204,971
there of Tier I	*1,241,478*	*941,237*
Free equity (Own funds)	435,343	110,022
Total capital adequacy ratio	**16.70%**	**13.21%**
Tier I ratio	**13.41%**	**10.32%**

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

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

Operational risk is calculated on applying standardized approach as described in note **4 (e)**.

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

5. Use of estimates and judgement

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

In general the estimates and judgement are widely used in assessing:
- Fair value determination of financial instruments;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations

(a) Fair value determination of financial instruments
As described in note **3 (h) (vi)** Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments carried at fair value by valuation method applied by the Bank as of December 31, 2009.

In thousands of BGN

Instrument category	Level 2	Level 3	Total
Financial assets held for trading	80,374	35,076	115,450
Derivatives held for trading	44,785	357	45,142
Derivatives used for hedging	1,521	-	1,521
Financial assets designated at fair value through profit or loss	23,509	112,562	136,071
Available for sale Investments	282,379	3,106	285,485
	432,568	**151,101**	**583,669**
Available for sale Investments	40,211	-	40,211
Derivatives used for hedging	6	-	6
	40,217	**-**	**40,217**
Derivatives used for hedging	**472,785**	**151,101**	**623,886**

The table below analyses the fair value of financial instruments by classification as of December 31, 2009 and December 31, 2008

In thousands of BGN

December 2009	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	832,158	**832,158**	**832,158**
Financial assets held for trading	115,450	-	-	-	-	**115,450**	**115,450**
Derivatives held for trading	45,142	-	-	-	-	**45,142**	**45,142**
Derivatives used for hedging	1,521	-	-	-	-	**1,521**	**1,521**
Financial assets designated at fair value through profit or loss	136,071	-	-	-	-	**136,071**	**136,071**
Loans and advances to banks	-	-	2,071,567	-	-	**2,071,567**	**2,071,567**
Loans and advances to customers	-	-	7,370,496	-	-	**7,370,496**	**7,370,561**
Available for sale Investments	-	-	-	285,485	-	**285,485**	**285,485**
Held to maturity Investments	-	314,749	-	-	-	**314,749**	**325,535**
TOTAL ASSETS	**298,184**	**314,749**	**9,442,063**	**285,485**	**832,158**	**11,172,639**	**11,183,490**
LIABILITIES							
Financial liabilities held for trading	40,211	-	-	-	-	**40,211**	**40,211**
Derivatives used for hedging	6	-	-	-	-	**6**	**6**
Deposits from banks	-	-	-	-	3,105,352	**3,105,352**	**3,119,350**
Deposits from customers	-	-	-	-	6,421,385	**6,421,385**	**6,439,177**
Subordinated liabilities	-	-	-	-	212,123	**212,123**	**212,123**
TOTAL LIABILITIES	**40,217**	**-**	**-**	**-**	**9,738,860**	**9,779,077**	**9,810,867**

In thousands of BGN

December 2008	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	832,158	**832,158**	**832,158**
Financial assets held for trading	115,450	-	-	-	-	**115,450**	**115,450**
Derivatives held for trading	45,142	-	-	-	-	**45,142**	**45,142**
Financial assets designated at fair value through profit or loss	136,071	-	-	-	-	**136,071**	**136,071**
Loans and advances to banks	-	-	2,071,567	-	-	**2,071,567**	**2,071,567**
Loans and advances to customers	-	-	7,370,496	-	-	**7,370,496**	**7,370,496**
Available for sale Investments	-	-	-	285,485	-	**285,485**	**285,485**
Held to maturity Investments	-	314,749	-	-	-	**314,749**	**335,151**
TOTAL ASSETS	**296,663**	**314,749**	**9,442,063**	**285,485**	**832,158**	**11,171,118**	**11,191,520**
LIABILITIES							
Financial liabilities held for trading	40,211	-	-	-	-	**40,211**	**40,211**
Deposits from banks	-	-	-	-	3,105,352	**3,105,352**	**3,119,350**
Deposits from customers	-	-	-	-	6,421,385	**6,421,385**	**6,439,177**
Subordinated liabilities	-	-	-	-	212,123	**212,123**	**212,123**
TOTAL LIABILITIES	**40,211**	**-**	**-**	**-**	**9,738,860**	**9,779,071**	**9,779,071**

(b) Impairment of financial instruments

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

Collectively assessed impairment loses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments factors that are mostly considered include credit quality, portfolio size, concentration and economic factors.

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:
- Markets and Investment Banking;
- Corporate Banking;
- Retail Banking
- Asset-Liability Management Dept. and other.

In thousands of BGN

December 2009	Corporate Banking	Retail Banking	Markets and Investment Banking	ALM and other	Total
Net interest income	190,058	215,416	36,720	(34,113)	**408,081**
Dividend income	-	-	-	134	**134**
Net fee and commission income	58,577	85,384	6,023	692	**150,676**
Net gains (losses) from financial assets and liabilities held for trading	-	-	2,160	(383)	**1,777**
Net gains (losses) from other financial assets and designated at fair value through profit or loss	-	-	437	(372)	**65**
Net income from investments	-	-	-	2,169	**2,169**
Net income related to subsidiaries, associates and property, plant and equipment	-	-	-	2,661	**2,661**
Other operating income	-	-	-	6,893	**6,893**
TOTAL OPERATING INCOME	**248,635**	**300,800**	**45,340**	**(22,319)**	**572,456**
Personnel expenses	(9,820)	(44,006)	(2,102)	(40,555)	**(96,483)**
General and administrative expenses	(18,730)	(86,671)	(1,096)	(7,399)	**(113,896)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(2,179)	(18,980)	(223)	(13,093)	**(34,475)**
Total direct expenses	**(30,729)**	**(149,657)**	**(3,421)**	**(61,047)**	**(244,854)**
Allocation of indirect and overhead expenses	(28,548)	(42,871)	311	71,108	-
TOTAL OPERATING EXPENSES	**(59,277)**	**(192,528)**	**(3,110)**	**10,061**	**(244,854)**
Provisions for risk and charges	-	-	-	18,885	**18,885**
Net impairment loss on financial assets	(84,101)	(45,986)	-	437	**(129,650)**
PROFIT BEFORE INCOME TAX	**105,257**	**62,286**	**42,230**	**7,064**	**216,837**
Income tax expense					**(22,084)**
PROFIT FOR THE PERIOD					**194,753**
ASSETS	**4,662,594**	**2,706,190**	**3,115,658**	**1,034,332**	**11,518,774**
LIABILITIES	**2,404,997**	**3,870,799**	**2,380,696**	**1,226,342**	**9,882,834**

In thousands of BGN

December 2008	Corporate Banking	Retail Banking	Markets and Investment Banking	ALM and other	ALM and other
Net interest income	187,989	200,769	20,636	53,975	**463,369**
Dividend income	-	-	-	139	**139**
Net fee and commission income	63,326	87,347	5,729	(1,164)	**155,238**
Net gains (losses) from financial assets and liabilities held for trading	-	-	(21,129)	(2,890)	**(24,019)**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	-	4,697	(4,513)	**184**
Net income from investments	-	-	-	(1,277)	**(1,277)**
Net income related to subsidiaries, associates and property, plant and equipment	-	-	-	12,965	**12,965**
Other operating income	-	-	-	5,277	**5,277**
TOTAL OPERATING INCOME	**251,315**	**288,116**	**9,933**	**62,512**	**611,876**
Personnel expenses	(7,069)	(42,802)	(860)	(51,517)	**(102,248)**
General and administrative expenses	(15,022)	(94,399)	(766)	(15,467)	**(125,654)**
Amortisation, depreciation and impairment losses in tangible and intangible assets	(1,226)	(17,276)	(91)	(12,711)	**(31,304)**
Total direct expenses	**(23,317)**	**(154,477)**	**(1,717)**	**(79,695)**	**(259,206)**
Allocation of indirect and overhead expenses	(31,747)	(53,731)	(2,463)	87,941	-
TOTAL OPERATING EXPENSES	**(55,064)**	**(208,208)**	**(4,180)**	**8,246**	**(259,206)**
Provisions for risk and charges	-	-	-	3,634	**3,634**
Restructuring costs	-	-	-	17,986	**17,986**
Net impairment loss on financial assets	(24,530)	(36,027)	-	10,635	**(49,922)**
PROFIT BEFORE INCOME TAX	**171,721**	**43,881**	**5,753**	**103,013**	**324,368**
Income tax expense					**(32,665)**
PROFIT FOR THE PERIOD					**291,703**
ASSETS	**4,493,106**	**2,771,091**	**2,643,019**	**1,107,488**	**11,014,704**
LIABILITIES	**2,214,705**	**3,712,035**	**2,650,683**	**1,064,216**	**9,641,639**

7. Net interest income

In thousands of BGN

	2009	2008
Interest income		
Financial assets held for trading	7,892	10,500
Derivatives held for trading	1,672	2,119
Financial assets designated at fair value through profit or loss	10,139	20,208
Loans and advances to banks	20,201	19,786
Loans and advances to customers	564,724	572,472
Available for sale investments	13,898	19,199
Held to maturity investments	17,414	10,349
	635,940	**654,633**
Interest expense		
Derivatives used for hedging	(248)	-
Deposits from banks	(48,596)	(65,060)
Deposits from customers	(171,766)	(119,250)
Subordinated debt	(7,249)	(6,954)
	(227,859)	**(191,264)**
Net interest income	**408,081**	**463,369**

For the financial years ended December 31, 2009 and December 31, 2008 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 36,958 thousand and BGN 23,203 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2009	2008
Fee and commission income		
Collection and payment services	65,521	69,108
Lending business	19,590	21,368
Account services	18,216	11,850
Currency trading	25,829	30,624
Management, brokerage and securities trading	10,141	14,895
Documentary business	9,556	8,467
Package accounts	7,357	5,659
Other	3,082	2,920
	159,292	**164,891**
Fee and commission expense		
Collection and payment services	(6,284)	(6,576)
Management, brokerage and securities trading	(524)	(2,337)
Lending business	(1,483)	(360)
Other	(325)	(380)
	(8,616)	**(9,653)**
Net fee and commission income	**150,676**	**155,238**

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

In thousands of BGN

	2009	2008
FX trading income, net	(626)	(11,377)
Net income from debt instruments	(371)	1,643
Net income from equity instruments	-	6
Net income from derivative instruments	2,774	(14,291)
Net trading income	**1,777**	**(24,019)**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair through profit or loss includes realized gains and losses on such instruments as well as unrealized due to fair value change. The amounts for the years ended December 31, 2009 and December 31, 2008 are BGN 65 thousand and BGN 184 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2009	2008
Realised gains on disposal of available for sale investments	1,676	1,037
Realised losses on disposal of available for sale investments	-	(2,206)
Realised gains (losses) on disposal of held to maturity investments	493	(108)
Net income from investments	**2,169**	**(1,277)**

Under net income from investments, the Bank represents realized gains (loss) arising form disposal of available for sale and held to maturity investments.

In 2009 upon performed internal review of undertaken risk positions in debt instruments, Bank sold immaterial part of investments in held to maturity portfolio.

In 2008 due to uncertain creditworthiness of some bond issuers domiciled in the USA after development of the world financial crisis and for credit risk protection, UniCredit Bulbank AD disposed immaterial amount of held to maturity investments prior to their maturity.

Both sales performed in 2008 and 2009 have been preliminary reconciled for immateriality reasons on local and UCI Group level.

12. Net income related to subsidiaries, associates and property, plant and equipment

In thousands of BGN

	2009	2008
Net income on disposal of subsidiaries and associates	1,603	8,091
Net income on disposal of property, plant and equipment	1,443	4,874
Impairment of participation in associates	(385)	-
Net income related to subsidiaries, associates and property, plant and equipment	**2,661**	**12,965**

Net income related to subsidiaries and associates comprise of the gain out of the sale net of any amounts retained by the buyers, subject to release upon fulfilment of certain escrow clauses.

Upon restructuring if its activity UniCredit Bulbank AD disposed in 2007 the entire controlling interest in local Optima Financial Services EOOD and 51% of the interest in local UniCredit Bulbank EAD. The entire realized net income in 2009 in the amount of BGN 1,603 thousand and in 2008 in the amount of BGN 8,091 thousand comprise of release of escrow amounts upon fulfilling the contracted conditions or expiration of warranties given to the buyers.

In 2009 Bank took a decision to voluntarily liquidate together with the majority stake holder one of its associates. As a result of that, Bank's participation in that entity was impaired and impairment loss in the amount of BGN 385 thousand was recognized.

13. Other operating income, net

In thousands of BGN

	2009	2008
Other operating income		
Income from non-financial services	1,386	1,068
Rental income from investment property	341	349
Other income	5,536	4,131
	7,263	**5,548**
Other operating expenses		
Other operating expenses	(370)	(271)
	(370)	**(271)**
Other operating income, net	**6,893**	**5,277**

14. Personnel expenses

In thousands of BGN

	2009	2008
Wages and salaries	(78,701)	(84,729)
Social security charges	(10,645)	(12,417)
Pension and similar expenses	(476)	(460)
Temporary staff expenses	(5,107)	(3,701)
Share-based payments	(573)	(339)
Other	(981)	(602)
Total personnel expenses	**(96,483)**	**(102,248)**

As of December 31, 2009 the total number of employees, expressed in full time employee equivalent is 3,803 (December 31, 2008: 3,869)

Pension and similar expenses comprise of current services costs, interest costs and actuarial costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **41**.

As described in note **3 (o) (iii)** ultimate parent company UniCredit Italiano S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments.

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

In thousands of BGN

	Available quantity at December 31, 2009	Estimated quantity of vested amount	Economic value at December 31, 2008	2009 Cost	Settled in 2009	Economic value at December 31, 2009
Stock Options 11 2005	103,700	103,700	159	56	-	215
Stock Options 06 2006	85,700	84,087	127	56	-	183
Stock Options 06 2007	100,238	94,682	88	66	-	154
Stock Options 06 2008	238,336	216,729	33	72	-	105
Total Stock options	**527,974**	**499,198**	**407**	**250**	**-**	**657**
Performance Shares 11 2005	-	25,357	189	-	(189)	-
Performance Shares 06 2006	41,584	34,515	-	323	-	323
Performance Shares 06 2007	36,107	29,969	-	-	-	-
Performance Shares 06 2008	75,017	62,264	-	-	-	-
Total Performance share	**152,708**	**152,105**	**189**	**323**	**(189)**	**323**
Total Options and Shares	**680,682**	**651,302**	**596**	**573**	**(189)**	**980**

Detailed information about the granting dates, vesting period starting and ending dates of the stock options and performance share is presented in the table below:

Instrument granted	Granting date	Vesting period start date	Vesting period end date
Stock Options 11 2005	18/11/05	30/11/05	30/11/09
Stock Options 06 2006	13/06/06	30/06/06	30/06/10
Stock Options 06 2007	12/06/07	30/06/07	30/06/11
Stock Options 06 2008	25/06/08	30/06/08	30/06/12
Performance Shares 11 2005	18/11/05	31/12/07	31/12/08
Performance Shares 06 2006	13/06/06	31/12/08	31/12/09
Performance Shares 06 2007	12/06/07	31/12/09	31/12/10
Performance Shares 06 2008	25/06/08	31/12/10	31/12/11

15. General and administrative expenses

In thousands of BGN

	2009	2008
Deposit guarantee fund annual contribution	(26,561)	(24,402)
Advertising, marketing and communication	(6,434)	(9,828)
Credit information and searches	(1,285)	(2,077)
Information, communication and technology expenses	(30,224)	(29,708)
Consulting, audit and other professionals services	(1,583)	(1,949)
Real estate expenses	(13,312)	(20,638)
Rents	(13,594)	(12,258)
Travel expenses and car rentals	(2,887)	(3,503)
Insurance	(1,150)	(767)
Supply and miscellaneous services rendered by third parties	(12,504)	(15,277)
Other costs	(4,362)	(5,247)
Total general and administrative expenses	**(113,896)**	**(125,654)**

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

In thousands of BGN

	2009	2008
Depreciation charge	(32,114)	(29,911)
Impairment due to obsolescence	(796)	(1,393)
Decrease in value due to revaluation	(1,351)	-
Decrease in value due to revaluation of non-current assets and disposal group classified as held for sale	(214)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(34,475)**	**(31,304)**

In 2009 Bank has performed valuations of all its investments in properties. As a result of this valuation decrease in value of property in the amount of BGN 1,351 thousand and in assets held for sale in the amount of BGN 214 thousand has been recognized (see also notes **31**, **32** and **35**).

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not anymore likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **41**).

In thousands of BGN

	2009	2008
Additions of provisions		
Provisions on letters of guarantee	(11,218)	(11,829)
Legal cases provisions	(4,763)	(7,449)
Provisions on constructive obligations	-	(2,801)
Other provisions	(220)	(1,235)
	(16,201)	**(23,314)**
Reversal of provisions		
Provisions on letters of guarantee	16,225	11,731
Legal cases provisions	17,452	10,362
Provisions on constructive obligations	1,374	4,802
Other provisions	35	53
	35,086	**26,948**
Net provisions charge	**18,885**	**3,634**

18. Restructuring costs

For the period June 2006 – June 2008 UniCredit Bulbank AD was successfully implementing restructuring program related to optimization of the operational activity as a result of a legal merger of the three Bulgarian Banks (Bulbank AD, HVB Bank Biochim AD and Hebrosbank AD). The program was completed in June 2008. As some of the performed activities absorbed fewer financial resources (costs) than initially estimated the total unutilized restructuring provisions in the amount of BGN 17,986 thousand were released as of June 2008.

19. Net Impairment loss on financial assets

In thousands of BGN

	2009	2008
Balance 1 January		
Loans and advances to customers	285,286	230,533
Increase		
Loans and advances to customers	169,615	149,919
Decrease		
Loans and advances to customers	(38,222)	(89,752)
Recoveries from non-performing loans previously written-off	(1,743)	(10,245)
	(39,965)	(99,997)
Net impairment losses	**129,650**	**49,922**
Written-off		
Loans and advances to customers	(12,297)	(5,414)
Balance December 31		
Loans and advances to customers	**404,382**	**285,286**

20. 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 2010.

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

In thousands of BGN

	2009	2008
Current tax	(20,851)	(27,734)
Deferred tax income (expense) related to origination and reversal of temporary differences	(1,104)	(4,757)
Underprovided prior year income tax	(129)	(174)
Income tax expense	**(22,084)**	**(32,665)**

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

In thousands of BGN

	2009	2008
Accounting profit before tax	216,837	324,368
Corporate tax at applicable tax rate (10% for 2009 and 2008)	(21,684)	(32,437)
Tax effect of non taxable revenue	114	32
Tax effect of non tax deductible expenses	(281)	(217)
Tax effect of reversal of temporary differences	(127)	131
Underprovided prior year income tax	(106)	(174)
Income tax expense	**(22,084)**	**(32,665)**
Effective tax rate	**10.18%**	**10.07%**

21. Cash and balances with Central bank

In thousands of BGN

	2009	2008
Cash in hand	119,816	182,008
Current account with Central Bank	712,342	723,921
Total cash and balance with Central bank	**832,158**	**905,929**

22. Financial assets held for trading

In thousands of BGN

	2009	2008
Government bonds	5,517	15,702
Bonds of credit institutions	76,022	97,728
Corporate bonds	30,571	9,164
Equities	3,340	-
Total financial assets held for trading	**115,450**	**122,594**

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

As of December 31, 2009 and December 31, 2008 financial assets held for trading in the amount of BGN 33,136 thousand and BGN 54,175 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 **43**).

Change in accounting policy

As described in note **3 (h) (ii) b)** in October 2008 Management has adopted amendments in IAS 39 "Financial instruments: Recognition and measurement" issued by IASB that same month. Considering the ongoing financial markets turmoil as a possible example of "rare circumstances", Management has changed its intention with regard to certain government bonds, previously classified as held for trading.

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

In thousands of BGN

	2009	Cumulatively since reclassification (July 2008 - December 2009)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	8,115	5,013
Net interest income		
Net interest income recognized for the period after reclassification	4,642	7,031
Net interest income after reclassification that should have been recognized had the assets not been reclassified	5,844	8,866

23. Derivatives held for trading

In thousands of BGN

	2009	2008
Interest rate swaps	34,384	25,121
Equity options	528	9,341
FX forward contracts	4,951	3,302
FX options	588	32
Other options	4,144	490
FX swaps	547	17
Total trading derivatives	**45,142**	**38,303**

Derivatives comprise of trading instruments that have positive market value as of December 31, 2009 and December 31, 2008. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank's customers' business positions.

24. 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, 2009 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks business (attracted deposits).

As of December 31, 2009 the positive fair value of hedging instruments is in the amount of BGN 1,521 thousand and the negative fair value of hedging instruments is BGN 6 thousand.

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

In thousands of BGN

	2009	2008
Government bonds	20,660	27,428
Bonds of credit institutions	24,568	58,485
Municipality bonds	2,849	2,849
Corporate bonds	87,994	95,805
Total financial assets designated at fair value through profit or loss	**136,071**	**184,567**

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

As of December 31, 2009 and December 31, 2008 assets designated at fair value through profit or loss in the amount of BGN 4,136 thousand and BGN 20,330 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 **45**).

26. Loans and advances to banks

In thousands of BGN

	2009	2008
Loans and advances to banks	2,028,640	1,515,360
Current accounts with banks	42,923	34,599
Restricted accounts in foreign currency	4	37
Total loans and advances to banks	**2,071,567**	**1,549,996**

27. Loans and advances to customers

In thousands of BGN

	2009	2008
Receivables under repurchase agreement	956	14,715
Private companies	5,472,897	5,165,358
Individuals		
Housing loans	1,425,488	1,339,927
Consumer loans	817,953	937,804
Central and local governments	57,584	59,733
	7,774,878	**7,517,537**
Less impairment allowances	(404,382)	(285,286)
Total loans and advances to customers	**7,370,496**	**7,232,251**

28. Available for sale investments

In thousands of BGN

	2009	2008
Government bonds	261,613	312,408
Bonds of credit institutions	20,766	41,985
Equities	3,106	3,061
Total available for sale investments	**285,485**	**357,454**

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

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are generally carried at cost as their fair value can not be reliably measured.

As of December 31, 2009 and December 31, 2008 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, 2009 and December 31, 2008 available for sale investments in the amount of BGN 133,400 thousand and BGN 307,132 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 **43**).

29. Held to maturity investments

In thousands of BGN

	2009	2008
Government bonds	291,360	329,438
Bonds of credit institutions	23,389	26,564
Total held to maturity investments	**314,749**	**356,002**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity.

In 2008 based on internal risk assessment Management approved increase of Bank's holdings in Government bonds with clearly stated intention to hold them until maturity. The increase was effectively done through reclassification of bonds previously classified as held for trading (see also note **22**) and through new investments. Now new held to maturity investments have been acquired in 2009.

30. Investments in subsidiaries and associates

Company	Activity	Share in capital	Carrying value in thousands of BGN Dec 2009
UniCredit Factoring AD	Factoring activities	100.0%	3,000
Hypovereins Immobilien EOOD	Transport services and real estate lending activities	100.0%	654
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	19,574
UniCredit Leasing EAD	Leasing activities	24.4%	1,771
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,500
Pirelli Real Estate AD	Management of real estate portfolio	25.0%	-
		Total	**27,499**

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.

For the purposes of supporting the business activities of UniCredit Consumer Financing AD, the Bank approved increase of the reserves of the company by providing additional funds from the shareholders. The Bank's part of that increase was effectively paid in 2009 and as a result of that the cost of participation in UniCredit Consumer Financing AD increased by BGN 12,692 thousand.

Following ongoing leasing activities reorganization, in December 2009 in-kind contribution in the capital of UniCredit Leasing was performed. Bank participated with all its shares held in Bulbank Leasing AD at that time. As this transformation represents a business combination among entities under common control, the new value of Bank's participation in UniCredit Leasing AD was increased by the book value of its participation in Bulbank Leasing AD. As a result of the performed transformation Bank has no longer direct participation in Bulbank Leasing AD, and its share in the net assets of transformed UniCredit Leasing AD has been reduced to 24.4%.

In 2009 the shareholders of Pirelli Real Estate AD took a decision for voluntarily liquidation of the Company. In order to meet its current and constructive obligation before the actual closure, the capital of the Company has been increased. Bank's share in that increase amounted to BGN 260 thousand. Since the Management of the Bank does not expect any residual value to remain that could be distributed among the shareholders upon completion of the closure procedure, the carrying amount of the investments has been fully impaired by the end of 2009. As a result of this impairment, impairment loss in the amount of BGN 385 thousand was recognized.

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank at cost as allowed by IAS 27 "Consolidated and Separate Financial Statements". In conjunction with the same standard Bank also prepares Consolidated Financial Statements where all entities in which the Bank has more than 50% of the participation in equity are fully consolidated and the rest below 50% where the Bank exercise significant influence are consolidated under equity method.

31. Property, plant, equipment and investment properties

In thousands of BGN

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost or revalued amount							
As of December 31, 2008	**6,780**	**160,863**	**3,686**	**69,347**	**35,440**	**928**	**277,044**
Additions	381	175	816	6,205	11,986	-	**19,563**
Transfers	(42)	7,039	137	4,182	(10,861)	(455)	**-**
Write offs	(5)	(380)	(747)	(2,148)	(1,854)	-	**(5,134)**
Disposals	(3)	(62)	-	(1,745)	(645)	-	**(2,455)**
As of December 31, 2009 before revaluation	**7,111**	**167,635**	**3,892**	**75,841**	**34,066**	**473**	**289,018**
Written off against accumulated depreciation upon new revaluation	-	(26,218)	-	-	-	-	**(26,218)**
Increase in revaluation reserve upon new revaluation	273	70,323	-	-	-	-	**70,596**
Decrease in revaluation reserve upon new revaluation	-	(6,637)	-	-	-	-	**(6,637)**
Decrease in value in profit or loss upon new revaluation	-	(1,351)	-	-	-	-	**(1,351)**
Revaluation adjustment	**273**	**36,117**	**-**	**-**	**-**	**(18)**	**36,390**
As of December 31, 2009 after revaluation	**7,384**	**203,752**	**3,892**	**75,841**	**34,066**	**473**	**325,408**
Depreciation							
As of December 31, 2008	**-**	**28,386**	**2,182**	**45,140**	**16,127**	**80**	**91,915**
Depreciation charge	-	7,689	333	10,093	2,820	36	**20,971**
Impairment due to obsolescence	5	100	19	135	510	-	**769**
Write offs	(5)	(382)	(747)	(2,140)	(1,855)	-	**(5,129)**
On disposals	-	(2)	-	(1,727)	(634)	-	**(2,363)**
Transfers	-	54	-	-	-	54	**-**
As of December 31, 2009 before revaluation	**-**	**35,845**	**1,787**	**51,501**	**16,968**	**62**	**106,163**
Written off against book value upon new revaluation	-	(26,218)	-	-	-	-	**(26,218)**
Revaluation adjustment	**-**	**(26,218)**	**-**	**-**	**-**	**-**	**(26,218)**
As of December 31, 2009 after revaluation	**-**	**9,627**	**1,787**	**51,501**	**16,968**	**62**	**79,945**
Net book value as of December 31, 2009	**7,384**	**194,125**	**2,105**	**24,340**	**17,098**	**411**	**245,463**
Net book value as of December 31, 2008	**6,780**	**132,477**	**1,504**	**24,207**	**19,313**	**848**	**185,129**

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

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

32. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2008	**92,288**
Additions	7,884
Write offs	(1,547)
Disposals	(18)
As of December 31, 2009	**98,607**
Depreciation	
As of December 31, 2008	**54,166**
Depreciation charge	11,143
Impairment due to obsolescence	27
Write offs	(1,552)
As of December 31, 2009	**63,784**
Net book value as of December 31, 2009	**34,823**
Net book value as of December 31, 2008	**38,122**

33. Current tax assets

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2009. According to the statutory requirements, Bank has paid throughout the 2009 advance instalments for corporate income tax on the basis of its tax profit for 2008. Due to the fact that final tax profit for 2009 is lower than the tax profit in 2008, the Bank is in pre-paid position as of December 31, 2009 in the amount of BGN 9,795 thousand.

34. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2009 and December 31, 2008 is as outlined below:

In thousands of BGN

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Property, plant and intangible assets	(33)	(58)	19,055	12,413	19,022	12,355
Available for sale investments	(1,855)	(2,897)	1,811	2,859	(44)	(38)
Provisions	(1,347)	(3,035)	-	-	(1,347)	(3,035)
Cash flow hedge	(175)	-	175	-	-	-
Other liabilities	(3,271)	(3,641)	-	-	(3,271)	(3,641)
Net tax (assets)/liabilities	**(6,681)**	**(9,631)**	**21,041**	**15,272**	**14,360**	**5,641**

The movements of deferred tax assets and liabilities on net basis throughout 2009 are as outlined below:

In thousands of BGN

	Balance 2008	Recognised in P&L	Recognised in equity	Balance 2009
Property, plant, equipment	12,355	270	6,397	19,022
Available for sale investments	(38)	(1,048)	1,042	(44)
Provisions	(3,035)	1,688	-	(1,347)
Cash flow hedge	-	(176)	176	-
Other liabilities	(3,641)	370	-	(3,271)
Net tax (assets)/liabilities	**5,641**	**1,104**	**7,615**	**14,360**

35. Non-current assets and disposal groups classified as held for sale

In 2008 the Management has approved list of 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 has offered those properties on public auction. Due to the uncertainties surrounding real estate market, not all of the proposed properties were sold. Management has timely reacted to that with revising the selling price and believes that the sale will be completed by the end of 2010.

As of December 31, 2009 Management has included all the assets held for sale in the valuation procedure performed by independent appraisers. As a result of this for one of the assets fair value less cost to sale was assessed to be below asset's carrying amount. Based on that devaluation of that asset in the amount of BGN 214 was recognized (see also note **16**).

The breakdown of assets classified as held for sale and their carrying amount as of December 31, 2009 and December 31, 2008 is as follows:

In thousands of BGN

	2009	2008
Land	161	169
Buildings	2,075	2,967
Total non-current assets held for sale	**2,236**	**3,136**

36. Other assets

In thousands of BGN

	2009	2008
Receivables and prepayments	13,221	9,814
Receivables from the State Budget	11	10
Materials, spare parts and consumables	1,163	1,412
Other assets	5,243	5,422
Total other assets	**19,638**	**16,658**

37. Financial liabilities held for trading

In thousands of BGN

	2009	2008
Interest rate swaps	36,765	22,332
FX forward contracts	1,351	28,034
Equity options	579	9,368
Other options	456	328
FX options	588	32
FX swaps	472	17
Total trading liabilities	**40,211**	**60,111**

38. Deposits from banks

In thousands of BGN

	2009	2008
Current accounts and overnight deposits		
Local banks	65,090	85,342
Foreign banks	1,863,226	1,489,872
	1,928,316	**1,575,214**
Deposits		
Local banks	41,037	89,039
Foreign banks	1,016,178	1,395,537
	1,057,215	**1,484,576**
Liabilities under repurchase agreements	117,034	154,991
Other	2,787	3,813
Total deposits from banks	**3,105,352**	**3,218,594**

39. Deposits from customers

In thousands of BGN

	2009	2008
Current accounts and overnight deposits		
Individuals	515,160	575,399
Corporate	1,625,369	1,893,713
Budget and State companies	129,639	239,977
	2,270,168	**2,709,089**
Term deposits		
Individuals	2,323,440	1,934,277
Corporate	1,231,628	697,871
Budget and State companies	171,799	220,480
	3,726,867	**2,852,628**
Saving accounts	347,396	413,630
Transfers in execution process	76,486	52,697
Other	468	1,147
Total deposits from customers	**6,421,385**	**6,029,191**

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest in them as of the reporting date.

As of December 31, 2009 and December 31, 2008 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.

40. Subordinated liabilities

As of December 31, 2009 the total amount of BGN 212,123 thousand represents the outstanding debt (principal and accrued interest) on five loan facilities provided by UniCredit Bank Austria AG as outlined in the table below.

In thousands of BGN

Start date	Term to maturity	Amount of the original principal	Outstanding amount as of December 31, 2009
November 26, 2004	10 years	19,558	24,235
December 20, 2004	10 years	19,558	24,204
February 3, 2005	10 years	25,426	30,862
August 2, 2005	10 years	29,337	34,914
November 19, 2008	10 years	97,792	97,908
Total		**191,671**	**212,123**

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

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

41. Provisions

Balances of provisions as of December 31, 2009 and December 31, 2008 are as follows:

In thousands of BGN

	Letters of guarantee	Legal cases	Retirement benefits	Constructive obligations	Other	Total
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2008	**24,292**	**22,828**	**2,818**	**5,610**	**1,226**	**56,774**
Allocations	-	205	476	-	140	821
Releases	(4,770)	(12,999)	-	(1,374)	-	(19,143)
Additions due to FX revaluation	11,218	4,558	-	-	80	15,856
Releases due to FX revaluation	(11,455)	(4,453)	-	-	(35)	(15,943)
Utilization	-	(31)	(210)	(487)	(1,073)	(1,801)
Balance as of December 31, 2009	**19,285**	**10,108**	**3,084**	**3,749**	**338**	**36,564**

(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, 2009 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 19,285 thousand.

(b) Provisions on legal cases

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

As of December 31, 2009 Bank has assessed its position in legal cases against it and provision in the amount of BGN 10,108 thousand has been recognized.

(c) Retirement benefit provision

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

Major assumptions underlying in 2009 Defined benefit obligation are as follows:

- Discount rate – 6.5%;
- Salary increase – 5% p.a.;
- Retirement age:
  - Men – 63;
  - Women – 60;

The movement of the defined benefit obligation for year ended 2009 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

Defined benefit obligation as of December 31, 2008	**2,818**
Current service costs for 2009	255
Interest cost for 2009	221
Amortisation of actuarial (gains) loss	-
Benefits paid	(210)
Defined benefit obligation as of December 31, 2009	**3,084**
Unrecognized actuarial loss as of December 31, 2009	**558**
Interest rate Beginning of the year	8.2%
Interest rate End of the year	6.5%
Future increase of salaries	5.0%
Expected 2010 service costs	313
Expected 2010 interest costs	218
Amortization of actuarial loss	28
Expected 2009 benefit payments	574

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

(d) Provisions on constructive obligation

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

As of December 31, 2009 and December 31, 2008 the whole remaining amount of provisions on constructive obligations relates to full compliance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premised where safe-deposits boxes are provided. In December 2009 review of the amount of provisions needed was done and as a result of reduced expectations for the resources needed, the outstanding amount was adjusted by BGN 1,374 thousand.

(e) Other provision

Other provisions in the amount of BGN 338 thousand relates to coverage of claims related to credit cards business as well as other claims.

42. Other liabilities

In thousands of BGN

	2009	2008
Liabilities to the State budget	4,092	4,763
Liabilities to personnel	17,655	21,084
Liabilities for unused paid leave	7,023	6,139
Dividends	196	237
Incentive plan liabilities	980	596
Other liabilities	16,206	18,751
Total other liabilities	**46,152**	**51,570**

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 2009 and 2008 in accordance with the defined target settings.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave. The amount is equal to the compensation Bank has to pay should the labour contracts with the employees had been terminated as of December 31, 2009 and December 31, 2008, respectively.

As described in note **3 (o) (iii)** selected group of Top and Senior Managers are given UniCredito Italiano stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **14** above.

43. Equity

a) Share capital

Share capital comprises of 239,255,524 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders. As of December 31, 2008 92.1% of the shares are held by UniCredit Bank Austria AG.

b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act.

The amounts in that fund is not distributable unless prior consent of Bulgarian National Bank.

c) Retained earnings

Under Retained earnings Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount.

d) Revaluation reserves

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

44. Contingent liabilities

In thousands of BGN

	2009	2008
Letters of credit and letters of guarantee	641,532	731,489
Credit commitments	928,597	1,442,245
Total contingent liabilities	**1,570,129**	**2,173,734**

a) Memorandum items

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted.

These commitments and contingent liabilities have off balance-sheet credit risk 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, 2009 and December 31, 2008 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 **41**).

b) Litigation

As of December 31, 2009 there are open litigation proceedings against the Bank. There is significant uncertainty as to the timing and 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. Total of litigation claims provided for in the financial statements as of December 31, 2009 is in the amount of BGN 10,108 thousand.

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, 2009 and December 31, 2008 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

45. Assets pledged as collateral

In thousands of BGN

	2009	2008
Securities pledged for budget holders' account service	286,515	458,769
Securities pledged on REPO deals	114,321	164,430
Securities pledged on other deals	52,384	57,191
Blocked deposit for credit cards issuance	4	37
	453,224	**680,427**
Pledged securities include		
Assets held for trading	33,136	54,175
Assets designated at fair value through profit or loss	4,136	20,330
Available for sale assets	133,400	307,132
Assets held to maturity	282,548	298,753
	453,220	**680,390**

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

46. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company. Additionally the Bank has relativeness with members of the Managing bodies.

UniCredit Bulbank AD has a related party relationship with its other parent company's subsidiaries and with its directors and executive officers.

The related parties' transactions in terms of statement of financial position items as of December 31, 2008 and Income statement items for the year ended thereafter are as follows:

In thousands of BGN

	Assets	Liabilities
Financial assets held for trading	2,380	
Available for sale investments	2,884	
Current accounts and deposits placed	1,871,265	
Extended loans	139,289	
Other assets	3,081	
Financial liabilities held for trading		38,012
Current accounts and deposits taken		2,970,756
Subordinated loans		212,123
Other liabilities		1,960
Total	**2,018,899**	**3,222,851**
Guarantees received by the Group	**103,789**	

In thousands of BGN

	Income (Expense)
Interest incomes	6,660
Interest expenses	(54,732)
Fee and commissions income	2,255
Fee and commissions expenses	(180)
Net trading income (expenses)	(241)
Administrative and personnel expenses	(5,835)
	(52,073)

As of December 31, 2009 the loans extended to key personnel amount to BGN 17,938 thousand. For the twelve months ended December 31, 2009 the payments to management personnel amount to BGN 1,635 thousand.

47. Cash and cash equivalents

In thousands of BGN

	2009	2008
Cash in hand	119,816	182,008
Current account with the Central Bank	712,342	723,921
Current accounts with banks	42,923	34,599
Receivables under repurchase agreements	11,574	-
Placements with banks with original maturity less than 3 months	1,911,215	1,433,919
Total cash and cash equivalents	**2,797,870**	**2,374,447**

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

48. Leasing

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

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

In thousands of BGN

Residual maturity	Total future minimum lease payment		NPV of total future minimum lease payment	
	2009	2008	2009	2008
Up to one year	336	746	323	679
Between one and five years	173	504	145	468
Total	**509**	**1,250**	**468**	**1,147**

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

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	2009	2008
Up to one year	12,082	12,500
Between one and five years	26,663	26,819
Beyond five years	6,774	8,923
Total	**45,519**	**48,242**

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

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	2009	2008
Up to one year	247	189
Between one and five years	85	119
Total	**332**	**308**

49. Group entities

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2009 and December 31, 2008 the ultimate parent company is UniCredito Italiano S.p.A.

Friedrich Frey,
Private Banking Client - Austria

**«In my long experience as a customer, decisions at the bank have always been made in a quick and professional way.
I appreciate their simple solutions for my investments, which allow me to focus on the important things in life.»**

It's easy with UniCredit.

Independent Auditors Report

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF UNICREDIT BULBANK AD

18 February 2010

Introduction

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD and its subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summery of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted by European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of UniCredit Bulbank AD as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by European Commission.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Bank according to article 33 of the Accountancy Act

As required under the Accountancy Act, we also report that the consolidated historical financial information prepared by Management and presented in the annual report of the activities of the Bank, as required under article 33 of the Accountancy Act, is consistent, in all material aspects with the financial information disclosed in the consolidated financial statements of the Bank as of and for the year ended 31 December 2009. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 17 February 2010.

Gilbert McCaul
Partner

KPMG Bulgaria OOD
45A Bulgaria Blvd.
1404 Sofia
Bulgaria

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Income statement

INCOME STATEMENT

In thousands of BGN

	Notes	2009	2008
Interest income		637,409	655,553
Interest expense		(227,899)	(191,839)
Net interest income	7	**409,510**	**463,714**
Dividend income		134	139
Fee and commission income		160,654	165,721
Fee and commission expense		(8,755)	(9,714)
Net fee and commission income	8	**151,899**	**156,007**
Net gains (losses) on financial assets and liabilities held for trading	9	1,751	(23,930)
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	65	184
Net income from investments	11	2,169	(1,277)
Net income related to subsidiaries, associates and property, plant and equipment	12	5,617	13,847
Other operating income, net	13	6,895	5,292
TOTAL OPERATING INCOME		**578,040**	**613,976**
Personnel expenses	14	(97,781)	(103,392)
General and administrative expenses	15	(113,691)	(124,502)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(35,087)	(31,987)
Provisions for risk and charges	17	18,885	3,634
Restructuring costs	18	-	17,986
Net impairment loss on financial assets	19	(130,146)	(50,056)
PROFIT BEFORE INCOME TAX		**220,220**	**325,659**
Income tax expense	20	(22,823)	(32,715)
PROFIT FOR THE PERIOD		**197,397**	**292,944**

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

KPMG Bulgaria OOD

Gilbert McCaul
Partner

Specializirano odtorsko predpriyatie
София
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„КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202
Маргарита Голева
Регистриран одитор

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

1

Statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

In thousands of BGN

	Notes	2009	2008
Profit for the period		**197,397**	**292,944**
Other comprehensive income:			
Available for sale investments		10,422	(17,571)
Cash flow hedge		1,757	-
Revaluation of non-current assets		63,960	-
Income tax relating to components of other comprehensive income		(7,615)	1,757
Other distribution		(4,076)	(584)
Total other comprehensive income for the year net of tax		**64,448**	**(16,398)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**261,845**	**276,546**

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KPMG Bulgaria OOD

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Partner

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
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Регистриран одитор

The accompanying notes 1 to 46 are an integral part of these financial statements

2

Consolidated Financial Statements (Continued)

Statement of financial position

STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Notes	2009	2008
ASSETS			
Cash and balances with Central Bank	21	832,164	905,931
Financial assets held for trading	22	115,450	122,594
Derivatives held for trading	23	45,142	38,303
Derivatives used for hedging	24	1,521	-
Financial assets designated at fair value through profit or loss	25	136,071	184,567
Loans and advances to banks	26	2,071,567	1,549,996
Loans and advances to customers	27	7,378,678	7,238,633
Available for sale investments	28	285,485	357,454
Held to maturity investments	29	314,749	356,002
Investments in associates	30	22,511	17,720
Property, plant, equipment and investment properties	31	247,022	195,275
Intangible assets	32	34,866	38,175
Current tax assets	33	9,796	-
Deferred tax assets	34	6,696	9,651
Non-current assets and disposal group classified as held for sale	35	2,236	3,136
Other assets	36	19,775	16,772
TOTAL ASSETS		**11,523,729**	**11,034,209**
LIABILITIES			
Financial liabilities held for trading	37	40,211	60,111
Derivatives used for hedging	24	6	-
Deposits from banks	38	3,114,002	3,227,729
Deposits from customers	39	6,413,097	6,024,506
Subordinated liabilities	40	212,123	209,368
Provisions	41	36,564	56,774
Current tax liabilities	33	27	774
Deferred tax liabilities	34	21,041	15,272
Other liabilities	42	46,524	61,386
TOTAL LIABILITIES		**9,883,595**	**9,655,920**
EQUITY			
Share capital		239,256	239,256
Revaluation reserves		130,109	61,932
Retained earnings		1,073,372	784,157
Profit for the period		197,397	292,944
TOTAL EQUITY	43	**1,640,134**	**1,378,289**
TOTAL LIABILITIES AND EQUITY		**11,523,729**	**11,034,209**

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KPMG Bulgaria OOD

Gilbert McCaul
Partner

Margarita Goleva
Registered auditor

Специализирано одиторско предприятие София Рег. №045 „КПМГ - България" ООД

0202 Маргарита Голева Регистриран одитор

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

3

Statement of changes in equity

STATEMENT OF CHANGES IN EQUITY

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property revaluation reserve	Available for sale investments revaluation reserve	Cash flow hedges reserves	Total
Balance as of 1 January 2008	**239,256**	**51,155**	**797,089**	**89,100**	**(10,258)**	**-**	**1,166,342**
Profit for the period	-	-	292,944	-	-	-	**292,944**
Transfer of revaluation reserve on non-current assets disposed of	-	-	1,096	(1,096)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(17,571)	-	**(17,571)**
Other distribution	-	-	(584)	-	-	-	**(584)**
Income tax relating to components of other comprehensive income	-	-	-	-	1,757	-	**1,757**
Total other comprehensive income for the year net of tax	-	-	**512**	**(1,096)**	**(15,814)**	-	**(16,398)**
Total comprehensive income for the year net of tax	-	-	**293,456**	**(1,096)**	**(15,814)**	-	**276,546**
Dividends paid	-	-	(64,599)	-	-	-	**(64,599)**
Balance as of 31 December 2008	**239,256**	**51,155**	**1,025,946**	**88,004**	**(26,072)**	**-**	**1,378,289**
Profit for the period	-	-	197,397	-	-	-	**197,397**
Revaluation of non current assets	-	-	-	63,960	-	-	**63,960**
Transfer of revaluation reserve on non-current assets disposed of	-	-	347	(347)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	10,422	-	**10,422**
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	1,757	**1,757**
Other movements	-	-	(4,076)	-	-	-	**(4,076)**
Income tax relating to components of other comprehensive income	-	-	-	(6,397)	(1,042)	(176)	**(7,615)**
Total other comprehensive income for the year net of tax	-	-	**(3,729)**	**57,216**	**9,380**	**1,581**	**64,448**
Total comprehensive income for the year net of tax	-	-	**193,668**	**57,216**	**9,380**	**1,581**	**261,845**
Balance as of 31 December 2009	**239,256**	**51,155**	**1,219,614**	**145,220**	**(16,692)**	**1,581**	**1,640,134**

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KPMG Bulgaria OOD

Gilbert McCaul
Partner

Margarita Goleva
Registered auditor

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

4

Statement of cash flows

STATEMENT OF CASH FLOWS

In thousands of BGN

	Notes	2009	2008
Net profit		**197,397**	**292,944**
Current and deferred tax income, recognised in income statement		(3,176)	(2,475)
Current and deferred tax expenses, recognised in income statement		25,999	35,190
Adjustments for non-cash items			
Depreciation and amortisation	31,32	32,726	30,594
Impairment	16,19,30	134,510	61,560
Provisions, net		(18,885)	(21,620)
Unrealised fair value gains (losses) through profit or loss, net		3,667	5,311
Net (gains)/losses on sale of investments and equity method of consolidation		(4,272)	(12,855)
Increase in other accruals		20,790	22,144
Cash flows from profits before changes in operating assets and liabilities		**388,756**	**410,793**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		(24,383)	30,172
Increase in loans and advances to customers		(271,934)	(2,096,771)
Decrease in available for sale investments		82,391	149,638
Decrease (increase) in financial instruments held for trading		(22,279)	14,975
Decrease in financial instruments at fair value trough profit or loss		47,755	159,565
Increase in other assets		(12,112)	(2,701)
Change in operating liabilities:			
Increase (decrease) in deposits from banks		(113,726)	1,921,892
Increase (decrease) in amounts owed to customers		388,591	(306,836)
Provisions utilization		(1,801)	(199)
Decrease in other liabilities		(47,051)	(44,323)
Net cash flow from operating activities		**414,207**	**236,205**
Cash flow from investing activities			
Cash payments to acquire property, plant and equipment		(19,807)	(21,921)
Cash receipt from sale of property, plant and equipment		8,939	10,949
Cash payments to acquire intangible assets		(7,884)	(11,928)
Cash receipt from sale of intangible assets		69	17
Cash payments for the investment in associates		(12,952)	(3,551)
Cash payments to acquire held to maturity investments		-	(89,886)
Cash receipts from the sale of held to maturity investments		41,253	-
Net cash flow from investing activities		**9,618**	**(116,320)**
Cash flow from financial activities			
Dividends paid		-	(64,599)
Cash proceeds from the issuance of subordinated liabilities		-	97,792
Other cash payments related to financing activities		(402)	5,783
Net cash flows from financial activities		**(402)**	**38,976**
Effect of exchange rate changes on cash and cash equivalents		**4**	**1,527**
Net increase in cash and cash equivalents		**423,427**	**160,388**
Cash and cash equivalents at the beginning of period	47	**2,374,449**	**2,214,061**
Cash and cash equivalents at the end of period	47	**2,797,876**	**2,374,449**

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София
Рег. №045

0202 Маргарита Голева
Регистриран одитор

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

5

Notes to Consolidated Financial Statements

1. Reporting entity

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

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

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 approved by the Management Board of the Bank on February 17, 2010. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

(b) Basis of measurement

These consolidated financial statements have been prepared on historical cost basis except for:
- derivative financial instruments measured at fair value;
- trading instruments and other instruments designated at fair value through profit or loss measured at fair value, where such can be reliably determined;
- available for sale financial instruments measured at fair value, where such can be reliably determined;
- investments in property measured at revalued amount based on independent appraiser's valuation.
- liability for defined benefit obligation presented as fair value of defined benefit obligation plus unrecognized actuarial gains and less unrecognized actuarial losses.

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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**.

(e) Changes in accounting policy

For the purposes of presentation the current financial statements Bank applies for the first time revised IAS 1 Presentation of Financial Statements (2007), which became effective since of January 1, 2009. Bank also chose to present all items of income and expenses recognized for the period in two separate statements:
- Statement presenting components of profit or loss (Income Statement) and
- Statement beginning with profit or loss and presenting components of other comprehensive income (Statement of other comprehensive income).

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation, there is no impact on overall financial position of the bank.

3. Significant accounting policies

The accounting policies set below have been applied consistently to all periods presented in these financial statements, except as described in note **2 e)** and **3 (i) (ii) b)**.

(a) Basis of consolidation

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

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. For more detailed information on applying equity method on associates see also note **30**.

Company	Partition in equity	Consolidation method
UniCredit Factoring EAD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing AD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method
Pirelli Real Estate Bulgaria AD	25.0%	Equity method

(b) Interest income and expense

Interest income and expense is 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 expense includes 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 basis;
- interest on available for sale investment securities calculated on an effective interest 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 the corresponding service.

Fees 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 includes 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 ruling 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 ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the values were determined. As of each reporting date, all foreign currencies 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 so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Financial instruments

(i) Recognition

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

recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently
measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost.

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities and derivative contracts that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives in a net receivable position (positive fair value) and purchased options are reported separately as derivatives held for trading. All derivatives in a net payable position (negative fair value) and written options are reported as financial liabilities held for trading. Financial assets and derivatives held for trading are carried at fair value in the statement of financial position.

Финансовите активи и деривати, държани за търгуване, се отчитат в Отчета за финансовото състояние по справедлива стойност.

Previous change in accounting policy

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits in "rare circumstances" an entity to transfer from held for trading to held to maturity category, a non-derivative financial asset that is quoted on active market for which entity has the intention and ability to hold until maturity. The deterioration of the world's financial markets that has occurred during the third quarter of 2008 is a possible example of "rare circumstances" cited in the IFRS amendments and therefore justifies amendments application.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Bank reclassified certain non-derivative financial assets out of held for trading into held to maturity investments. For details on the impact of these reclassifications, see also note **22**.

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 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 equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity 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. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:
- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after Bank has collected substantially all of

the asset's original principal;

- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated (such as material creditworthiness deterioration of the issuer).

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

g) Investments in subsidiaries and associates

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

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

In these consolidated financial statements investments in subsidiaries are fully consolidated and investments in associates are presented under equity method.

h) Deposits from banks, customers and subordinated liabilities

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

Subordinated liability meets some additional requirements set by Bulgarian National Bank (see note **40**).

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

(iii) Reclassification

Bank does not reclassify financial instruments in or out of any classification category after initial recognition except as described in **3 (i) (ii) b**.

(iv) Derecognition

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

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on the reporting date. The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that requires enhanced disclosures about fair value measurements in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments.

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

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

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

(vii) Offsetting

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

(viii) Repurchase agreements

UniCredit Bulbank AD enters into purchases (sales) of financial instruments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Instruments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. Financial instruments sold under repurchase agreements continue to be recognized in the statement of financial position and measured in accordance with the accounting policy. The proceeds from the sale of the investments are reported in the statement of financial position under deposits from customers or banks respectively.

The difference between the sale and repurchase consideration is recognised on an accrual basis over agreed term of the deal and is included in net interest income.

(j) Impairment

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

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

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

(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. Interest on the impaired asset continues to be recognised through the unwinding of the discount. 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 an asset measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the asset was previously recognized in other comprehensive income, the increase in fair value of the asset recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss.

If in subsequent periods the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss. Assessment of impairment indicators of available for sale investments is done semi-annually. Decision for existence of any impairment is taken by ALCO.

(k) Derivatives used for hedging

Derivatives used for hedging include all derivative assets and liabilities that are not classified as held for trading. Derivatives used for hedging are designated as effective hedging instruments and are measured at fair value in the statement of financial position.

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

In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis, as to weather 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 weather 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 weather 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 derivate is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with the changes in the fair value of the hedged item attributable to the hedged risk.

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

Cash flow hedge

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

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

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

(l) Property, plant and equipment and investment property

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

Items of property are stated at fair value determined periodically by independent registered appraisers.

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

As of December 31, 2009 Bank has engaged independent registered appraisers to assess the fair value of its property investments. To the extent that provided valuations differed materially form the properties' carrying amount, revaluation has been performed.

Plant and equipment are carried at historical cost less any accumulated depreciation or impairment losses.

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. The Bank holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at cost less any accumulated depreciation.

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 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, 2009 the entire class of intangible assets includes only investments in software and related licenses.

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

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

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

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

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2009 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 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 Labor Agreement.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary, hired by the Bank, using the projected unit credit method. To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the "corridor" approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

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

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

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

UniCredit Group Medium and Long-Term incentive plans compose of Stock Options and Performance share granted by the ultimate parent UniCredito Italiano S.p.A. They are allocated to selected group of top and senior managers of the Bank.

Whenever the vesting period of the Stock options or Performance shares is ended, UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments.

As of December 31, 2009 and December 31, 2008 the UniCredit Bulbank presents the corresponding part of the economic value of the Stock Options and Performance shares as payroll costs under personnel expenses in the Income statement and the related obligation for payment as other liability.

(q) Share capital and reserves

(i) Share capital

As described in Note 1, HVB Bank Biochim and Hebros Bank merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of Bank Austria Creditanstalt AG and ultimately under control of UniCredito Italiano S.p.A. The merger represents a share-exchange transaction, where share-exchange ratios based on fair valuation of the net assets of the three Banks, certified by independent auditor, as required by the Bulgarian Commercial Act, were applied. The share capital of UniCredit Bulbank AD is 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).

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve.

(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.

(s) Segment reporting

As of January 1, 2009 the Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. This adoption does not represent a change in accounting policy as the business segments that has been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

(t) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date
A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been adopted in preparing these financial statements:

● IFRS 9 "Financial Instruments", published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently in the process of evaluating the potential effect of this standard.

● Revised IFRS 3 "Business Combinations" (2008) is effective for annual periods beginning on or after 1 July 2009. Management does not expect Revised IFRS 3 to have an effect on the Bank's consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

● Amendments to IAS 27 "Consolidated and Separate Financial Statements" are effective for annual periods beginning on or after 1 July 2009. Management does not expect Amendments to IAS 27 to have an effect on the Bank's consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

● Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues" is effective for annual period beginning on or after 1 February 2010. Management does not expect Amendment to IAS 32 to have an effect on the Bank's consolidated financial statements as the Bank has not issued such instruments at any time in the past.

● Amendments to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items are effective for annual periods beginning on or after 1 July 2009". Management does not expect Amendments to IAS 39 to have an effect on the Bank's consolidated financial statements.

● IFRIC 12 "Service Concession Arrangements" is effective, at the latest, for first annual reporting period beginning on or after 1 April 2009. Management does not expect IFRIC 12 to have an effect on the Bank's consolidated financial statements as none of the Bank entities have entered into any service concession arrangements.

● IFRIC 15 "Agreements for the Construction of Real Estate" is effective for annual periods beginning on or after 1 January 2010. Management does not expect IFRIC 15 to have an effect on the Bank's consolidated financial statements as the Bank does not provide real estate construction services or develop real estate for sale.

● IFRIC 16 "Hedges of a Net Investment in a Foreign Operation Estate" is effective for annual periods beginning on or after 1 July 2009. Management does not expect IFRIC 16 to have an effect on the Bank's consolidated financial statements as the Bank does not have any investments in a foreign operation.

● IFRIC 17 "Distributions of Non-cash Assets to Owners" is effective prospectively for annual periods beginning on or after 1 November 2009. As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

● IFRIC 18 "Transfers of Assets from Customers" is effective prospectively for annual period beginning on or after 1 November 2009. IFRIC 18 is not relevant to the Bank's financial statements as the Bank does normally receive contributions from customers.

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

- Improvements to IFRSs 2009 (issued April 2009), various effective dates, generally 1 January 2010;
- Amendment to IFRS 2 „Group Cash-Settled Share-based payment Transactions" (issued June 2009), effective from 1 January 2010;
- Amendments to IFRS 1 Additional exemptions for first-time adopters (issued July 2009), effective date 1 January 2010;
- Amendments to IAS 32 "Classification of Rights Issues" (issued October 2009), effective date 1 February 2010;
- Revised IAS 24 "Related Party Transactions" (issued November 2009), effective date 1 January 2011;
- IFRS 9 Financial Instruments (issued November 2009), effective date 1 January 2013;
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement (issued November 2009), effective date 1 January 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009), effective date 1 July 2010.

As at the date of preparation of these financial statements, Management have not completed the process of evaluating the impact that will result from adopting these revised standards, new interpretations and amendments to current standards in future, once they are endorsed by the European Commission for adoption by the European Union.

4. Financial risk management

(a) General framework

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

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

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

Different types of risks are managed by specialized departments and bodies within the Bank's structure. The applicable policies entirely correspond to the requirements of Risk Management Group Standards as well as all respective requirements set by Bulgarian banking legislation. Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio. Assets and Liabilities Committee (ALCO) is a specialized body established in the Bank for the purposes of market risk and structural liquidity management.

As part of the internal management, UniCredit Bulbank has approved by the Management, Financial Instruments Management Policy, where all deals and exposures in financial instruments, excluding loans, are defined.

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.

Additionally a system for operational risk management, approved by the Management Board, is introduced in the Bank.

(b) Market risk

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 International Markets Rule Book, reviewed at least annually.

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

UniCredit Bulbank applies uniform Group risk management procedures. These procedures make available the major risk parameters for the various trading operations at least once a day. Besides Value at Risk, other factors of equal importance are stress-oriented volume and position limits. Additional element is the loss-warning level limit, providing early indication of any accumulation of position losses.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Bank Austria's internal model NoRISK. It is based on historical and Monte Carlo simulation of returns and accounts for risk reducing effects between the risk categories interest, credit spread, foreign exchange, equity, volatilities, and commodities. 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 marking to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return").

During 2009, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 1.6 million and EUR 10.4 million, averaging EUR 4.1 million, with the credit spreads being main driver of total risk in both, trading and banking books.
VaR of UniCredit Bulbank AD by risk category in EUR million for 2009 is as follows

Risk Category	Minimum	Maximum	Average	Year-end
Interest rate risk	0.6	3.8	1.2	0.6
Credit spread	1.3	9.7	3.8	1.4
Exchange risk	0.0	0.3	0.1	0.2
VaR overall[1]	**1.6**	**10.4**	**4.1**	**1.7**

[1] Amount is lower from a simple sum of single factor VaRs due to risk reducing factors' correlations.

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 2009 continued to confirm the reliability of the model.

Apart from VaR figures, daily reporting includes details of volume-oriented sensitivities that are compared with respective limits. The most important detailed presentations include: basis point shift value (interest rate /spread changes of 0.01 % by maturity bucket) and FX sensitivities. In the interest rate sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (trading and banking book) as of December 31, 2009 (change in value due to 1 basis point shift, amounts in EUR):

Currency	0-3M	3M-1Y	1Y-3Y	3Y-10Y	Above 10Y	Total
BGN	1,215	4,401	(10,729)	(14,331)	(596)	(20,040)
CHF	323	17	(54)	(252)	(76)	(42)
EUR	9,741	9,885	(7,006)	18,064	(1,731)	28,953
GBP	70	118	5	-	-	193
JPY	(3)	-	-	-	-	(3)
USD	616	1,728	(2,011)	(12,766)	-	(12,433)
Total sensitivity[2]	**11,968**	**16,149**	**19,805**	**45,413**	**2,403**	**61,664**

[2] Total sensitivity for each maturity band is sum of the each currency absolute sensitivity for that band.

Value-at-risk calculations are complemented by various stress scenarios to identify the potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and dramatic deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up to 60 days are reported at least monthly to ALCO. In 2009 markets rebounded and volatilities went down from 2008 record levels. The Management continued vigilant risk management practices by limiting risk taking and focus on client-driven business solutions.

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. During 2009, the Bank maintained long EURBGN position of EUR 105 million on average, with insignificant open position in other crosses.

As of December 31, 2009 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	824,887	7,277	**832,164**
Financial assets held for trading	115,450	-	**115,450**
Derivatives held for trading	42,987	2,155	**45,142**
Derivatives used for hedging	84	1,437	**1,521**
Financial assets designated at fair value through profit or loss	127,516	8,555	**136,071**
Loans and advances to banks	2,050,172	21,395	**2,071,567**
Loans and advances to customers	7,252,251	126,427	**7,378,678**
Available for sale Investments	283,912	1,573	**285,485**
Held to maturity Investments	147,462	167,287	**314,749**
Investments in associates	22,511	-	**22,511**
Property, plant, equipment and investment properties	247,022	-	**247,022**
Intangible assets	34,866	-	**34,866**
Current tax assets	9,796	-	**9,796**
Deferred tax assets	6,696	-	**6,696**
Non-current assets and disposal group classified as held for sale	2,236	-	2,236
Other assets	19,698	77	19,775
TOTAL ASSETS	**11,187,546**	**336,183**	**11,523,729**
LIABILITIES			
Financial liabilities held for trading	38,165	2,046	**40,211**
Derivatives used for hedging	6	-	**6**
Deposits from banks	3,099,413	14,589	**3,114,002**
Deposits from customers	5,825,041	588,056	**6,413,097**
Subordinated liabilities	212,123	-	**212,123**
Provisions	19,256	17,308	**36,564**
Current tax liabilities	27	-	**27**
Deferred tax liabilities	21,041	-	**21,041**
Other liabilities	**45,393**	**1,131**	**46,524**
TOTAL LIABILITIES	**9,260,465**	**623,130**	**9,883,595**
EQUITY	**1,640,134**	**-**	**1,640,134**
Net off-balance sheet spot and forward position	**(291,379)**	**295,179**	**3,800**
Net position	**(4,432)**	**8,232**	**3,800**

As of December 31, 2008 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	893,509	12,422	**905,931**
Financial assets held for trading	122,594	-	**122,594**
Derivatives held for trading	34,933	3,370	**38,303**
Financial assets designated at fair value through profit or loss	172,527	12,040	**184,567**
Loans and advances to banks	1,540,268	9,728	**1,549,996**
Loans and advances to customers	7,079,490	159,143	**7,238,633**
Available for sale Investments	354,182	3,272	**357,454**
Held to maturity Investments	154,976	201,026	**356,002**
Investments in associates	17,720	-	**17,720**
Property, plant, equipment and investment properties	195,275	-	**195,275**
Intangible assets	38,175	-	**38,175**
Deferred tax assets	9,651	-	**9,651**
Non-current assets and disposal group classified as held for sale	3,136	-	**3,136**
Other assets	16,716	56	**16,772**
TOTAL ASSETS	**10,633,152**	**401,057**	**11,034,209**
LIABILITIES			
Financial liabilities held for trading	57,031	3,080	**60,111**
Deposits from banks	3,187,416	40,313	**3,227,729**
Deposits from customers	5,421,338	603,168	**6,024,506**
Subordinated liabilities	209,368	-	**209,368**
Provisions	33,862	22,912	**56,774**
Current tax liabilities	774		**774**
Deferred tax liabilities	15,272	-	**15,272**
Other liabilities	60,183	1,203	**61,386**
TOTAL LIABILITIES	**8,985,244**	**670,676**	**9,655,920**
EQUITY	**1,378,289**	**-**	**1,378,289**
Net off-balance sheet spot and forward position	**(291,534)**	**267,793**	**(23,741)**
Net position	**(21,915)**	**(1,826)**	**(23,741)**

(c) Liquidity risk

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

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

The liquidity is operationally managed through Markets and Sales Division and the structural liquidity through Assets and Liabilities Division. According to the Liquidity Policy, Assets and Liabilities Division monitors on a daily basis short term flows, arising form treasury activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under three scenarios – going concern, liquidity crisis and name crisis. For the purposes of liquidity management are monitored daily short-term limits, 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. During 2009 the Bank was in compliance with the Group liquidity limit requirements.

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

In thousands of BGN

Maturity table as at 31 December 2009	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Non derivative instruments							
Deposits from banks	3,114,002	(3,164,174)	(2,190,418)	(5,775)	(58,755)	(817,503)	(91,723)
Deposits from customers	6,413,097	(6,456,177)	(3,264,012)	(1,473,029)	(1,307,060)	(412,064)	(12)
Subordinated liabilities	212,123	(256,051)	-	-	-	(52,784)	(203,267)
Issued financial guarantee contracts	19,285	19,285	-	-	-	19,285	-
Unutilized credit lines	-	(922,835)	(13,929)	-	-	(908,906)	-
Total non-derivative instruments	**9,758,507**	**(10,818,522)**	**(5,468,359)**	**(1,478,804)**	**(1,365,815)**	**(2,210,542)**	**(295,002)**
Trading derivatives, net	4,931						
Outflow		(880,472)	(619,490)	(100,617)	(30,809)	(116,921)	(12,635)
Inflow		889,617	622,591	101,271	35,919	117,169	12,667
Derivatives used for hedging, net	1,515						
Outflow		(13,599)	(350)	(33)	(1,175)	(11,415)	(626)
Inflow		15,388	68	22	930	13,718	650
Total derivatives	**6,446**	**10,934**	**2,819**	**643**	**4,865**	**2,551**	56
Total financial liabilities	**9,764,953**	**(10,807,588)**	**(5,465,540)**	**(1,478,161)**	**(1,360,950)**	**(2,207,991)**	**(294,946)**

In thousands of BGN

Maturity table as at 31 December 2008	Carrying amount	Gross in (out) flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
Non derivative instruments							
Deposits from banks	3,227,729	(3,312,273)	(2,130,904)	-	(505,078)	(360,146)	(316,145)
Deposits from customers	6,024,506	(6,048,956)	(2,981,654)	(1,118,486)	(1,087,176)	(502,173)	(359,467)
Subordinated liabilities	209,368	(304,952)	-	-	-	-	(304,952)
Issued financial guarantee contracts	24,292	(24,292)	-	-	-	(24,292)	-
Unutilized credit lines	-	(1,442,245)	(21,634)	-	-	(1,420,611)	-
Total non-derivative instruments	**9,485,895**	**(11,132,718)**	**(5,134,192)**	**(1,118,486)**	**(1,592,254)**	**(2,307,222)**	**(980,564)**
Trading derivatives, net	(21,808)						
Outflow		(2,327,358)	(2,133,737)	(81,249)	(29,191)	(64,155)	(19,026)
Inflow		2,315,728	2,109,542	83,523	33,323	70,303	19,037
Total derivatives	**(21,808)**	**(11,630)**	**(24,195)**	**2,274**	**4,132**	**6,148**	11
Total financial liabilities	**9,464,087**	**(11,144,348)**	**(5,158,387)**	**(1,116,212)**	**(1,588,122)**	**(2,301,074)**	**(980,553)**

(d) Credit risks

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.
Bank effectively manages credit risk inherent to its trading and banking book.

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

(i) Credit risk in the trading book

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

Regulatory trading book includes financial assets held for trading purposes and derivatives.

The analysis based on client credit quality and rating (where available) as of December 31, 2009 and December 31, 2008 is as shown in the next table:

In thousands of BGN

	2009	2008
Government bonds		
Rated BBB	331	15,325
Rated BBB+	5,187	377
Bonds of credit institutions		
Rated AAA	35,220	40,970
Rated BB	39,637	40,848
Unrated	1,165	15,910
Corporate bonds		
Unrated	30,570	9,164
Equities	3,340	-
Derivatives (net)		
Banks and financial institution counterparties	(31,642)	(33,714)
Corporate counterparties	36,573	11,906
Total trading assets	**120,381**	**100,786**

(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. As a rule collaterals are registered on behalf of the Bank prior to the effective disbursal of the loans.

The competent body for assessing impairment allowances is the Provisioning and Restructuring Committee (PRC). Risk exposures are classified in four major classes:
- Regular exposures;
- Watch exposures;
- Non-performing exposures;
- Loss exposures.

PRC regularly assess whether there is objective evidence that a loan or a group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if:
- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets;
- a reliable estimate of the loss amount can be made.

The Bank establishes an allowance for loan losses that represents the estimate of impairment losses in the loan portfolio. The components of this allowance are the individually and the collectively assessed loss allowance. The Bank first assess whether objective evidence of impairment exists individually for loans that are significant. Then collectively impairment assessment is performed for those loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment under the individual assessment. 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 practice adopted in the Bank is to prepare internal rules for all credit products, especially in the Retail banking, setting the loan parameters, acceptable collaterals and the documentation required from the clients for credit risk assessment.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one client or group of related clients exceeding 10% of the capital base are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one client or group of related clients must not exceed 25% of the capital base of the Bank and in addition the total of all big exposures must not exceed 800% capital base.
As of December 31, 2009 and December 31, 2008 the Bank has fulfilled all statutory lending limits.

The table below analyses the breakdown of impairment allowances as of December 31, 2009 and December 31, 2008.

In thousands of BGN

	Carrying amount before impairment		Impairment allowance		Carrying amount	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Individually impaired						
Watch	451,624	214,049	45,262	27,041	406,362	187,008
Non-performing	97,295	24,290	48,621	15,714	48,674	8,576
Loss	218,155	135,375	218,028	134,666	127	709
	767,074	**373,714**	**311,911**	**177,421**	**455,163**	**196,293**
Collectively impaired	**4,582,936**	**4,868,728**	**93,101**	**107,999**	**4,489,835**	**4,760,729**
Past due but not impaired						
Watch	-	173	-	-	-	173
Non-performing	35	13	-	-	35	13
Loss	165	160	-	-	165	160
	200	**346**	**-**	**-**	**200**	**346**
Past due comprises	-	-	-	-	-	-
from 31 to 60 days	2	188	-	-	2	188
from 61 to 90 days	-	22	-	-	-	22
over 91 days	198	136	-	-	198	136
	200	346	-	-	200	346
Neither past due nor impaired	**2,433,480**	**2,281,265**	**-**	**-**	**2,433,480**	**2,281,265**
Total	**7,783,690**	**7,524,053**	**405,012**	**285,420**	**7,378,678**	**7,238,633**

The breakdown of the fair value of 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	
	2009	**2008**
Against individually impaired		
Cash collateral	579	443
Property	1,161,043	496,045
Debt securities	-	12,925
Other collateral	1,947,415	337,566
Against collectively impaired		
Cash collateral	1,308	983
Property	9,227,381	8,396,134
Debt securities	12	30,462
Other collateral	11,779,026	7,026,930
Against past due but not impaired		
Cash collateral	1,396	1,228
Property	646	832
Debt securities	-	-
Other collateral	1,417	3,535
Against neither past due nor impaired		
Cash collateral	58,354	46,223
Property	2,629,238	3,034,630
Debt securities	29,630	274,267
Other collateral	8,423,299	6,835,101
Total	**35,260,744**	**26,497,304**

The concentration of risk exposures in different sectors of the economy as well as geographical spread out as is as outlined in table below:

In thousands of BGN

	Loans and advance to customers		Loans and advance to bank		Investment securities	
	2009	2008	2009	2008	2009	2008
Concentration by sectors						
Sovereign	57,584	59,733	-	-	552,973	641,847
Manufacturing	1,553,106	1,472,239	-	-	-	-
Commerce	1,690,683	1,577,385	-	-	-	-
Construction	826,786	589,526	-	-	-	-
Agriculture and forestry	138,058	158,010	-	-	-	-
Transport and communication	171,105	331,812	-	-	-	-
Tourism	265,929	276,708	-	-	-	-
Services	579,903	545,303	-	-	-	-
Financial services	257,095	229,915	2,071,567	1,549,996	69,772	89,329
Retail (individuals)						
Housing loans	1,425,488	1,339,927	-	-	-	-
Consumer loans	817,953	943,495	-	-	-	-
	7,783,690	**7,524,053**	**2,071,567**	**1,549,996**	**622,745**	**731,176**
Impairment allowances	(405,012)	(285,420)	-	-	-	-
Total	**7,378,678**	**7,238,633**	**2,071,567**	**1,549,996**	**622,745**	**731,176**
Concentration by geographic location						
Europe	7,781,514	7,521,016	2,059,214	1,542,697	606,293	695,704
North America	113	5	12,033	6,533	5,491	8,368
Asia	1,807	2,867	164	567	10,961	27,104
Africa	153	113	-	-	-	-
South America	11	23	-	-	-	-
Australia	92	29	156	199	-	-
	7,783,690	**7,524,053**	**2,071,567**	**1,549,996**	**622,745**	**731,176**
Impairment allowances	(405,012)	(285,420)	-	-	-	-
Total	**7,378,678**	**7,238,633**	**2,071,567**	**1,549,996**	**622,745**	**731,176**

(e) Operational Risk

UniCredit Bulbank defines as operational the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.

Operational events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Company's physical assets, business disruption and system failures, process management.

The Operational risk unit in the bank is an independent unit in charge of regular operational risk monitoring and control. The unit's activity is regulated in the approved by the Management Board "Operational risk control rulebook", in compliance with "Operational risk control rulebook" of UniCredit Group, "Operational risk control rulebook" of Bank Austria Group and the national regulatory framework (Ordinance 8 on the Capital Adequacy of Credit Institutions). The Management Board is responsible for operational risk oversight with the support of the Operational Risk Committee, which has deliberative and suggestion functions on the decisions related to improvement of internal communication for finding proper risk mitigation solutions through information exchange among different units.

The operational risk information, such as loss data, key risk indicators and scenarios is collected in the UniCredit Group database; a Group built decentralized risk management application. While the main task of the Operational risk unit is to define the methods used and to perform risk measurement and analysis, the risk managers in different areas working on decentralized basis are responsible for taking measures to reduce and prevent risks.

The Operational risk unit is also responsible for carrying out the following activities: monitoring and analyzing the bank's operational risks exposure; verifying that operational loss data is regularly collected in the UniCredit Group database; validating that risk limits are respected and reporting breaches to the Management Board; cooperating in the analysis of the operational risk impact in significant new product introduction, providing regular training on operational risk control; developing and promoting an operational risk culture within the Bank. Other activities carried out are in compliance with the requirements of Basel II and Ordinance 8 of the Bulgarian National Bank.

Since 2008 UniCredit Bulbank has reported the capital requirement for operational risk based on the Standardized Approach methodology, attesting that the bank's operational risk system is conceptually sound and implemented with integrity and closely built into the risk management process of the bank.

In December 2009 UniCredit Bulbank was the first Bulgarian bank to start official application proceedings with the Bulgarian National Bank to use the Advanced Measurement Approach (AMA) for the calculation of capital requirements for operational risk. AMA is the most sophisticated calculation approach, the use of which implies that the operational risk management system in the institution meets various quantitative and qualitative standards and its output is a fundamental part of the process of monitoring and controlling the exposure to risks.

(f) Basel II disclosure

Since January 1st, 2007 Bulgarian banks apply BASEL II requirements for measurement of the capital adequacy.

Under the regulatory framework, Bank allocates capital for covering three major types of risk, namely credit risk, market risk and operational risk. For the year 2007 UniCredit Bulbank applied allowing standardized approach for credit and market risks and the basic indicator approach for operational risk. In 2008 Bank has been given permission by Bulgarian National Bank to apply standardized approach also for operational risk.

Statutory limits exposed to Banks require Bank to maintain total capital adequacy ratio not less than 12% and Tier I ratio not less than 6%. As a response to the ongoing world financial crisis Bulgarian National Bank strongly recommended all the Banks in Bulgaria to reached minimum Tier I ratio of 10% latest by June 2009. UniCredit Bulbank AD is in full compliance with this requirement even as of December 31, 2008.

Under this Basel II disclosure, Bank represents regulatory requirements for consolidated reporting. These requirements may differ form IFRS basis for consolidation as it covers only financial institutions, being subsidiary or associate of a credit institution therefore consolidated Basel II figures does not include full consolidation of Hypovereins Immobilien EOOD and equity method of consolidation of Pirelli Real Estate AD, being both non-financial institutions. However Bank dully deduct the participation in those entities from its capital base (own funds).

(i) Capital base (own funds)

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

As of December 31, 2009 and December 31, 2008 the consolidated Capital base of UniCredit Bulbank AD comprises as follows:

In thousands of BGN

	2009	2008
Share capital	239,256	239,256
Statutory reserve	51,155	51,155
Retained earnings	1,022,772	729,636
Total capital and reserves	**1,313,183**	**1,020,047**
Deductions		
Unrealized loss on available-for-sale instruments	(18,789)	(29,216)
Intangible assets	(34,859)	(38,167)
Total deductions	**(53,648)**	**(67,383)**
Total Tier I capital	1,259,535	952,664
Revaluation reserve on real estate occupied by the Bank	136,070	80,975
Subordinated long-term debt	183,848	191,671
Total Tier II capital	**319,918**	**272,646**
Additional deductions from Tier I and Tier II capital	**(26,060)**	**(21,391)**
Total Capital base (Own funds)	**1,553,393**	**1,203,919**

The additional deductions from the Capital base relates to Bank's participation in unconsolidated entities which represent 10% or more than 10% of the registered capital of such entities. For regulatory purposes the deduction is split equally between Tier I and Tier II capital.

Subordinated long-term debt represents five loans provided by UniCredit Bank Austria AG for initial principal amount of EUR 98 million (see also Note **40**).

(ii) Capital requirements

As of December 31, 2009 and December 31, 2008 the capital requirements for credit, market and operational risks are as follows:

In thousands of BGN

	2009	2008
Capital requirements for credit risk		
Exposures to:		
Central Governments and Central Banks	6,859	11,342
Regional Governments and local authorities	4,247	2,791
Administrative bodies and non-commercial undertakings	11	191
Institutions	12,569	14,193
Corporates	205,336	228,577
Retail	63,047	74,803
Exposures secured on real estate property	304,469	283,756
Past due items	2,582	-
High risk exposures	26	20
Short-term exposures to institutions and corporates	30,675	20,388
Other exposures	21,193	16,792
Total capital requirements for credit risk	**651,014**	**652,853**
Capital requirements for market risk	**12,147**	**8,994**
Capital requirements for operational risk	**79,017**	**70,363**
Total capital requirements for credit, market and operational risk	**742,178**	**732,210**
Additional capital requirements subject to National discretions from the Regulator	**371,088**	**366,104**
Total regulatory capital requirements	**1,113,266**	**1,098,314**
Capital Base (Own funds)	1,553,393	1,203,919
there of Tier I	*1,246,505*	*941,969*
Free equity (Own funds)	440,127	105,605
Total capital adequacy ratio	**16.74%**	**13.15%**
Tier I ratio	**13.44%**	**10.29%**

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

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

Operational risk is calculated on applying standardized approach as described in note **4 (e)**.

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

5. Use of estimates and judgement

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

In general the estimates and judgement are widely used in assessing:
- Fair value determination of financial instruments;
- Impairment of financial instruments, especially loans;
- Quantification of the provisions for constructive and/or legal obligations

(a) Fair value determination of financial instruments
As described in note 3 (i) (vi) Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments carried at fair value by valuation method applied by the Bank as of December 31, 2009.

In thousands of BGN

	Level 2	Level 3	Total
Financial assets held for trading	80,374	35,076	115,450
Derivatives held for trading	44,785	357	45,142
Derivatives used for hedging	1,521	-	1,521
Financial assets designated at fair value through profit or loss	23,509	112,562	136,071
Available for sale Investments	282,379	3,106	285,485
	432,568	**151,101**	**583,669**
Financial liabilities held for trading	40,211	-	40,211
Derivatives used for hedging	6	-	6
	40,217	**-**	**40,217**
Total	**472,785**	**151,101**	**623,886**

The table below analyses the fair value of financial instruments by classification as of December 31, 2009 and December 31, 2008

In thousands of BGN

December 2009	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	832,164	832,164	832,164
Financial assets held for trading	115,450	-	-	-	-	115,450	115,450
Derivatives held for trading	45,142	-	-	-	-	45,142	45,142
Derivatives used for hedging	1,521	-	-	-	-	1,521	1,521
Financial assets designated at fair value through profit or loss	136,071	-	-	-	-	136,071	136,071
Loans and advances to banks	-	-	2,071,567	-	-	2,071,567	2,071,567
Loans and advances to customers	-	-	7,378,678	-	-	7,378,678	7,378,678
Available for sale Investments	-	-	-	285,485	-	285,485	285,485
Held to maturity Investments	-	314,749	-	-	-	314,749	325,535
TOTAL ASSETS	**298,184**	**314,749**	**9,450,245**	**285,485**	**832,164**	**11,180,827**	**11,191,678**
LIABILITIES							
Financial liabilities held for trading	40,211	-	-	-	-	40,211	40,211
Derivatives used for hedging	6	-	-	-	-	6	6
Deposits from banks	-	-	-	-	3,114,002	3,114,002	3,128,000
Deposits from customers	-	-	-	-	6,413,097	6,413,097	6,430,889
Subordinated liabilities	-	-	-	-	212,123	212,123	212,123
TOTAL LIABILITIES	**40,217**	**-**	**-**	**-**	**9,739,222**	**9,779,439**	**9,811,229**

In thousands of BGN

December 2008	Fair value through profit or loss	Held-to-maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	905,931	**905,931**	**905,931**
Financial assets held for trading	122,594	-	-	-	-	**122,594**	**122,594**
Derivatives held for trading	38,303	-	-	-	-	**38,303**	**38,303**
Financial assets designated at fair value through profit or loss	184,567	-	-	-	-	**184,567**	**184,567**
Loans and advances to banks	-	-	1,549,996	-	-	**1,549,996**	**1,549,996**
Loans and advances to customers	-	-	7,238,633	-	-	**7,238,633**	**7,238,633**
Available for sale Investments	-	-	-	357,454	-	**357,454**	**357,454**
Held to maturity Investments	-	356,002	-	-	-	**356,002**	**335,151**
TOTAL ASSETS	**345,464**	**356,002**	**8,788,629**	**357,454**	**905,931**	**10,753,480**	**10,732,629**
LIABILITIES							
Financial liabilities held for trading	60,111	-	-	-	-	**60,111**	**60,111**
Deposits from banks	-	-	-	-	3,227,729	**3,227,729**	**3,227,729**
Deposits from customers	-	-	-	-	6,024,506	**6,024,506**	**6,024,506**
Subordinated liabilities	-	-	-	-	209,368	**209,368**	**209,368**
TOTAL LIABILITIES	**60,111**	**-**	**-**	**-**	**9,461,603**	**9,521,714**	**9,521,714**

(b) Impairment of financial instruments

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

Collectively assessed impairment loses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments factors that are mostly considered include credit quality, portfolio size, concentration and economic factors.

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:
- Markets and Investment Banking;
- Corporate Banking;
- Retail Banking
- Asset-Liability Management Dept. and other.

In thousands of BGN

December 2009	Corporate Banking	Retail Banking	Markets and Investment Banking	ALM and other	Total
Net interest income	191,523	215,416	36,720	(34,149)	**409,510**
Dividend income	-	-	-	134	**134**
Net fee and commission income	59,803	85,384	6,023	689	**151,899**
Net gains (losses) from financial assets and liabilities held for trading	(26)	-	2,160	(383)	**1,751**
Net gains (losses) from other financial assets and designated at fair value through profit or loss	-	-	437	(372)	**65**
Net income from investments	-	-	2,169	-	**2,169**
Net income related to subsidiaries, associates and property, plant and equipment	-	-	-	5,617	**5,617**
Other operating income				6,895	**6,895**
TOTAL OPERATING INCOME	**251,300**	**300,800**	**47,509**	**(21,569)**	**578,040**
Personnel expenses	(10,961)	(44,006)	(2,102)	(40,712)	**(97,781)**
General and administrative expenses	(19,225)	(86,671)	(1,096)	(6,699)	**(113,691)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(2,249)	(18,980)	(223)	(13,635)	**(35,087)**
Total direct expenses	**(32,435)**	**(149,657)**	**(3,421)**	**(61,046)**	**(246,559)**
Allocation of indirect and overhead expenses	**(28,548)**	**(42,871)**	**311**	**71,108**	**-**
TOTAL OPERATING EXPENSES	**(60,983)**	**(192,528)**	**(3,110)**	**10,062**	**(246,559)**
Provisions for risk and charges	-	-	-	18,885	**18,885**
Net impairment loss on financial assets	(84,598)	(45,986)	-	438	**(130,146)**
PROFIT BEFORE TAX INCOME	**105,719**	**62,286**	**44,399**	**7,816**	**220,220**
Income tax expense					**(22,823)**
PROFIT FOR THE PERIOD					**197,397**
ASSETS	**4,662,594**	**2,706,190**	**3,115,658**	**1,039,287**	**11,523,729**
LIABILITIES	**2,404,997**	**3,870,799**	**2,380,696**	**1,227,103**	**9,883,595**

In thousands of BGN

December 2008	Corporate Banking	Retail Banking	Markets and Investment Banking	ALM and other	Total
Net interest income	188,920	200,769	20,636	53,389	**463,714**
Dividend income	-	-	-	139	**139**
Net fee and commission income	64,098	87,349	5,728	(1,168)	**156,007**
Net gains (losses) from financial assets and liabilities held for trading	89	-	(21,129)	(2,890)	**(23,930)**
Net gains (losses) from other financial assets and designated at fair value through profit or loss	-	-	4,697	(4,513)	**184**
Net income from investments	-	-	-	(1,277)	**(1,277)**
Net income related to subsidiaries, associates and property, plant and equipment	-	-	-	13,847	**13,847**
Other operating income				5,292	**5,292**
TOTAL OPERATING INCOME	**253,107**	**288,118**	**9,932**	**62,819**	**613,976**
Personnel expenses	(8,060)	(42,802)	(860)	(51,670)	**(103,392)**
General and administrative expenses	(15,438)	(94,399)	(766)	(13,899)	**(124,502)**
Amortisation, depreciation and impairment losses in tangible and intangible assets	(1,308)	(17,276)	(91)	(13,312)	**(31,987)**
Total direct expenses	**(24,806)**	**(154,477)**	**(1,717)**	**(78,881)**	**(259,881)**
Allocation of indirect and overhead expenses	**(31,747)**	**(53,731)**	**(2,463)**	**87,941**	**-**
TOTAL OPERATING EXPENSES	**(56,553)**	**(208,208)**	**(4,180)**	**9,060**	**(259,881)**
Provisions for risk and charges	-	-	-	3,634	**3,634**
Restructuring costs	-	-	-	17,986	17,986
Net impairment loss on financial assets	(24,664)	(36,027)	-	10,635	**(50,056)**
PROFIT BEFORE INCOME TAX	**171,890**	**43,883**	**5,752**	**104,134**	**325,659**
Income tax expense					**(32,715)**
PROFIT FOR THE PERIOD					**292,944**
ASSETS	**4,499,488**	**2,771,091**	**2,643,019**	**1,120,611**	**11,034,209**
LIABILITIES	**2,218,393**	**3,712,035**	**2,650,683**	**1,074,809**	**9,655,920**

7. Net interest income

In thousands of BGN

	2009	2008
Interest income		
Financial assets held for trading	7,892	10,500
Derivatives held for trading	1,672	2,119
Financial assets designated at fair value through profit or loss	10,139	20,208
Loans and advances to banks	20,201	19,786
Loans and advances to customers	566,193	573,392
Available for sale investments	13,898	19,199
Held to maturity investments	17,414	10,349
	637,409	**655,553**
Interest expense		
Derivatives used for hedging	(248)	-
Deposits from banks	(48,801)	(65,635)
Deposits from customers	(171,601)	(119,250)
Subordinated debt	(7,249)	(6,954)
	(227,899)	**(191,839)**
Net interest income	**409,510**	**463,714**

For the financial years ended December 31, 2009 and December 31, 2008 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 36,958 thousand and BGN 23,203 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2009	2008
Fee and commission income		
Collection and payment services	65,507	69,108
Lending business	20,966	21,368
Account services	18,216	11,850
Currency trading	25,829	30,624
Management, brokerage and securities trading	10,141	14,895
Documentary business	9,556	8,467
Package accounts	7,357	5,659
Other	3,082	3,750
	160,654	**165,721**
Fee and commission expense		
Collection and payment services	(6,423)	(6,637)
Management, brokerage and securities trading	(524)	(2,337)
Lending business	(1,483)	(360)
Other	(325)	(380)
	(8,755)	**(9,714)**
Net fee and commission income	**151,899**	**156,007**

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

In thousands of BGN

	2009	2008
FX trading income, net	(652)	(11,288)
Net income from debt instruments	(371)	1,643
Net income from equity instruments	-	6
Net income from derivative instruments	2,774	(14,291)
Net trading income	**1,751**	**(23,930)**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized due to fair value change. The amounts for the years ended December 31, 2009 and December 31, 2008 are BGN 65 thousand and BGN 184 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2009	2008
Realised gains on disposal of available for sale investments	1,676	1,037
Realised losses on disposal of available for sale investments	-	(2,206)
Realised gains (losses) on disposal of held to maturity investments	493	(108)
Net income from investments	**2,169**	**(1,277)**

Under net income from investments, the Bank represents realized gains (loss) arising form disposal of available for sale and held to maturity investments.

In 2009 upon performed internal review of undertaken risk positions in debt instruments, Bank sold immaterial part of investments in held to maturity portfolio.

In 2008 due to uncertain creditworthiness of some bond issuers domiciled in the USA after development of the world financial crisis and for credit risk protection, UniCredit Bulbank AD disposed immaterial amount of held to maturity investments prior to their maturity.

Both sales performed in 2008 and 2009 have been preliminary reconciled for immateriality reasons on local and UCI Group level.

12. Net income related to subsidiaries, associates and property, plant and equipment

In thousands of BGN

	2009	2008
Net income on disposal of subsidiaries and associates	1,603	8,091
Net income on disposal of property, plant and equipment	8,501	4,874
Effect of equity method consolidation on associates	(4,227)	882
Impairment of participation in associates	(260)	-
Net income related to subsidiaries, associates and property, plant and equipment	**5,617**	**13,847**

Net income related to subsidiaries and associates comprise of the gain out of the sale net of any amounts retained by the buyers, subject to release upon fulfilment of certain escrow clauses.

Upon restructuring if its activity UniCredit Bulbank AD disposed in 2007 the entire controlling interest in local Optima Financial Services EOOD and 51% of the interest in local UniCredit Bulbank EAD. The entire realized net income in 2009 in the amount of BGN 1,603 thousand and in 2008 in the amount of BGN 8,091 thousand comprise of release of escrow amounts upon fulfilling the contracted conditions or expiration of warranties given to the buyers.

In 2009 Bank took a decision to voluntarily liquidate together with the majority stake holder one of its associates. As a result of that, Bank's participation in that entity was impaired and impairment loss in the amount of BGN 260 thousand was recognized.

13. Other operating income, net

In thousands of BGN

	2009	2008
Other operating income		
Income from non-financial services	1,386	1,068
Rental income from investment property	341	349
Other income	5,538	4,146
	7,265	**5,563**
Other operating expenses		
Other operating expenses	(370)	(271)
	(370)	**(271)**
Other operating income, net	**6,895**	**5,292**

14. Personnel expenses

In thousands of BGN

	2009	2008
Wages and salaries	(79,886)	(85,744)
Social security charges	(10,758)	(12,546)
Pension and similar expenses	(476)	(460)
Temporary staff expenses	(5,107)	(3,701)
Share-based payments	(573)	(339)
Other	(981)	(602)
Total personnel expenses	**(97,781)**	**(103,392)**

As of December 31, 2009 the total number of employees, expressed in full time employee equivalent is 3,835 (December 31, 2008: 3,903)

Pension and similar expenses comprise of current services costs, interest costs and actuarial costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **41**.

As described in note **3 (p) (iii)** ultimate parent company UniCredit Italiano S.p.A has granted stock options and performance shares to top and senior managers of UniCredit Bulbank AD. Upon expiration of the vesting period of any of the granted instruments, UniCredit Bulbank AD is required to settle in cash to the parent amounts corresponding to the economic value of the respective instruments.

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

In thousands of BGN

	Available quantity at December 31, 2009	Estimated quantity of vested amount	Economic value at December 31, 2008	2009 Cost	Settled in 2009	Economic value at December 31, 2009
Stock Options 11 2005	103,700	103,700	159	56	-	215
Stock Options 06 2006	85,700	84,087	127	56	-	183
Stock Options 06 2007	100,238	94,682	88	66	-	154
Stock Options 06 2008	238,336	216,729	33	72	-	105
Total Stock options	**527,974**	**499,198**	**407**	**250**	**-**	**657**
Performance Shares 11 2005	-	25,357	189	-	(189)	-
Performance Shares 06 2006	41,584	34,515	-	323	-	323
Performance Shares 06 2007	36,107	29,969	-	-	-	-
Performance Shares 06 2008	75,017	62,264	-	-	-	-
Total Performance share	**152,708**	**152,105**	**189**	**323**	**(189)**	**323**
Total Options and Shares	**680,682**	**651,303**	**596**	**573**	**(189)**	**980**

Detailed information about the granting dates, vesting period starting and ending dates of the stock options and performance share is presented in the table below:

Instrument granted	Granting date	Vesting period start date	Vesting period end date
Stock Options 11 2005	18-Nov-05	30-Nov-05	30-Nov-09
Stock Options 06 2006	13-Jun-06	30-Jun-06	30-Jun-10
Stock Options 06 2007	12-Jun-07	30-Jun-07	30-Jun-11
Stock Options 06 2008	25-Jun-08	30-Jun-08	30-Jun-12
Performance Shares 11 2005	18-Nov-05	31-Dec-07	31-Dec-08
Performance Shares 06 2006	13-Jun-06	31-Dec-08	31-Dec-09
Performance Shares 06 2007	12-Jun-07	31-Dec-09	31-Dec-10
Performance Shares 06 2008	25-Jun-08	31-Dec-10	31-Dec-11

15. General and administrative expenses

In thousands of BGN

	2009	2008
Deposit guarantee fund annual contribution	(26,561)	(24,402)
Advertising, marketing and communication	(6,439)	(9,846)
Credit information and searches	(1,358)	(2,112)
Information, communication and technology expenses	(30,304)	(29,766)
Consulting, audit and other professionals services	(1,602)	(1,961)
Real estate expenses	(13,343)	(20,708)
Rents	(13,646)	(11,316)
Travel expenses and car rentals	(2,021)	(2,822)
Insurance	(1,150)	(847)
Supply and miscellaneous services rendered by third parties	(12,504)	(15,303)
Other costs	(4,763)	(5,419)
Total general and administrative expenses	**(113,691)**	**(124,502)**

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

In thousands of BGN

	2009	2008
Depreciation charge	(32,726)	(30,594)
Impairment due to obsolescence	(796)	(1,393)
Decrease in value due to revaluation	(1,351)	-
Decrease in value due to revaluation of non-current assets and disposal group classified as held for sale	(214)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(35,087)**	**(31,987)**

In 2009 Bank has performed valuations of all its investments in properties. As a result of this valuation decrease in value of property in the amount of BGN 1,351 thousand and in assets held for sale in the amount of BGN 214 thousand has been recognized (see also notes **31**, **32** and **35**).

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not anymore likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **41**).

In thousands of BGN

	2009	2008
Additions of provisions		
Provisions on letters of guarantee	(11,218)	(11,829)
Legal cases provisions	(4,763)	(7,449)
Provisions on constructive obligations	-	(2,801)
Other provisions	(220)	(1,235)
	(16,201)	**(23,314)**
Reversal of provisions		
Provisions on letters of guarantee	16,225	11,731
Legal cases provisions	17,452	10,362
Provisions on constructive obligations	1,374	4,802
Other provisions	35	35
	35,086	**26,948**
Net provisions charge	**18,885**	**3,634**

18. Restructuring costs

For the period June 2006 – June 2008 UniCredit Bulbank AD was successfully implementing restructuring program related to optimization of the operational activity as a result of a legal merger of the three Bulgarian Banks (Bulbank AD, HVB Bank Biochim AD and Hebrosbank AD). The program was completed in June 2008. As some of the performed activities absorbed fewer financial resources (costs) than initially estimated the total unutilized restructuring provisions in the amount of BGN 17,986 thousand were released as of June 2008.

19. Net Impairment loss on financial assets

In thousands of BGN

	2009	2008
Balance 1 January		
Loans and advances to customers	**285,420**	**230,533**
Increase		
Loans and advances to customers	170,111	150,053
Decrease		
Loans and advances to customers	(38,222)	(89,752)
Recoveries from non-performing loans previously written-off	(1,743)	(10,245)
	(39,965)	**(99,997)**
Net impairment losses	**130,146**	**50,056**
Written-off		
Loans and advances to customers	(12,297)	(5,414)
Balance December 31 **Loans and advances to customers**	**405,012**	**285,420**

20. 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 2010.

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

In thousands of BGN

	2009	2008
Current tax	(21,585)	(27,750)
Deferred tax income (expense) related to origination and reversal of temporary differences	(1,109)	(4,791)
Underprovided prior year income tax	(129)	(174)
Income tax expense	**(22,823)**	**(32,715)**

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

In thousands of BGN

	2009	2008
Accounting profit before tax	220,220	325,659
Corporate tax at applicable tax rate (10% for 2009 and 2008)	(22,022)	(32,566)
Tax effect of non taxable revenue	114	111
Tax effect of non tax deductible expenses	(682)	(217)
Tax effect of reversal of temporary differences	(127)	131
Underprovided prior year income tax	(106)	(174)
Income tax expense	**(22,823)**	**(32,715)**
Effective tax rate	**10.36%**	**10.05%**

21. Cash and balances with Central bank

In thousands of BGN

	2009	2008
Пари в каса	119,822	182,010
Салда по сметки при Централната Банка	712,342	723,921
Общо парични средства и парични салда при Централната банка	**832,164**	**905,931**

22. Financial assets held for trading

In thousands of BGN

	2009	2008
Government bonds	5,517	15,702
Bonds of credit institutions	76,022	97,728
Corporate bonds	30,571	9,164
Equities	3,340	-
Total financial assets held for trading	**115,450**	**122,594**

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

As of December 31, 2009 and December 31, 2008 financial assets held for trading in the amount of BGN 33,136 thousand and BGN 54,175 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 **45**).

Change in accounting policy

As described in note **3 (i) (ii) b)** in October 2008 Management has adopted amendments in IAS 39 "Financial instruments: Recognition and measurement" issued by IASB that same month. Considering the ongoing financial markets turmoil as a possible example of "rare circumstances", Management has changed its intention with regard to certain government bonds, previously classified as held for trading.

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

In thousands of BGN

	2009	Cumulatively since reclassification (July 2008 - December 2009)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	8,115	5,013
Net interest income		
Net interest income recognized for the period after reclassification	4,642	7,031
Net interest income after reclassification that should have been recognized had the assets not been reclassified	5,844	8,866

23. Derivatives held for trading

In thousands of BGN

	2009	2008
Interest rate swaps	34,384	25,121
Equity options	528	9,341
FX forward contracts	4,951	3,302
FX options	588	32
Other options	4,144	490
FX swaps	547	17
Total trading derivatives	**45,142**	**38,303**

Derivatives comprise of trading instruments that have positive market value as of December 31, 2009 and December 31, 2008. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank's customers' business positions.

24. 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, 2009 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks business (attracted deposits).

As of December 31, 2009 the positive fair value of hedging instruments is in the amount of BGN 1,521 thousand and the negative fair value of hedging instruments is BGN 6 thousand.

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

In thousands of BGN

	2009	2008
Government bonds	20,660	27,428
Bonds of credit institutions	24,568	58,485
Municipality bonds	2,849	2,849
Corporate bonds	87,994	95,805
Total financial assets designated at fair value through profit or loss	**136,071**	**184,567**

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

As of December 31, 2009 and December 31, 2008 assets designated at fair value through profit or loss in the amount of BGN 4,136 thousand and BGN 20,330 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 **45**).

26. Loans and advances to banks

In thousands of BGN

	2009	2008
Loans and advances to banks	2,028,640	1,515,360
Current accounts with banks	42,923	34,599
Restricted accounts in foreign currency	4	37
Total loans and advances to banks	**2,071,567**	**1,549,996**

27. Loans and advances to customers

In thousands of BGN

	2009	2008
Receivables under repurchase agreement	956	14,715
Private companies	5,481,709	5,171,874
Individuals		
Housing loans	1,425,488	1,339,927
Consumer loans	817,953	937,804
Central and local governments	57,584	59,733
	7,783,690	7,524,053
Less impairment allowances	(405,012)	(285,420)
Total loans and advances to customers	**7,378,678**	**7,238,633**

28. Available for sale investments

In thousands of BGN

	2009	2008
Government bonds	261,613	312,408
Bonds of credit institutions	20,766	41,985
Equities	3,106	3,061
Total available for sale investments	**285,485**	**357,454**

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

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are generally carried at cost as their fair value can not be reliably measured.

As of December 31, 2009 and December 31, 2008 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, 2009 and December 31, 2008 available for sale investments in the amount of BGN 133,400 thousand and BGN 307,132 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 **43**).

29. Held to maturity investments

In thousands of BGN

	2009	2008
Government bonds	291,360	329,438
Bonds of credit institutions	23,389	26,564
Total held to maturity investments	**314,749**	**356,002**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity.

In 2008 based on internal risk assessment Management approved increase of Bank's holdings in Government bonds with clearly stated intention to hold them until maturity. The increase was effectively done through reclassification of bonds previously classified as held for trading (see also note **22**) and through new investments. Now new held to maturity investments have been acquired in 2009.

30. Investments in associates

In thousands of BGN

Company	Activity	Share in capital	Carrying value in thousands of BGN Dec 2009
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	17,735
UniCredit Leasing EAD	Leasing activities	24.4%	2,401
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,375
Pirelli Real Estate AD	Management of real estate portfolio	25.0%	-
		Total	**22,511**

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

For the purposes of supporting the business activities of UniCredit Consumer Financing AD, the Bank approved increase of the reserves of the company by providing additional funds from the shareholders. The Bank's part of that increase was effectively paid in 2009 and as a result of that the cost of participation in UniCredit Consumer Financing AD increased by BGN 12,692 thousand.

Following ongoing leasing activities reorganization, in December 2009 in-kind contribution in the capital of UniCredit Leasing was performed. Bank participated with all its shares held in Bulbank Leasing AD at that time. As this transformation represents a business combination among entities under common control, the new value of Bank's participation in UniCredit Leasing AD was increased by the book value of its participation in Bulbank Leasing AD. As a result of the performed transformation Bank has no longer direct participation in Bulbank Leasing AD, and its share in the net assets of transformed UniCredit Leasing AD has been reduced to 24.4%.

In 2009 the shareholders of Pirelli Real Estate AD took a decision for voluntarily liquidation of the Company. In order to meet its current and constructive obligation before the actual closure, the capital of the Company has been increased. Bank's share in that increase amounted to BGN 260 thousand. Since the Management of the Bank does not expect any residual value to remain that could be distributed among the shareholders upon completion of the closure procedure, the carrying amount of the investments has been fully impaired by the end of 2009. As a result of this impairment, impairment loss in the amount of BGN 260 thousand was recognized.

31. Property, plant, equipment and investment properties

In thousands of BGN

	Lands	Buildings	Furniture	Electronic equipment	Other	Investment property	Total
Cost or revalued amount							
As of December 31, 2008	7,830	168,586	3,897	69,410	37,882	928	**288,533**
Additions	381	175	816	6,226	12,209	-	**19,807**
Transfers	(42)	7,039	137	4,182	(10,861)	(455)	**-**
Write offs	(5)	(380)	(747)	(2,148)	(1,854)	-	**(5,134)**
Disposals	(1,053)	(7,785)	(153)	(1,745)	(765)	-	**(11,501)**
As of December 31, 2009 before revaluation	**7,111**	**167,635**	**3,950**	**75,925**	**36,611**	**473**	**291,705**
Written off against accumulated depreciation upon new revaluation	-	(26,218)	-	-	-	-	**(26,218)**
Increase in revaluation reserve upon new revaluation	273	70,323	-	-	-	-	**70,596**
Decrease in revaluation reserve upon new revaluation	-	(6,637)	-	-	-	-	**(6,637)**
Decrease in value in profit or loss upon new revaluation	-	(1,351)	-	-	-	-	**(1,351)**
Revaluation adjustment	**273**	**36,117**	**-**	**-**	**-**	**-**	**36,390**
As of December 31, 2009 after revaluation	**7,384**	**203,752**	**3,950**	**75,925**	**36,611**	**473**	**328,095**
Depreciation							
As of December 31, 2008	-	29,000	2,309	45,173	16,696	80	**93,258**
Depreciation charge	-	7,727	350	10,116	3,338	36	**21,567**
Impairment due to obsolescence	5	100	19	135	510	-	**769**
Write offs	(5)	(382)	(747)	(2,140)	(1,855)	-	**(5,129)**
On disposals	-	(654)	(100)	(1,727)	(693)	-	**(3,174)**
Transfers	-	54	-	-	-	(54)	**-**
As of December 31, 2009 before revaluation	**-**	**35,845**	**1,831**	**51,557**	**17,996**	**62**	**107,291**
Written off against book value upon new revaluation	-	(26,218)	-	-	-	-	**(26,218)**
Revaluation adjustment	**-**	**(26,218)**	**-**	**-**	**-**	**-**	**(26,218)**
As of December 31, 2009 after revaluation	**-**	**9,627**	**1,831**	**51,557**	**17,996**	**62**	**81,073**
Net book value as of December 31, 2009	**7,384**	**139,586**	**2,119**	**24,368**	**18,615**	**411**	**247,022**
Net book value as of December 31, 2008	**7,830**	**139,586**	**1,588**	**24,237**	**21,186**	**848**	**195,275**

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

32. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2008	92,386
Additions	7,890
Write offs	(1,547)
Disposals	18)
As of December 31,2009	**98,711**
Depreciation	
As of December 31, 2008	**54,211**
Depreciation charge	11,159
Impairment due to obsolescence	27
Write offs	(1,552)
As of December 31,2009	**63,845**
Net book value as of December 31, 2009	**34,866**
Net book value as of December 31, 2008	**38,175**

33.Current tax assets

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2009. According to the statutory requirements, Bank has paid throughout the 2009 advance instalments for corporate income tax on the basis of its tax profit for 2008. Due to the fact that final tax profit for 2009 is lower than the tax profit in 2008, the Bank is in pre-paid position as of December 31, 2009 and reports current tax asset in the amount of BGN 9,796 thousand and current tax liability in the amount of BGN 27 thousand.

34. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2009 and December 31, 2008 is as outlined below:

In thousands of BGN

	Assets		Liabilities		Net	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, plant and intangible assets	(33)	(58)	19,055	12,413	19,022	12,355
Available for sale investments	(1,855)	(2,897)	1,811	2,859	(44)	(38)
Provisions	(1,347)	(3,035)	-	-	(1,347)	(3,035)
Cash flow hedge	(175)	-	175	-	-	-
Other liabilities	(3,286)	(3,661)	-	-	(3,286)	(3,661)
Net tax (assets)/liabilities	**(6,696)**	**(9,651)**	**21,041**	**15,272**	**14,345**	**5,621**

The movements of deferred tax assets and liabilities on net basis throughout 2009 are as outlined below:

In thousands of BGN

	Balance 2008	Recognised in P&L	Recognised in equity	Balance 2009
Property, plant, equipment	12,355	270	6,397	19,022
Available for sale investments	(38)	(1,048)	1,042	(44)
Provisions	(3,035)	1,688	-	(1,347)
Cash flow hedge	-	(176)	176	-
Other liabilities	(3,661)	375	-	(3,286)
Net tax (assets)/liabilities	**5,621**	**1,109**	**7,615**	**14,345**

35. Non-current assets and disposal groups classified as held for sale

In 2008 the Management has approved list of 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 looking for a buyer and has offered those properties on public auction. Due to the uncertainties surrounding real estate market, not all of the proposed properties were sold. However Management is committed to continue selling the remaining part and expect to complete the sale by the end of 2010.

As of December 31, 2009 Management has included all the assets held for sale in the valuation procedure performed by independent appraisers. As a result of this for one of the assets fair value less cost to sale was assessed to be below asset's carrying amount. Based on that devaluation of that asset in the amount of BGN 214 was recognized (see also note **16**).

The breakdown of assets classified as held for sale and their carrying amount as of December 31, 2009 and December 31, 2008 is as follows:

In thousands of BGN

	2009	2008
Land	161	169
Buildings	2,075	2,967
Total non-current assets held for sale	**2,236**	**3,136**

36. Other assets

In thousands of BGN

	2009	2008
Receivables and prepayments	13,255	9,825
Receivables from the State Budget	47	10
Materials, spare parts and consumables	1,175	1,432
Other assets	5,298	5,505
Total other assets	**19,775**	**16,772**

37. Financial liabilities held for trading

In thousands of BGN

	2009	2008
Interest rate swaps	36,765	22,332
FX forward contracts	1,351	28,034
Equity options	579	9,368
Other options	456	328
FX options	588	32
FX swaps	472	17
Total trading liabilities	**40,211**	**60,111**

38. Deposits from banks

In thousands of BGN

	2009	2008
Current accounts and overnight deposits		
Local banks	65,090	85,342
Foreign banks	1,863,226	1,489,872
	1,928,316	**1,575,214**
Deposits		
Local banks	41,037	89,039
Foreign banks	1,024,828	1,404,672
	1,065,865	**1,493,711**
Liabilities under repurchase agreements	**117,034**	**154,991**
Other	**2,787**	**3,813**
Total deposits from banks	**3,114,002**	**3,227,729**

39. Deposits from customers

In thousands of BGN

	2009	2008
Current accounts and overnight deposits		
Individuals	515,160	575,399
Corporate	1,625,369	1,887,409
Budget and State companies	129,639	239,977
	2,270,168	**2,702,785**
Term deposits		
Individuals	2,323,440	1,934,277
Corporate	1,222,186	697,871
Budget and State companies	171,799	220,480
	3,717,425	**2,852,628**
Saving accounts	**347,396**	**413,630**
Transfers in execution process	**76,486**	**52,697**
Other	**1,622**	**2,766**
Total deposits from customers	**6,413,097**	**6,024,506**

Deposits from customers comprise of outstanding balances on clients' current accounts, term deposits and saving accounts as well as respective accrued interest in them as of the reporting date.

As of December 31, 2009 and December 31, 2008 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.

40. Subordinated liabilities

As of December 31, 2009 the total amount of BGN 212,123 thousand represents the outstanding debt (principal and accrued interest) on five loan facilities provided by UniCredit Bank Austria AG as outlined in the table below.

In thousands of BGN

Start date	Term to maturity	Amount of the original principal	Outstanding amount as of December 31, 2009
November 26, 2004	10 years	19,558	24,235
December 20, 2004	10 years	19,558	24,204
February 3, 2005	10 years	25,426	30,862
August 2, 2005	10 years	29,337	34,914
November 19, 2008	10 years	97,792	97,908
Total		**191,671**	**212,123**

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

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

41. Provisions

Balances of provisions as of December 31, 2009 and December 31, 2008 are as follows:

In thousands of BGN

	Letters of guarantee (a)	Legal cases (b)	Retirement benefits (c)	Constructive obligations (d)	Other (e)	Total
Balance as of December 31, 2008	**24,292**	**22,828**	**2,818**	**5,610**	**1,226**	**56,774**
Allocations	-	205	476	-	140	821
Releases	(4,770)	(12,999)	-	(1,374)	-	(19,143)
Additions due to FX revaluation	11,218	4,558	-	-	80	15,856
Releases due to FX revaluation	(11,455)	(4,453)	-	-	(35)	(15,943)
Utilization	-	(31)	(210)	(487)	(1,073)	(1,801)
Balance as of December 31, 2009	**19,285**	**10,108**	**3,084**	**3,749**	**338**	**36,564**

(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, 2009 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 19,285 thousand.

(b) Provisions on legal cases

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

As of December 31, 2009 Bank has assessed its position in legal cases against it and provision in the amount of BGN 10,108 thousand has been recognized.

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement, reduced by the amount of unrecognized actuarial losses as of the reporting date. Major assumptions underlying in 2009 Defined benefit obligation are as follows:

- Discount rate – 6.5%;
- Salary increase – 5% p.a.;
- Retirement age:
  - Men – 63;
  - Women – 60;

The movement of the defined benefit obligation for year ended 2009 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

Defined benefit obligation as of December 31, 2008	**2,818**
Current service costs for 2009	255
Interest cost for 2009	221
Amortisation of actuarial (gains) loss	-
Benefits paid	(210)
Defined benefit obligation as of December 31, 2009	**3,084**
Unrecognized actuarial loss as of December 31, 2009	558
Interest rate Beginning of the year	8.2%
Interest rate End of the year	6.5%
Future increase of salaries	5.0%
Expected 2010 service costs	313
Expected 2010 interest costs	218
Amortization of actuarial loss	28
Expected 2009 benefit payments	574

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

(d) Provisions on constructive obligation

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

As of December 31, 2009 and December 31, 2008 the whole remaining amount of provisions on constructive obligations relates to full compliance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premised where safe-deposits boxes are provided. In December 2009 review of the amount of provisions needed was done and as a result of reduced expectations for the resources needed, the outstanding amount was adjusted by BGN 1,374 thousand.

(e) Other provision

Other provisions in the amount of BGN 338 thousand relates to coverage of claims related to credit cards business as well as other claims.

42. Other liabilities

In thousands of BGN

	2009	2008
Liabilities to the State budget	4,135	6,415
Liabilities to personnel	17,757	21,189
Liabilities for unused paid leave	7,052	6,180
Dividends	196	237
Incentive plan liabilities	980	596
Other liabilities	16,404	26,769
Total other liabilities	**46,524**	**61,386**

3Liabilities 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 2009 and 2008 in accordance with the defined target settings.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave. The amount is equal to the compensation Bank has to pay should the labour contracts with the employees had been terminated as of December 31, 2009 and December 31, 2008, respectively.

As described in note **3 (p) (iii)** selected group of Top and Senior Managers are given UniCredito Italiano stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in note **14** above.

43. Equity

a) Share capital
Share capital comprises of 239,255,524 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders. As of December 31, 2008 92.1% of the shares are held by UniCredit Bank Austria AG.

b) Statutory reserves
Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act.

The amounts in that fund is not distributable unless prior consent of Bulgarian National Bank.

c) Retained earnings
Under Retained earnings Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount.

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

44. Contingent liabilities

In thousands of BGN

	2009	2008
Letters of credit and letters of guarantee	641,532	731,489
Credit commitments	922,835	1,442,245
Total contingent liabilities	**1,564,367**	**2,173,734**

a) Memorandum items
The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted.

These commitments and contingent liabilities have off balance-sheet credit risk 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, 2009 and December 31, 2008 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 **41**).

b) Litigation
As of December 31, 2009 there are open litigation proceedings against the Bank. There is significant uncertainty as to the timing and 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. Total of litigation claims provided for in the financial statements as of December 31, 2009 is in the amount of BGN 10,108 thousand.

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, 2009 and December 31, 2008 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

45. Assets pledged as collateral

In thousands of BGN

	2009	2008
Securities pledged for budget holders' account service	286,515	458,769
Securities pledged on REPO deals	114,321	164,430
Securities pledged on other deals	52,384	57,191
Blocked deposit for credit cards issuance	4	37
	453,224	**680,427**
Pledged securities include		
Assets held for trading	33,136	54,175
Assets designated at fair value through profit or loss	4,136	20,330
Available for sale assets	133,400	307,132
Assets held to maturity	282,548	298,753
	453,220	**680,390**

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

46. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company. Additionally the Bank has relativeness with members of the Managing bodies.

UniCredit Bulbank AD has a related party relationship with its other parent company's subsidiaries and with its directors and executive officers.

The related parties' transactions in terms of statement of financial position items as of December 31, 2008 and Income statement items for the year ended thereafter are as follows:

In thousands of BGN

	Assets	Liabilities
Financial assets held for trading	2,380	
Available for sale investments	2,884	
Current accounts and deposits placed	1,871,265	
Extended loans	94,171	
Other assets	3,081	
Financial liabilities held for trading		38,012
Current accounts and deposits taken		2,965,110
Subordinated loans		212,123
Other liabilities		1,960
Total	**1,973,781**	**3,217,205**
Guarantees received by the Group	**103,789**	

In thousands of BGN

	Income (Expense)
Interest incomes	5,418
Interest expenses	(54,768)
Fee and commissions income	2,255
Fee and commissions expenses	(180)
Net trading income (expenses)	(241)
Administrative and personnel expenses	(4,461)
	(51,977)

As of December 31, 2009 the loans extended to key personnel amount to BGN 17,938 thousand. For the twelve months ended December 31, 2009 the payments to management personnel amount to BGN 1,683 thousand.

47. Cash and cash equivalents

In thousands of BGN

	2009	2008
Cash in hand	119,822	182,010
Current account with the Central Bank	712,342	723,921
Current accounts with banks	42,923	34,599
Receivables under repurchase agreements	11,574	-
Placements with banks with original maturity less than 3 months	1,911,215	1,433,919
Total cash and cash equivalents	**2,797,876**	**2,374,449**

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

48. Leasing

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

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

In thousands of BGN

Residual maturity	Total future minimum lease payment		NPV of total future minimum lease payment	
	2009	2008	2009	2008
Up to one year	843	1,368	795	1,184
Between one and five years	878	1,797	827	1,582
Total	**1,721**	**3,165**	**1,622**	**2,766**

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

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	2009	2008
Up to one year	11,606	12,500
Between one and five years	25,425	26,819
Beyond five years	6,774	8,923
Total	**43,805**	**48,242**

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

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	2009	2008
Up to one year	247	189
Between one and five years	85	119
Total	**332**	**308**

49. Group entities

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2009 and December 31, 2008 the ultimate parent company is UniCredito Italiano S.p.A.

Andrej Slokar,
INCOM d.o.o.
Corporate Banking Client - Slovenia

«In a year of global financial crisis, your excellent team enabled us to accomplish our goal of investing in ice cream production equipment. By doing this, you have actually helped us become more integrated into the greater EU economy. In your attitude and your judgment, one can sense a great deal of respect and responsibility for the economy and for entrepreneurs. Thank you.»

It's easy with UniCredit.

Bank Network

Sofia	
7, Sveta Nedelya Square	02 / 923 27 81
1, Christofor Columb blvd.	980 96 01
84, Veslec str.	810 59 21
18, Parva Bulgarska Armiya blvd.	931 18 46
2, Buzludja str.	895 10 19
16, Iliensko Shose	936 09 86
8, Aksakov, str.	923 34 85
12, Anton Naidenov, str.	968 19 97
3, Kaloyan str.	926 83 00
2, Lomsko shosse	890 49 52
Nadezhda, 202 str.	833 41 74
7, Sveta Nedelya Square	923 21 86
143, Al. Stambolijski blvd.	810 26 22
54, Cherni Vruh blvd.	969 00 25
147, Tsarigradsko Shosse blvd.	976 78 64
Mladost, 16, Alexander Malinov blvd., 1st floor	817 49 21
1, Tzar Samuil str.	917 30 40
27, Tvardishki prohod	818 27 22
Business park Sofia, 2nd building	817 33 22
Mladost, 265, Okolovrusten put	877 04 73
1, Yanko Sakazov blvd.	988 71 31
1, Ivan Vazov str.	926 92 06
1, P.U. Todorov, block 1	818 67 20
3, Akad St. Mladenov blvd.	965 81 98
6, Vitosha blvd.	810 29 26
Hotel Trivia, Botunec	994 54 42
57A, Cherni Vruh blvd.	81 640 76
444 A, Slivnica blvd.	827 91 72
14, Todor Alexandrov blvd.	937 70 71
Iliyanci	892 05 12
Nishava str., block 12	818 87 60
12, Al. Batenberg str.	935 78 41
Liulin 4, block 417	814 52 72
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2, Svoboda square	0729 / 23 06

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10, Sv. Sv Kiril I Metodii str.	05751/ 41 47

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