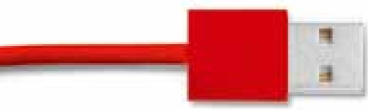
UniCredit Bulbank

Clear answers for real benefits.

2012 Annual Report

UniCredit Bulbank



Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice to how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.

2012 Consolidated Reports and Accounts

Business loan for working capital

FREEDOM

My company deals with cleaning. Before I started, I was a bar tender. One day a man came to me and said he wanted to sell me a cleaning machine. I looked at him with confusion – what could I do with this machine. Later it turned out that this gave meaning to my life and allowed me to follow my dreams. UniCredit Bulbank helped me a lot. I don't think a business in Bulgaria can prosper fast, have lots of ideas and realize them quickly without the support of a bank.

Lachezar Petrov, owner of a cleaning company
Viki Comfort, city of Varna, Bulgaria

Contents

Financial Highlights (Unconsolidated)

Income Statement Figures

(Thousands of BGN, unless otherwise stated)

	YEAR		CHANGE
	2012	2011	
Net interest income	406 167	442 990	-8.3%
Net fee and commission income	154 221	134 985	14.3%
Net income from trading, investments and dividends	74 080	52 407	41.4%
Other operating income, net	4 905	6 005	-18.3%
Operating income	639 373	636 387	0.5%
Operating expenses	254 740	247 329	3.0%
Gross operating profit	384 633	389 058	-1.1%
Impairment losses on financial assets and provisions	148 751	140 553	5.8%
Profit before tax	236 888	251 241	-5.7%
Net profit	212 496	226 576	-6.2%

Volume Figures

	YEAR		CHANGE
	2012	2011	
Total assets (eop)	12 658 532	11 903 648	6.3%
Net customer loans (eop)	8 546 838	7 812 435	9.4%
Customer deposits (eop)	8 227 899	7 293 666	12.8%
Shareholders' equity (eop)	2 130 767	2 004 336	6.3%
RWA (eop)	10 034 175	8 555 225	17.3%

Key Performance Indicators (%)

	YEAR		CHANGE
	2012	2011	
Return on average assets (ROA)	1.7	1.9	-0.2pp
Return on average equity (ROE)	10.3	12.4	-2.1pp
Cost/Income ratio	39.8	38.9	0.9pp
Net profit margin	33.2	35.6	-2.4pp
Capital/Asset ratio (eop)	16.8	16.8	0.0pp
Total capital ratio (eop)	18.8	21.0	-2.2pp
Tier 1 capital ratio (eop)	16.8	18.3	-1.5pp
Risk weighted assets/Total assets ratio (eop)	79.3	71.9	7.4pp
Non-performing loans/Gross loans	15.6	14.4	1.2pp
Net Loan/Deposit ratio	103.9	107.1	-3.2pp

Resources (number) - (eop)

	YEAR		CHANGE
	2012	2011	
Bank operating outlets	206	218	(12)
Employees	3 752	3 750	2

Financial Highlights (Consolidated)

Income Statement Figures

(Thousands of BGN, unless otherwise stated)

	YEAR		CHANGE
	2012	2011	
Net interest income	408 425	445 588	-8.3%
Net fee and commission income	156 954	137 361	14.3%
Net income from trading, investments and dividends	74 454	56 158	32.6%
Other operating income, net	4 577	6 087	-24.8%
Operating income	644 410	645 194	-0.1%
Operating expenses	256 678	249 155	3.0%
Gross operating profit	387 732	396 039	-2.1%
Impairment losses on financial assets and provisions	148 241	141 018	5.1%
Profit before tax	240 640	257 795	-6.7%
Net profit	215 882	232 858	-7.3%

Volume Figures

	YEAR		CHANGE
	2012	2011	
Total assets (eop)	12 734 328	11 973 012	6.4%
Net customer loans (eop)	8 613 880	7 873 628	9.4%
Customer deposits (eop)	8 224 740	7 287 104	12.9%
Shareholders' equity (eop)	2 152 581	2 022 772	6.4%
RWA (eop)	10 117 158	8 616 475	17.4%

Key Performance Indicators

	YEAR		CHANGE
	2012	2011	
Return on average assets (ROA)	1.7	2.0	-0.3pp
Return on average equity (ROE)	10.3	12.2	-1.9pp
Cost/Income ratio	39.8	38.6	1.2pp
Net profit margin	33.5	36.1	-2.6pp
Capital/Asset ratio (eop)	16.9	16.9	0.0pp
Total capital ratio (eop)	18.7	20.9	-2.2pp
Tier 1 capital ratio (eop)	16.8	18.2	-1.4pp
Risk weighted assets/Total assets ratio (eop)	79.4	72.0	7.4pp
Non-performing loans/Gross loans	15.5	14.3	1.2pp
Net Loan/Deposit ratio	104.7	108.0	-3.3pp

Resources (number) - (eop)

	YEAR		CHANGE
	2012	2011	
Employees	3 793	3 783	10

CEO's Letter to the Shareholders

> "2012 was the year in which we took action to secure our future as a rock-solid European commercial bank."

LEVON HAMPARTZOUMIAN
Chairman of the Management Board
and CEO

Dear Shareholders:

The operating environment in 2012 remained challenging and the GDP growth slowed down to below 1% yoy. The weaker external demand in Bulgaria's key export partners was the main driver of the downturn, while the investments and domestic demand showed some signs of stabilization. On the other hand the labor market still remained a point of concern.

Given the economic situation, loan demand was recovering slowly. The pace of deposit expansion continued to exceed that of credit, thus reducing the sector's reliance on external borrowing. Overall, the banking system recorded net profit of BGN 567 m, declining by 3.3% yoy. Despite the difficult macro-economic conditions, the Bulgarian banking system remained stable with solid capital and liquidity buffers.

In this environment, UniCredit Bulbank clearly differentiated itself as the strongest bank in the Bulgarian banking sector, confirming its top position in almost all indicators: total assets, customer loans, customer deposits, shareholders' equity and net profit.

Total assets increased by 6.3% yoy to BGN 12.7bn, mainly due to expanding core business activities. Leveraging on its reputation of a reliable business partner, UniCredit Bulbank managed to triple the market's growth rate in gross loans to customers, increasing them by 9.6% yoy to BGN 9.3bn. At the same time the Bank remained risk-cautious by applying a selective approach and funding creative and economically viable projects. Taking advantage of the good liquidity levels on the primary deposit market and capitalizing on its outstanding reputation and wide range of loyal customers, the Bank outgrew the market in customer deposits, which were 12.8% higher yoy to BGN 8.2bn. This strengthened the liquidity position, favorably bringing down the net loans-to-deposits ratio to 104% from 107% a year earlier. Capitalization was supported by reinvesting 50% of the 2011 Net Profit and the total capital adequacy ratio reached 18.8%, comfortably above the minimum required one of 12%, as set by the local regulator.

Total operating income reached BGN 639m. Thanks to strong growth of non-interest revenues it grew by 0.5% yoy, compared to a decline of 2.5% for the market. Operating expenses marked an increase of 3.0% yoy to BGN 255m. The strict cost contingency measures mitigated the costs' increase, originating from the growing business volumes and implemented strategic business projects and innovative products. The Bank demonstrated a strong resilience to the economic downturn and its NPL ratio of 15.6% remained below the market average – 16.6%. Total impairment losses on financial assets and provisions reached BGN 149m, 5.8% higher yoy, as a result of increased coverage on defaulted loans. Thus, net profit amounted to BGN 212m, which despite its 6.2% decline yoy, accounted for close to 38% of the banking system's profit.

The superior financial performance was a result of UniCredit Bulbank's outstanding service model and the best customer satisfaction and reputation on the market that contributed to the strengthened customer loyalty.

The main lever for confirming the leadership position was the consistency in implementation of the Bank's strategy, which is focused on customer centricity and processes' simplification. Staying on track with the market sentiment the bank started the development of a new branch model – Branch of the Future. It introduces innovations in the layout, technology and processes that would provide for a new approach in handling customer demands and increase the quality and efficiency of service. We strived to be creative in product and service development, embracing the enormous potential of the information technologies. Our multichannel offer was further expanded in the areas of online and mobile banking services, the Call Center and the corporate website. Several innovative products were launched during the year, such as non-attended POS terminals, dedicated product line to women – "Donna" and structured deposits with investment schemes for private customers. The commercial actions were supported by the finalized implementation of full functionalities of the Customer Relationship Management (CRM) system that was launched in 2011. It guarantees tailor-made and flexible offers for the clients, completely consistent with their needs. The strategic commercial activity involved strengthening of the cooperation between Retail and CIB divisions through joint initiatives, such as payroll services for corporate customers, housing lending for cross-sales, etc. In the area of EU funded programs, we supported our clients in the agricultural sector and the foods processing industry, as well as by proposing financial engineering solutions in the fields of energy efficiency and green economy. In addition, we preserved our leadership in Global Transaction Banking and in Markets and Brokerage areas. The achieved business process speed-up provided us with a solid footing for future growth.

The Bank's capacity to generate sustainable earnings inflow is achieved thanks to the hard work and dedication of our employees. As a reputable market leader in the financial industry, we recruit and promote the high-profile professionals in the sector. These are people who crave for achievements and welcome the incitement to respond to the business requirements and the customers' needs. The engagement of the employees remained among the highest in UniCredit Group.

Following the successful implementation in 2011 of the highly efficient Internal Rating Based (IRB) Approach under Basel II for calculation of credit risk capital requirements and the Advanced Measurement Approach (AMA) for calculation of operational risk capital requirements, UniCredit Bulbank's activities throughout 2012 were focused primarily on maintaining the high quality level of the risk management system and acquiring more accurate risk assessments that were used as a key input for reduction in the capital absorption and cost of risk.

In fulfillment of our mission to contribute actively to the development of the local communities, we set the goal to support and develop valuable and sustainable projects with established social benefits. On behalf of social responsibility and sustainability, we have sponsored various projects in the fields of health and social services, sports, art and culture, voluntary work, and leadership and education. An important aspect of UniCredit Bulbank's sustainable development strategy was its National Green Campaign in which for the second time employees of the Bank and their families took part with voluntary work. Socially important projects, such as Trust in the Family, were continued through the joint actions of UniCredit Bulbank, UniCredit Foundation, and Tulip Foundation. UniCredit Bulbank's socially responsible behavior was well appreciated by being awarded with an Honorary Sign for Charity and the Largest Contribution by the Voluntary Work of Employees.

Building on our competitive strengths, strong capital resources and adequate liquidity levels, we will pursue further expansion of our core commercial franchise. The growth pattern will reflect risk-return considerations, market conditions and available opportunities. Customer centricity in day-to-day banking will continue to guide our future development. We will remain committed to actively participate in the development of the Bulgarian economy and society and at the same time – to deliver sustainable returns to our shareholders.

We are grateful to all customers, partners and shareholders for their trust and loyalty in yet another challenging year. We are also thankful to the employees for their professional work and strong personal commitment. And finally, the efforts of all Supervisory Board and Management Board members are very highly appreciated as they led the institution confidently and prudently, ensuring business continuity and corporate sustainability.

Robert Zadrazil
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board
and CEO

Supervisory Board and Management Board[1]

	Supervisory Board
Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Friederike Kotz Simone Marcucci Mauro Maschio	**Members**
	Management Board
Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Andrea Casini	**Deputy Chairman and Chief Operative Officer**
Emilia Palibachiyska Michele Amadei Alexander Krustev Pasquale Giamboi	**Members**

- On 27.03.2012 Ms. Friederike Kotz became member of the Supervisory Board and the Audit Committee of UniCredit Bulbank, replacing Mr. Diter Paul Hengl.
- On 14.06.2012 Mr. Simone Marcucci and Mr. Mauro Maschio became members of the Supervisory Board of UniCredit Bulbank replacing Mr. Claudio Cesario and Mr. Tomica Pustisek.

[1]As of December 31st, 2012

Supervisory Board and Management Board (continued)

Art. 247, par. 1, pt. 4 from the Commercial Law (01.01.2012 - 31.12.2012)

Members of the Supervisory Board

Robert Zadrazil
- SCHOELLERBANK AG – chairman of the Management Board (MB) and CEO up to 16.04.2012 and deputy chairman of the Supervisory Board (SB) from 29.06.2012 on
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – member of SB
- UNICREDIT BANK AUSTRIA AG – member of MB
- ZAGREBACKA BANKA DD - member of SB

Alberto Devoto
- UNICREDIT BANK SLOVAKIA AS - member of SB

Dimitar Zhelev
- STADIS AD - member of the Board of Directors (BD) and executive director
- DZH AD – member of BD and executive director, 50% ownership
- ALLIANZ BULGARIA HOLDING AD – member of BD and executive director
- BULLS AD - member of BD and executive director, 51% ownership
- SHIPREPAIR YARD ODESSOS, VARNA – member of BD
- POD ALLIANZ AD – member of SB
- ALLIANZ BANK BULGARIA AD – member of SB
- ZAD ALLIANZ BULGARIA LIFE – member of BD

Heinz Meidlinger
- UNICREDIT BANK SLOVAKIA AS – chairman of SB
- UNICREDIT BANK CZECH REPUBLIC A.S. – member of SB
- UNICREDIT TIRIAC BANK S.A. – member of SB
- MEIDLINGER INVESTMENT & CONSULTING GMBH – 99% ownership and managing partner

Friederike Kotz
- UNICREDIT BANK HUNGARY ZRT. – member of SB and president of Audit Committee
- AS UNICREDIT BANK, LATVIA - member of SB and member of Audit Committee
- UNICREDIT BANK A.D. BANJA LUKA – member of SB

Simone Marcucci
- UNICREDIT BANK HUNGARY ZRT. – deputy chairman of SB and member of Audit Committee
- UNICREDIT BANK SLOVAKIA A.S. - member of SB
- UNICREDIT BANK SERBIA JSC – member of SB

Mauro Maschio
- UNICREDIT BANK HUNGARY ZRT. – member of SB
- UNICREDIT BANK CZECH REPUBLIC A.S. - member of SB
- PUBLIC JOINT STOCK COMPANY UKRSOTSBANK – member of MB up to 26.04.2012

Claudio Cesario

Released from UniCredit Bulbank's SB on 10.05.2012, written in the Commercial Registry on 14.06.2012
- UNICREDIT BANK SERBIA JSC – chairman of MB and CEO
- UNICREDIT LEASING SRBIJA D.O.O. BEOGRAD – chairman of SB
- AS UNICREDIT BANK LATVIA – deputy chairman of SB up to 15.03.2012
- UNICREDIT BANK A.D. BANJA LUKA – member of SB up to 31.05.2012
- UNICREDIT BANK D.D. - member of SB up to 13.06.2012
- UNICREDIT BANK HUNGARY ZRT. – deputy chairman of SB up to 31.05.2012
- UNICREDIT BANK SLOVAKIA A.S. - member of SB up to 22.04.2012

Diter Paul Hengl

Released from UniCredit Bulbank's SB on 29.02.2012, written in the Commercial Registry on 27.03.2012
- UNICREDIT BANK AUSTRIA AG – member of MB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT - member of SB
- WIEN MITTE IMMOBILIEN - member of SB

Tomica Pustisek

Released from UniCredit Bulbank's SB on 10.05.2012, written in the Commercial Registry on 14.06.2012
- UNICREDIT BANK CZECH REPUBLIC A.S. – member of SB up to 25.04.2012
- UNICREDIT BANK HUNGARY ZRT. – member of SB up to 20.09.2012

Members of the Management Board

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

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

Emilia Palibachiyska
- CASH SERVICE COMPANY AD – member of BD up to 20.06.2012
- UNICREDIT CONSUMER FINANCING AD – member of SB from 10.10.2012 on

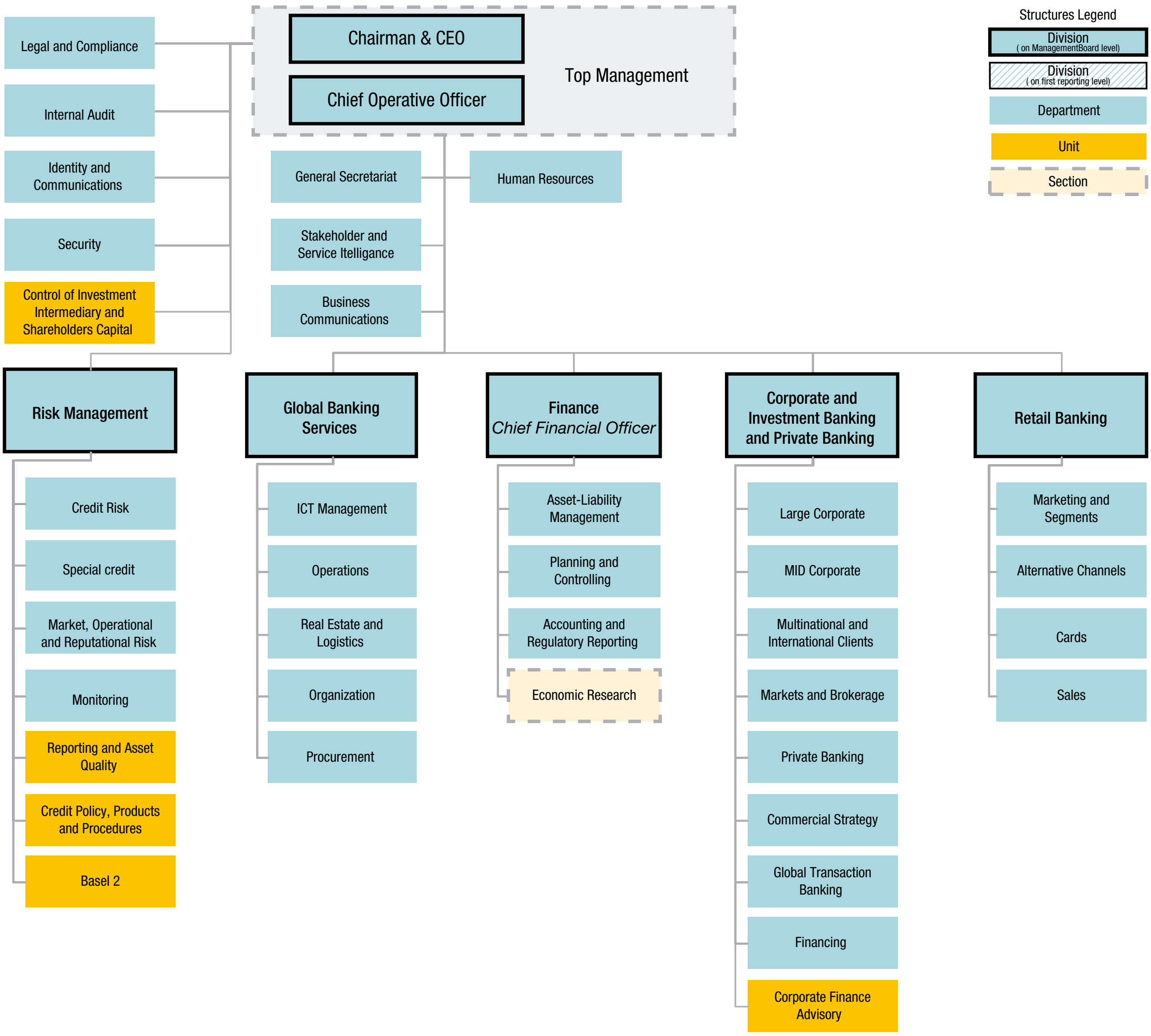
Michele Amadei
- UNICREDIT FACTORING EAD – member of BD
- BULBANK LEASING EAD – member of SB from 03.08.2012 on

Pasquale Giamboi
- UNICREDIT CONSUMER FINANCING AD – member of MB

2012 AWARDS

- Bank of the Client, by Bank of the Year Association
- Best Bank, by Capital 100 Ranking
- Best Bank in Bulgaria, by Banks Investment Money Foundation
- Best Bank in Bulgaria, by EMEA Finance
- Best Bank in Bulgaria, by Global Finance magazine
- Bank of the Year in Bulgaria, The Banker magazine
- Most Profitable Bank in Bulgaria, by Banks Investment Money Foundation
- Best Trade Finance Bank, by Euromoney magazine
- Best Trade Finance Provider in Bulgaria, by Global Finance magazine
- Best Trade Finance Bank in the CEE Region, by Global Trade Review
- Best Custodian Bank in Bulgaria, by Global Investor magazine
- Best Custodian Bank in Bulgaria, by Global Custodian magazine
- Best Bank for Payments and Collections in CEE 2012, by Global Finance magazine
- Best Overall Bank for Cash Management in CEE, by Global Finance magazine
- Best Cash Management Bank for CEE, by Euromoney magazine
- Employer of Choice, by the Bulgarian Human Resources Management and Development Association
- Strongest Bank Brand in Bulgaria, by Superbrands
- Best Technological Solution Award for Mobile Banking, by Webit Bulgaria
- Building a Positive Image of Women in Advertising and Marketing, by the European Parliament Information Office in Bulgaria
- Honorary Sign for Charity, by the Bulgarian Red Cross
- Largest Contribution by the Voluntary Labor of Employees, by Bulgarian Donors' Forum
- Lease Provider of the Year (in the automobile sector) for UniCredit Leasing, by Car of the Year in Bulgaria Ceremony
- Manager of the Year (Levon Hampartzoumian), by Manager magazine
- Cavalier of the Order of the Star of Italy (Andrea Casini), by the President of Italy

Organisation Chart[1]



[1]As of December 31, 2012

Credit Rating

COUNTERPARTY CREDIT RATING (STANDARD & POOR'S)[2]

Long-term	BBB
Short-term	A-2
Outlook	Stable

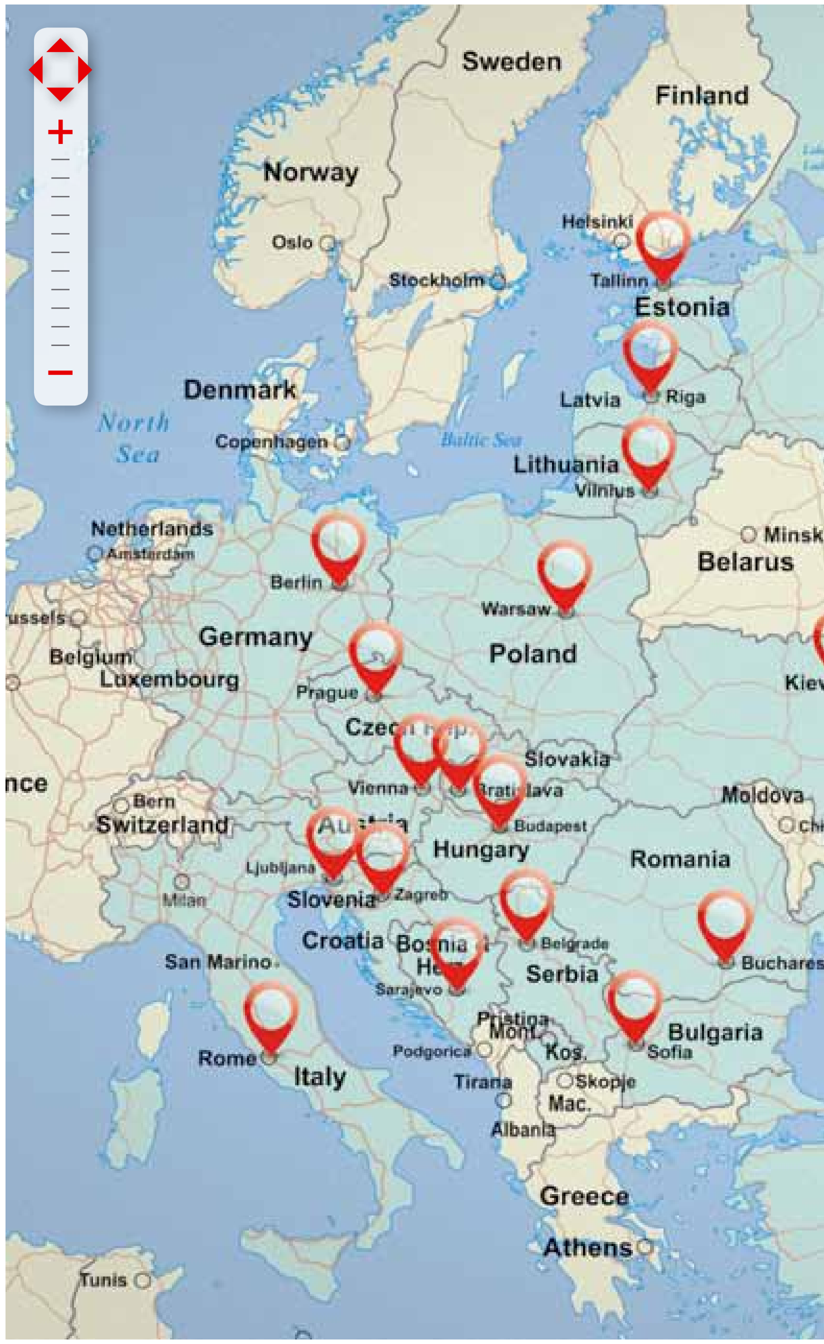
[2]Equal to and capped by the S&P sovereign credit rating of Bulgaria (BBB/Stable/A-2).

Highlights

UniCredit operates in 22 Countries with more than 156,000 employees and more than 9,300 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

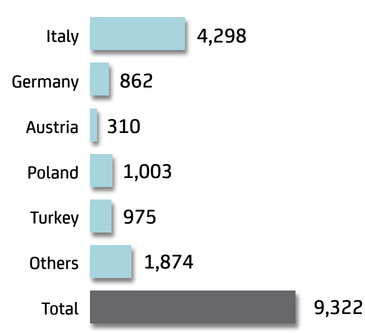
Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.



EMPLOYEES[1]
over 156,000

BRANCHES[2]
more than 9,300

BRANCHES BY COUNTRY[2]

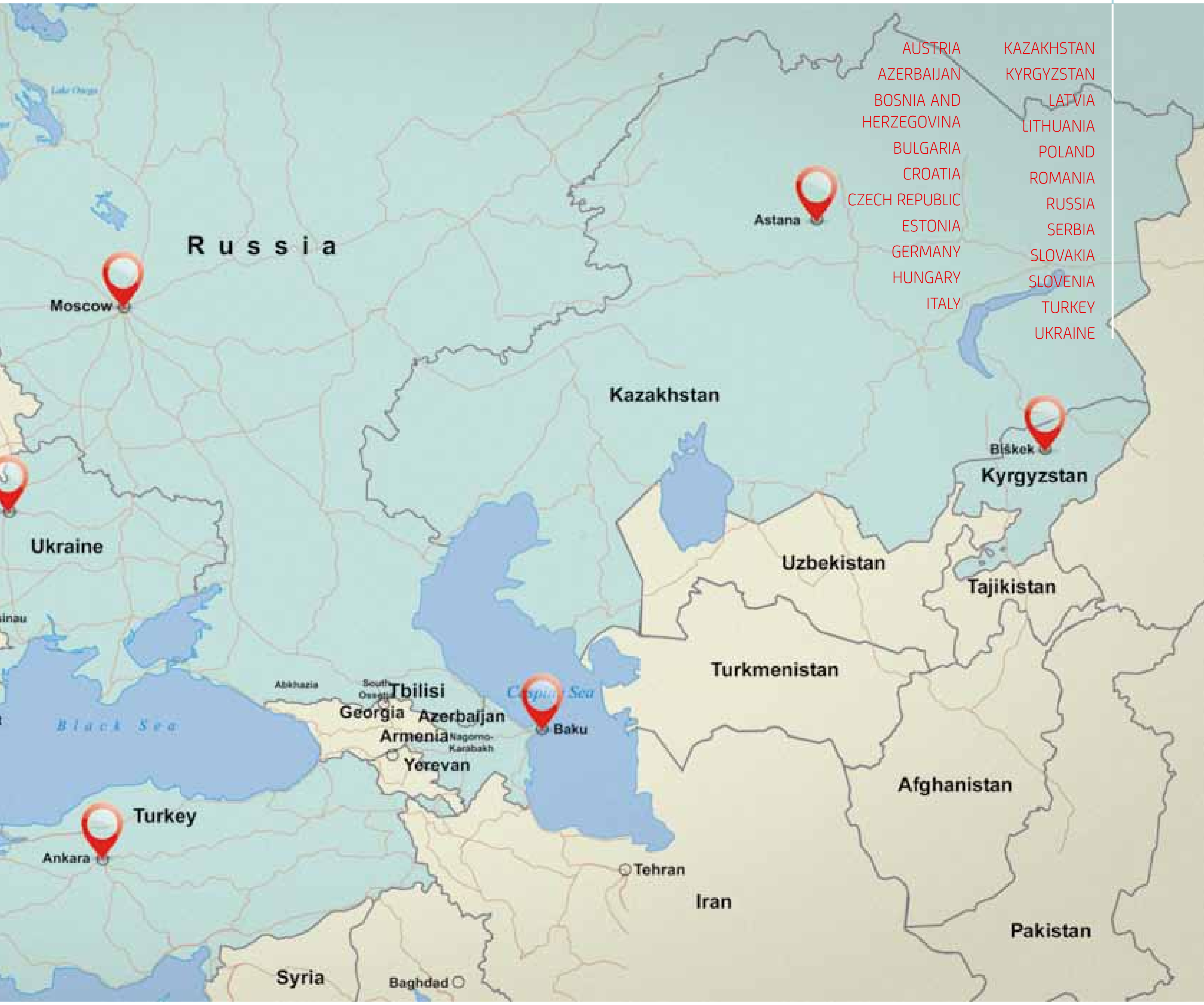


1. Data as at December 31, 2012. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

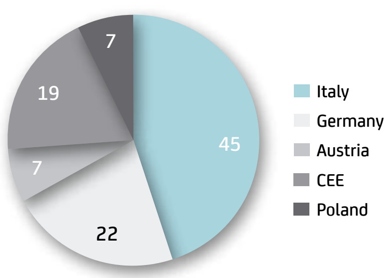
* Data as at December 31, 2012.

WHERE WE OPERATE*

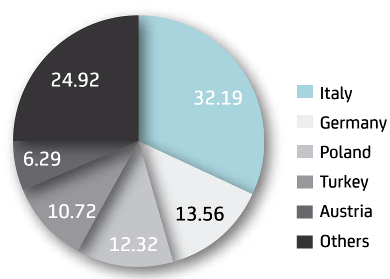
AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE



REVENUES BY REGION* (%)



EMPLOYEES BY COUNTRY[1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

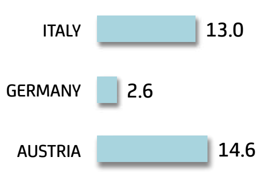
UniCredit occupies a strategic position in Italy, Germany and Austria. With about 310 branches in Austria, 860 in Germany and 4,300 in Italy, UniCredit comprises one of the largest banking networks in the heart of Europe. Accounting for more than one-third of the GDP of the European Union, these three countries benefit from their close ties to the growing economies of Central and Eastern Europe.

While 2013 may prove to be another challenging year for this region, sequential economic growth is projected to accelerate gradually. The ECB's announcement of the Outright Monetary Transactions (OMT) bond purchase program has significantly diminished tail risks in the eurozone, and the outlook has improved in tandem with market sentiment since August 2012. With the ECB providing an effective and credible backstop, financial markets are increasingly likely to reflect fundamentals. Italy's economy is projected to modestly expand in the second half of 2013. The factors underpinning these expectations are namely the lesser drag from fiscal consolidation in 2013 compared to the 2012, the gradual improvement in financial market conditions, which should soon start to positively affect sentiment and, most importantly, financing conditions for the private sector, which posed particular challenges to Italy in 2012.

Finally, the third factor is the projected re-acceleration in global trade which is likely to be a key driver of economic growth for all euro area countries. It will also result in a moderate upward trend in consumption, thanks to rising wages and a solid labor market. In Austria, stronger trade and the international competitiveness of its industrial sector will likely foster an upswing in 2013, boosted by a slight increase in investment.

In the medium and long term, the OMT has helped to create a more favorable environment for politicians to implement structural reforms. These remain essential to achieving a sufficient degree of macroeconomic and fiscal convergence across the eurozone, while efforts continue to shape a credible pan-European architecture. This process is vital to making the eurozone stronger and more competitive moving forward. In Italy, the sustainability of the recovery will largely depend on the quick and effective implementation of reforms to restore long-term competitiveness and reduce public debt. Taking into account the reforms that have already been implemented in Italy, we expect real economic growth to continue at an average annual rate of roughly 1% in Italy and 1.8% in Austria and Germany from 2014 to 2017.

MARKET SHARE[1] (%)



1. Market Share in terms of Total Customer Loans as at December 31, 2012.
Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, it has a broad network of roughly 3,800 branches.

Its regional footprint is diverse, and include a direct presence in 19 countries. It is ranked in the top five in 11 of these counties*. In fact the CEE now accounts for 26 percent of the Group's revenues.

The region's economic environment is expected to improve, with GDP growth forecast to rise from 2.5 percent in 2012 to 2.9 percent in 2013 and to 3.4 percent in 2014. With Q4 2012 representing the bottom of the cycle, a sequential improvement in the numbers should be evident by Q1 2013.

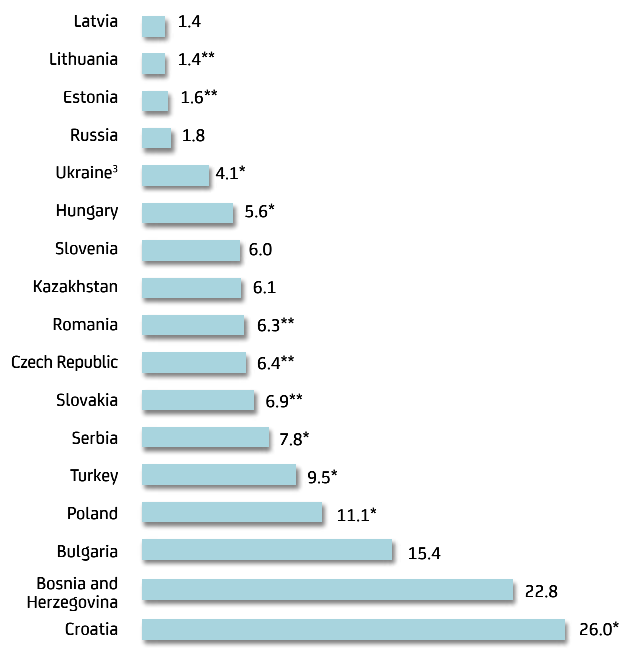
Among the factors expected to aid recovery following a weak 2012, is a gradual improvement in external demand, with the potential to drive an increase in industrial production and exports across the region. Domestic demand should be supported by easier financing conditions, as central banks have cut interest rates and governments now have ample access to external financing.

It is not forecast an increase in interest rates in any CEE country for 2013. At the same time, lower inflation in some countries will boost purchasing power, and the positive trend in private credit should support an increase in activity in comparison with 2012. The region will also benefit from significant recent progress in narrowing budget deficits and stabilizing the ratio of public debt to GDP at relatively low levels.

In most cases, the turnaround will rely initially on strong external demand, with domestic demand to follow. Turkey is an exception, with domestic demand already showing signs of recovery. In Russia, domestic demand, which has lagged behind the rest of the region, remained relatively strong for much of 2012, but is at risk of a moderate slowdown in 2013.

From a medium- to long- term perspective, we believe that the majority of Central and Eastern Europe economies will continue to see an increase in living standards as growth is supported by competitive labor costs, flexible labor markets and a gradual recovery in foreign direct investment. Nevertheless, the primary challenge for the region remains a structural shortfall in savings, with the exception of Russia.

MARKET SHARE[2] (%)



* as at 30 September, 2012.

** as at 31 December 2011.

2. Market Share in terms of Total Assets as at December 31, 2012. Market Share in Azerbaijan and Kyrgyzstan not available.

3. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

The UniCredit business model is based on the following principles:

- maintaining the so-called “global” Divisions / functions (Corporate Investment Banking (CIB)/ Global Banking Services (GBS)/ Central and Eastern Europe (CEE)) which allow the Group to maintain and increase a competitive advantage in terms of costs and competencies, while envisaging the refocusing of CIB Division on selected customers with a strong demand for “Investment Banking” products;

- higher responsibility of the Countries/ local Banks, through increased autonomy and decision levers, in order to guarantee increased proximity to the client and faster decision processes (direct management of marketing activities and of certain businesses);

- confirmation of the steering, coordination and control role of the Holding Company, in particular through a focus on internal control topics, a supervision of Group key processes and a global coordination of some functions (Planning, Finance & Administration, Risk Management and Legal & Compliance).

Organizational Structure

UniCredit Group organization reflects an organizational and business model which maintains a divisional structure for the government of the Corporate Investment Banking business/products and the business in the CEE Countries, as well as a global control over the Global Banking Services functions, while ensuring the autonomy of the Countries/ Banks on specific activities, in order to guarantee increased proximity to the client and faster decision processes:

the **Chief Executive Officer** (CEO), while maintaining the overall responsibility on all regional businesses reporting to him (Italy, Germany, Austria, Poland and CEE), oversees directly the Italian business and delegates the supervision of Austria, Poland and CEE Division to the General Manager and the supervision of Germany to the Deputy General Manager responsible for the CIB Division.

The **CIB Division**, which maintains the role as a Global Division, with a coverage role for the multinational customers ("Multinational"), for selected "Large corporate" clients with a strong potential demand for investment banking products, for the Financial and Institutional Groups (FIG) customers and for the Global Lines "Global Transaction Banking (GTB)", "Global Financing & Advisory (F&A)" and "Markets".

The **General Manager** is responsible for some cross-Group topics/ areas such as: i) managing strategic marketing activities ii) assisting the Chief Executive Officer in the Internal Control System ("ICS System") management, in order to ensure its effective functioning and iii) fostering, also through the other competent functions, an ongoing dialogue and relationship with the Group regulators.

The **CEE Division coordinates** the Group activities in 19 countries of Central and Eastern Europe, aligning them to a single comprehensive business vision in the area.

The **Chief Operating Officer** ("COO") concentrates under a sole responsibility all the managerial levers regarding the organizational, operational and service functions (included HR Management) – such as Organization, ICT, Operations, Workout, Security – responsible for supporting, also through the Group Global Service Factories, the sustainable business growth of the Group, ensuring the utmost quality of services provided and optimizing cost structures and Group's internal processes.

As far as the Italian perimeter is concerned, within the major responsibility and autonomy of the local countries/banks, the **Country Chairman Italy** is responsible for all the coordination, control and development activities of the segments so called "Individuals" (Mass Market, Personal Banking and Private Banking), Small Business and Corporate segments (now including the former segment Medium Enterprises) of the Italian perimeter, leveraging on a Network breaking down into 7 "Regions", a "Direzione Network Real Estate" and a Network dedicated to the Private Banking segment.

The **Asset Management** Product Line is responsible for the development of asset management in all geographic areas by guiding, coordinating and monitoring the development of business activities on a global level.

Lastly, the functions called **Competence Lines** (Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications) oversee the guidance, coordination and control of UniCredit's activities and manage the related risks.

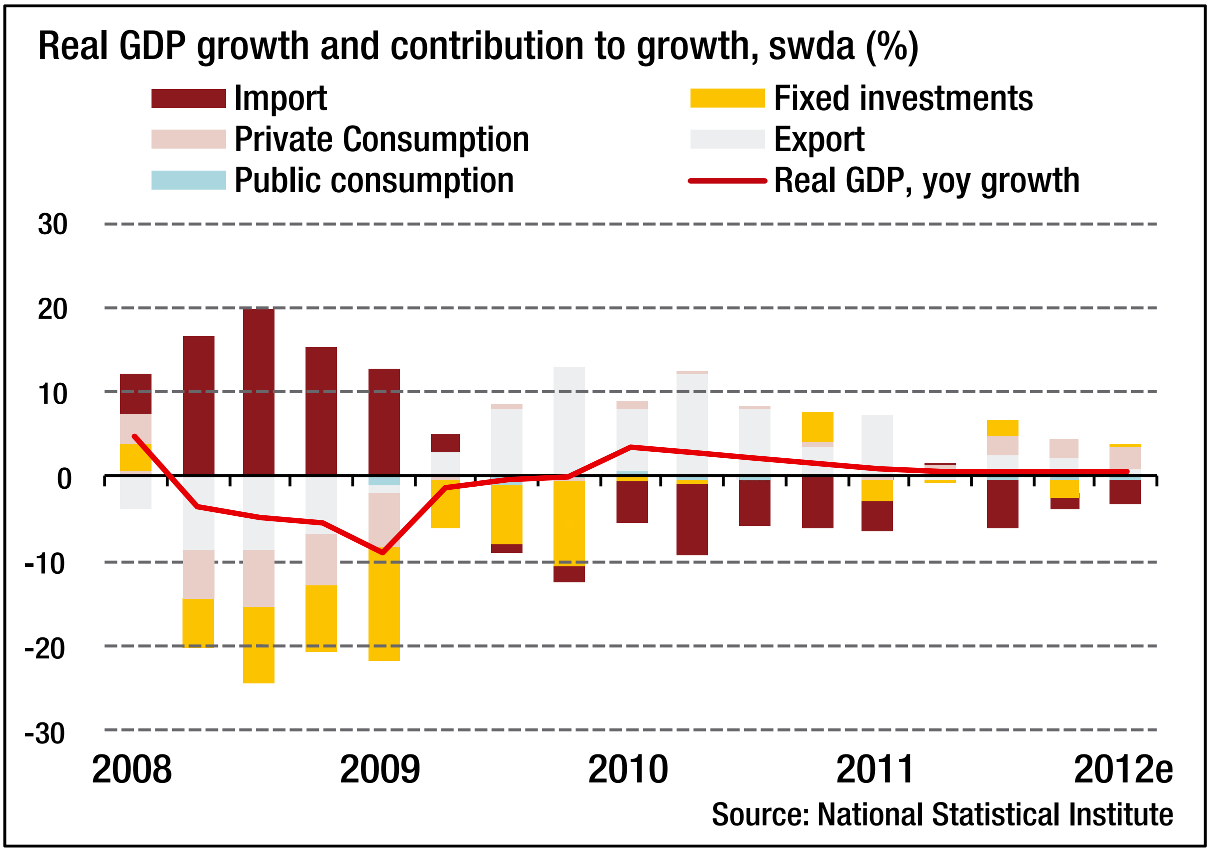
PARTNERSHIP

A new, versatile and flexible, investment concept

HVB Private Banking Vermögensportfolio Flex Select is a new kind of joint investment with a long-term investment horizon. It is based on the idea that the customer and the Bank invest together in an investment fund ("Private Banking Vermögensportfolio Flex Select 70 PI"; launched by the capital investment company, Pioneer Investments KAG mbH, Munich). The Bank has injected €20 million of its own capital in the fund and through the joint investment both the Bank and its customers participate in the performance of the respective unit classes.

*Only the sales prospectus is binding, as well as the Key Investor Document, which you can receive free of charge in German from UniCredit Bank AG, Arabellastrasse 12, Munich.

BULGARIAN ECONOMY IN 2012



The outlook for the Bulgarian economy appears to be changing for the better

The Bulgarian economy experienced another bumpy year in 2012, but was able to come on top of global and regional sources of turbulence and enters 2013 from a stronger position. And while GDP growth has slowed down to 0.6%[1] yoy in 2012 the short-to-medium term economic outlook has improved, as several important indicators such as the price and availability of credit, capital flows and absorption of EU funds moved in a growth-friendly manner.

Exports, individual consumption and investments show a positive development

The soft GDP growth increase in 2012 mostly reflects exacerbation of the sovereign debt crisis in the euro zone which hit hard many of Bulgaria's key export partners. The fiscal consolidation helped narrowing budget deficit to 0.4% of GDP in end-2012 from 2.1% one year earlier. At the same time, domestic demand showed more signs of stabilization with improvement being centered at the household sector, where individual consumption increased by real 2.6%[2] yoy adding 1.9pp[2] to the overall GDP dynamics. A shift away from crisis-hit Europe towards the more dynamic Middle East and Asian markets, on the other hand, helped the real export of goods and services to report a modest positive yoy growth of 2.1%[2], despite disappointing growth dynamics in the EU region. On a more positive note, investments stabilized and are seen trending upwards from 2H2012 onwards, after 14 consecutive quarters of yoy contractions.

Despite the signs of recovery, unemployment still remains high

The gradual pace of economic recovery was not strong enough to support an uptick in employment. Most labor market indicators continued to trend downwards, with unemployment hitting 12.3%[3] at the end of 2012. With economic activity accelerating only very gradually in the course of the current year, employment is expected to stabilize at some point toward end-2013, keeping its reading still above the 12% benchmark.

Food and electricity prices grow in mid-2012, while dwellings prices continue sliding

Consumer inflation remained well contained, despite some one-off increases in the electricity prices in June, to cover the costs associated with the boom in solar and wind power plants that have been switched to the electricity transmission grid as well as larger-than-expected seasonally driven uptick in the food prices in mid-2012. Despite increased electricity and food prices volatility, the yearly average inflation was kept at 3.0% (for consumer) and 4.4% (for producer prices) - in effect easing cost pressures in the economy when compared with the previous year. Deflation in the housing market continued to be a factor in 2012, as prices of dwellings contracted by another 2.7% on a country-wide average and stayed 38.3% below their pre-crisis peak in Q3 2008.

[1] Data cut off as of February 4, 2013
[2] UniCredit Bulbank's GDP forecast on the basis of preliminary data for Q3 2012
[3] As measured by Eurostat

Bulgarian Economy in 2012 (continued)

MACROECONOMIC INDICATORS	2012	2011	2010	2009	2008	CHANGE 2012/2011
Nominal GDP[1] (EUR million)	39 834	38 483	36 052	34 932	35 430	3.5%
GDP per capita[1] (EUR)	5 469	5 252	4 804	4 618	4 658	4.1%
Real GDP growth[1], swda (%)	0.6	1.7	0.4	(5.5)	6.2	-1.1pp
Basic Interest Rate, avg (%)	0.10	0.20	0.18	2.00	5.16	-0.1pp
Inflation, eop (%)	4.2	2.8	4.5	0.6	7.8	1.4pp
Inflation, avg (%)	3.0	4.2	2.4	2.8	12.4	-1.2pp
Unemployment rate, SA, eop (%)	12.3	11.8	11.3	8.5	5.4	0.5pp
Official exchange rate, eop (BGN/USD)	1.48	1.51	1.47	1.36	1.39	-1.9%
Official exchange rate, avg (BGN/USD)	1.52	1.41	1.48	1.41	1.34	8.2%
Current account balance (EUR millions)	(268)	104	(533)	(3 116)	(8 182)	-358.7%
Current account balance / GDP[1] (%)	(0.7)	0.3	(1.5)	(8.9)	(23.1)	-1.0pp
Net foreign direct investments (EUR millions)	1 229	1 577	607	2 505	6 206	-22.1%
Net foreign direct investments / GDP[1] (%)	3.1	4.1	1.7	7.2	17.5	-1.0pp
Gross foreign debt[2], eop (EUR millions)	37 897	35 845	37 026	37 816	37 246	5.5%
Gross foreign debt[2] / GDP (%)	95.1	93.1	102.7	108.3	105.1	2.0pp
Gross internal public debt, eop (EUR millions)	2 547	2 458	2 012	1 539	1 571	3.6%
BNB FX reserves (EUR millions)	15 552	13 349	12 977	12 919	12 713	16.5%
Budget balance / GDP[1] (%)	(0.4)	(2.1)	(3.9)	(0.8)	3.0	1.7pp
Acting commercial banks at the end of the period	31	31	30	30	30	0.0

Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
1 UniCredit Bulbank forecast for 2012
2 Data as of November 2012

The Bulgarian government issues external debt for the first time in the past ten years

The Ministry of Finance made the best of the momentum behind the global asset allocation normalization process and issued its first external bond paper since 2002. The healthy fiscal position of the sovereign was recognized by investors and resulted in further tightening of borrowing costs. The weighted average yield on the primary government bond market stood at 3.54% in 2012 from a record high of 5.66% in 2009, while risk premiums also fell to record low. 5Y CDS stood at 99bp in end-2012 as compared with 411bp one year earlier and a peak of 701bp in March 2009.

The deleveraging cycle could be reaching its final phase

The key macroeconomic story of 2012, though, was that of the shift in capital flows. Continued improvement of the absorption of EU funds, progress in attracting new foreign investments, the one-time effect from the issuance of external sovereign debt and persisting positive evolution of debt servicing costs for the overall economy all helped increase liquidity in the economy, but the largest contribution came from the banking sector. The net capital outflows channeled through the banking sector declined to EUR 212m for 11M2012, compared to EUR 1 500m for FY2011. The deleveraging cycle moved to its final stage and the net external position of the sector (calculated as the balance between external liabilities and assets) improved to -4.1% of total liabilities in December 2012 from a peak of -17.3% in November 2008.

Banking Sector Overview

Key asset prices show sign of stabilization

Although operating environment remained tough during the entire 2012, there have also been some noticeable positive developments. After the strong deflationary pressure in the first three consecutive years since the start of the economic downturn, housing prices contraction lost momentum to just 2.7% yoy in 2012, compared with the 6.1% drop in 2011 and double digit falls reported in both 2009 and 2010.

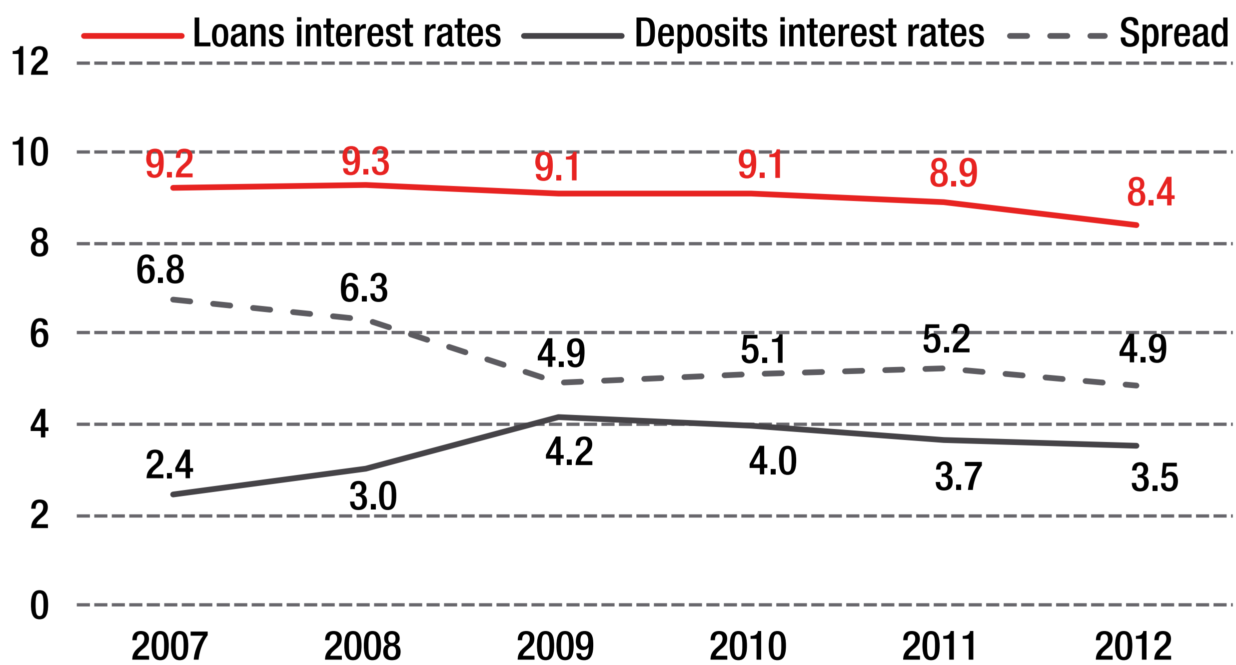
Deposits grow faster than loans, thus reducing the sector's reliance on external borrowing

The nonstandard monetary policy measures undertaken by the ECB helped preventing an abrupt and disorderly deleveraging that was looming in the start of 2012. Additionally, they set in motion a broadly based process of normalization in asset allocation. Risk premiums and cost of government borrowing responded positively, pushing the prices of 5Y USD denominated CDS and 10Y benchmark sovereign bonds to record lows. Capital flows reversed trend shifting to a steady inflow in 2012, after sizeable outflows driven by the external deleveraging in the period 2009 – 2011. Thanks to the high savings rate (i.e. 24% of GDP), deposits grew by 8.4% yoy and exceeded the credit growth (+3.2% yoy) for a fourth year in a row. Thus, reducing banking sector reliance on external borrowing has entered its final phase, making the whole sector less vulnerable in end-2012 than it was one year earlier, and much less vulnerable than it was on the verge of Lehman's collapse back in end-2008.

Interest rates on loans decline faster than those on deposits, putting pressure on spreads

Credit to the households and companies from the real economy increased broadly in line with the trend observed one year ago (3.2% in 2012 and 4.1% in 2011). Average annual interest rate on total outstanding loans posted a pronounced drop (-54bp in 2012) which exceeded the cumulative drop (-39bp) seen in the preceding three consecutive years. At the same time, interest rates on deposits reported a much smaller drop of just 15bp, pushing the spread between interest rate on loans and deposits down by 29bp in 2012.

Interest rates on outstanding loans and deposits and spread (%)



Source: Bulgarian National Bank, National Statistical Institute

The market's capitalization remains sound, while after-tax ROE is still below the cost of capital

Cost of risk (2.3% in 2012) saw little change relative to where it was since the start of the economic downturn (2.4% on average in the period 2009-2011), thus keeping after-tax ROE (5.3% in 2012) below the cost of capital for a fourth year in a row. Local bank owners raising fresh capital from the market and after-tax profit which stood at BGN 567m at the end of the year helped strengthening the capital position of the banking sector, thus preserving the total capital adequacy ratio at the end of 2012 (16.7%) well above the minimum one required by regulators (12%).

BANKING SYSTEM KEY FIGURES	2012	2011	2010	2009	2008	CHANGE 2012/2011
Income Statement (BGN million)						
Operating income	3 816	3 914	3 932	3 792	3 710	-2.5%
incl. Net interest income	2 625	2 869	2 917	2 847	2 788	-8.5%
incl. Net non-interest income	1 190	1 045	1 015	945	923	13.8%
Operating costs	1 983	1 958	1 918	1 907	1 855	1.3%
Operating profit	1 832	1 956	2 014	1 885	1 855	-6.3%
Provisions (net)	1 212	1 306	1 328	1 028	326	-7.2%
Pre-tax profit	636	664	694	870	1 542	-4.2%
Net profit	567	586	617	780	1 387	-3.3%
Balance Sheet (BGN million)						
Total assets	82 416	76 811	73 726	70 868	69 560	7.3%
Loans to customers	57 841	56 044	53 854	52 449	50 189	3.2%
thereof: Non-performing loans	9 614	8 365	6 409	3 367	1 590	14.9%
Deposits from customers	57 256	52 808	46 928	43 285	41 736	8.4%
Shareholders' equity	10 850	10 448	10 032	9 457	7 931	3.8%
Main Ratios (%)						
ROE (after tax)	5.3	5.7	6.3	9.0	19.6	-0.4pp
ROA (after tax)	0.7	0.8	0.9	1.1	2.2	-0.1pp
Cost / Income ratio	52.0	50.0	48.8	50.3	50.0	2.0pp
NPL ratio	16.6	14.9	11.9	6.4	3.2	1.7pp

Source: Bulgarian National Bank

Further optimizations and restructurings remain on the agenda

The painful restructuring of the Bulgarian banking sector is most probably not over. On the contrary, there seems to be a bumpy road ahead. Demand for new loans will need more time to normalize especially in the household segment, where unemployment looks a long way off its natural rate. Not all losses stemming from the burst of the housing bubble and the recession in the real economy have been absorbed already, which is likely to keep provisioning levels elevated. On a more positive note, the banking sector is expected to gradually shift its attention from measures targeted at reducing vulnerability toward pressing ahead with the restructuring of the distribution network and improving the price and availability of credit for the real economy.

Market Positioning

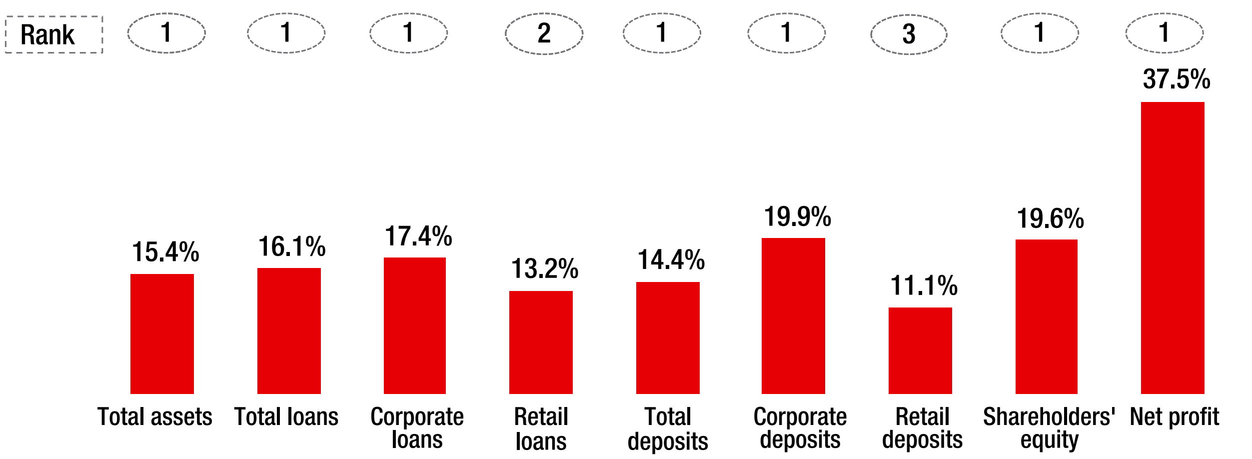
With a client portfolio of more than one million customers and a branch network of 206 units, UniCredit Bulbank (UCB) reaffirmed its position of a distinguished leader on the Bulgarian banking market in 2012. With regard to its market share, the Bank topped the rankings in almost all indicators: total assets, gross customer loans, customer deposits, shareholders' equity and net profit. Furthermore, UniCredit Bulbank is recognized by its parent company, UniCredit Bank Austria AG, as a strategically important bank in CEE and enjoys its full financial and operational support on the business strategy. All this underlines the Bank's solid financial foundation and its ability to generate a considerable amount of net profit even at times of protracted economic slowdown in Bulgaria.

In December 2012, the Bank's total assets market share stood at 15.4% (15.5% a year ago). The market share in shareholders' equity grew from 19.2% in 2011 to 19.6% in 2012, which illustrates the Bank's strong capital base - a protective cushion for the economy-driven asset quality deterioration. The superior capitalization of UCB required no capital increases in 2012, yet its shareholders received a sufficient dividend for the fiscal 2011. Total capital adequacy (18.8%) remained much higher than the minimum BNB requirement of 12% and was further aided by a net profit of BGN 212.5m, which accounted for 37.5% of the sector's net result. The Bank also managed to maintain a below-system-average level of non-performing loans, while also keeping a higher-than-average provisioning coverage due to its comparatively low risk appetite in the booming years.

Led by its dedication to better meet the needs of the customer and react appropriately to the changing market conditions, UniCredit Bulbank outgrew the market in terms of newly-extended customer financing. Respectively, the market share of its gross loan portfolio also increased over the year, reaching 16.1% with an outperformance in both corporate and retail loans growth vs. the market and the main peers. In 2012, the Bank further strengthened its leadership in corporate loans, improving its product and service offer to its loyal customers and also making attractive proposals for new ones. Financing of economically valid projects supports the increase in the corporate loans market share to 17.4%. The retail customers also benefited from UCB's responsiveness to their requirements for generally improved product rates and conditions. Properly evaluating the ongoing ambiguities in the economy's behavior and the relatively high market competition, UniCredit Bulbank successfully marketed several innovations in micro lending, agricultural sector financing, personalized client offers, etc., all of which contributed to the enhanced market share standing in retail loans (+14bp to 13.2%). Mortgage loans preserved their share at 17.5%, while consumer loans market share improved by 23bp yoy to 8.7%.

UniCredit Bulbank was a major player on the deposit market in 2012, benefiting from the ample savings inflow in the economy. The Bank well outpaced the market in total and corporate deposits, leveraging on its low risk profile and wide range of loyal customers, who value the UniCredit brand and prefer it to the competition. The professionalism of the employees, the new product offers and the strategic locations and reorganizations of the offices were the other key success factors that led the entity to improving its total deposits market share to 14.4% in 2012 (13.8% in 2011). Critical to this achievement were corporate deposits, whose market share grew from 17.6% in 2011 to 19.9% in 2012. Retail deposits had their share at 11.1% in 2012 (11.3% in 2011), impacted by the aggressive deposit campaigns of some market participants.

Market Shares



Source: Regulatory financial statements of UniCredit Bulbank and BNB

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

In 2012, the Bank was energetically growing its business, adhering to its strong, low-risk traditional business model, that generated sustainable profit. Even though its internal capital generation capacity was constrained by the continuing economic wavering, and despite the tightened interest margins and elevated credit costs, UniCredit Bulbank realized a **net profit** figure of BGN 212.5m, down by 6.2% yoy. Moreover, the entity preserved its market dominance with respect to this indicator and its net profit market share reached more sustainable levels (37.5% in 2012, as compared to the record-high 39.6% in 2011).

Total operating income was BGN 639.4m, 0.5% higher than the year before, compared to a decline of 2.5% for the market. **Operating expenses** increased by 3.0% to BGN 254.7m. This slightly lowered **gross operating profit** by 1.1% to BGN 384.6m. In essence, UCB's operating performance proved resilient and remained stable, regardless of the market-imposed challenges and the slow economic growth.

Due to the growing volumes and the somewhat lower net profit, UniCredit Bulbank's profitability and efficiency decreased a bit, but remained much better than the market's average and most of its peers. Return on average assets was 1.7% (1.9% in 2011) vs. 0.7% for the market. Return on average equity was 10.3% (12.4% in 2011) vs. 5.3% for the system. Net profit margin was down by 2.4pp to 33.2%. Cost/income ratio was 39.8%, remaining better than the market average (52.0%).

Thousands of BGN

OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2012	2011	%	AMOUNT
Net interest income	406 167	442 990	(8.3)	(36 823)
Net fee and commission income	154 221	134 985	14.3	19 236
Net trading income	60 400	46 211	30.7	14 189
Net result from investment securities and dividend	13 680	6 196	120.8	7 484
Other operating income, net	4 905	6 005	(18.3)	(1 100)
OPERATING INCOME	**639 373**	**636 387**	**0.5**	**2 986**
Operating expenses	(254 740)	(247 329)	3.0	(7 411)
GROSS OPERATING PROFIT	**384 633**	**389 058**	**(1.1)**	**(4 425)**
Income from property, plant and equipment	1 006	2 736	(63.2)	(1 730)
Impairment losses on financial assets and provisions	(148 751)	(140 553)	5.8	(8 198)
Income tax expense	(24 392)	(24 665)	(1.1)	273
NET PROFIT	**212 496**	**226 576**	**(6.2)**	**(14 080)**

Abiding by its customer-centered commercial approach, UniCredit Bulbank generates its **operating income** by supporting the real economy and providing tailored solutions to fit the needs of traditional banking (i.e. savings and loan services). As a result, in 2012, **net interest income** remained the predominant earnings provider with 64% share of operating income. Influenced by the decrease in the interbank reference rates that lowered the average yield on the loan portfolio, it declined to BGN 406.2m (-8.3% yoy) and changed its structure a bit. In particular, **lending interest income** generated 4.3% less revenues in 2012 and decreased its share in interest income to 86%. **Interest income from securities** accounted for 13% of interest income and increased by 26.8% yoy. Indicative of the small contribution of the interbank business to the Bank's revenues, **interest income from interbank placements** accounted for 1% of total interest income. Net interest margin[4] decreased slightly to 3.3%.

REVENUE STRUCTURE	YEAR	
	2012	2011
Net interest income	64%	70%
Net fee and commission income	24%	21%
Net result from trading and securities and other income	12%	9%
OPERATING INCOME	**100%**	**100%**

The average market interest rates on customer deposits continued to decline in 2012 and UniCredit Bulbank joined this trend, albeit much more moderately. This further decreased the Bank's already low cost of deposits, while it did not prevent it from growing its deposit base by attracting the clients with its superb brand reputation and security image. The combination of deposit volumes growing faster than loan volumes and loan yields decreasing more rapidly than deposit yields took down the loan-to-deposit interest rate spread by 75bp yoy to 4.2% in 2012. In particular, total interest income was 1.7% lower for the year and amounted to BGN 638.0m while interest expense

4 Net interest income/Average assets.

Unconsolidated Financial Results (continued)

on customer deposits increased by 11.3% to BGN 154.8m. Interest expense for bank deposits decreased by 13.2% annually, due to decline in both volumes and credit spreads.

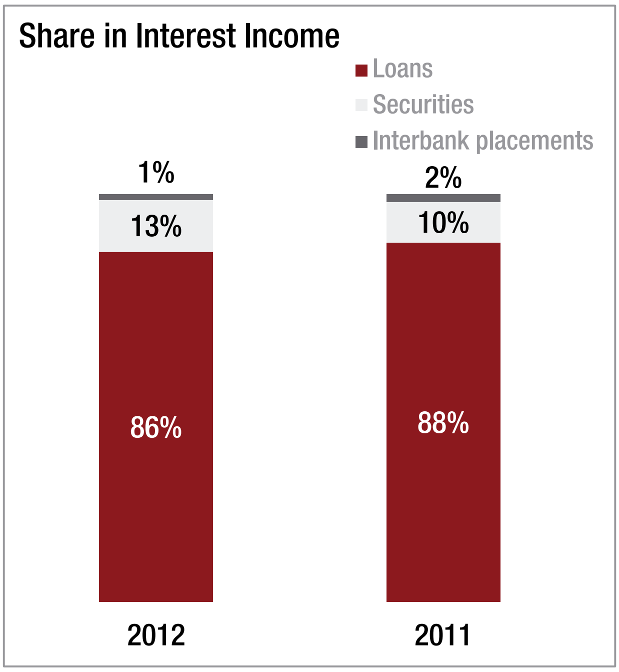
Similarly to the prior year, the entity again focused on fee generating products and services, which favorably increased the **net fee and commission income** by 14.3% yoy to BGN 154.2m, accounting for 24% of operating income (21% in 2011). The growth was driven by higher fees from loans (+24% yoy), documentary business (+27% yoy), account services (+25% yoy) and agency fees (+23% yoy).

The rest of the operating income components: net trading income, net results from investment securities, dividend income, and other operating income, taken altogether reported a positive annual growth of BGN 20.5m, reaching BGN 79.0m. **Net trading income** recorded an outstanding annual growth rate of 30.7% to BGN 60.4m, triggered by client-oriented trading activities (i.e. derivative instruments – mainly interest rate and commodity swaps with clients and FX deals). **Dividend income** also reported a robust increase of 34.8% and reached BGN 10.2m, thereof BGN 9.1m dividend received from the Bank's subsidiary, specialized in consumer financing.

In 2012, UniCredit Bulbank undertook several strategy-defining initiatives and continued to work on enhancing its operating efficiency. An emphasis was put on building a simplified operating structure that is more customer-focused, efficient, cost-conscious and streamlined in terms of central functions. The strategic undertakings required some investments, which lifted **operating costs** by 3.0% to BGN 254.7m. The growth in costs was partially counterbalanced by a continuous focus on cost containment measures and the respective operating synergies at the end of the year.

Personnel costs reached BGN 101.9m, which is 3.6% more than the year before, mainly due to the company's retention policy with respect to its high-value employees and as a response to 2012 inflation developments.

Non-personnel costs went up by 1.5% to BGN 116.5m, stemming mainly from 6.1% increase in deposit insurance charges, as well as business driven increase in cards related costs, and repair and maintenance of ATMs and POS. Excluding the increase in costs related to the Deposit Insurance Fund, non-personal expenses were flat yoy.



Depreciation and impairment on non-current assets increased by 6.2% to BGN 36.3m, mostly because of new investments in IT infrastructure and several strategic business projects (i.e. CRM system implementation, Multichannel development, etc.).

Total impairment losses on financial assets and provisions increased by 5.8%, reaching BGN 148.8m, compared to BGN 140.6m in 2011, as a result of increased coverage on defaulted loans and weakened credit quality, resulting from the challenging operating environment in Bulgaria. Only partially affected by the economy's vulnerability and the ongoing businesses and households' hardships, the Bank's NPL ratio increased from 14.4% in 2011 to 15.6% a year later. Yet, on account of the Bank's prudent risk assessment practices, its NPL ratio grew slower than the banking system's average, thus increasing the gap and remaining 1.0pp below it.

Income tax was BGN 24.4m, down by 1.1% yoy, driven by the lower gross profit figure.

Operating Profit by Business Segment

In 2012 the Bank's revenue was BGN 639.4m, slightly increasing vs. 2011 (+0.5%). Individual business areas' contributions reflected the nature of their business and customer base.

Millions of BGN

	NET INTEREST INCOME	NET NONINTEREST INCOME	OPERATING INCOME	OPERATING COSTS	GROSS OPERATING PROFIT YEAR 2012	GROSS OPERATING PROFIT YEAR 2011	CHANGE %
Retail Banking	212.1	107.9	320.0	(179.0)	140.9	127.4	10.6%
Corporate and Investment Banking and Private Banking	221.5	112.1	333.6	(68.7)	264.9	249.8	6.0%
ALM and Other	(27.4)	13.3	(14.2)	(7.0)	(21.2)	11.9	n.a.
Total Bank	**406.2**	**233.2**	**639.4**	**(254.7)**	**384.6**	**389.1**	**-1.1%**

Retail Division's operating profit was up by 10.6%, driven by better revenues (+5.4% yoy). Net fees and commissions recorded a steady growth of 13.6% yoy, mainly in the areas of loan fees and current account maintenance fees, while net interest revenues increased slightly yoy (by 1.6%).

Corporate and Investment Banking and Private Banking Division increased its operating profit by 6.0% yoy, despite the lower margin on deposits, arising from the competitive pressure on the deposit market. Higher fee income from loans and documentary business and gains from commodity and IR swaps provided a solid support to revenue generation.

Asset and Liability Management and Other Divisions' operating profit was negative at BGN 21.2m, due to lower banking book result related to decreasing interbank reference rates.

UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities

UniCredit Bulbank's robust business expansion was reflected by **total assets**, which increased by BGN 755m yoy, up to BGN 12 659m. The major contributor, **net loans and advances to customers**, added BGN 734m in 2012 and reached BGN 8 547m. On the other hand, **loans to banks** decreased by 9.5% yoy to BGN 1 714m. The **securities** portfolio expanded, adding 20.1% during the period to BGN 1 040m. **Cash and balances with Central Bank** rose by 2.2% yoy to BGN 906m. **Property and equipment** was decreased by BGN 12m to a total of BGN 206m.

Thousands of BGN

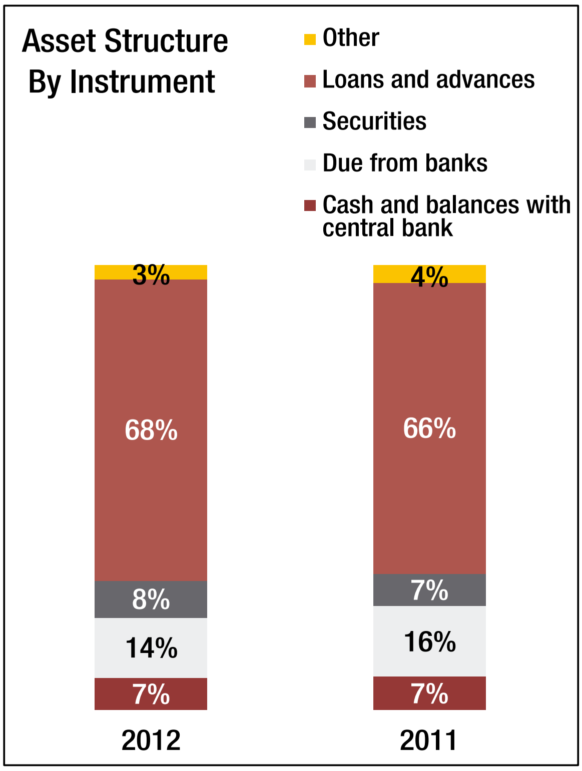
BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2012	2011	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	906 397	886 703	2.2	19 694
Due from banks	1 713 901	1 893 753	(9.5)	(179 852)
Securities	1 040 089	866 050	20.1	174 039
Loans and advances to customers	8 546 838	7 812 435	9.4	734 403
Property and equipment	206 206	218 244	(5.5)	(12 038)
Other assets, net	245 101	226 463	8.2	18 638
TOTAL ASSETS	**12 658 532**	**11 903 648**	**6.3**	**754 884**
LIABILITIES AND EQUITY				
Customer deposits	8 227 899	7 293 666	12.8	934 233
Deposits from banks	1 835 550	2 164 333	(15.2)	(328 783)
Other liabilities	464 316	441 313	5.2	23 003
TOTAL LIABILITIES	**10 527 765**	**9 899 312**	**6.3**	**628 453**
SHAREHOLDERS' EQUITY	**2 130 767**	**2 004 336**	**6.3**	**126 431**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**12 658 532**	**11 903 648**	**6.3**	**754 884**

The asset structure changed a little bit over the reporting period, with a higher share (68%) of net loans and advances to customers, thus proving the Bank's commitment to serve the interests of its customers. Small decreases in share experienced loans to banks, compensated by the higher share of securities, which supports revenue optimizations.

The growth in the loan portfolio mainly originated from new loans to private companies (+13.3% annual growth).

The components of the securities portfolio were so selected as to reflect security. Government bond holdings rose by 28.8% to BGN 922m, representing 89% of the entire portfolio. Bonds of credit institutions declined by 41.7% to BGN 36m and their share in total securities fell to 3%. Corporate and municipal securities also went down (-7.2% yoy), with a share of 8%.

Asset growth was backed by newly-attracted **customer deposits** (+12.8% for the year to BGN 8 228m). The larger portion constituted corporate deposits, which realized a growth rate of 14.2% to BGN 4 261m. The share of corporate deposits in total volume increased to 52% in 2012, supported by the strong position of the Bank in the corporate segment. Deposits from households and individuals were up by 11.3% to BGN 3 967m. In contrast, **deposits from banks** continued the trend from the prior year by losing 15.2% of volume to BGN 1 836m, indicative of the decreased role of interbank financing



Unconsolidated Assets and Liabilities (continued)

and the strengthened liquidity profile. The rest of the liabilities had a positive change of 5.2% to BGN 464m.

The Bank paid out about half of its 2011 net profit in the form of a dividend, given its high capitalization level. **Shareholders' equity** continued its upward momentum (+6.3% to BGN 2 131m). The uptick mostly resulted from retained earnings, accompanied by additional revaluation reserves from available-for-sale securities. Total capital adequacy ratio was 18.8% (21.0% in 2011), while Tier 1 ratio stood at 16.8% (18.3% in 2011). Even so, the two indicators remained well above the minimum BNB requirements and the respective average measures for the banking sector.

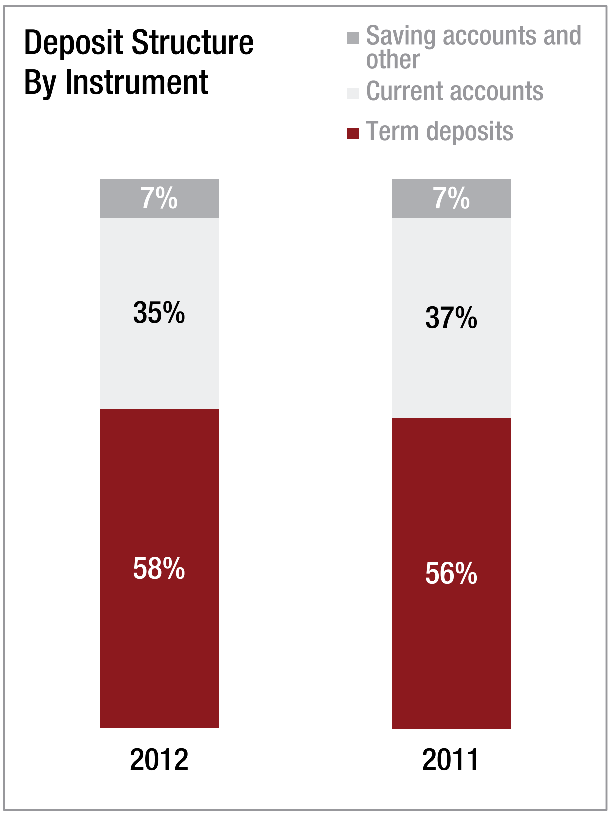
Unconsolidated Assets and Liabilities (continued)

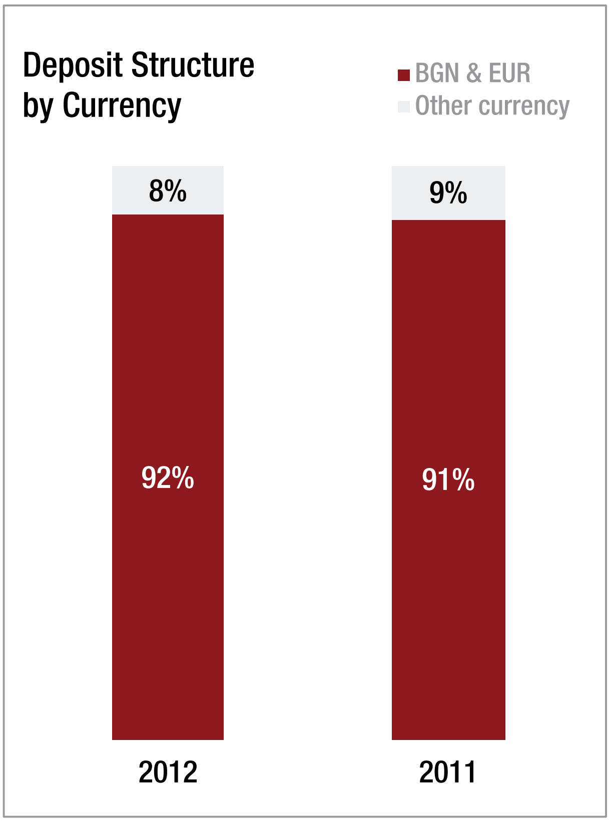
Customer Deposits

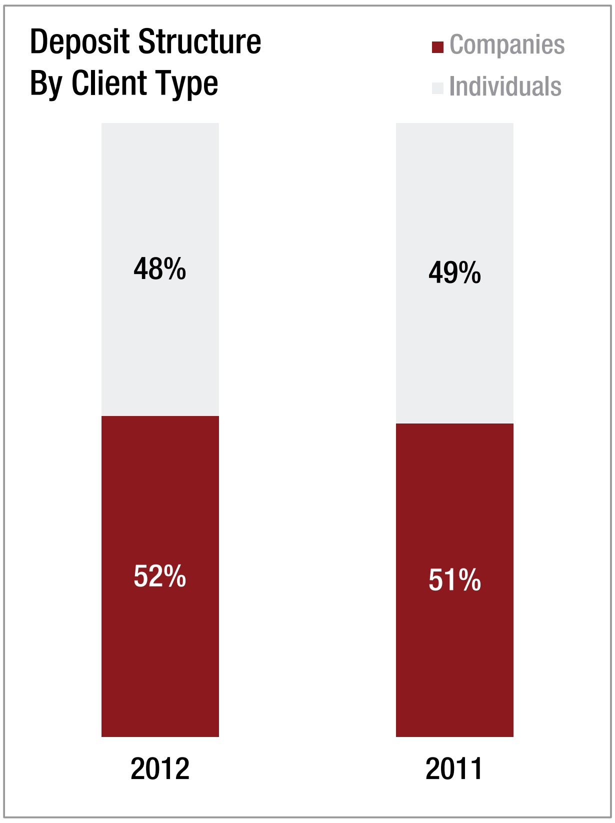
In 2012, UniCredit Bulbank outperformed with 12.8% while the market scored 8.4% growth yoy. At times of tighter interest margins, heightened competition and sustained economic hesitation, the liquidity levels on the primary deposit market remained sound and the Bank capitalized on its renowned reputation, and relatively low risk profile, thus growing its deposit base to BGN 8 228m at balanced prices. The currency and the instrument structure of its deposits remained similar to the previous year, with 92% of all deposits denominated in EUR and BGN and slightly higher share of term deposits at the expense of current accounts.

Deposits of individuals increased by 11.3% to BGN 3 967m at the end of 2012 and accounted for 48% of total deposits. This was achieved through well-structured deposit campaigns for the attraction of new customers and the retention of the existing ones. A synergy inter-segment initiative was implemented which shared know-how and client information for the benefit of better responding to the customers' demands and offering the best options for their savings.

Company deposits reported 14.2% annual growth and reached BGN 4 261m. The Bank's approach to its customers was much more individualized and the benefits were thus higher for both parties. This further improved UniCredit's market positioning in Bulgaria, by fostering its image of a reliable business partner and the most solid financial institution in the country.





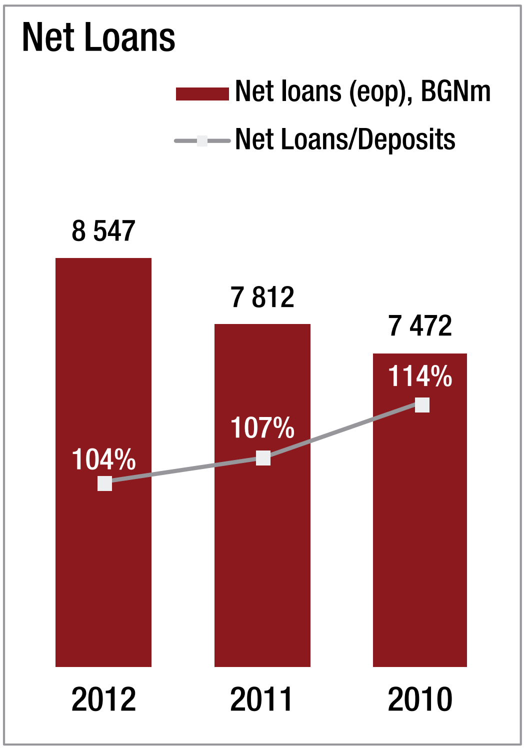


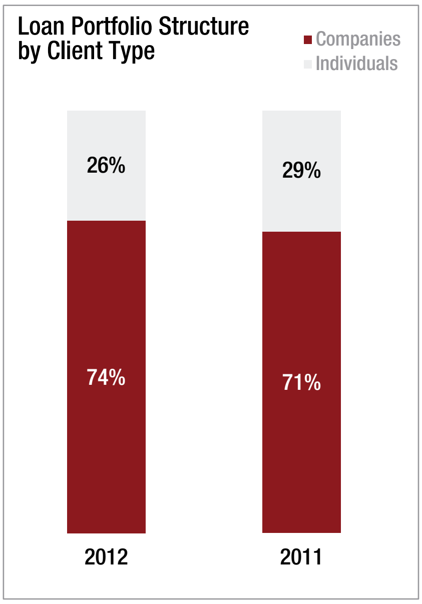
Unconsolidated Assets and Liabilities (continued)

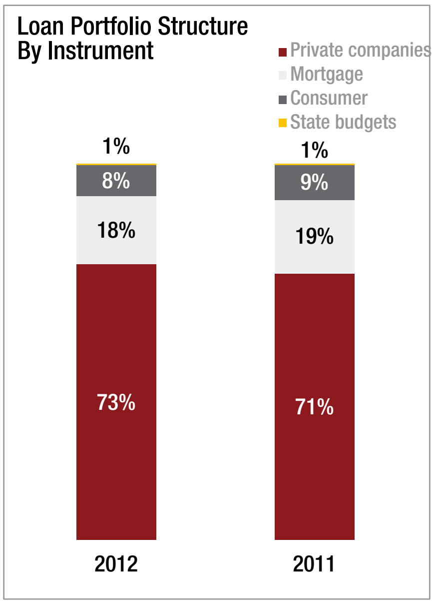
Customer Loans

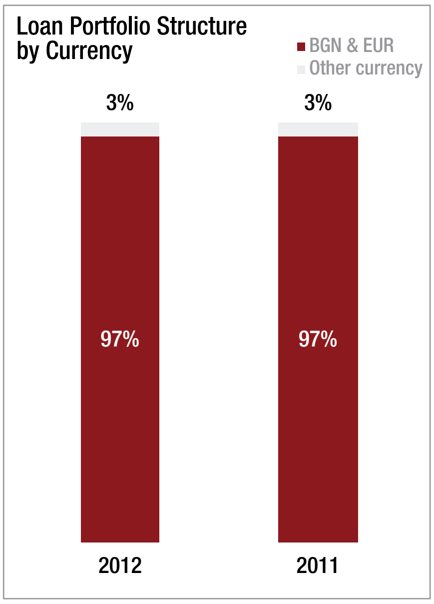
In 2012, the consumer and business sentiment was reflected in the market growing its net loans by the modest 2.3% yoy. Without UniCredit Bulbank's input of 16.0% in net loans market share and 9.4% in net loans growth, the banking sector's performance would have been even weaker. Committed to enhance its customer service and to augment its operations, the net loan portfolio of the Bank reached BGN 8 547m, up from BGN 7 812m a year earlier. The currency structure of the loan portfolio remained unchanged with loans in BGN and EUR accounting for 97% of the total portfolio.

The gross loan portfolio grew by 9.6% to BGN 9 301m, up from BGN 8 490m a year earlier, mainly driven by UniCredit's business philosophy to support the real economy. Loans to companies (including government loans) were 13.1% more to BGN 6 867m, representing 74% of the total portfolio. In order to minimize its risk for loan quality deterioration, a selective approach was implemented, where only the creative and economically viable projects were funded. Loans to individuals increased slightly by 0.6% to BGN 2 435m and accounted for 26% of the total portfolio. Mortgages were up by 0.5% yoy to BGN 1 653m, benefiting from some positive signals on the real estate market and the lower interest rates. The share of mortgages in total loans amounted to 18% (19% in 2011). Consumer loans increased by 0.8% yoy to BGN 781m and the Bank reinforced its market share yoy (+23bp to 8.7%), as the market's average annual growth was negative (-1.9%).









UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (continued)

The industry structure remained stable in 2012. The share of manufacturing increased to 22%, while the shares of financial services, housing loans and consumer loans decreased to 2%, 18% and 8% respectively. The three largest areas of concentration were manufacturing (22%), commerce (21%), and retail financing (26%).

Thousands of BGN

INDUSTRY STRUCTURE	2012		2011	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 030 038	22%	1 708 152	20%
Commerce	1 941 503	21%	1 765 297	21%
Construction and real estate	1 662 072	18%	1 507 086	18%
Services	313 055	3%	268 305	3%
Transport and communication	252 408	3%	221 683	3%
Agriculture and forestry	225 671	2%	160 189	2%
Financial services	223 349	2%	220 865	3%
Tourism	153 892	2%	153 742	2%
Sovereign	64 925	1%	64 010	1%
Retail				
Housing loans	1 653 414	18%	1 645 838	19%
Consumer loans	781 115	8%	775 112	9%
TOTAL LOAN PORTFOLIO	**9 301 442**	**100%**	**8 490 279**	**100%**

Consolidated Financial Results

The following table reveals the list of our subsidiaries, their consolidation method and respective participation in equity:

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Factoring AD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing EAD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method

The trends in the consolidated financial results are predetermined by the trends of UniCredit Bulbank, which were described in the previous section of the report.

In 2012, UniCredit Bulbank Group reported a consolidated net profit of BGN 215.9m, 7.3% lower compared to the previous year, with a slight decrease in gross operating profit, higher loan loss provisions, and selective increase in operating expenses.

The lower net interest income (-8.3%) of the Group was counterbalanced by the vigorous annual increases in net fee and commission income (+14.3%) and net trading income (+30.7%), which made gross operating income flat yoy.

Impairment losses on financial assets and provisions increased by 5.1% to BGN 148.2m affected by the difficult economic environment, which lead to higher coverage of the loan portfolio predominantly in the corporate area.

Even though the Bank successfully implemented several commercial initiatives over the year, efficiency measures and operational synergies limited the growth of the Group's operating expenses (BGN 256.7m) to 3.0% yoy. Staff costs increased by 3.7% to BGN 103.6m, while non-staff costs and depreciation were 2.6% higher to BGN 153.1m.

Total assets increased by 6.4% on a consolidated basis and totaled BGN 12 734m. The Group's return on average assets was 1.7% in 2012; return on average equity was 10.3%.

Risk Management

Credit Risk

The continuous problems faced by most of the economic sectors, the worsened financial status of households and individuals, and the indecisive behavior of the real estate market made 2012 another year with repayment challenges for the existing credit borrowers from all segments.

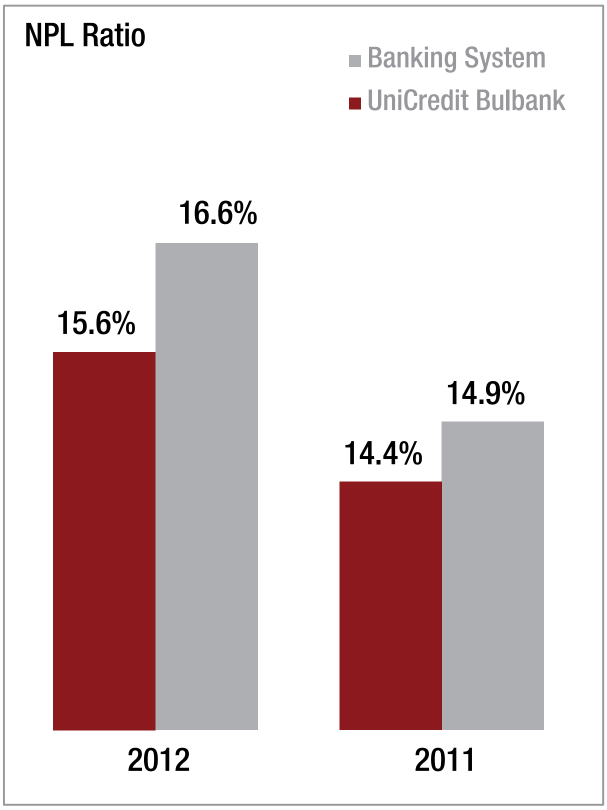
In 2012 the non-performing loans (NPL) ratio reached 15.6%, remaining below the average one for the banking system (16.6%). The Bank reports a decelerated trend of portfolio deterioration with its NPL up by 1.2pp in 2012 (+4.3pp in 2011). The main reasons for this development are the growth in the loan portfolio and the initiated NPL management activities. The coverage ratio of the performing loans was 1% and of the non-performing positions – 48%. The average cost of risk ratio was at 1.9%, compared to the banking system's charge for credit risk of 2.3% for 2012.

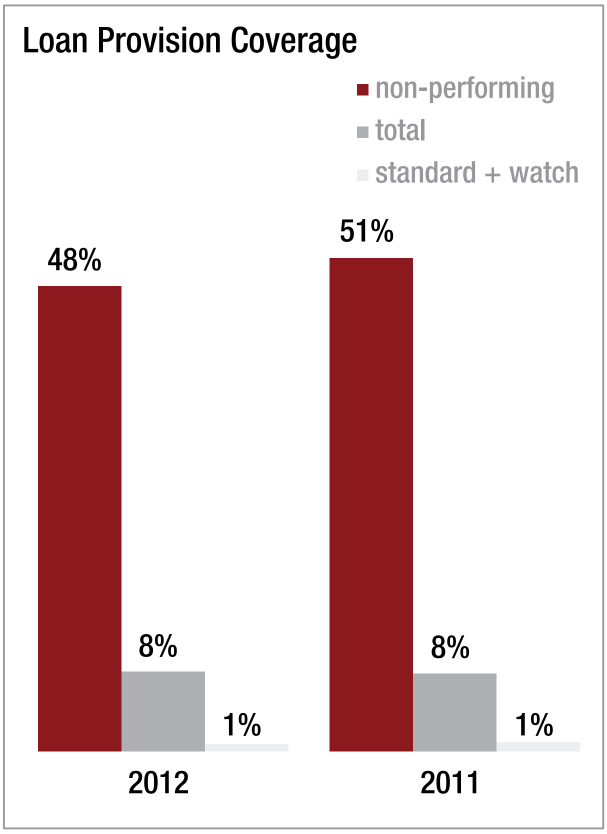
The credit underwriting activity was carried out according to adopted local Credit Risk Policies, based on UniCredit Group's Credit Risk Strategy, industry analyses and the economic sectors' outlook. The risk appetite criteria included the provision of collateral, structural features (i.e. risk mitigating covenants and conditions) and appropriate hedging that could reduce the expected loss of a single transaction. The Bank continued to seek new lending opportunities and managed to acquire some new businesses, matching the more stringent risk management requirements. Another task of the Credit Underwriting department was the stabilization of the existing exposures, the alignment of the repayment plans to the existing cash generating capacities of the borrowers, and the application of amendments that maintained the overall net present value neutral. Significant efforts were also made to ensure regular performance of the reviews, collateral evaluation updates, more prudent approach in corporate clients' rating process, etc.

In 2012 continued the Group Golden Underwriting project for Corporates, SMEs and Individuals, encompassing review of the processes and their alignment with the Group's best practices. In 2013 the lending strategy of the Bank will be to further expand the credit volumes but strictly observing the policies, the risk appetite and in compliance with concentration strategic guidelines.

In the field of Monitoring, increased automation of activities and Watch List (WL) processes in both Retail and Corporate was targeted with the objective of timely decision making and further deterioration prevention. In addition, the project for implementation of UniCredit Group's Golden Standards of Corporate monitoring has been finalized, while a similar project for the implementation of the Golden Standards for the private individuals and SMEs monitoring has been started in 2012.

Using probability of default rates, a new Behavior Scoring model for MID segment was developed in September 2012. After an analysis of the corporate customers' profiles and credit history, specific thresholds were defined for each WL classified customer, including a risk-mitigating strategy and a set of mandatory actions, while





Risk Management (continued)

the approval competence was shifted from the Underwriting to the Monitoring Department.

The functionalities of the web-based IT tool for Corporate Monitoring, effective since 2011, were further adjusted to Group Principles and Golden Standards. By more than doubling the number of existing warning signals, the preventive effect of the monitoring activity was amplified and anomalies were detected at an earlier stage. In addition, a new Covenant module was inserted, which is expected to improve the effectiveness of post-approval through registration of all covenants, their respective deadlines and notification system's activation in case of non-compliance. Retail monitoring IT tool was analyzed and new functionalities are under implementation in order to meet the requirements of the Golden Standards project.

The NPL management unit ran two important projects over the year. The first one was an Accelerated Recovery Program and consisted of selected exposures with preliminary calculated discounts, based on specific criteria (e.g. borrower profile, collateralization). Over the course of the program, 412 transactions were closed, recovering BGN 6.7m or 75% of the initial on-balance exposure. Due to its success, the program is planned to also continue in 2013 with additional recoveries in the pipeline. The other project consisted of a debt sale, offering to investors a portfolio of approximately 5 000 transactions of unsecured loans to private individuals with total duty of BGN 37.8m. The achieved price was BGN 4.0m, which represents 10.6% recovery of the total duty and 15.0% recovery of the principal and direct cost.

In its internal rating systems, UCB uses statistical models for probability of default (PD) and exposure at default (EAD) estimations. In 2012, a statistical loss given default (LGD) model was also initiated. The risk models of the Bank were annually validated. The PD models show very good results in terms of predictive power. Based on that, the institution enhanced its monitoring process with the PD statistical methods – both for Retail and Corporate customer segments. Thus, the early collection process was optimized, the results of the collection activities improved, while the related costs were reduced. An anti-fraud system, which well improved the process of fraud detection and lowered the fraud related risk, was also implemented.

For the calculation of minimum capital requirements and risk weighted assets in 2012 UniCredit Bulbank used the Foundation IRB Approach (for exposures to banking institutions and corporate clients) and the Standardized Approach (for exposures to retail clients, public sector entities, multilateral development banks and municipalities). In 2013 the Bank will apply for permission to use an Advanced IRB Approach for exposures to banking institutions, corporate clients and retail clients, aiming at effectively applying it in 2014.

Following a request by UniCredit Group and UniCredit Bank Austria AG, the Bulgarian subsidiary performed an interconnection analysis of critical macro-areas, as part of the Group Recovery and Resolution Plan, an initiative foreseen under Basel III for Systematically Important Financial Institutions. As a part of its preparation for Basel III, the entity is working on a credit valuation adjustment for counterparty credit risk, while at the same time internally calculating and monitoring Basel III liquidity ratios (i.e. liquidity coverage ratio and net stable funding ratio).

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is structured along the following main dimensions: risk profile definition, assessment and stress tests, risk appetite, capital adequacy monitoring and reporting, risk internal governance, and review and update of the operative ICAAP framework. Central part of the internal assessment of capital adequacy is the quantitation of the Bank's Economic Capital (the internal equivalent of minimum regulatory requirements). Economic Capital is calculated and reported both internally (to the Assets and Liabilities Committee) and externally (to the Central Bank) on a quarterly basis. This assessment of the overall risk profile is regularly supplemented by stress tests.

Risk Management (continued)

Market and Counterparty Risk

Market risk policies and processes are regularly adapted to ensure group-compliant risk measurement and control of trading activities, counterparty risk assessment, asset and liability management and liquidity oversight. In view of Basel III rules, market risk management function launched risk-mitigation initiatives, covering market risks, counterparty default and spread-driven mark-to-market losses, as well as liquidity risks.

With reference to risk methodology and architecture, UniCredit Bulbank continued to make use of the group-compliant VaR model for daily market risks control and economic capital assessment. Asset and liability management systems were adapted to allow for daily calculation and monitoring of Basel III liquidity ratios – liquidity coverage ratio (assuming liquidity stress over 1 month horizon) and net stable funding ratio over a one year horizon. The system for counterparty risk measurement and control was upgraded to facilitate quantification of unilateral and bilateral incremental Credit Valuation Adjustment (CVA).

The activities of Market Risk management function in 2013 will be focused on the full adoption of the Group's Internal Market Risks model in control activities, along with preparations for capital requirement reporting in 2014. A major step ahead in counterparty risk management will be the introduction of CVA in pricing and risk management engines for OTC business. Refinement and enhancement of liquidity models as per Basel III rules will be another area for development, coupled with initiatives promoting liquidity-light products.

Operational risk

Following the successful implementation of the Advanced Measurement Approach (AMA) model at UniCredit Bulbank in 2011, Operational Risk (OpRisk) Unit's activities throughout the year were focused primarily on maintaining the high level of quality of the operational risk management system. Further OpRisk culture diffusion within the Bank can be stated as a main accomplishment in 2012, as the overall risk awareness was enhanced through an innovative online training for all employees.

The main operational risk activities during the year were focused on: effective operational risk control; management and elaboration of risk mitigation actions; adoption and application of new Group policies and instructions; completion of the annual predefined plan for operational risk activities according to the set deadlines; participation in various projects, initiatives, working groups and discussions related to operational risk mitigation.

The Operational Risk management and control process at UniCredit Bulbank is deemed sound, fully communicated, as well as compliant to Group standards and supervisory requirements for using AMA. Nevertheless, opportunity areas for 2013 include: maintaining the high level of OpRisk management and risk mitigation; promoting the operational risk awareness among all of the Bank's employees; and creating and firmly establishing the new Reputational Risk function at UniCredit Bulbank.

UniCredit Bulbank Activity Review (continued)

Corporate, Investment and Private Banking

General Overview

The 2012 financial targets of Corporate, Investment and Private Banking (CIB&PB) were successfully achieved by following the annual mission and adapting the daily operations to the competitive market environment. The Bank successfully provided its customers with services of superior quality and efficiency by accomplishing a variety of strategic commercial activities and projects. One of the most vital projects was the Customer Relationship Management (CRM) system, which aimed at allowing better interactions with current and future customers and improving the organization and synchronization of the Bank's internal communication. The strengthened cooperation between Retail and CIB&PB divisions, attained through joint initiatives, additionally contributed to the enrichment of the product base available for both corporate and retail clients.

Revenues of CIB&PB grew with 5.7% yoy, mostly driven by higher non-interest income. In addition to 12.4% higher net fee and commission income, customer driven trading revenues (mainly FX and derivative deals) well contributed to the healthy increase. The segment that contributed the most to the total revenue was MID with a share of 40%. This was also a very successful year for the International Clients segment, which marked a growth of 52% yoy. Operating expenses were 5.4% higher and resulted in 6.0% higher gross operating profit.

The leadership position in terms of customer satisfaction was preserved, which respectively resulted in higher deposit and loan volumes. The deposit base reached BGN 3 959m in December 2012, realizing a growth of 11.9% yoy. With regard to the distribution per segments, the largest share of deposit volumes was achieved by FIG, International Clients and Key Corporate (Large) segments. The enduring trend in deposit cost minimization resulted in the shift of volumes from term to structured deposits in Private Banking.

The loan base reached BGN 6 049m in December 2012 with a growth of 13.1% yoy. In total, the distribution between investment and working capital loans was equal. The front-runners in terms of loan volumes were MID Corporate, Key Corporate (Large) and Real Estate. Focusing on loan quality, the Asset Recovery project was incorporated with the aim of achieving favorable outcome while coping with the deteriorated portfolios.

With regards to the positioning of UniCredit Bulbank on the local market, it was outstanding in both loans and deposits, capitalizing on special individual offers for corporate clients, determined on a case by case basis for both new and existing clients. The Bank was still preferred among the rest of the players in the banking industry due to its impeccable reputation of being a trustworthy partner. Evidencing the latter statement, the newly attracted deposit volumes amounted to about BGN 0.5bn, while the newly contracted loan volumes reached almost BGN 1.0bn. Further market share was gained by putting an emphasis on customer centricity.

Service Model

CIB&PB services different types of customers based on their needs and behaviors. The essence of the service model lies in its cross-functional double responsibility towards the customer, which contributes to the higher customer satisfaction and the Bank's profitability status. The capability of offering personalized solutions to the clients' needs is underpinned by the dual nature of the model, which has both client segment coverage and product coverage.

UniCredit Bulbank reinforces customer centricity and customer proximity by several projects. These initiatives generated revenues, improved market positions and, above all, established closer and longer term relationships with the clients in 2012. They included the CRM project, housing lending through CIB/SME financed projects, cross-sale of payroll with Retail, Share To Grow initiative (cross-division activities exploring the overall potential of Private and CIB customers). The other initiative is related to the corporate branch expansion, aiming to assure quality of the services in all corporate locations. At the end of 2012 a total of 8 corporate branches are functioning. Being an integral part of the on-going endeavors to build long-term relationships with customers, customer satisfaction measures are closely analyzed in order to detect the main customers' drivers. The CRM project further assists this undertaking, providing 360-degrees-view of the customer's needs and making the Bank even easier to deal with. As a response to the market conditions and intense competition, a project for redesign of processes in CIB&PB should ultimately simplify and speed up the delivery time of all kinds of services.

European Funds

In the area of EU funded programs, UniCredit Bulbank prioritized on the implementation of the financial engineering instruments made available to the banking sector. The Bank achieved its interim target under the JEREMIE FLPG program with a guaranteed portfolio of EUR 17.4m granted to small and medium-sized enterprises to finance their investment plans and working capital needs. The allocation of a guarantee mechanism to SMEs in the fisheries sector, supported by the National Guarantee Fund and the European Fisheries Fund, gained momentum in the last year with UCB being the leader on this market. Another risk-sharing instrument, targeting the agricultural producers and the food processing industry, was awarded grant aid under the Rural Development program and is expected to start in the first quarter of 2013.

In addition, the Bank continued to follow Group policy in supporting the green economy with the allocation of specialized credit lines. In May 2012, UniCredit Bulbank signed an agreement with the European Bank for Reconstruction and Development (EBRD) for a credit facility aimed at funding investment projects of SMEs under the Energy Efficiency and Green Economy program. This program was announced by the Ministry of Economy, Energy and Tourism with a grant aid component reaching 50% of project costs.

Corporate, Investment and Private Banking (continued)

Markets and Brokerage

UniCredit Bulbank preserved its market leadership in the field of government securities, money market and foreign exchange trading in 2012. The Bank remained a preferred counterparty for BGN products both on the local interbank market and for the international flows. The UniCredit subsidiary in Bulgaria continued its focus on balanced risk reward trading strategy both in its fixed income and money market trading portfolios, leveraging on its strong liquidity position.

The entity also remained a leader in offering wide range of brokerage services for equity, fixed income, and exchange traded derivatives providing wide market coverage for its customers. Part of the strategy for 2013 is devoted to increasing even more the service level for the retail customers, combining the strong brokerage capabilities with the large branch network and customer base.

The Bank maintained its leading position in the field of foreign exchange and hedging products. The Corporate Treasury sales team provided a value-adding support to the clients in both day-to-day foreign exchange operations and financial risks management activities. Facilitated by the team's expertise and the broad product list, the end customers were able to hedge the foreign exchange and commodity price risks accompanying their business operations. The historically low interest rates allowed UCB's customers to hedge their medium and long-term loan exposures at attractive levels.

Corporate Finance and Advisory

2012 was another difficult year for the global M&A markets, due to 20% decline in deal volume. Yet, it was a very active year for UniCredit Bulbank, characterized by a number of active mandates, primarily in the energy sector (i.e. green energy projects of international companies). Even though the capital markets remained depressed, the entity succeeded in winning a deal for the structuring of a successful municipal bond, thus reasserting its strong record in municipality bond generation. The unit managed to deliver value in operations due to UniCredit Group's well-formed reputation and the increased cooperation among its subsidiaries in Europe.

The signs of recovery from the Bulgarian Stock Exchange, although still fragile, provided UniCredit Bulbank with moderate positivism about tapping the equity capital market within 2013. Overall, the strategy for 2013 is to build on the existing pipeline and tap further into the CIB client base. The creation of corporate finance solutions team aims to support business in evaluating and structuring various loan cases and increasing cross-selling.

Global Transaction Banking

UniCredit Bulbank further reinforced its leading position in Global Transaction Banking (GTB) in 2012 by delivering a wide range of products and creating a sustainable and risk-free revenue flow. As a result of these efforts, UCB was chosen as a reliable partner by key international companies for the development of their operations in Bulgaria. In particular, the strong model and knowledge capacity in the area of trade finance further improved the market shares of the export letters of credit (43%) and the import letters of credit (27%). The cash management expertise of the Bank provided for deepening of the relationship with key clients and attracting new ones. Cash collection and reconciliation, card acquiring and payments were among the priorities in 2012. The department introduced a new home banking e-channel, embracing the innovations, popularity and security of information technology. A new service for corporate clients was developed and launched to answer the liquidity management needs of the market.

The Bank increased the assets under custody in comparison to 2011 by providing specialized custody services to Bulgarian and foreign institutional clients, including Bulgarian pension funds and insurance companies, collective investment schemes, special purpose vehicles, local and international banks and broker-dealers, and global custodians. Furthermore, it continued the development of its global securities services and information systems to provide high quality custodial services. As a result of its successful development in the field of GTB, UniCredit Bulbank received several awards and recognitions over the year.

Private Banking

In 2012 Private Banking strived to increase the level of client satisfaction and the volume of their financial assets while facing elevated cost of keeping their deposits, due to a risk-averse client attitude and high interest rates on the deposits offered on the market. With respect to client satisfaction, the department achieved an outstanding result in the 2012 survey, which was higher not only than the one of the overall UniCredit CEE index, but also than those of UniCredit Group's Core countries (i.e. Italy, Germany, Austria and Poland).

As to deposits, their volume increased by 20%, driven by the introduction of new products (such as structured term deposits), and the acquisition of new clients and new business volumes. In line with the local market tendency of higher interest rates on term deposits, fixed term deposits represented 87% of the deposit portfolio, followed by current accounts with 8% and saving accounts with 5%. Structured deposits were the key success factor in 2012, as they differentiated UniCredit Bulbank from the competition by increasing the value proposition and gaining a competitive advantage. The end result was more than EUR 12m of client assets invested in structured deposits.

In 2013, deposit rates are expected to gradually decrease, which coupled with the new tax on deposits' interest, should increase the clients' appetite for riskier assets and higher yields. UniCredit Bulbank is well positioned to take advantage of this opportunity, as the basic strategy for 2013 includes an expanded product mix, with continuation of the structured products program and introduction of innovative products such as the Master Card World Elite Debit Card (i.e. an exclusive card product for the most loyal clients).

Corporate, Investment and Private Banking (continued)

Outlook for 2013

The business processes' speed-up and the organizational structure's re-engineering are expected to increase the benefits to the customers. Appreciating the growth potential of its international clients, the Bank is forming additional competence lines, so as to better suit their needs. Project financing and specialized deals are combining in one unit, synergizing from the accumulated expertize. Further optimization of MID corporate unit is planned, aiming at additional business acquisition. In order to retain its top customer satisfaction position in the Bulgarian banking system, the Bank has set precise priorities for 2013, which include: (1) customer clustering with a differentiated strategy for each cluster; (2) further enhancement of customer relationships through leveraging on the CRM system functionalities; (3) maximization of cross-sales across CIB&PB and Retail divisions by sharing product know-how and business models (i.e. cross-divisional Corporate Treasury Services and Global Transaction Banking products sales). The division will also direct its efforts at the active sale of deteriorated assets and the acceleration of projects under the European funds.

Retail Banking

General Overview

During 2012 Retail revenues continued the positive growth trend despite the drop in most of the banking system's indicators. The Bank's retail business increased its revenues by 5.4% yoy, up to BGN 320m or 50% of the total bank revenues. The continuous focus on customer centricity and service quality led to increases in the number of active customers (3% yoy), the average number of products held by a customer (23% yoy) and the profitability of relation, as measured by the revenue/client ratio (20% yoy). Cost of risk decreased by 29% yoy to 1.1%, while the cost/income ratio improved by 3.6% yoy to 56%, due to optimization of the share of the commercial vs. operative staff and general improvement of processes. In order to better meet the growing needs of the customers, the working hours of some branches were prolonged.

The deposit volumes of retail individuals and small businesses (SB) reached BGN 4 165m, growing by 12.7% yoy (27.4% growth of SB only). This growth rate was achieved without investing in aggressive prices, as the entity leveraged on its strong relationship with the customer and the considerable reputation of the UniCredit brand. Term deposits from individuals grew with 10.4%, lifting their share in total retail deposits. The loans-to-deposits ratio in Retail improved by 7.0pp yoy to 77.2%.

As a preferred customer choice in lending, UniCredit Bulbank grew its retail loans with 3.3% yoy to BGN 3.2bn, increasing its market share in total retail loans, consumer loans and small business financing. Newly-extended loan volume reached BGN 804m, 40% of which was SB lending and 37% - consumer lending. The attractive offers and dedicated commercial campaigns preserved UCB's leading market position in mortgages lending, while the structured approach to the payroll clients improved the ranking in consumer lending. Special attention was put on micro lending, as the Bank took active participation in several governmental programs, supporting small and micro business development.

By the end of 2011 and all throughout 2012 UniCredit Bulbank implemented its CRM systems, including analytical CRM, operational CRM and campaign management for individuals. Its objective is to provide further business opportunities for revenue generation and more versatile handling of campaigns throughout the entire branch network. Strong communication campaigns were carried throughout the year, focusing on the change of mindset and adoption of the customer centricity in both the branch network and the head office.

Channels

Over 2012 UniCredit Bulbank operates in 198 retail branches, offering a full range of products and services. In addition, the entity also maintains another 60 points of presence, expanding in retailers and trade centers - a synergy realized through the Bank's strong relationship with its partners. Responding to the ongoing market challenges, increased customer requirements and fast competitor moves, UCB took several strategic measures, among the most notable of which is Branch of the Future (BoF) – a pilot project of UniCredit in CEE. Its goal is to not only enhance the technological capabilities and business processes, but also to apply a new approach of handling customer demands, thus further improving the quality and efficiency of service in the selected branches.

In 2012 the Bank increased the role of the direct channels in the daily interactions with the customers (i.e. transactions, post-sale support, direct selling and pre-selling of bank products). On the one hand, the users of Online Banking grew with more than one third, accomplished through a strong commercial focus and an immense promotional process, targeting all account or card holders. On the other hand, the Mobile Banking application reaped huge market success soon after its realization – a fair start of a major initiative, part of the Bank's ambitious 5-Year-Plan and its commercial strategy. Moreover, the Call Center continued its transformation from a purely informative and supportive component to a business-oriented unit, successfully boosting the sales, especially of consumer loans and credit cards. In particular, the Call Center serviced 227 677 inbound and 235 147 outbound calls in 2012, which represents about 25% increase in activity. Special attention was also paid to the commercial role of the Bank's corporate website - a channel with huge potential for business generation. In this respect, new application forms for products were designed, including the Call Center.

The volume of business from third parties (i.e. companies and individuals intermediaries), offering the Bank's products to their clients, increased with more than 18% yoy. In this area, special stimulation campaigns for mortgages helped increase the volume of new business yoy even in a stagnating real estate and mortgage market. Specifically, the share of mortgages sold through third parties reached the highest rate (26%) for the last 4 years. A pilot project for direct pre-selling of consumer loans through strategic partners was also kicked off.

In 2012, the number of 2nd generation ATMs reached 18. A substantial improvement of the deposit function was implemented, which served as a basis for cash transactions' migration to the self-service areas of the busiest locations of the Bank. The total number of ATM installations (incl. the 2nd generation ATMs) went up to 670 at the end of the year.

Customer Segments

During 2012, a new position (the seller-teller) was created and combined the operative activities with the commercial ones. In order to support the sales, post-sales and back-office activities in Mass market, the sellers marketed common product and service functionalities, such as debit cards, small insurances and online/mobile banking.

In the Affluent segment, the personalized offers to different clusters of high value customers (i.e. dentists, sailors, and clients with Russian nationality) were among the most popular value propositions. The soft skills of the relationship managers (RM) were developed through the Regional Mentoring program, which provided couching

Retail Banking (continued)

and advanced selling skills training. In 2012, managers and owners of SMEs were allocated to the Affluent portfolio.

In the Small Business segment, customer activity was boosted through an increase in the usage of core products, such as package programs (+6.7% yoy), debit cards (+4.4% yoy), credit cards (+1.3% yoy) and online banking (+9.6% yoy). The Micro Lending initiative and the Agricultural Sector initiative helped increase the SME loan portfolio with 1.7% yoy and the number of customers with 3.6%. A new business model was developed in 2012, adding clients with Dormant and Marginal status to the portfolios, and introducing a new type of RM, relationship manager business clients development, with the major objective of new SME customers' acquisition.

Cards

Indicative of the Bank's established leadership on the cards market, the market share of issued Visa cards increased from 18.5% in Q4 2011 to 19.9% in Q3 2012. Over the period, gross expenditure volume through Visa cards increased with almost 6%. Even more significant was the growth of payments at merchants with POS terminals (16%). Cardholders increased their international usage, registering 17% higher expenditure volumes abroad, while the shift from cash withdrawals to POS purchases continued. The Bank also strengthened the V PAY brand value proposition by launching two innovative products - V PAY Donna debit card (a special loyalty program for female cardholders) and V PAY Lukoil (co-branded debit card providing cardholders with exclusive discounts at Lukoil petrol stations).

The number of merchant outlets with POS terminals serviced by UniCredit Bulbank increased with 20% yoy despite the stringent competition. An emphasis was put on servicing e-commerce merchants, resulting in more than 15% increase in their number. The merchants' POS volume also increased significantly (+46% for the period Q4 2011 – Q3 2012), placing UniCredit Bulbank as a leader on the market. In 2012 the entity excelled on the market by being the first to launch a very innovative service – non-attended POS terminals, as a part of the Pamporovo winter resort ticketing system.

Outlook for 2013

Even though the macroeconomic projections for 2013 call for another challenging year, UCB's Retail will continue its journey to growing the business, by staying close to its customers and concentrating on their satisfaction. The division plans for new customer acquisitions and product penetration improvements, as it strives to become the first choice for clients who want to do banking at competitive prices, while receiving quality service. Innovations in daily operations and new product developments are expected to make the organization customer friendlier and easier to deal with (e.g. implementation of a new concept branch).

In 2013, the Bank will perform to achieve sustainable revenue and profit growth levels, which will be assisted by the planned consolidation of its subsidiary, specialized in consumer lending (UniCredit Consumer Financing). Improvements in both consumer loans and small business financing are the main targets, also encompassing a higher attention on operational and credit risk. In parallel, the entity will continue developing its attracted funds' portfolio.

The year 2013 will be strongly influenced by the launch of a new line under the JEREMIE program. As it is expected to have a profound impact on the SME lending in Bulgaria, the Bank plans the development of products and initiatives, targeting specific customer groups, such as agricultural producers and freelancers. Moreover, the active cooperation and new proposals for joint funding with local and international financial institutions such as European Investment Bank, National Guarantee Fund, etc. will also be continued.

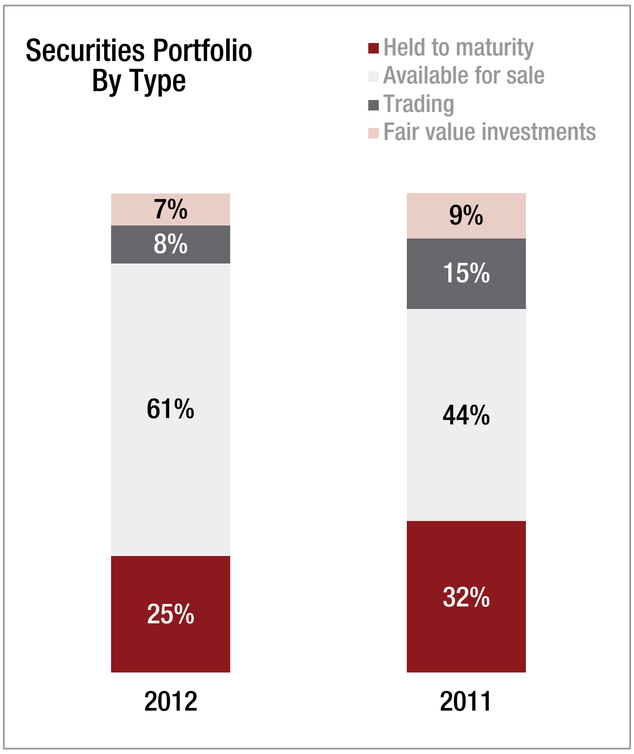
Asset and Liability Management

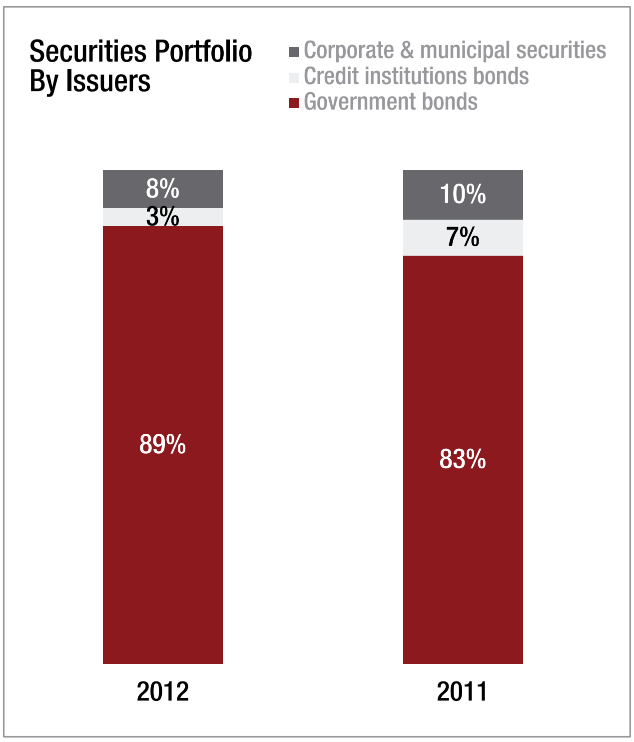
Customer deposits remained the main funding source for the Bank, growing more rapidly than loans in 2012 and contributing to a decrease of the loan/deposit ratio compared to 2011 – a continuation of the trend from the previous year. UniCredit Bulbank preserves its focus on retail and corporate deposits also in 2013, taking advantage of its excellent reputation, international franchising, variety of products and service quality.

In 2012, UniCredit Bulbank continued to maintain its mid-term and long-term wholesale funding sources diversified. With regards to purpose-tied financing, the funds originating from the existing supranational facilities (i.e. EIB and EBRD, some of them supplemented by EU grants) were further drawn down and allocated to final beneficiaries, supporting SME projects, and investments in energy efficiency and renewable energy. Additional loan agreements with EIB, CEB and the Bulgarian Development Bank (targeting SMEs), and EBRD (energy efficiency and green economy program for SMEs, incl. EU grants) were also concluded and partially utilized, ensuring beneficial pricing conditions to the Bank's customers. Active utilization of supranational funding was also planned for 2013 with a new CEB SME facility in the pipeline.

The general-purpose interbank funding was maintained optimal in terms of pricing, tenor and seniority, with the intra-group funding having the dominant share. The target that was finally achieved was to decrease the overall cost of funding for the Bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (already including Austrian Supervisory Guidance and preliminary calculations of BASEL III ratios) and meeting capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, abundant liquidity buffers being kept in the still tense international environment.

UniCredit Bulbank continued to pursue an active but conservative investment policy, compliant with strict internal limits and rules and taking into consideration both the short-term and the structural liquidity position of the Bank. The investment portfolio was structured with the goal to invest surplus liquidity, earning sufficient return on an acceptable risk basis. The securities portfolio also served as collateral for funds attracted from state budget entities and banking institutions. The Bank continued to optimize its assets structure by gradually increasing the volume of its investment bond portfolio from BGN 586m to BGN 618m. In line with the preliminary approved investment policy, the newly acquired bonds were issued by the Bulgarian government only. Thus, the share of Bulgarian government bonds (both domestic and global) in the investment portfolio increased, reaching more than 96% as of the end of 2012. The average rating of the investment portfolio was "BBB" (as per S&P).





Human Resources

In 2012, internal efficiency, process speed-up and service quality remained in the spotlight. HR activities were shaped by the merger of the HR departments of UniCredit Bulbank and UniCredit Consumer Financing, with UniCredit Leasing also joining in 2013. This resulted in more efficient and modern HR function, which is better equipped to meet the evolving needs of the business. A lot was achieved regarding the performance management process where the emphasis was on creating an environment in which people are motivated to excel and capitalize on their talents. This endeavor was supported by automation of the processes by an integrated IT platform for performance management.

The number of active employees (FTE) at Bank level stayed almost flat yoy (from 3 750 in 2011 to 3 752 in 2012), but the proportion of employees working in the head office to those in the branch network improved to 30:70 in 2012. Personnel costs were maintained at an optimal level, as a result of a prudent and conservative remuneration policy. Voluntary turnover during 2012 reached its lowest level of 3.52%, compared to 3.69% (2010) and 4.06% (2011). The solid reputation of UniCredit Bulbank as a responsible employer, the wide range of employer branding and graduate initiatives that were carried out, together with the application of innovative screening and testing methods in the HR area, significantly increased the volume and the quality of job applications which in turn secured an inflow of high-profile recruits. Overall, 335 new employees were hired (compared with 365 employees in 2011).

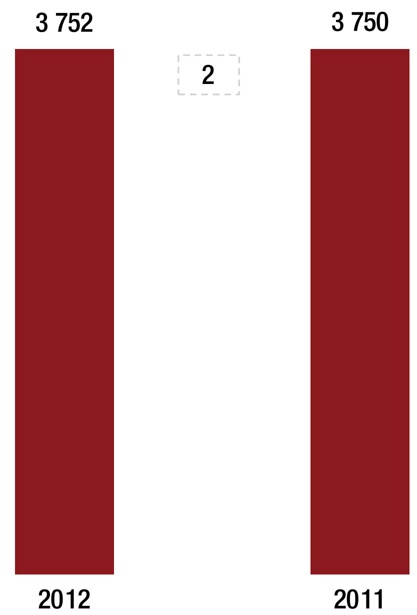
Several initiatives targeting the attraction of young talents were conducted, encompassing the participation in student career centers, job fairs at leading local universities and projects with external partners (such as Job Tiger, AISEC, BEST, etc.). This ensured the hiring of qualified young IT professionals to staff the growing needs of the technologically-innovative operations of the Bank.

The HR department offered an additional range of learning and development initiatives in 2012 while keeping the investment in training stable. The priorities of the learning function were consistent with the pattern of recent years, bringing sustainability to the areas in which the Bank is breeding business knowledge and skills. By combining the internal with UniCredit Group's resources, the leadership and managerial competencies of the employees were further enhanced - a task that transforms the company's strategy into effective action. The Executive Development Plan and the Talent Management programs' participants were offered a specialized development offer consisting of UniManagement learning labs, the UnBound project, the Generation-L program, on-the-job learning activities, and coaching and mentoring platforms. Middle management staff was also addressed by the establishment of a special facility dedicated to ensuring managerial continuity and easing the career development procedure.

Consistent with the Bank's precautious cost policy, a lighter version of the People Survey was launched in 2012, involving a representative sample of personnel. The engagement index results (85) were higher than the prior year (83) indicative of an increased satisfaction from the general working environment in the company.

In order to foster the continuous learning in the organization, the HR department provided all Bank employees with at least one training activity (i.e. e-learning, classroom or on-the-job training). The number of total training hours increased by 7% and amounted to more than 140 000, favored by events fostering interdivisional cooperation and organizational synergies, several compliance and risk-oriented electronic courses, CRM system workouts, CIB learning offers, and key communication competencies development.

Number of Bank Staff (FTEs)



Global Banking Services

In 2012, Global Banking Services (GBS) was concentrated on supporting operations and optimizing expenses. It dedicated its efforts to ensure consistent and effective work on all vital banking services, mobilizing people and technologies, which ended up in providing an indisputable advantage of UniCredit Bulbank on the market and over the competition. Chasing after this objective, the Bank piloted several important Group initiatives. Some of the undertakings reflected business opportunities and needs (such as CRM and BoF), while others focused on operational cost reductions (Mindset 440).

The Organization department's activities were devoted to the enhancement and automation of the project portfolio and demands' management, business processes' efficiency optimization, and cost management rules' application. In addition to CRM and BoF, a growing number of top-priority initiatives covered the areas of Cards business and Multichannel management, as they are envisioned to be among the key drivers of revenue growth and customer satisfaction.UniCredit Bulbank demand and project portfolio management was further strengthened and recognized as best practice in GBS CEE.

In the area of organizational models and efficiency a new methodology for processes' optimization (Lean SIX Sigma) was introduced. It is expected to reduce the complexity and increase the speed of procedures. The consumer loans and overdrafts processes were completely reviewed, resulting in evident reduction of documentation. Some restructurings were done in both back office (i.e. loan administration, payments and treasury) and the branches with the clear target to optimize the overhead and condense duplicated activities.

In IT, the year went under the sign of providing higher business value and cost optimization. This was achieved by introducing technologically innovative solutions (i.e. Oracle Database Consolidation project, EXADATA project, New Payment Gate application, Mobile phone migration and CVPN implementation, OS update and Service Desk System improvement). Most of the projects cut on time and expenses, while at the same time increasing efficiency, quality and productivity as well as speeding up the delivery of services. For a third consecutive year McKinsey positioned the IT Department of the Bank in the best "effective business enablers" quadrant, based on a survey among UniCredit Group entities.

In the field of Operations, operational excellence, service quality, headcount and operational risk optimizations helped to meet new business demands and increase in the transactional volumes (10% more payments, 22% more new loan deals, 13% and 22% more requests for ATMs and POS terminals respectively). In line with efficiency and costs optimizations, a paperless process was fully implemented in loan administration and new automated tool for new individual loan contracts was put in practice.

The Procurement function increased its coverage in the Bank, adjoining physical and technical security, cash management and additional marketing cost categories. Working in close cooperation with the other units of the Bank, the financial parameters of service were amended and more sophisticated controls with respect to external vendors were put in place, thus decreasing operational expenses and increasing the business units' capabilities to deliver a higher value to end customers.

Regarding Real Estate and Logistics' contribution, the Bank finalized the Branch Renovation program in 2012 with a total of 56 relocations, mergers and new branch openings, including the opening of Donna branch. Renegotiations of rental agreements under the UniCredit Group driven initiative (Mindset 440) were another achievement, with significant reduction of expenses.

In the course of 2013 GBS will remain focused on the traditional operational excellence areas, introducing new KPIs and exceling on the existing ones. Strict financial discipline, service level enhancements, increased cooperation and creative ideas will be required to assist the business divisions in meeting the clients' expectations before or better than the competition.

Customer Satisfaction Management

With respect to its mission and the strategic orientation towards its clients, people and local communities, the Bank has structured a set of activities focused on active listening and objective measurement of the perception of UniCredit Bulbank, its products, services and image. This happens through opinion surveys and direct management of complaints, compliments and recommendations filed by the stakeholders.

External Client Satisfaction

In Retail banking, the results (+9 points yoy to a total of 80) as measured by the official **TRI*M** index showed a huge advantage over the market, especially in customer service. In addition to the standard measurement activity on overall Bank and segment level in 2012, the focus was directed towards the regional performance. In Affluent and Small Business, the two premium segments of Retail, a special program was implemented for a second consecutive year, measuring the satisfaction on an individual portfolio basis for each relationship manager.

The Bank also preserved its leading position in Corporate Banking satisfaction, with the TRI*M score up by one point yoy. The interviewed customers - both own and competitor ones' identified as main strengths the Bank's stable lending capabilities, its employees' advisory professionalism and know-how, and dedicated branches for operational service. In Private Banking, the TRI*M score reached the outstanding 98 TRI*M points after the fourth consecutive increase in 2012.

Internal Client Satisfaction

In order to better service clients and improve customer satisfaction, UCB measured the satisfaction of the interaction and internal service between the different structures in the Bank. The Internal Customer Satisfaction Survey was performed for a fourth consecutive year with the level of satisfaction among the highest in CEE.

Complaints Management

The Complaints management process is structured in accordance with the Global Compliance Guidelines, allowing for a better understanding of the reasons behind complaints. In 2012, 85% of all complaints were answered within 3 working days, which is among the best practices on the Bulgarian banking market. Additional analyses of results were performed in order to identify repeated issues and system malfunctions, and plan the respective corrective measures. A post-complaint study was also put in practice, conducting interviews with clients who filed complaints within 10 days after providing an official answer to the complaint.

Mystery Shopping

The Mystery Shopping Survey was performed continuously in the last six years with a stable trend of improvement on an annual basis, starting from 60% compliance with the service standards and reaching an overall bank result of above 85% in 2012.

Reputation Management

Following Group guidelines and the International Reputation Institute methodology, for a third consecutive year, the Bank implemented a dedicated survey in order to better understand its image and reputation. UniCredit Bulbank's reputation was measured among respondents from all customers segments, community opinion makers and Bank employees. UniCredit Bulbank's RepTrack Pulse score increased by 4 points yoy in line with the market trend. The leading position was reaffirmed with the positive gap between the average results of our peers widening to 4 points. These results showed that the Bank's reputation remains strong on both rational and emotional level.

Corporate Social Responsibility and Sustainable Development

UniCredit Bulbank is among the most socially engaged business companies in Bulgaria. In fulfillment of its mission to contribute actively to the development of the local communities, the Bank has set the goal to support and develop valuable sustainable projects with established social benefits and track record of good practices. Several significant projects in the social sphere were implemented over the past few years, which were 100% financed by the corporate foundation of UniCredit Group – UniCredit Foundation. In 2012 only, about BGN 0.5m were donated to charity projects as a result of the Bank's and the Foundation's cooperation.

It is not just the financial support that the company has provided for the proliferation of the cause Social Responsibility and Sustainability. The Bank's top management members, led by the CEO, have personally contributed to the cause and promoted various socially useful projects in the fields of health and social services, sports, art and culture, voluntary work, and leadership and education.

With regard to health and social service, UniCredit Bulbank has been maintaining a sustainable partnership with www.save-darina.org for two years now. This is achieved through donating a certain percentage of the revenues from all Donna products for the treatment of ailing children. UniCredit Foundation, together with Tulip Foundation, developed another important project (Trust in the Family) which currently plans to assist at least 250 children and their families at risk stay together and prevent the abandonment of children in institutions. The total financing of the project was at BGN 180 thousand. In order to better suit the project, the Tulip Foundation has been training social workers on how to organize the so-called family meetings and help the families resolve the issues – an endeavor present in the program of the Ministry of Labor and Social Policy. In addition to that, UniCredit Bulbank supported the local communities by donating BGN 70 thousand to those affected by the floods in Biser, Leshnikovo, Svilengrad and Kostinbrod.

UniCredit Group promoted mainly two types of sports in 2012. The first one was football, and especially UEFA Champions League, whose official sponsor UniCredit has been since the season 2009/2010 and just renewed its second three-year partnership until 2015. Besides football, the name of UniCredit Bulbank has closely been linked to golf, particularly UniCredit PGA Professional Championship of Europe, in which 60 top professionals from more than 30 European countries, members of PGA (the Professional Golfers' Association) participated. The prestigious championship turned into a yearly event, which placed Bulgaria on the map of the prestigious golf events in Europe.

Furthermore, the Bank took an active role making sports available to the children by joining in the making of a new sports playground in Poduene.

Being a member of a leading European financial group, UniCredit Bulbank is closely involved in the establishment of long-lasting partnerships in the fields of art and culture. In January 2012 the UniCredit Studio, a gallery for contemporary art, was open and has so far hosted five exhibitions of more than 20 Bulgarian and foreign artists. The mission of the studio is to present young and creative Bulgarian and international authors by providing a platform for their modern art exhibitions. A noteworthy fact is that Bulgaria was selected among over 20 other European countries to host the second UniCredit Studio after the Italy-based frontrunner.

Voluntary work and care for the environment are probably the most notable activities of the Bank's corporate social responsibility and sustainable environment attitude, as nearly four thousand employees were enabled to participate at their own will. Apart from the donation of funds every year, in 2012 UniCredit Bulbank's employees were keen on joining the traditional Blood Donation campaign. The employees also organized charity markets for Christmas and Easter. The Bank facilitated their participation in the National Green Program by organizing UniCredit Bulbank Green Day for a second time in 2012.

With respect to leadership and education, UniCredit Bulbank's CEO participated as a lecturer in initiatives aimed at promoting leadership skills among young people. In 2012, he gave a lecture for the organization Together in Class, for students at both the University of National and World Economy and the American College in Bulgaria. Also, CEO and COO have been hosting the initiative Manager for One Day and letting talented and ambitious people observe them in their working day. UniCredit Bulbank traditionally supports classes of banking studies at the National Trade and Banking High School. Last year the UniCredit Junior class of banking studies won a prize for its advertising campaign. The foundation UniCredit and Universities makes available to young Bulgarians international grants for Ph.D. and Masters programs.

In conclusion, UniCredit Bulbank's selection of causes to support is determined by the desire to lay the foundations of long-term and sustainable practices. The major activities which the Bank will continue to support comprise sponsorship of social events, cooperation based on various agreements, environmentally responsible initiatives and voluntary work.

UniCredit Bulbank Activity Review (continued)

Major Subsidiaries and Associates

UniCredit Consumer Financing

In 2012, the outstanding loan volume of the non-banking financial sector, comprising of companies specialized in lending, faced a shrinkage, while UniCredit Consumer Financing's (UCFin) loans continued their steady growth trend. UCFin assets grew by 25% and reached BGN 253m, with positive contribution of all business lines – POS, customer value management (CVM) and Banking. UniCredit Consumer Financing AD increased its POS business position, grabbing over 30% on the market of non-banking financial institutions. POS distribution model remained stable through 68% large and 32% small dealers, but there were more demanding partners and a massive competition revival. In such a situation, new acquisition channels were explored, such as external call centers and the internet, and joint commercial initiatives were launched together with UniCredit Bulbank in order to acquire new clients, increase market share and cross-selling. CVM performance kept growing (+4% vs. 2011), reaching a mature development stage. The consumer loans produced with the Bank accelerated in 2012 with a focus on payroll clients and a great cooperation between the Bank and its subsidiary.

UniCredit Consumer Financing AD reported a net profit of BGN 21.3m, mostly due to strong growth in revenues (+13% vs. 2011) and vivid personal loan production. The revenue structure pursued its trend of higher income from personal loans generated through the Bank's channel (50% in 2012). Despite new volume growth, the short maturity of POS loans reduced its share in interest income, while CVM remained stable. Operating costs amounted to BGN 16.2m, growing at a slower pace than revenues, as a result of yet another year of outstanding cost control. As a result, net operating income reached BGN 28.9m, well above last year's figure.

The entity's fine profitability was also facilitated by the high quality of the loan portfolio due to strong underwriting activities and a tremendous hike in collections. In 2012 just 13% of total outstanding loans were in a classified category other than "standard" (i.e. 11% on "watch list" and 2% were more than 120 days overdue). The outstanding results provoked the Group's decision to create a Risk Center of Excellence in Bulgaria, serving reporting and modeling for the consumer finance business of UniCredit Group in CEE. In addition, UniCredit Consumer Financing AD took care of UniCredit Bulbank's early collection stage for non-secured loans.

Even though it is expected that the competition among the banking and non-banking players will remain fierce in 2013, the company will direct its resources towards market leadership preservation and sustainable internal capital generation. Major growth opportunities will come with the full consolidation of the consumer finance business in Bulgaria, allowing for new business acquisitions through cross-selling of cash loans and further domination in POS, as an acquisition engine for new customers. Cost optimizations, strong risk management and easier funding are also on the agenda to guaranteeing a competitive product offer and a long term sustainable growth.

UniCredit Leasing

In 2012 UniCredit Leasing's consolidated net profit amounted to BGN 2.0m, -49% yoy due to significant one-off positive effects in 2011 and decreasing leasing portfolio in 2012. Net revenues amounted to BGN 28.3m (27% less than 2011). Staff expenses remained stable at BGN 6.2m, while administrative costs increased by 5% to BGN 4.1m. Depreciation of fixed assets decreased by 70% to BGN 0.3m due to complete depreciation being reached for certain assets in 2012. The level of loan loss provisions decreased by 15% to BGN 15.7m. Net investment in finance lease amounted to BGN 476.3m, down by 9% yoy.

There was a stable improvement in the asset quality over the year. Total defaulted loans were 12% lower yoy. Performing loans remained stable with a slight increase of 1.4%, reaching BGN 341.3m. With strong recovery actions performed throughout 2012, the company managed to significantly improve its coverage ratio on defaulted loans. The coverage ratio on defaulted loans reached 46.2% (vs. 36.7% in the prior year) and the coverage ratio on total portfolio reached about 20%.

Following the strategic decision of UniCredit Group for closer cooperation between the leasing companies and the banks, UniCredit Leasing continued exploiting all the business opportunities and synergies. In particular, all the contracts with common suppliers were thoroughly reviewed and renegotiated (where applicable) till the end of 2012, thus matching the best conditions offered to the Group in Bulgaria. Leasing revenues are expected to grow, capitalizing on the Bank's multichannel and vendors' network. There are opportunities to increase insurance brokerage services provided by UniCredit Insurance Broker, by targeting Group clients and third parties. Sales efforts will also be concentrated on vehicles and standard equipment, while the selective approach will be kept with respect to real estate projects. The constant strive for internal processes simplification, coupled with the planned marketing events and the continuous launch of new tailor-made leasing products and innovative solutions (especially in insurance), will further support the execution of the business targets and customers satisfaction upward trend.

UniCredit Factoring

UniCredit Factoring realized a net profit of BGN 2.7m (23% higher yoy), resulting from new business volumes, development of the existing client portfolio and improved asset quality. Factoring turnover grew by 50%, reaching BGN 1.1bn and the outstanding debt average reached BGN 86m in 2012 (33% higher than 2011). Over the reported period the company passed through organizational changes, targeting business growth and operational optimizations. In particular, the sales department structure was modified in order to ease collaboration with the others' Group entities' sales forces. Existing internal processes were reengineered too in order to facilitate efficient and sustainable business growth. As of product and business development, the company continued to promote and

Major Subsidiaries and Associates

reinforce the recently-established (in 2011) non-recourse products, both domestic and export, as well as import factoring. Thus, factoring turnover grew with 54% yoy in domestic with recourse, 23% in export and 44% in import.

By careful selection of customers and a shift of business activity to sectors with more stable inflow, the credit risk management function worked in the direction of excelling asset quality. In effect, at the end of the reporting period the non-performing exposures decreased with 86% yoy to 0.5% of the total portfolio.

In 2013, the company is planning to continue the trend for closer cooperation with other UniCredit companies in Bulgaria, aiming to increase the Group's presence on the market and enforce wider product portfolio, covering a larger pool of corporate customers. Further investments in the visibility of the factoring concept on the Bulgarian market are also planned, as the general public is still widely uninformed about the benefits of the service. The company will strive to offer higher quality standards to its clients through business processes' simplification and enhanced customization and flexibility of the factoring solutions.

Hypovereins Immobilien

Hypovereins Immobilien, a non-financial company specialized in providing transport and car fleet management services to UniCredit Bulbank, had 5.5 FTE and operated a total of 180 motor vehicles as at December 31, 2012. The company's net profit amounted to BGN 306 thousand, representing around 30% increase compared to the result reported by the end of 2011. While keeping the total revenues out of main activity and total costs virtually unchanged compared to the prior year, the growth was primarily driven by the realized profits on disposal of unused cars. In 2013 the entity will be primarily focused on cost optimization without sacrificing the quality of the services provided to the Bank. The investment plan for 2013 envisages replacement of between 25 and 30 cars.

PLANNING

State-subsidized home loans made easy

"Zagrebačka Banka helped me to resolve my personal and professional financing challenges. I previously worked in Zagreb, where I lived in a rented apartment. When I found another job in my hometown of Split, the bank helped me to secure a state-subsidized loan that allowed me to move back and buy a house. My personal banker was highly skilled and engaged, and my loan application was processed quickly and approved immediately."

Goran Dlaka, customer of Zagrebačka Banka in Croatia

Unconsolidated Financial Statements

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
UniCredit Bulbank AD

Report on the Unconsolidated Financial Statements

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 2012, the unconsolidated income statement, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

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

20 YEARS

Independet Auditors' Report (continued)

KPMG

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

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

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 19 February 2013

Income Statement

In thousands of BGN

	Notes	2012	2011
Interest income		638,019	649,355
Interest expense		(231,852)	(206,365)
Net interest income	7	**406,167**	**442,990**
Dividend income		**10,248**	**7,600**
Fee and commission income		162,378	143,642
Fee and commission expense		(8,157)	(8,657)
Net fee and commission income	8	**154,221**	**134,985**
Net gains (losses) on financial assets and liabilities held for trading	9	60,400	46,211
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	2,698	(1,603)
Net income from investments	11	734	199
Other operating income, net	12	4,905	6,005
TOTAL OPERATING INCOME		**639,373**	**636,387**
Net income related to property, plant and equipment	13	1,006	2,736
Personnel expenses	14	(101,909)	(98,321)
General and administrative expenses	15	(116,492)	(114,792)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(36,339)	(34,216)
Provisions for risk and charges	17	5,931	(4,426)
Net impairment loss on financial assets	18	(154,682)	(136,127)
PROFIT BEFORE INCOME TAX		**236,888**	**251,241**
Income tax expense	19	(24,392)	(24,665)
PROFIT FOR THE PERIOD		**212,496**	**226,576**

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

1

Statement of Comprehensive Income

In thousands of BGN

	Notes	2012	2011
Profit for the period		**212,496**	**226,576**
Other comprehensive income:			
Available for sale investments		36,943	(1,846)
Cash flow hedge		(1,127)	(1,906)
Income tax relating to components of other comprehensive income		(3,581)	376
Other distribution		(30)	(37)
Total other comprehensive income for the year net of tax		**32,205**	**(3,413)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**244,701**	**223,163**

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Statement of Financial Position

In thousands of BGN

	Notes	2012	2011
ASSETS			
Cash and balances with Central Bank	20	906,397	886,703
Financial assets held for trading	21	80,697	129,174
Derivatives held for trading	22	124,265	112,024
Financial assets designated at fair value through profit or loss	24	69,626	79,682
Loans and advances to banks	25	1,713,901	1,893,753
Loans and advances to customers	26	8,546,838	7,812,435
Available for sale investments	27	634,769	383,947
Held to maturity investments	28	254,997	273,247
Investments in subsidiaries and associates	29	27,499	27,499
Property, plant, equipment and investment properties	30	206,206	218,244
Intangible assets	31	27,707	31,734
Current tax assets	32	1,918	-
Deferred tax assets	33	7,797	6,964
Non-current assets and disposal group classified as held for sale	34	-	797
Other assets	35	55,915	47,445
TOTAL ASSETS		**12,658,532**	**11,903,648**
LIABILITIES			
Financial liabilities held for trading	36	121,667	88,386
Derivatives used for hedging	23	7,669	6,027
Deposits from banks	37	1,835,550	2,164,333
Deposits from customers	38	8,227,899	7,293,666
Subordinated liabilities	39	218,643	216,710
Provisions	40	31,409	38,912
Current tax liabilities	32	-	6,218
Deferred tax liabilities	33	18,398	18,282
Other liabilities	41	66,530	66,778
TOTAL LIABILITIES		**10,527,765**	**9,899,312**
EQUITY			
Share capital		285,777	285,777
Revaluation reserves		148,892	117,212
Retained earnings		1,483,602	1,374,771
Profit for the period		212,496	226,576
TOTAL EQUITY	42	**2,130,767**	**2,004,336**
TOTAL LIABILITIES AND EQUITY		**12,658,532**	**11,903,648**

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3

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property revaluation reserve	Available for sale investments revaluation reserve	Cash flow hedge reserve	Total
Balance as of January 1, 2011	**263,911**	**205,500**	**1,179,689**	**144,866**	**(10,504)**	**(2,289)**	**1,781,173**
Profit for the period	-	-	226,576	-	-	-	**226,576**
Transfer of revaluation reserve on non-current assets disposed of	-	-	11,485	(11,485)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(1,846)	-	**(1,846)**
Change of revaluation reserve on cash flow hedges	-	-	-	-	-	(1,906)	**(1,906)**
Other distribution	-	-	(37)	-	-	-	**(37)**
Income tax relating to components of other comprehensive income	-	-	-	-	185	191	**376**
Total other comprehensive income for the year net of tax	-	-	**11,448**	**(11,485)**	**(1,661)**	**(1,715)**	**(3,413)**
Total comprehensive income for the year net of tax	-	-	**238,024**	**(11,485)**	**(1,661)**	**(1,715)**	**223,163**
Dividends paid	-	-	(158,744)	-	-	-	**(158,744)**
Increase of capital	21,866	136,878	-	-	-	-	**158,744**
Balance as of December 31, 2011	**285,777**	**342,378**	**1,258,969**	**133,381**	**(12,165)**	**(4,004)**	**2,004,336**
Profit for the period	-	-	212,496	-	-	-	**212,496**
Transfer of revaluation reserve on non-current assets disposed of	-	-	555	(555)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	36,943	-	**36,943**
Change of revaluation reserve on cash flow hedges	-	-	-	-	-	(1,127)	**(1,127)**
Other distribution	-	-	(30)	-	-	-	**(30)**
Income tax relating to components of other comprehensive income	-	-	-	-	(3,694)	113	**(3,581)**
Total other comprehensive income for the year net of tax	-	-	**525**	**(555)**	**33,249**	**(1,014)**	**32,205**
Total comprehensive income for the year net of tax	-	-	**213,021**	**(555)**	**33,249**	**(1,014)**	**244,701**
Dividends paid	-	-	(118,270)	-	-	-	**(118,270)**
Balance as of December 31, 2012	**285,777**	**342,378**	**1,353,720**	**132,826**	**21,084**	**(5,018)**	**2,130,767**

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4

Statement of Cash Flows

In thousands of BGN

	Notes	2012	2011
Net profit		**212,496**	**226,576**
Current and deferred tax income, recognised in income statement		(6,437)	(4,806)
Current and deferred tax expenses, recognised in income statement		30,829	29,471
Adjustments for non-cash items			
Depreciation and amortisation	16	35,240	32,926
Impairment of financial assets	18	170,151	140,785
Impairment of long term assets	16	1,099	1,290
Provisions, net	40	(5,446)	5,551
Unrealised fair value losses (gains) through profit or loss, net		23,809	(24,216)
Unrealised gains on FX revaluation		(1,030)	(188)
Net income from sale of PP&E and liquidation of associates		(1,048)	(3,027)
Net interest income		(406,167)	(442,990)
Dividend income		(10,248)	(7,600)
Increase in other accruals		9,505	19,024
Cash flows from profits before changes in operating assets and liabilities		**52,753**	**(27,204)**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		965,177	(1,205,741)
(Increase) in loans and advances to customers		(910,252)	(473,966)
(Increase) in available for sale investments		(213,718)	(103,600)
Decrease in financial instruments held for trading and hedging derivatives		48,418	31,726
Decrease in financial instruments at fair value trough profit or loss		6,388	27,389
(Increase) in other assets		(840)	(17,686)
Change in operating liabilities:			
(Decrease) in deposits from banks		(326,825)	(400,747)
Increase in amounts owed to customers		940,904	738,806
Provisions utilization		(1,703)	(1,396)
Increase (decrease) in other liabilities		(23,487)	18,285
Interest received		635,769	648,190
Interest paid		(226,998)	(200,445)
Dividends received		10,248	7,600
Taxes paid		(30,610)	(17,335)
Net cash flow from operating activities		**925,224**	**(976,124)**
Cash flow from investing activities			
Cash payments to acquire tangible assets		(13,632)	(19,905)
Cash receipt from sale of tangible assets		2,596	16,095
Cash payments to acquire intangible assets		(7,607)	(11,842)
Cash receipt from sale of intangible assets		172	-
Cash receipt from liquidation of associates		42	-
Cash receipts from redemption of held to maturity investments		15,464	21,807
Net cash flow from investing activities		**(2,965)**	**6,155**

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Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2012	2011
Cash flow from financial activities			
Dividends paid		(118,270)	(158,744)
Capital increase		-	158,744
Other cash payments related to financing activities		(30)	(37)
Net cash flows from financial activities		**(118,300)**	**(37)**
Effect of exchange rate changes on cash and cash equivalents		**416**	**(29,751)**
Net increase in cash and cash equivalents		**804,375**	**(999,757)**
Cash and cash equivalents at the beginning of period	46	**1,573,419**	**2,573,176**
Cash and cash equivalents at the end of period	46	**2,377,794**	**1,573,419**

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6

Notes to Unconsolidated Financial Statements

1. Reporting entity

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

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

The Bank operates through its network comprising of 206 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. They should be read in conjunction with the consolidated financial statements which were approved by the Management Board of the Bank on February 19, 2013. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

These financial statements are approved by the Management Board of UniCredit Bulbank AD on February 19, 2013.

(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 properties measured at revalued amount based on independent appraiser’s valuation;
- liability for defined benefit obligation presented as fair value of defined benefit obligation plus unrecognized actuarial gains and less unrecognized actuarial losses.

(c) Functional and presentation currency

These 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**.

3. Significant accounting policy

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

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

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

In thousands of BGN

DESCRIPTION	2011 PRESENTATION	2012 COMPARATIVE PRIOR YEAR PRESENTATION	AMOUNT
Realized gains on FX deals with customers	Fee and commission income	Net gains (losses) on financial assets and liabilities held for trading	29,881

(a) Interest income and expense

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

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis;

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

(b) Fee and commission income and expenses

Fee and commission income and expense arise on financial services provided/received and are recognized upon rendering/receiving of the corresponding service.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

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

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

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at the official Bulgarian National Bank foreign exchange rate effective at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate effective at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates effective at the dates that the values were determined. As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

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

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

(f) Dividend income

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

(g) Lease payments made

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

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

(h) Financial instruments

(i) Recognition

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

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

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

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

d) Loans and advances to banks and customers

Loans and advances to banks and customers are instruments where the Bank provides money to a debtor other than those created with the intention of short-term profit taking or selling in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

e) Available for sale investments

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

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

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 (2008) "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 **39**).

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on the measurement date.

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

(i) Impairment

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

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

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

(i) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures. Loans and advances are presented net of allocated allowances for impairment. Impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances. Impairment allowances on portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on previous experience, late payments of interest, principals or penalties. Increases in the allowance account are recognized in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is directly written off.

Assets classified as held to maturity are assessed for impairment on a semi-annual basis based on available market data. Review is performed and decision is taken my Assets and Liabilities Committee (ALCO) of the Bank.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through profit or loss thus increasing the amortized cost to the amount that never exceeds the amortised cost had the loan never been impaired.

(ii) Financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as available for sale financial investments.

Where an asset remeasured to fair value directly through other comprehensive income is impaired, and a write down of the asset was previously recognized directly in other comprehensive income, the write-down is transferred to profit or loss and recognized as part of the impairment loss.

Where 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 out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

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

Fair value hedge

When a 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, equipment and investment property

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

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

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

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

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

Properties acquired upon foreclosure procedure, which are neither intended to be used in the ordinary activity of the Bank nor kept as investment properties, are presented in other assets in accordance with IAS 2 "Inventories" (see also Note **35**)

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

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

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

	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, 2012 and December 31, 2011 intangible assets includes primarily investments in software and related licenses.

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

(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, 2012 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(o) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of

Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary, hired by the Bank, using the projected unit credit method. To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the “corridor” approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

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

(ii) Defined benefit obligation (continued)

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

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

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

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

As of December 31, 2012 and December 31, 2011 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(p) Share capital and reserves

(i) Share capital

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

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

In May 2011 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 158,744 thousand through issuing 21,865,500 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2011 the share capital of the Bank amounts to BGN 285,777 thousand. No changes in the share capital were performed in 2012.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve. As of December 31, 2012 and December 31, 2011 the reserves includes also the premium of newly issued shares corresponding to the difference between the issuing price and the face value.

(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 did not represent a change in accounting policy as the business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

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

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

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

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

  The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.
- Amended IAS 19 Employee Benefits shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. If the Bank were to adopt the amendments from 1 January 2012, the impact would be a debit to other comprehensive income for the year ending 31 December 2012 of BGN 767 thousand, debit to deferred tax asset of BGN 85 thousand and a credit to defined benefit obligation of BGN 852 thousand (See also Note 40) .
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Company's accounting policy.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities i shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank is currently evaluating the changes but does not expect the Amendments to have any impact on the financial statements.
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Interpretation to have any impact on the financial statements since the Bank does not have any stripping activities.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Amendments to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

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

The actual effective dates for them will depend on the endorsement decision by the EC.

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. Starting from Q2 2011 UniCredit Bulbank AD applies the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA.

(b) Market risks

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

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

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

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the mark to market of all investment positions regardless of their recognition in the IFRS-based financial statements (“total return”).

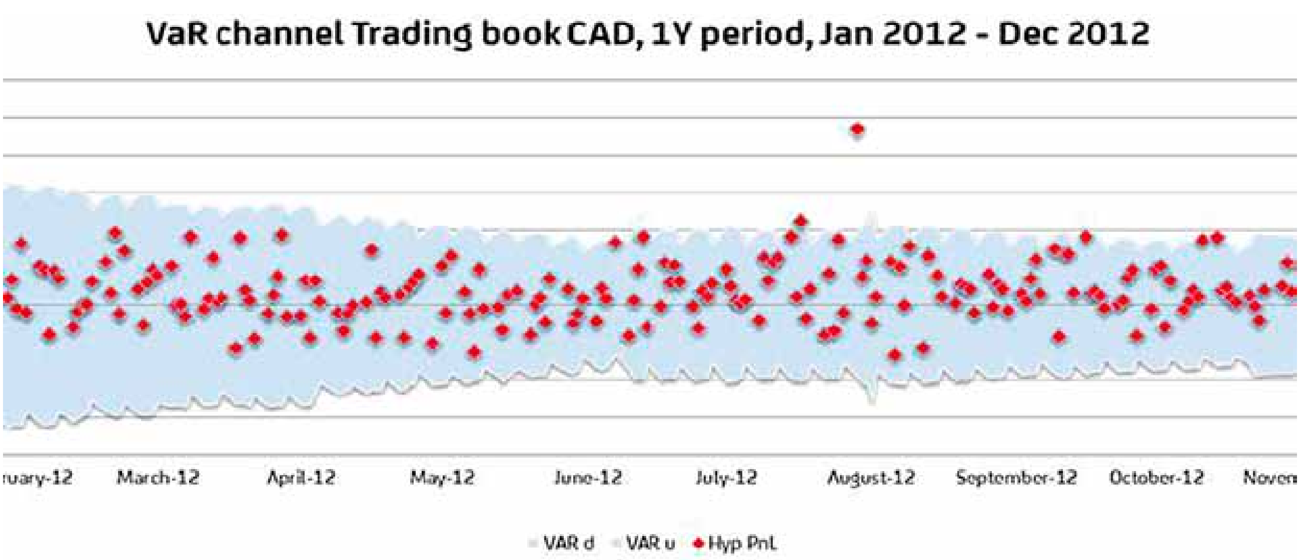
During 2012, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 2.59 million and EUR 3.99 million, averaging EUR 3.12 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

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

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.78	2.78	2.11	2.40
Credit spread	1.70	3.31	2.47	3.25
Exchange rate risk	0.02	0.09	0.02	0.02
Vega risk	0.00	0.00	0.00	0.00
VaR overall	**2.59**	**3.99**	**3.12**	**3.76**

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

Back-testing results for 2012 confirm the reliability of used internal model. There were no negative back-testing excesses during 2012.



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

The following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (trading and banking book) as of December 31, 2012 (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	7,220	21,546	(16,125)	(72,996)	(510)	(60,865)
CHF	(316)	887	(44)	(62)	3	468
EUR	12,290	27,319	(7,680)	(3,573)	(525)	27,831
GBP	(148)	(174)	24	-	-	(298)
USD	(2)	65	-	-	-	63
AUD	134	(1,593)	(15,483)	31	-	(16,911)
Total sensitivity	**20,110**	**51,584**	**39,356**	**76,662**	**1,039**	**106,436**

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

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and dramatic deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up to 60 days are reported at least monthly to ALCO. In 2012 the Bank's Management continued vigilant risk management practices by steering risk- taking capacity and focus on client-driven business.

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.

SP Basis Point Shift

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

As of December 31, 2012 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	896,657	9,740	**906,397**
Financial assets held for trading	80,657	40	**80,697**
Derivatives held for trading	110,940	13,325	**124,265**
Financial assets designated at fair value through profit or loss	65,832	3,794	**69,626**
Loans and advances to banks	1,693,184	20,717	**1,713,901**
Loans and advances to customers	8,287,191	259,647	**8,546,838**
Available for sale investments	529,567	105,202	**634,769**
Held to maturity investments	106,431	148,566	**254,997**
Investments in subsidiaries and associates	27,499	-	**27,499**
Property, plant, equipment and investment properties	206,206	-	**206,206**
Intangible assets	27,707	-	**27,707**
Current tax assets	1,918	-	**1,918**
Deferred tax assets	7,797	-	**7,797**
Other assets	55,714	201	**55,915**
TOTAL ASSETS	**12,097,300**	**561,232**	**12,658,532**
LIABILITIES			
Financial liabilities held for trading	109,710	11,957	**121,667**
Derivatives used for hedging	4,669	3,000	**7,669**
Deposits from banks	1,807,420	28,130	**1,835,550**
Deposits from customers	7,530,093	697,806	**8,227,899**
Subordinated liabilities	218,643	-	**218,643**
Provisions	12,870	18,539	**31,409**
Deferred tax liabilities	18,398	-	**18,398**
Other liabilities	64,999	1,531	**66,530**
TOTAL LIABILITIES	**9,766,802**	**760,963**	**10,527,765**
EQUITY	**2,130,767**	**-**	**2,130,767**
Net off-balance sheet spot and forward position	**(213,740)**	**199,815**	**(13,925)**
Net position	**(14,009)**	**84**	**(13,925)**

As of December 31, 2011 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	878,094	8,609	**886,703**
Financial assets held for trading	124,016	5,158	**129,174**
Derivatives held for trading	95,721	16,303	**112,024**
Financial assets designated at fair value through profit or loss	74,068	5,614	**79,682**
Loans and advances to banks	1,880,097	13,656	**1,893,753**
Loans and advances to customers	7,576,455	235,980	**7,812,435**
Available for sale investments	355,136	28,811	**383,947**
Held to maturity investments	119,038	154,209	**273,247**
Investments in subsidiaries and associates	27,499	-	**27,499**
Property, plant, equipment and investment properties	218,244	-	**218,244**
Intangible assets	31,734	-	**31,734**
Deferred tax assets	6,964	-	**6,964**
Non-current assets and disposal group classified as held for sale	797	-	**797**
Other assets	47,286	159	**47,445**
TOTAL ASSETS	**11,435,149**	**468,499**	**11,903,648**
LIABILITIES			
Financial liabilities held for trading	73,734	14,652	**88,386**
Derivatives used for hedging	2,455	3,572	**6,027**
Deposits from banks	2,097,393	66,940	**2,164,333**
Deposits from customers	6,625,244	668,422	**7,293,666**
Subordinated liabilities	216,710	-	**216,710**
Provisions	19,747	19,165	**38,912**
Current tax liabilities	6,218	-	**6,218**
Deferred tax liabilities	18,282	-	**18,282**
Other liabilities	65,490	1,288	**66,778**
TOTAL LIABILITIES	**9,125,273**	**774,039**	**9,899,312**
EQUITY	**2,004,336**	**-**	**2,004,336**
Net off-balance sheet spot and forward position	**(280,395)**	**302,744**	**22,349**
Net position	**25,145**	**(2,796)**	**22,349**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results from regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or name-driven crisis signals, with assumptions also being made about behaviour of non-bank clients. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' risk-taking capacity over two months horizon. The extreme scenario (combining market- and a name-driven crisis) was covered without exceptions during 2012, meaning that under assumed stress conditions the Bank would be able to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2012	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	**1,835,550**	**(1,927,297)**	(170,395)	(13,849)	(79,906)	(1,663,147)
Deposits from customers	**8,227,899**	**(8,292,839)**	(2,456,225)	(1,587,219)	(2,749,156)	(1,500,239)
Subordinated liabilities	**218,643**	**(242,064)**	-	-	-	(242,064)
Issued financial guarantee contracts	**18,494**	**(13,626)**	-	-	-	(13,626)
Unutilized credit lines	**-**	**(1,245,507)**	(18,683)	-	(230,419)	(996,406)
Total non-derivative instruments	**10,300,586**	**(11,721,333)**	**(2,645,303)**	**(1,601,068)**	**(3,059,481)**	**(4,415,482)**
Trading derivatives, net	**2,598**					
Outflow		**(2,658,172)**	(1,369,465)	(366,675)	(569,174)	(352,858)
Inflow		**2,664,528**	1,358,471	367,342	570,968	367,747
Derivatives used for hedging, net	**7,669**					
Outflow		**(9,785)**	(2,546)	(253)	(1,356)	(5,630)
Inflow		**2,086**	373	37	207	1,469
Total derivatives	**10,267**	**(1,343)**	**(13,167)**	**451**	**645**	**10,728**
Total financial liabilities	**10,310,853**	**(11,722,676)**	**(2,658,470)**	**(1,600,617)**	**(3,058,836)**	**(4,404,754)**

MATURITY TABLE AS AT 31 DECEMBER 2011	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	**2,164,333**	**(2,278,985)**	(905,578)	(16,962)	(160,053)	(1,196,392)
Deposits from customers	**7,293,666**	**(7,343,286)**	(2,418,077)	(1,513,118)	(2,112,520)	(1,299,571)
Subordinated liabilities	**216,710**	**(256,748)**	-	-	-	(256,748)
Issued financial guarantee contracts	**20,670**	**(20,670)**	-	-	-	(20,670)
Unutilized credit lines	**-**	**(1,170,899)**	(17,564)	-	(216,616)	(936,719)
Total non-derivative instruments	**9,695,379**	**(11,070,588)**	**(3,341,219)**	**(1,530,080)**	**(2,489,189)**	**(3,710,100)**
Trading derivatives, net	**23,638**					
Outflow		**(1,713,883)**	(910,150)	(140,575)	(463,425)	(199,733)
Inflow		**1,740,935**	917,490	144,731	475,275	203,439
Derivatives used for hedging, net	**(6,027)**					
Outflow		**(13,765)**	(2,341)	(95)	(1,701)	(9,628)
Inflow		**7,691**	879	90	1,302	5,420
Total derivatives	**17,611**	**20,978**	**5,878**	**4,151**	**11,451**	**(502)**
Total financial liabilities	**9,712,990**	**(11,049,610)**	**(3,335,341)**	**(1,525,929)**	**(2,477,738)**	**(3,710,602)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2012 and December 31, 2011 is as shown in the next table:

In thousands of BGN

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

(ii) Credit risk in the banking book

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

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

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

Objective impairment indicators are those “loss events” that have occurred after initial recognition of the exposure and which have an impact on the exposure estimated future cash flows. In order to provide consistency in the risk measurement, the Bank assumes existence of objective impairment indicators in case of occurrence of a default event as per the approved “Methodology paper on Default according to Basel II”.

Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based). For all exposures that are not defaulted, impairment assessment is done on a portfolio basis combining exposures with similar credit characteristics. The Bank adopts Expected Loss (EL) concept for assessing impairment on portfolio basis, considering expected default probability within one year horizon, adjusted by Loss Confirmation Period (LCP) in order to translate it into incurred loss as defined by IFRS (IBNR concept).

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

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

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

The table below analyses the breakdown of impairment allowances as of December 31, 2012 and December 31, 2011 on loans and advances to customers:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	2012	2011	2012	2011	2012	2011
Impaired defaulted exposures, there off	**1,216,733**	**1,045,220**	**693,991**	**619,498**	**522,742**	**425,722**
individually assessed	516,945	323,546	254,034	133,499	262,911	190,047
portfolio based	699,788	721,674	439,957	485,999	259,831	235,675
Collectively impaired performing exposures (IBNR)	**6,846,587**	**6,624,799**	**60,613**	**58,346**	**6,785,974**	**6,566,453**
Past due but not impaired defaulted exposures, there off	**233,702**	**174,161**	**-**	**-**	**233,702**	**174,161**
individually assessed	159,310	133,772	-	-	159,310	133,772
portfolio based	74,392	40,389	-	-	74,392	40,389
Past due comprises						
up to 90 days	42,010	20,769	-	-	42,010	20,769
from 91 to 180 days	12,168	40,651	-	-	12,168	40,651
over 181 days	179,524	112,741	-	-	179,524	112,741
	233,702	174,161	-	-	233,702	174,161
Neither past due nor impaired performing exposures	**1,004,420**	**646,099**	**-**	**-**	**1,004,420**	**646,099**
Total	**9,301,442**	**8,490,279**	**754,604**	**677,844**	**8,546,838**	**7,812,435**

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

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	2012	2011	2012	2011	2012	2011
Concentration by sectors						
Sovereign	64,925	64,010	-	-	874,758	629,358
Manufacturing	2,030,038	1,708,152	-	-	-	-
Commerce	1,941,503	1,765,297	-	-	-	-
Construction and real estate	1,662,072	1,507,086	-	-	97	97
Agriculture and forestry	225,671	160,189	-	-	-	-
Transport and communication	252,408	221,683	-	-	655	655
Tourism	153,892	153,742	-	-	-	-
Services	313,055	268,305	-	-	-	-
Financial services	223,349	220,865	1,713,901	1,893,753	41,755	54,583
Retail (individuals)						
Housing loans	1,653,414	1,645,838	-	-	-	-
Consumer loans	781,115	775,112	-	-	-	-
	9,301,442	**8,490,279**	**1,713,901**	**1,893,753**	**917,265**	**684,693**
Impairment allowances	(754,604)	(677,844)	-	-	-	-
Total	**8,546,838**	**7,812,435**	**1,713,901**	**1,893,753**	**917,265**	**684,693**
Concentration by geographic location						
Europe	9,262,823	8,448,422	1,704,275	1,888,158	914,287	670,667
North America	129	135	8,533	2,404	2,978	3,031
Asia	532	941	986	3,009	-	10,995
Africa	37,859	40,652	-	-	-	-
South America	7	38	-	-	-	-
Australia	92	91	107	182	-	-
	9,301,442	**8,490,279**	**1,713,901**	**1,893,753**	**917,265**	**684,693**
Impairment allowances	(754,604)	(677,844)	-	-	-	-
Total	**8,546,838**	**7,812,435**	**1,713,901**	**1,893,753**	**917,265**	**684,693**

(e) Operational Risk

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

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

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

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

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

(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.

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

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

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

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

Securitization

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

NAME	EIF JEREMIE	
Type of securitisation:	First Loss Portfolio Guarantee	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction :	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2012	Performing loans	
Agreed maximum portfolio volume:	EUR 50,000 thousand	
Nominal Value of reference portfolio :	BGN 23,689 thousand	
Issued guarantees by third parties:	First loss cash coverage by EIF	
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2012	BGN 14,213 thousand	BGN 4,738 thousand

(i) Capital base (own funds)

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

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

In thousands of BGN

	2012	2011
Share capital	285,777	285,777
Statutory reserve	342,378	342,378
Retained earnings	1,140,365	1,020,574
Total capital and reserves	**1,768,520**	**1,648,729**
Deductions		
Unrealized loss on available-for-sale instruments	(155)	(14,030)
Intangible assets	(27,707)	(31,734)
Total deductions	**(27,862)**	**(45,764)**
Total Tier I capital	**1,740,658**	**1,602,965**
Revaluation reserve on real estate properties occupied by the Bank	121,979	122,324
Subordinated long-term debt	127,520	146,296
Total Tier II capital	**249,499**	**268,620**
Additional deductions from Tier I and Tier II capital	**(108,215)**	**(71,671)**
Total Capital base (Own funds)	**1,881,942**	**1,799,914**

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

(ii) Capital requirements

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

In thousands of BGN

	2012	2011
Capital requirements for credit risk		
Exposures under standardized approach	219,285	192,617
Exposures under FIRB	494,605	413,344
Total capital requirements for credit risk	**713,890**	**605,961**
Capital requirements for market risk	**10,672**	**9,380**
Capital requirements for operational risk AMA	78,173	69,077
Additional requirement for operational risk		
Total capital requirements for operational risk	**78,173**	**69,077**
Total capital requirements for credit, market and operational risk	**802,735**	**684,418**
Additional capital requirements subject to National discretions from the Regulator	401,366	342,209
Total regulatory capital requirements	**1,204,101**	**1,026,627**
Capital Base (Own funds)	1,881,942	1,799,914
there off Tier I	1,686,551	1,567,130
Free equity (Own funds)	677,841	773,287
Total capital adequacy ratio	**18.76%**	**21.04%**
Tier I ratio	**16.81%**	**18.32%**

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 AMA approach as described in note **4 (e)**

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

5. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

As described in note **3 (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, various option pricing models and other valuation models.

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

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

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

In thousands of BGN

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

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

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2012)	**1,178**	**71,319**	**15,752**
Increases	**-**	**6,447**	**3,036**
Purchases	-	-	3,008
Profit recognized in income statement	-	6,447	28
Decreases	**(564)**	**(15,015)**	**(292)**
Redemption	(344)	(10,608)	(165)
Loses recognized in income statement	(220)	(4,407)	(127)
Closing balance (December 31, 2012)	**614**	**62,751**	**18,496**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2012 and December 31, 2011.

In thousands of BGN

DECEMBER 2012	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	906,397	**906,397**	**906,397**
Financial assets held for trading	80,697	-	-	-	-	-	**80,697**	**80,697**
Derivatives held for trading	124,265	-	-	-	-	-	**124,265**	**124,265**
Financial assets designated at fair value through profit or loss	69,626	-	-	-	-	-	**69,626**	**69,626**
Loans and advances to banks	-	-	1,713,901	-	-	-	**1,713,901**	**1,713,788**
Loans and advances to customers	-	-	8,546,838	-	-	-	**8,546,838**	**8,546,983**
Available for sale Investments	-	-	-	634,769	-	-	**634,769**	**634,769**
Held to maturity Investments	-	254,997	-	-	-	-	**254,997**	**265,612**
TOTAL ASSETS	**274,588**	**254,997**	**10,260,739**	**634,769**	**-**	**906,397**	**12,331,490**	**12,342,137**
LIABILITIES								
Financial liabilities held for trading	121,667	-	-	-	-	-	**121,667**	**121,667**
Derivatives used for hedging	-	-	-	-	7,669	-	**7,669**	**7,669**
Deposits from banks	-	-	-	-	-	1,835,550	**1,835,550**	**1,838,727**
Deposits from customers	-	-	-	-	-	8,227,899	**8,227,899**	**8,272,616**
Subordinated liabilities	-	-	-	-	-	218,643	**218,643**	**218,643**
TOTAL LIABILITIES	**121,667**	**-**	**-**	**-**	**7,669**	**10,282,092**	**10,411,428**	**10,459,322**

In thousands of BGN

DECEMBER 2011	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	886,703	**886,703**	**886,703**
Financial assets held for trading	129,174	-	-	-	-	-	**129,174**	**129,174**
Derivatives held for trading	112,024	-	-	-	-	-	**112,024**	**112,024**
Financial assets designated at fair value through profit or loss	79,682	-	-	-	-	-	**79,682**	**79,682**
Loans and advances to banks	-	-	1,893,753	-	-	-	**1,893,753**	**1,887,542**
Loans and advances to customers	-	-	7,812,435	-	-	-	**7,812,435**	**7,812,474**
Available for sale Investments	-	-	-	383,947	-	-	**383,947**	**383,947**
Held to maturity Investments	-	273,247	-	-	-	-	**273,247**	**281,772**
TOTAL ASSETS	**320,880**	**273,247**	**9,706,188**	**383,947**	**-**	**886,703**	**11,570,965**	**11,573,318**
LIABILITIES								
Financial liabilities held for trading	88,386	-	-	-	-	-	**88,386**	**88,386**
Derivatives used for hedging	-	-	-	-	6,027	-	**6,027**	**6,027**
Deposits from banks	-	-	-	-	-	2,164,333	**2,164,333**	**2,166,258**
Deposits from customers	-	-	-	-	-	7,293,666	**7,293,666**	**7,320,297**
Subordinated liabilities	-	-	-	-	-	216,710	**216,710**	**216,710**
TOTAL LIABILITIES	**88,386**	**-**	**-**	**-**	**6,027**	**9,674,709**	**9,769,122**	**9,797,678**

(b) Impairment of financial instruments

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

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

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2012	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	212,093	221,502	(27,428)	**406,167**
Dividend income	-	-	10,248	**10,248**
Net fee and commission income	93,807	60,591	(177)	**154,221**
Net gains (losses) from financial assets and liabilities held for trading	13,965	47,352	(917)	**60,400**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	2,698	-	**2,698**
Net income from investments	-	692	42	**734**
Other operating income	96	741	4,068	**4,905**
TOTAL OPERATING INCOME	**319,961**	**333,576**	**(14,164)**	**639,373**
Personnel expenses	(43,138)	(14,679)	(44,092)	**(101,909)**
General and administrative expenses	(72,303)	(23,457)	(20,732)	**(116,492)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(18,842)	(3,629)	(13,868)	**(36,339)**
Total direct expenses	**(134,283)**	**(41,765)**	**(78,692)**	**(254,740)**
Allocation of indirect and overhead expenses	(44,761)	(26,946)	71,707	**-**
TOTAL OPERATING EXPENSES	**(179,044)**	**(68,711)**	**(6,985)**	**(254,740)**
Provisions for risk and charges	-	-	5,931	**5,931**
Net impairment loss on financial assets	(30,806)	(123,939)	63	**(154,682)**
Net income related to property, plant and equipment	-	-	1,006	**1,006**
PROFIT BEFORE INCOME TAX	**110,111**	**140,926**	**(14,149)**	**236,888**
Income tax expense	-	-	(24,392)	**(24,392)**
PROFIT FOR THE PERIOD	**110,111**	**140,926**	**(38,541)**	**212,496**
ASSETS	**2,986,512**	**8,299,197**	**1,372,823**	**12,658,532**
LIABILITIES	**4,165,153**	**4,113,832**	**2,248,780**	**10,527,765**

In thousands of BGN

DECEMBER 2011	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	208,820	218,881	15,289	**442,990**
Dividend income	-	98	7,502	**7,600**
Net fee and commission income	82,585	53,925	(1,525)	**134,985**
Net gains (losses) from financial assets and liabilities held for trading	12,341	42,693	(8,823)	**46,211**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(1,603)	-	**(1,603)**
Net income from investments	-	199	-	**199**
Other operating income	(140)	784	5,361	**6,005**
TOTAL OPERATING INCOME	**303,606**	**314,977**	**17,804**	**636,387**
Personnel expenses	(41,634)	(13,876)	(42,811)	**(98,321)**
General and administrative expenses	(73,033)	(21,996)	(19,763)	**(114,792)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17,422)	(3,254)	(13,540)	**(34,216)**
Total direct expenses	**(132,089)**	**(39,126)**	**(76,114)**	**(247,329)**
Allocation of indirect and overhead expenses	(44,124)	(26,054)	70,178	**-**
TOTAL OPERATING EXPENSES	**(176,213)**	**(65,180)**	**(5,936)**	**(247,329)**
Provisions for risk and charges	-	-	(4,426)	**(4,426)**
Net impairment loss on financial assets	(42,126)	(93,497)	(504)	**(136,127)**
Net income related to property, plant and equipment	-	-	2,736	**2,736**
PROFIT BEFORE INCOME TAX	**85,267**	**156,300**	**9,674**	**251,241**
Income tax expense	-	-	(24,665)	**(24,665)**
PROFIT FOR THE PERIOD	**85,267**	**156,300**	**(14,991)**	**226,576**
ASSETS	**2,864,585**	**7,298,782**	**1,740,281**	**11,903,648**
LIABILITIES	**3,696,957**	**3,880,026**	**2,322,329**	**9,899,312**

7. Net interest income

In thousands of BGN

	2012	2011
Interest income		
Financial assets held for trading	4,675	8,020
Derivatives held for trading	40,366	23,544
Financial assets designated at fair value through profit or loss	4,727	5,546
Loans and advances to banks	7,952	12,068
Loans and advances to customers	547,327	572,037
Available for sale investments	18,920	13,791
Held to maturity investments	14,052	14,349
	638,019	**649,355**
Interest expense		
Derivatives held for trading	(36,036)	(20,475)
Derivatives used for hedging	(2,619)	(2,003)
Deposits from banks	(32,701)	(37,680)
Deposits from customers	(154,758)	(139,032)
Subordinated debt	(5,738)	(7,175)
	(231,852)	**(206,365)**
Net interest income	**406,167**	**442,990**

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

8. Net fee and commission income

In thousands of BGN

	2012	2011
Fee and commission income		
Collection and payment services	78,542	74,244
Lending business	23,726	19,092
Account services	17,681	14,128
Management, brokerage and securities trading	3,430	5,000
Documentary business	14,968	11,784
Package accounts	10,803	8,620
Other	13,228	10,774
	162,378	**143,642**
Fee and commission expense		
Collection and payment services	(6,746)	(6,796)
Management, brokerage and securities trading	(815)	(694)
Lending business	(185)	(907)
Other	(411)	(260)
	(8,157)	**(8,657)**
Net fee and commission income	**154,221**	**134,985**

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

In thousands of BGN

	2012	2011
FX trading income, net	39,172	28,645
Net income from debt instruments	2,843	9,107
Net income from equity instruments	422	(435)
Net income from derivative instruments	17,963	8,894
Net trading income	**60,400**	**46,211**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2012 and December 31, 2011 are BGN 2,698 thousand and BGN (1,603) thousand, respectively.

11. Net income from investments

In thousands of BGN

	2012	2011
Realised gains on disposal of available for sale investments	692	199
Income from liquidation of associates	42	-
Net income from investments	**734**	**199**

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

12. Other operating income, net

In thousands of BGN

	2012	2011
Other operating income		
Income from non-financial services	1,506	2,148
Rental income from investment property	481	365
Other income	3,251	3,635
	5,238	**6,148**
Other operating expenses		
Other operating expenses	(333)	(143)
	(333)	**(143)**
Other operating income, net	**4,905**	**6,005**

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized on disposal of long-term assets. For the year ended December 31, 2012 and December 31, 2011 the gains is BGN 1,006 thousand and BGN 2,736 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2012	2011
Wages and salaries	(83,341)	(81,185)
Social security charges	(11,844)	(11,169)
Pension and similar expenses	(485)	(634)
Temporary staff expenses	(1,288)	(1,821)
Share-based payments	(1,046)	(593)
Other	(3,905)	(2,919)
Total personnel expenses	**(101,909)**	**(98,321)**

As of December 31, 2012 the total number of employees, expressed in full time employee equivalent is 3,752 (December 31, 2011: 3,750)

Pension and similar expenses comprise of current services costs, interest costs and amortization of actuarial gains/losses costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **40**.

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

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2011	2012 COST	SETTLED IN 2012	ECONOMIC VALUE AT DECEMBER 31, 2012
Stock Options 06 2007	261	-	(261)	-
Stock Options 06 2008	262	43	(305)	-
Stock Options 03 2011	113	121	-	234
Deferred Short Term Incentive (stock options)	-	32	-	32
Total Stock Options	**636**	**196**	**(566)**	**266**
Performance Shares 06 2008	113	(113)	-	-
Performance Shares 03 2011	169	175	-	344
Total Performance Shares	**282**	**62**	**-**	**344**
Deferred Short Term Incentive (ordinary shares)	258	571	-	829
Total Deferred Short Term Incentive (shares)	**258**	**571**	**-**	**829**
ESOP and shares for Talents	**26**	**217**	**-**	**243**
Total Options and Shares	**1,202**	**1,046**	**(566)**	**1,682**

15. General and administrative expenses

In thousands of BGN

	2012	2011
Deposit guarantee fund annual contribution	(30,589)	(28,823)
Advertising, marketing and communication	(7,139)	(6,844)
Credit information and searches	(2,048)	(1,528)
Information, communication and technology expenses	(31,228)	(29,704)
Consulting, audit and other professionals services	(3,036)	(2,438)
Real estate expenses	(12,148)	(13,057)
Rents	(13,121)	(14,237)
Travel expenses and car rentals	(3,249)	(3,339)
Insurance	(1,212)	(1,178)
Supply and miscellaneous services rendered by third parties	(8,698)	(9,118)
Other costs	(4,024)	(4,526)
Total general and administrative expenses	**(116,492)**	**(114,792)**

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

In thousands of BGN

	2012	2011
Depreciation charge	(35,240)	(32,926)
Impairment due to obsolescence or discontinued usage	(1,099)	(1,290)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(36,339)**	**(34,216)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2012 and December 31, 2011 the impairment of long-terms assets, is in the amount of BGN 1,099 thousand and BGN 1,290 thousand, respectively.

17. Provisions for risk and charges

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

In thousands of BGN

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

18. Net Impairment loss on financial assets

In thousands of BGN

	2012	2011
Balance 1 January		
Loans and advances to customers	**677,844**	**581,938**
Increase		
Loans and advances to customers	250,180	277,643
Loans and advances to banks	-	21
Decrease		
Loans and advances to customers	(80,029)	(136,878)
Recoveries from loans previously written-off	(15,469)	(4,659)
	(95,498)	**(141,537)**
Net impairment losses	154,682	136,127
FX revaluation effect on impairment allowances	(399)	599
Written-off		
Loans and advances to customers	(92,992)	(45,458)
Loans and advances to banks	-	(21)
Balance December 31		
Loans and advances to customers	**754,604**	**677,844**

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2013.

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

In thousands of BGN

	2012	2011
Current tax	(27,596)	(26,692)
Deferred tax income (expense) related to origination and reversal of temporary differences	4,298	2,191
Underprovided prior year income tax	(1,094)	(164)
Income tax expense	**(24,392)**	**(24,665)**

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

In thousands of BGN

	2012	2011
Accounting profit before tax	236,888	251,241
Corporate tax at applicable tax rate (10% for 2012 and 2011)	(23,689)	(25,124)
Tax effect of non-taxable revenue	1,025	784
Tax effect of non-tax deductible expenses	(795)	(300)
Underprovided prior year income tax	(933)	(25)
Income tax expense	**(24,392)**	**(24,665)**
Effective tax rate	**10.30%**	**9.82%**

20. Cash and balances with Central bank

In thousands of BGN

	2012	2011
Cash in hand and in ATM	161,981	125,902
Cash in transit	42,935	23,767
Current account with Central Bank	701,481	737,034
Total cash and balance with Central Bank	**906,397**	**886,703**

21. Financial assets held for trading

In thousands of BGN

	2012	2011
Government bonds	50,242	82,387
Bonds of credit institutions	29,841	45,609
Corporate bonds	614	1,178
Total financial assets held for trading	**80,697**	**129,174**

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

As of December 31, 2011 financial assets held for trading in the amount of BGN 3,748 thousand are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

Previous change in accounting policy

In October 2008 Management has adopted amendments in IAS 39 “Financial instruments: Recognition and measurement” issued by IASB that same month. Considering the ongoing financial markets turmoil as a possible example of “rare circumstances”, Management has changed its intention with regard to certain government bonds, previously classified as held for trading.

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

In thousands of BGN

	2012	CUMULATIVELY SINCE RECLASSIFICATION (JULY 2008 - DECEMBER 2012)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,041)	3,807
Net interest income		
Net interest income recognized for the period after reclassification	4,595	16,303
Net interest income after reclassification that should have been recognized had the assets not been reclassified	6,070	20,916

22. Derivatives held for trading

In thousands of BGN

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

Derivatives comprise of trading instruments that have positive market value as of December 31, 2012 and December 31, 2011. They are traded for Bank’s own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank’s customers’ business positions.

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, 2012 and December 31, 2011 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers’ and banks’ business (attracted deposits).

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

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

In thousands of BGN

	2012	2011
Government bonds	6,875	8,363
Municipality bonds	1,719	2,280
Corporate bonds	61,032	69,039
Total financial assets designated at fair value through profit or loss	**69,626**	**79,682**

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

As of December 31, 2012 and December 31, 2011 assets designated at fair value through profit or loss in the amount of BGN 80 thousand and BGN 71 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

25. Loans and advances to banks

In thousands of BGN

	2012	2011
Loans and advances to banks	948,923	1,878,969
Current accounts with banks	764,978	14,784
Total loans and advances to banks	**1,713,901**	**1,893,753**

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

In thousands of BGN

	2012		2011	
	Carrying value	Collateral value	Carrying value	Collateral value
Loans and advances to banks				
Receivables under repurchase agreements	27,150	27,250	-	-
Total	**27,150**	**27,250**	**-**	**-**

26. Loans and advances to customers

In thousands of BGN

	2012	2011
Companies	6,816,923	6,014,296
Individuals		
Housing loans	1,653,414	1,645,838
Consumer loans	781,115	775,112
Central and local governments	49,990	55,033
	9,301,442	**8,490,279**
Less impairment allowances	(754,604)	(677,844)
Total loans and advances to customers	**8,546,838**	**7,812,435**

27. Available for sale investments

In thousands of BGN

	2012	2011
Government bonds	613,041	355,160
Municipality bonds	6,722	3,982
Bonds of credit institutions	2,932	12,735
Equities	12,074	12,070
Total available for sale investments	**634,769**	**383,947**

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

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are generally carried at cost as their fair value cannot be reliably measured. As of December 31, 2012 and December 31, 2011 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized for the years.

As of December 31, 2012 and December 31, 2011 available for sale investments in the amount of BGN 286,760 thousand and BGN 273,050 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

In thousands of BGN

	2012	2011
Government bonds	252,019	270,216
Bonds of credit institutions	2,978	3,031
Total held to maturity investments	**254,997**	**273,247**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2012 and December 31, 2011.

As of December 31, 2012 and December 31, 2011 held to maturity investments in the amount of BGN 41,428 thousand and BGN 77,584 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

29. Investments in subsidiaries and associates

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2011
UniCredit Factoring EAD	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 AD	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
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.

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost as allowed by IAS 27 (2008) "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.

30. Property, plant, equipment and investment properties

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost or revalued amount							
As of December 31, 2011	**6,400**	**188,814**	**4,739**	**82,956**	**38,303**	**10,145**	**331,357**
Additions	-	2,570	575	5,638	4,849	-	**13,632**
Transfers*	(68)	(1,633)	-	-	-	1,848	**147**
Write offs	-	(1,258)	(110)	(8,791)	(1,214)	-	**(11,373)**
Disposals	(43)	-	-	(3,303)	(465)	(941)	**(4,752)**
As of December 31, 2012	**6,289**	**188,493**	**5,204**	**76,500**	**41,473**	**11,052**	**329,011**
Depreciation							
As of December 31, 2011	**-**	**24,472**	**2,412**	**57,953**	**26,372**	**1,904**	**113,113**
Depreciation charge	-	9,328	608	9,262	4,380	378	**23,956**
Impairment due to obsolescence	-	357	1	541	22	-	**921**
Write offs	-	(1,260)	(110)	(8,830)	(1,173)	-	**(11,373)**
On disposals	-	-	-	(3,165)	(463)	(184)	**(3,812)**
Transfers	-	(389)	-	-	-	389	**-**
As of December 31, 2012	**-**	**32,508**	**2,911**	**55,761**	**29,138**	**2,487**	**122,805**
Net book value as of December 31, 2012	**6,289**	**155,985**	**2,293**	**20,739**	**12,335**	**8,565**	**206,206**
Net book value as of December 31, 2011	**6,400**	**164,342**	**2,327**	**25,003**	**11,931**	**8,241**	**218,244**

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

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost or revalued amount							
As of December 31, 2010	**7,637**	**210,395**	**3,657**	**78,719**	**32,538**	**329**	**333,275**
Additions	138	3,312	699	7,973	7,785	-	**19,907**
Transfers*	(1,029)	(9,543)	520	(66)	(495)	9,816	**(797)**
Write offs	-	(1,745)	(137)	(3,057)	(930)	-	**(5,869)**
Disposals	(346)	(13,605)	-	(613)	(595)	-	**(15,159)**
As of December 31, 2011	**6,400**	**188,814**	**4,739**	**82,956**	**38,303**	**10,145**	**331,357**
Depreciation							
As of December 31, 2010	**-**	**18,772**	**1,876**	**58,507**	**18,837**	**57**	**98,049**
Depreciation charge	-	9,538	483	8,358	3,009	365	**21,753**
Impairment due to obsolescence	-	336	23	525	406	-	**1,290**
Write offs	-	(1,745)	(137)	(3,057)	(930)	-	**(5,869)**
On disposals	-	(947)	-	(583)	(580)	-	**(2,110)**
Transfers	-	(1,482)	167	(5,797)	5,630	1,482	**-**
As of December 31, 2011	**-**	**24,472**	**2,412**	**57,953**	**26,372**	**1,904**	**113,113**
Net book value as of December 31, 2011	**6,400**	**164,342**	**2,327**	**25,003**	**11,931**	**8,241**	**218,244**
Net book value as of December 31, 2010	**7,637**	**191,623**	**1,781**	**20,212**	**13,701**	**272**	**235,226**

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

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.

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

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

31. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2011	**69,542**
Additions	7,607
Write offs	(2,438)
Disposals	(191)
As of December 31,2012	**74,520**
Depreciation	
As of December 31, 2011	**37,808**
Depreciation charge	11,284
Impairment due to obsolescence	178
Write offs	(2,438)
Disposals	(19)
As of December 31,2012	**46,813**
Net book value as of December 31, 2012	**27,707**
Net book value as of December 31, 2011	**31,734**

In thousands of BGN

Cost	
As of December 31, 2010	**77,110**
Additions	11,842
Write offs	(19,410)
As of December 31,2011	**69,542**
Depreciation	
As of December 31, 2010	**46,045**
Depreciation charge	11,173
Write offs	(19,410)
As of December 31,2011	**37,808**
Net book value as of December 31, 2011	**31,734**
Net book value as of December 31, 2010	**31,065**

32. Current tax

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2012 and December 31, 2011. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Based on that as of December 31, 2011 Bank is in net liability position with regard to corporate income tax in the amount of BGN 6,218, presented as current tax liability. As of December 31, 2012 Bank has net prepaid position in the amount of BGN 1,918 thousand, presented as current tax assets.

33. Deferred tax

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

In thousands of BGN

	ASSETS		LIABILITIES		NET	
	2012	2011	2012	2011	2012	2011
Property, plant and intangible assets	(30)	(30)	14,591	15,681	14,561	15,651
Available for sale investments	(2,377)	(1,352)	3,249	2,156	872	804
Provisions	(1,520)	(1,595)	-	-	(1,520)	(1,595)
Cash flow hedge	(558)	(445)	558	445	-	-
Other liabilities	(3,312)	(3,542)	-	-	(3,312)	(3,542)
Net tax (assets) liabilities	**(7,797)**	**(6,964)**	**18,398**	**18,282**	**10,601**	**11,318**

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

	BALANCE 2011	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 2012
Property, plant and equipment	15,651	(1,090)	-	14,561
Available for sale investments	804	(3,626)	3,694	872
Provisions	(1,595)	75	-	(1,520)
Cash flow hedge	-	113	(113)	-
Other liabilities	(3,542)	230	-	(3,312)
Net tax (assets) liabilities	**11,318**	**(4,298)**	**3,581**	**10,601**

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

Bank presents as non-current assets and disposal group held for sale only properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends. The assets in the amount of BGN 797 thousand as of December 31, 2011, have been fully disposed in 2012 with exception of one property for which the disposal in near term became uncertain. That property has been reclassified back to property, plant, equipment and investment properties (see also Note **30**)

35. Other assets

In thousands of BGN

	2012	2011
Receivables and prepayments	28,722	19,192
Receivables from the State Budget	18	8
Materials, spare parts and consumables	1,210	1,499
Other assets	5,051	5,832
Foreclosed properties	20,914	20,914
Total other assets	**55,915**	**47,445**

36. Financial liabilities held for trading

In thousands of BGN

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

37. Deposits from banks

In thousands of BGN

	2012	2011
Current accounts and overnight deposits		
Local banks	55,779	142,383
Foreign banks	15,742	575,211
	71,521	**717,594**
Deposits		
Local banks	119,252	130,878
Foreign banks	1,626,261	1,303,412
	1,745,513	**1,434,290**
Other	**18,516**	**12,449**
Total deposits from banks	**1,835,550**	**2,164,333**

38. Deposits from customers

In thousands of BGN

	2012	2011
Current accounts and overnight deposits		
Individuals	659,734	569,632
Corporate	1,989,666	1,926,831
Budget and State companies	220,530	172,144
	2,869,930	**2,668,607**
Term deposits		
Individuals	2,818,606	2,521,459
Corporate	1,920,671	1,484,450
Budget and State companies	55,021	113,700
	4,794,298	**4,119,609**
Saving accounts	**488,424**	**471,393**
Transfers in execution process	**75,247**	**34,057**
Total deposits from customers	**8,227,899**	**7,293,666**

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

As of December 31, 2012 and December 31, 2011 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

As of December 31, 2012 the total amount of BGN 218,643 thousand represents the outstanding debt (principal and accrued interest) on five loan facilities provided by UniCredit Bank Austria AG as outlined in the table below:

In thousands of BGN

START DATE	TERM TO MATURITY	AMOUNT OF THE ORIGINAL PRINCIPAL	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2012
November 26, 2004	10 years	19,558	25,733
December 20, 2004	10 years	19,558	25,765
February 3, 2005	10 years	25,426	32,543
August 2, 2005	10 years	29,337	36,686
November 19, 2008	10 years	97,792	97,916
Total		**191,671**	**218,643**

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

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

40. Provisions

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

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2011	**14,193**	**18,494**	**3,650**	**2,076**	**499**	**38,912**
Allocations	-	1,949	485	-	761	3,195
Releases	(306)	(7,170)	-	(1,165)	-	(8,641)
Additions due to FX revaluation	7,290	2,595	-	-	-	9,885
Releases due to FX revaluation	(7,551)	(2,688)	-	-	-	(10,239)
Utilization	-	(751)	(302)	(155)	(495)	(1,703)
Balance as of December 31, 2012	**13,626**	**12,429**	**3,833**	**756**	**765**	**31,409**

(a) Provisions on letters of guarantees

Provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events.

As of December 31, 2012 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 13,626 thousand.

(b) Provisions on legal cases

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

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

(c) Retirement benefit provision

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

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

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

The movement of the defined benefit obligation for year ended 2012 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

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

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

(d) Provisions on constructive obligation

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

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

(e) Other provision

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

41. Other liabilities

In thousands of BGN

	2012	2011
Liabilities to the State budget	3,912	4,408
Liabilities to personnel	21,930	22,898
Liabilities for unused paid leave	5,839	6,331
Dividends	461	414
Incentive plan liabilities	1,682	1,202
Other liabilities	32,706	31,525
Total other liabilities	**66,530**	**66,778**

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

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2012 and 2011 in accordance with the defined target settings.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

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

42. Equity

a) Share capital

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

b) Statutory reserves

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

c) Retained earnings

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

d) Revaluation reserves

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

43. Contingent liabilities

In thousands of BGN

	2012	2011
Letters of credit and letters of guarantee	1,134,916	901,858
Credit commitments	1,245,507	1,170,899
Total contingent liabilities	**2,380,423**	**2,072,757**

a) Memorandum items

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

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

These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2012 and December 31, 2011 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

b) Litigation

As of December 31, 2012 there are open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Litigation claims provided for in these financial statements as of December 31, 2012 are in the amount of BGN 12,429 thousand (BGN 18,494 thousand in 2011).

c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients' disposal.

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

44. Assets pledged as collateral

In thousands of BGN

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

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

45. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG. Additionally the Bank has relativeness with its key management personnel.

UniCredit Bulbank AD has also a related party relationship with all other parent company's subsidiaries within UniCredit Group.

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

In thousands of BGN

	ASSETS	LIABILITIES
Financial assets held for trading	13,128	
Available for sale investments	2,932	
Current accounts and deposits placed	1,440,938	
Extended loans	137,577	
Other assets	4,420	
Financial liabilities held for trading		111,097
Derivatives used for hedging		7,669
Current accounts and deposits taken		1,674,951
Subordinated loans		218,643
Other liabilities		1,844
Total	**1,598,995**	**2,014,204**
Guarantees received by the Group	**68,329**	

In thousands of BGN

	INCOME (EXPENSE)
Interest incomes	12,710
Dividend incomes	9,147
Interest expenses	(66,112)
Fee and commissions income	5,183
Fee and commissions expenses	(333)
Net gains (losses) on financial assets and liabilities held for trading	(2,229)
Other operating income	158
Administrative and personnel expenses	(9,252)
	(50,728)

As of December 31, 2012 the loans extended to key management personnel amount to BGN 784 thousand. For the twelve months ended December 31, 2012 the compensation paid to key management personnel amounts to BGN 3,585 thousand.

46. Cash and cash equivalents

In thousands of BGN

	2012	2011
Cash in hand and in ATM	161,981	125,902
Cash in transit	42,935	23,767
Current account with the Central Bank	701,481	737,034
Current accounts with banks	764,978	14,784
Receivables under repurchase agreements	27,150	-
Placements with banks with original maturity less than 3 months	679,269	671,932
Total cash and cash equivalents	**2,377,794**	**1,573,419**

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

47. Leasing

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

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

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2012	2011
Up to one year	5,672	12,279
Between one and five years	5,208	26,004
Beyond five years	3,239	7,127
Total	**14,119**	**45,410**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2012	2011
Up to one year	74	412
Between one and five years	-	614
Beyond five years	-	53
Total	**74**	**1,079**

48. Subsequent events

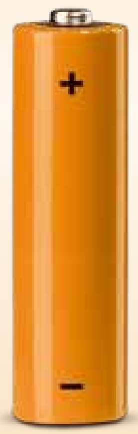
On December 12, 2012 UniCredit Bulbank AD signed Share Purchase Agreement with UniCredit S.p.A for acquiring additional 50.1% stake in local UniCredit Consumer Financing AD. The closing of the transaction took place on January 2, 2013. Considering that prior to the transaction Bank held 49.9% from the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

49. Group entities

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

RECHARGING

Supporting enterprise with concrete actions
UniCredit International



"I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project."

Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy

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INDEPENDENT AUDITORS’ REPORT

To the shareholders of
UniCredit Bulbank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD (“the Bank”), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

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

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

20 YEARS

Independet Auditors' Report (continued)

KPMG

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

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

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 19 February 2013

Income Statement

In thousands of BGN

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

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

1

Statement of Comprehensive Income

In thousands of BGN

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

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2

Statement of Financial Position

In thousands of BGN

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

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3

Statement of Changes in Equity

In thousands of BGN

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

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

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

4

Statement of Cash Flows

In thousands of BGN

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

5

Statement of Cash Flows (continued)

In thousands of BGN

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

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6

Notes to Consolidated Financial Statements

1. Reporting entity

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

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

The Bank operates through its network comprising of 206 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act. They were approved by the Management Board of the Bank on February 19, 2013. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policy

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

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

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

In thousands of BGN

DESCRIPTION	2011 PRESENTATION	2012 COMPARATIVE PRIOR YEAR PRESENTATION	AMOUNT
Realized gains on FX deals with customers	Fee and commission income	Net gains (losses) on financial assets and liabilities held for trading	29,881

(a) Basis of consolidation

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

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing AD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method

(b) Interest income and expense

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

Interest income and expense presented in the Income statement include:

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

(c) Fee and commission income and expenses

Fee and commission income and expense arise on financial services provided/received and are recognized upon rendering/receiving of the corresponding service.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate thus presented as interest income or expense.

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

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

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at the official Bulgarian National Bank foreign exchange rate effective at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate effective at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates effective at the dates that the values were determined. As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

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

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

(g) Dividend income

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

(h) Lease payments made

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

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

(i) Financial instruments

(i) Recognition

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

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

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

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

d) Loans and advances to banks and customers

Loans and advances to banks and customers are instruments where the Bank provides money to a debtor other than those created with the intention of short-term profit taking or selling in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

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

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

In these consolidated financial statements Bank has adopted the policy of carrying all investments in associates at equity method accordance with IAS 27 (2008) “Consolidated and Separate Financial Statements”. All investments in subsidiaries are fully consolidated.

h) Deposits from banks, customers and subordinated liabilities

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

Subordinated liability meets some additional requirements set by Bulgarian National Bank (see note **39**).

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm’s length transaction on the measurement date.

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

(j) Impairment

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

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

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

(i) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Provisioning and Restructuring Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures. Loans and advances are presented net of allocated allowances for impairment. Impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances. Impairment allowances on portfolio basis are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. The expected cash flows for portfolios of similar assets are estimated based on previous experience, late payments of interest, principals or penalties. Increases in the allowance account are recognized in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is directly written off.

Assets classified as held to maturity are assessed for impairment on a semi-annual basis based on available market data. Review is performed and decision is taken my Assets and Liabilities Committee (ALCO) of the Bank.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through profit or loss thus increasing the amortized cost to the amount that never exceeds the amortised cost had the loan never been impaired.

(ii) Financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as available for sale financial investments.

Where an asset remeasured to fair value directly through other comprehensive income is impaired, and a write down of the asset was previously recognized directly in other comprehensive income, the write-down is transferred to profit or loss and recognized as part of the impairment loss.

Where 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 out of the banking book positions through certain fair value hedge and cash flow hedge relationships.

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

Fair value hedge

When a 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, equipment and investment property

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

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

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

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

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

Properties acquired upon foreclosure procedure, which are neither intended to be used in the ordinary activity of the Bank nor kept as investment properties, are presented in other assets in accordance with IAS 2 "Inventories" (see also Note **35**)

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

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

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

	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, 2012 and December 31, 2011 intangible assets includes primarily investments in software and related licenses.

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

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

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

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

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2012 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

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

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

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

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

As of December 31, 2012 and December 31, 2011 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

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

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

In May 2011 shareholders of UniCredit Bulbank AD approved a capital increase in the amount of BGN 158,744 thousand through issuing 21,865,500 new shares with issuing price BGN 7.26 and face value BGN 1, each. The capital increase was dully completed and registered and as of December 31, 2011 the share capital of the Bank amounts to BGN 285,777 thousand. No changes in the share capital were performed in 2012.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve. As of December 31, 2012 and December 31, 2011 the reserves includes also the premium of newly issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Segment reporting

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

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

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

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

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

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

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

Amendments to have any impact on the financial statements.

- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Interpretation to have any impact on the financial statements since the Bank does not have any stripping activities.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Bank does not expect the Amendments to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

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

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. Starting from Q2 2011 UniCredit Bulbank AD applies the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA.

(b) Market risks

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

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

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

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the mark to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return").

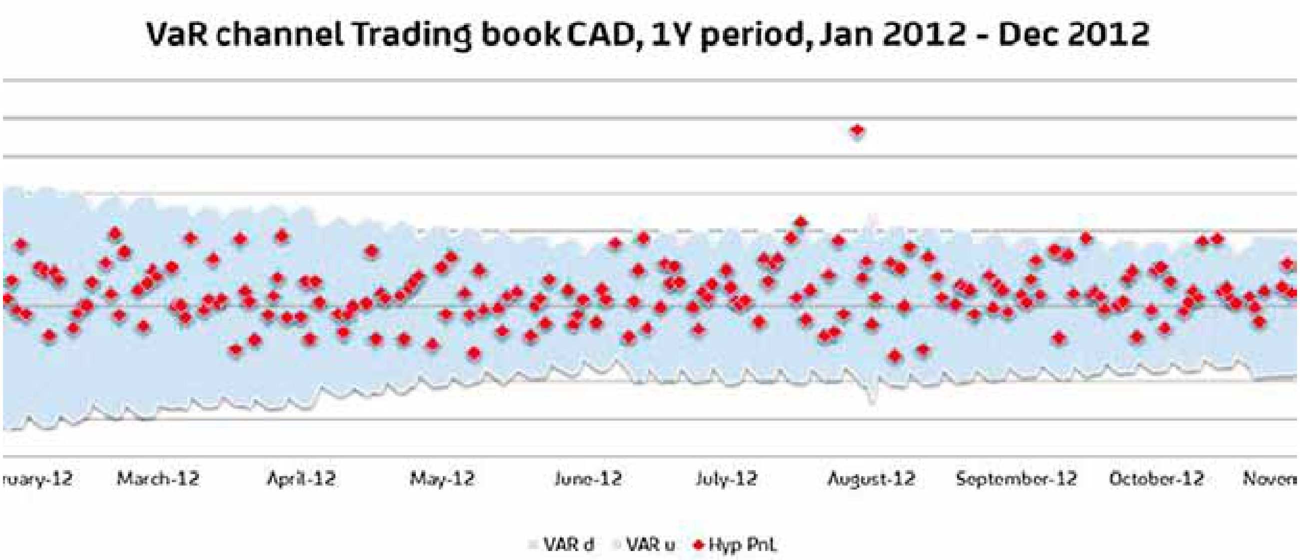
During 2012, VaR (1 day holding period, confidence interval of 99 %) for the Bank stand alone moved in a range between EUR 2.59 million and EUR 3.99 million, averaging EUR 3.12 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

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

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.78	2.78	2.11	2.40
Credit spread	1.70	3.31	2.47	3.25
Exchange rate risk	0.02	0.09	0.02	0.02
Vega risk	0.00	0.00	0.00	0.00
VaR overall	**2.59**	**3.99**	**3.12**	**3.76**

Reliability and accuracy of the internal model is monitored via daily back-testing, comparing the simulated results with actually observed fluctuations in market parameters and in the total value of books. Back-testing results for 2012 confirm the reliability of used internal model. There were no negative back-testing excesses during 2012.

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations



include: basis point shift value (interest rate /spread changes of 0.01 % by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In the interest rate sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

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

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

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

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

SP Basis Point Shift

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

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and dramatic deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up to 60 days are reported at least monthly to ALCO. In 2012 the Bank's Management continued vigilant risk management practices by steering risk- taking capacity and focus on client-driven business.

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

As of December 31, 2012 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

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

As of December 31, 2011 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	878,095	8,609	**886,704**
Financial assets held for trading	124,016	5,158	**129,174**
Derivatives held for trading	95,721	16,303	**112,024**
Financial assets designated at fair value through profit or loss	74,068	5,614	**79,682**
Loans and advances to banks	1,880,128	13,656	**1,893,784**
Loans and advances to customers	7,636,535	237,093	**7,873,628**
Available for sale investments	355,136	28,811	**383,947**
Held to maturity investments	119,038	154,209	**273,247**
Investments in associates	32,967	-	**32,967**
Property, plant, equipment and investment properties	220,641	-	**220,641**
Intangible assets	31,762	-	**31,762**
Current tax assets	1	-	**1**
Deferred tax assets	6,995	-	**6,995**
Non-current assets and disposal group classified as held for sale	797	-	**797**
Other assets	47,500	159	**47,659**
TOTAL ASSETS	**11,503,400**	**469,612**	**11,973,012**
LIABILITIES			
Financial liabilities held for trading	73,734	14,652	**88,386**
Derivatives used for hedging	2,455	3,572	**6,027**
Deposits from banks	2,154,141	66,941	**2,221,082**
Deposits from customers	6,617,572	669,532	**7,287,104**
Subordinated liabilities	216,710	-	**216,710**
Provisions	19,747	19,165	**38,912**
Current tax liabilities	6,339	-	**6,339**
Deferred tax liabilities	18,307	-	**18,307**
Other liabilities	66,084	1,289	**67,373**
TOTAL LIABILITIES	**9,175,089**	**775,151**	**9,950,240**
EQUITY	**2,022,772**	**-**	**2,022,772**
Net off-balance sheet spot and forward position	**(280,395)**	**302,744**	**22,349**
Net position	**25,144**	**(2,795)**	**22,349**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results from regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or name-driven crisis signals, with assumptions also being made about behaviour of non-bank clients. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' risk-taking capacity over two months horizon. The extreme scenario (combining market- and a name-driven crisis) was covered without exceptions during 2012, meaning that under assumed stress conditions the Bank would be able to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2012	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	1,891,858	(1,984,575)	(170,514)	(13,949)	(129,455)	(1,670,657)
Deposits from customers	8,224,740	(8,280,900)	(2,455,553)	(1,578,984)	(2,745,248)	(1,501,115)
Subordinated liabilities	218,643	(242,064)	-	-	-	(242,064)
Issued financial guarantee contracts	18,494	(13,626)	-	-	-	(13,626)
Unutilized credit lines	-	(1,245,507)	(18,683)	-	(230,419)	(996,406)
Total non-derivative instruments	**10,353,735**	**(11,766,672)**	**(2,644,750)**	**(1,592,933)**	**(3,105,122)**	**(4,423,868)**
Trading derivatives, net	**2,598**					
Outflow		(2,658,172)	(1,369,465)	(366,675)	(569,174)	(352,858)
Inflow		2,664,528	1,358,471	367,342	570,968	367,747
Derivatives used for hedging, net	**7,669**					
Outflow		(9,785)	(2,546)	(253)	(1,356)	(5,630)
Inflow		2,086	373	37	207	1,469
Total derivatives	**10,267**	**(1,343)**	**(13,167)**	**451**	**645**	**10,728**
Total financial liabilities	**10,364,002**	**(11,768,015)**	**(2,657,917)**	**(1,592,482)**	**(3,104,477)**	**(4,413,140)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2011	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	**2,221,082**	**(2,338,609)**	(905,834)	(17,609)	(209,967)	(1,205,199)
Deposits from customers	**7,287,104**	**(7,343,286)**	(2,418,077)	(1,513,118)	(2,112,520)	(1,299,571)
Subordinated liabilities	**216,710**	**(256,748)**	-	-	-	(256,748)
Issued financial guarantee contracts	**20,670**	**(20,670)**	-	-	-	(20,670)
Unutilized credit lines	**-**	**(1,228,896)**	(18,434)	-	(227,349)	(983,113)
Total non-derivative instruments	**9,745,566**	**(11,188,209)**	**(3,342,345)**	**(1,530,727)**	**(2,549,836)**	**(3,765,301)**
Trading derivatives, net	**23,638**					
Outflow		**(1,713,883)**	(910,150)	(140,575)	(463,425)	(199,733)
Inflow		**1,740,935**	917,490	144,731	475,275	203,439
Derivatives used for hedging, net	**(6,027)**					
Outflow		**(13,765)**	(2,341)	(95)	(1,701)	(9,628)
Inflow		**7,691**	879	90	1,302	5,420
Total derivatives	**17,611**	**20,978**	**5,878**	**4,151**	**11,451**	**(502)**
Total financial liabilities	**9,763,177**	**(11,167,231)**	**(3,336,467)**	**(1,526,576)**	**(2,538,385)**	**(3,765,803)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2012 and December 31, 2011 is as shown in the next table:

In thousands of BGN

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

(ii) Credit risk in the banking book

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

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

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

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

Exposures with objective evidence for impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based). For all exposures that are not defaulted, impairment assessment is done on a portfolio basis combining exposures with similar credit characteristics. The Bank adopts Expected Loss (EL) concept for assessing impairment on portfolio basis, considering expected default probability within one year horizon, adjusted by Loss Confirmation Period (LCP) in order to translate it into incurred loss as defined by IFRS (IBNR concept).

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

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

The table below analyses the breakdown of impairment allowances as of December 31, 2012 and December 31, 2011 of loans and advances to customers.

In thousands of BGN

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

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

In thousands of BGN

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

(e) Operational Risk

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

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

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

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

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

(f) Basel II disclosure

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

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

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

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

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

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

Securitization

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

TYPE OF SECURITISATION:	FIRST LOSS PORTFOLIO GUARANTEE	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction :	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2012	Performing loans	
Agreed maximum portfolio volume:	EUR 50,000 thousand	
Nominal Value of reference portfolio :	BGN 23,689 thousand	
Issued guarantees by third parties:	First loss cash coverage by EIF	
Amount and Condition of tranching:		
Type of tranche	**Senior**	**Junior**
Reference Position as of December 31, 2012	**BGN 14,213 thousand**	BGN 4,738 thousand

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

(i) Capital base (own funds)

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

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

In thousands of BGN

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

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

(ii) Capital requirements

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

In thousands of BGN

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

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

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

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

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

5. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

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

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument;
- **Level 2**: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

In thousands of BGN

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

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

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2012)	**1,178**	**71,319**	**15,752**
Increases	**-**	**6,447**	**3,036**
Purchases	-	-	3,008
Profit recognized in income statement	-	6,447	28
Decreases	**(564)**	**(15,015)**	**(292)**
Redemption	(344)	(10,608)	(165)
Loses recognized in income statement	(220)	(4,407)	(127)
Closing balance (December 31, 2012)	**614**	**62,751**	**18,496**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2012 and December 31, 2011.

In thousands of BGN

DECEMBER 2012	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	906,399	906,399	906,399
Financial assets held for trading	80,697	-	-	-	-	-	80,697	80,697
Derivatives held for trading	124,265	-	-	-	-	-	124,265	124,265
Financial assets designated at fair value through profit or loss	69,626	-	-	-	-	-	69,626	69,626
Loans and advances to banks	-	-	1,713,903	-	-	-	1,713,903	1,713,790
Loans and advances to customers	-	-	8,613,880	-	-	-	8,613,880	8,614,025
Available for sale Investments	-	-	-	634,769	-	-	634,769	634,769
Held to maturity Investments	-	254,997	-	-	-	-	254,997	265,612
TOTAL ASSETS	**274,588**	**254,997**	**10,327,783**	**634,769**	**-**	**906,399**	**12,398,536**	**12,409,183**
LIABILITIES								
Financial liabilities held for trading	121,667	-	-	-	-	-	121,667	121,667
Derivatives used for hedging	-	-	-	-	7,669	-	7,669	7,669
Deposits from banks	-	-	-	-	-	1,891,855	1,891,855	1,895,035
Deposits from customers	-	-	-	-	-	8,224,740	8,224,740	8,269,457
Subordinated liabilities	-	-	-	-	-	218,643	218,643	218,643
TOTAL LIABILITIES	**121,667**	**-**	**-**	**-**	**7,669**	**10,335,238**	**10,464,574**	**10,512,471**

In thousands of BGN

DECEMBER 2011	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	886,704	886,704	886,704
Financial assets held for trading	129,174	-	-	-	-	-	129,174	129,174
Derivatives held for trading	112,024	-	-	-	-	-	112,024	112,024
Financial assets designated at fair value through profit or loss	79,682	-	-	-	-	-	79,682	79,682
Loans and advances to banks	-	-	1,893,784	-	-	-	1,893,784	1,887,542
Loans and advances to customers	-	-	7,873,628	-	-	-	7,873,628	7,873,667
Available for sale Investments	-	-	-	383,947	-	-	383,947	383,947
Held to maturity Investments	-	273,247	-	-	-	-	273,247	281,772
TOTAL ASSETS	**320,880**	**273,247**	**9,767,412**	**383,947**	**-**	**886,704**	**11,632,190**	**11,634,512**
LIABILITIES								
Financial liabilities held for trading	88,386	-	-	-	-	-	88,386	88,386
Derivatives used for hedging	-	-	-	-	6,027	-	6,027	6,027
Deposits from banks	-	-	-	-	-	2,221,082	2,221,082	2,223,007
Deposits from customers	-	-	-	-	-	7,287,104	7,287,104	7,313,735
Subordinated liabilities	-	-	-	-	-	216,710	216,710	216,710
TOTAL LIABILITIES	**88,386**	**-**	**-**	**-**	**6,027**	**9,724,896**	**9,819,309**	**9,847,865**

(b) Impairment of financial instruments

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

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

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

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

In thousands of BGN

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

7. Net interest income

In thousands of BGN

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

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

8. Net fee and commission income

In thousands of BGN

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

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

In thousands of BGN

	2012	2011
FX trading income, net	39,178	28,647
Net income from debt instruments	2,843	9,107
Net income from equity instruments	422	(435)
Net income from derivative instruments	17,963	8,894
Net trading income	**60,406**	**46,213**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2012 and December 31, 2011 are BGN 2,698 thousand and BGN (1,603) thousand, respectively.

11. Net income from investments

In thousands of BGN

	2012	2011
Realised gains on disposal of available for sale investments	692	199
Income from liquidation of associates	42	-
Effect of equity method consolidation on associates	9,515	10,153
Net income from investments	**10,249**	**10,352**

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

12. Other operating income, net

In thousands of BGN

	2012	2011
Other operating income		
Income from non-financial services	1,506	2,148
Rental income from investment property	374	292
Other income	3,276	3,790
	5,156	**6,230**
Other operating expenses		
Other operating expenses	(579)	(143)
	(579)	**(143)**
Other operating income, net	**4,577**	**6,087**

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized on disposal of long-term assets. For the year ended December 31, 2012 and December 31, 2011 the gains is BGN 1,149 thousand and BGN 2,774 thousand respectively.

14. Personnel expenses

In thousands of BGN

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

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

Pension and similar expenses comprise of current services costs, interest costs and amortization of actuarial gains/losses costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **40**.

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

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2011	2012 COST	SETTLED IN 2012	ECONOMIC VALUE AT DECEMBER 31, 2012
Stock Options 06 2007	261	-	(261)	-
Stock Options 06 2008	262	43	(305)	-
Stock Options 03 2011	113	121	-	234
Deferred Short Term Incentive (stock options)	-	32	-	32
Total Stock Options	**636**	**196**	**(566)**	**266**
Performance Shares 06 2008	113	(113)	-	-
Performance Shares 03 2011	169	175	-	344
Total Performance Shares	**282**	**62**	**-**	**344**
Deferred Short Term Incentive (ordinary shares)	258	571	-	829
Total Deferred Short Term Incentive (shares)	**258**	**571**	**-**	**829**
ESOP and shares for Talents	**26**	**217**	**-**	**243**
Total Options and Shares	**1,202**	**1,046**	**(566)**	**1,682**

15. General and administrative expenses

In thousands of BGN

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

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

In thousands of BGN

	2012	2011
Depreciation charge	(35,856)	(33,576)
Impairment due to obsolescence	(1,134)	(1,290)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(36,990)**	**(34,866)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2012 and December 31, 2011 the impairment of long-terms assets, is in the amount of BGN 1,134 thousand and BGN 1,290 thousand, respectively.

17. Provisions for risk and charges

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

In thousands of BGN

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

18. Net Impairment loss on financial assets

In thousands of BGN

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

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2013.

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

In thousands of BGN

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

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

In thousands of BGN

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

20. Cash and balances with Central bank

In thousands of BGN

	2012	2011
Cash in hand and in ATM	161,982	125,903
Cash in transit	42,935	23,767
Current account with Central Bank	701,481	737,034
Total cash and balance with Central Bank	**906,398**	**886,704**

21. Financial assets held for trading

In thousands of BGN

	2012	2011
Government bonds	50,242	82,387
Bonds of credit institutions	29,841	45,609
Corporate bonds	614	1,178
Total financial assets held for trading	**80,697**	**129,174**

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

As of December 31, 2011 financial assets held for trading in the amount of BGN 3,748 thousand are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

Previous change in accounting policy

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

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

In thousands of BGN

	2012	CUMULATIVELY SINCE RECLASSIFICATION (JULY 2008 - DECEMBER 2012)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,041)	3,807
Net interest income		
Net interest income recognized for the period after reclassification	4,595	16,303
Net interest income after reclassification that should have been recognized had the assets not been reclassified	6,070	20,916

22. Derivatives held for trading

In thousands of BGN

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

Derivatives comprise of trading instruments that have positive market value as of December 31, 2012 and December 31, 2011. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank's customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (k)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book. As of December 31, 2012 and December 31, 2011 Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits).

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

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

In thousands of BGN

	2012	2011
Government bonds	6,875	8,363
Municipality bonds	1,719	2,280
Corporate bonds	61,032	69,039
Total financial assets designated at fair value through profit or loss	**69,626**	**79,682**

Financial assets designated at fair value through profit or loss are non-trading assets with determinable market price that form a portfolio which performance is managed by the Bank on a fair value basis. As of December 31, 2012 and December 31, 2011 assets designated at fair value through profit or loss in the amount of BGN 80 thousand and BGN 71 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

25. Loans and advances to banks

In thousands of BGN

	2012	2011
Loans and advances to banks	948,923	1,878,969
Current accounts with banks	764,980	14,815
Total loans and advances to banks	**1,713,903**	**1,893,784**

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

In thousands of BGN

	2012		2011	
	Carrying value	**Collateral value**	**Carrying value**	**Collateral value**
Loans and advances to banks				
Receivables under repurchase agreements	27,150	27,250	-	-
Total	**27,150**	**27,250**	**-**	**-**

26. Loans and advances to customers

In thousands of BGN

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

27. Available for sale investments

In thousands of BGN

	2012	2011
Government bonds	613,041	355,160
Municipality bonds	6,722	3,982
Bonds of credit institutions	2,932	12,735
Equities	12,074	12,070
Total available for sale investments	**634,769**	**383,947**

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

Equities presented as available for sale investments comprise of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are generally carried at cost as their fair value cannot be reliably measured. As of December 31, 2012 and December 31, 2011 all available for sale investments are assessed for impairment. As a result of this assessment, no impairment has been recognized for the years.

As of December 31, 2012 and December 31, 2011 available for sale investments in the amount of BGN 286,760 thousand and BGN 273,050 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

In thousands of BGN

	2012	2011
Government bonds	252,019	270,216
Bonds of credit institutions	2,978	3,031
Total held to maturity investments	**254,997**	**273,247**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2012 and December 31, 2011.

As of December 31, 2012 and December 31, 2011 held to maturity investments in the amount of BGN 41,428 thousand and BGN 77,584 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

29. Investments in associates

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2012
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	26,819
UniCredit Leasing AD	Leasing activities	24.4%	4,035
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,473
		Total	**33,327**

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

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

30. Property, plant, equipment and investment properties

In thousands of BGN

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

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

In thousands of BGN

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

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

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.

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

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

31. Intangible assets

In thousands of BGN

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

In thousands of BGN

Cost	
As of December 31, 2010	**77,214**
Additions	11,848
Write offs	(19,410)
As of December 31,2011	**69,652**
Depreciation	
As of December 31, 2010	**46,117**
Depreciation charge	11,183
Write offs	(19,410)
As of December 31,2011	**37,890**
Net book value as of December 31, 2011	**31,762**
Net book value as of December 31, 2010	**31,097**

32. Current tax

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2012 and December 31, 2011. According to the statutory requirements, the Bank stand alone and its subsidiaries pay during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Corporate income tax in Bulgaria is charged in single entity basis. Based on that as of December 31, 2012 Bank reports current tax assets in the amount of BGN 1,918 thousand and current tax liabilities in the amount of BGN 62 thousands. The corresponding amounts as of December 31, 2011 are BGN 1 thousand and BGN 6,339 thousand, respectively.

33. Deferred tax

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

In thousands of BGN

	ASSETS		LIABILITIES		NET	
	2012	2011	2012	2011	2012	2011
Property, plant and intangible assets	(30)	(30)	14,642	15,706	14,612	15,676
Available for sale investments	(2,377)	(1,352)	3,249	2,156	872	804
Provisions	(1,520)	(1,595)	-	-	(1,520)	(1,595)
Cash flow hedge	(558)	(445)	558	445	-	-
Other liabilities	(3,357)	(3,573)	-	-	(3,357)	(3,573)
Net tax (assets) liabilities	**(7,842)**	**(6,995)**	**18,449**	**18,307**	**10,607**	**11,312**

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

In thousands of BGN

	BALANCE 2011	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 2012
Property, plant and equipment	15,676	(1,064)	-	14,612
Available for sale investments	804	(3,626)	3,694	872
Provisions	(1,595)	75	-	(1,520)
Cash flow hedge	-	113	(113)	-
Other liabilities	(3,573)	216	-	(3,357)
Net tax (assets) liabilities	**11,312**	**(4,286)**	**3,581**	**10,607**

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

Bank presents as non-current assets and disposal group held for sale only properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends. The assets in the amount of BGN 797 thousand as of December 31, 2011, have been fully disposed in 2012 with exception of one property for which the disposal in near term became uncertain. That property has been reclassified back to property, plant, equipment and investment properties (see also Note **30**)

35. Other assets

In thousands of BGN

	2012	2011
Receivables and prepayments	28,873	19,336
Receivables from the State Budget	31	27
Materials, spare parts and consumables	1,235	1,521
Other assets	5,115	5,861
Foreclosed properties	20,914	20,914
Total other assets	**56,168**	**47,659**

36. Financial liabilities held for trading

In thousands of BGN

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

37. Deposits from banks

In thousands of BGN

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

38. Deposits from customers

In thousands of BGN

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

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

As of December 31, 2012 and December 31, 2011 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

As of December 31, 2012 the total amount of BGN 218,643 thousand represents the outstanding debt (principal and accrued interest) on five loan facilities provided by UniCredit Bank Austria AG as outlined in the table below:

In thousands of BGN

START DATE	TERM TO MATURITY	AMOUNT OF THE ORIGINAL PRINCIPAL	OUTSTANDING AMOUNT AS OF DECEMBER 31, 2012
November 26, 2004	10 years	19,558	25,733
December 20, 2004	10 years	19,558	25,765
February 3, 2005	10 years	25,426	32,543
August 2, 2005	10 years	29,337	36,686
November 19, 2008	10 years	97,792	97,916
Total		**191,671**	**218,643**

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

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

40. Provisions

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

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2011	**14,193**	**18,494**	**3,650**	**2,076**	**499**	**38,912**
Allocations	-	1,949	485	-	761	3,195
Releases	(306)	(7,170)	-	(1,165)	-	(8,641)
Additions due to FX revaluation	7,290	2,595	-	-	-	9,885
Releases due to FX revaluation	(7,551)	(2,688)	-	-	-	(10,239)
Utilization	-	(751)	(302)	(155)	(495)	(1,703)
Balance as of December 31, 2012	**13,626**	**12,429**	**3,833**	**756**	**765**	**31,409**

(a) Provisions on letters of guarantees

Provisions on letters of guarantees represent inherent credit risk losses embedded in undertaken by the Bank contingent liabilities, whereas based on performed risk assessment by the respective bodies of the Bank, it is more likely that the Bank would have to settle the obligation upon fulfilment of some uncertain events.

As of December 31, 2012 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 13,626 thousand.

(b) Provisions on legal cases

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

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

(c) Retirement benefit provision

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

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

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

The movement of the defined benefit obligation for year ended 2012 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

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

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

(d) Provisions on constructive obligation

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

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

(e) Other provision

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

41. Other liabilities

In thousands of BGN

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

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

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2012 and 2011 in accordance with the defined target settings.

Liabilities for unused paid leave represent quantification of Bank's current liability due to employees for unutilized current and prior years leave.

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

42. Equity

a) Share capital

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

b) Statutory reserves

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

c) Retained earnings

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

d) Revaluation reserves

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

43. Contingent liabilities

In thousands of BGN

	2012	2011
Letters of credit and letters of guarantee	1,133,916	901,858
Credit commitments	1,331,398	1,228,916
Total contingent liabilities	**2,465,314**	**2,130,774**

a) Memorandum items

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

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

These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2012 and December 31, 2011 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

b) Litigation

As of December 31, 2012 there are open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Litigation claims provided for in these financial statements as of December 31, 2012 are in the amount of BGN 12,429 thousand (BGN 18,494 thousand in 2011).

c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients' disposal.

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

44. Assets pledged as collateral

In thousands of BGN

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

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

45. Related parties

UniCredit Bulbank AD has a controlling related party relationship with its direct parent company UniCredit Bank Austria AG. Additionally the Bank has relativeness with its key management personnel.

UniCredit Bulbank AD has also a related party relationship with all other parent company's subsidiaries within UniCredit Group.

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

In thousands of BGN

	ASSETS	LIABILITIES
Financial assets held for trading	13,128	
Available for sale investments	2,932	
Current accounts and deposits placed	1,440,940	
Extended loans	104,415	
Other assets	4,419	
Financial liabilities held for trading		111,097
Derivatives used for hedging		7,669
Current accounts and deposits taken		1,718,647
Subordinated loans		218,643
Other liabilities		1,844
Total	**1,565,834**	**2,057,900**
Guarantees received by the Group	**68,329**	

In thousands of BGN

	INCOME (EXPENSE)
Interest incomes	12,263
Interest expenses	(67,452)
Fee and commissions income	5,138
Fee and commissions expenses	(427)
Net gains (losses) on financial assets and liabilities held for trading	(2,229)
Other operating income	22
Administrative and personnel expenses	(7,964)
Total	**(60,649)**

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

46. Cash and cash equivalents

In thousands of BGN

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

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

47. Leasing

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

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

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2012	2011
Up to one year	5,672	11,565
Between one and five years	5,208	24,877
Beyond five years	3,239	7,127
Total	**14,119**	**43,569**

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

In thousands of BGN

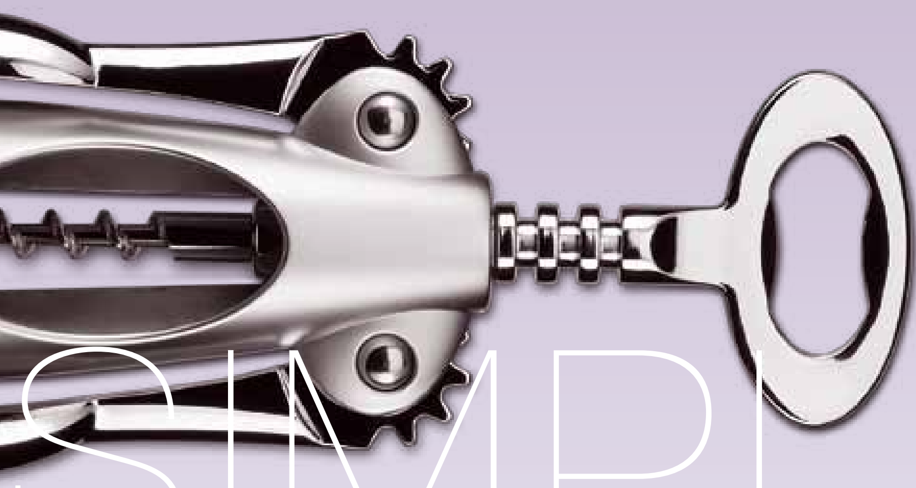
RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2012	2011
Up to one year	74	412
Between one and five years	-	614
Beyond five years	-	53
Total	**74**	**1,079**

48. Subsequent events

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

49. Group entities

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



SIMPLICITY

Customer care that crosses national boundaries

"UniCredit Bank Hungary's products and services have had a strong impact on our business. And their representatives always demonstrate a keen interest in meeting our needs – delivering solutions with a high level of flexibility and professionalism. Their tailored solutions are priced appropriately and applied quickly and easily to our business. UniCredit's presence throughout numerous countries also makes the bank a reliable partner in internationalizing our business."

Carlo Innocenti, CEO of Serioplast,
customer of UniCredit Bank in Hungary

Bank Network

Aitos

27, Stancionna str.	0558/26 164; 22 115

Asenovgrad

8, Radi Ovcharov str.	0331/62 655

Balchik

34A Cherno more str	0579/71 120
3, Ivan Vazov str.	0579/74 061

Bansko

3, Pirin str.	0749/88 125

Berkovitsa

1, Yordan Radichkov sq.	0953/88 484
100, Nikolaevska str.	0953/88 686

Blagoevgrad

1, Macedonia sq.	073/867 028
5, St. Dimitur Solunski str.	073/834 074
17, Zelenopolsko shose str.	02/9 264 785
22, Ivan Shishman str.	073/828 634
57, Vasil Levski blvd	073/885 065
18, St. Kiril and Metodius blvd.	073/828 718

Bojuriste

85, Evropa blvd, Bojuriste	02/993 88 45

Botevgrad

24 Saransk sq.	0723/66 872

Burgas

22, Alexandrovska str.	056/877 262
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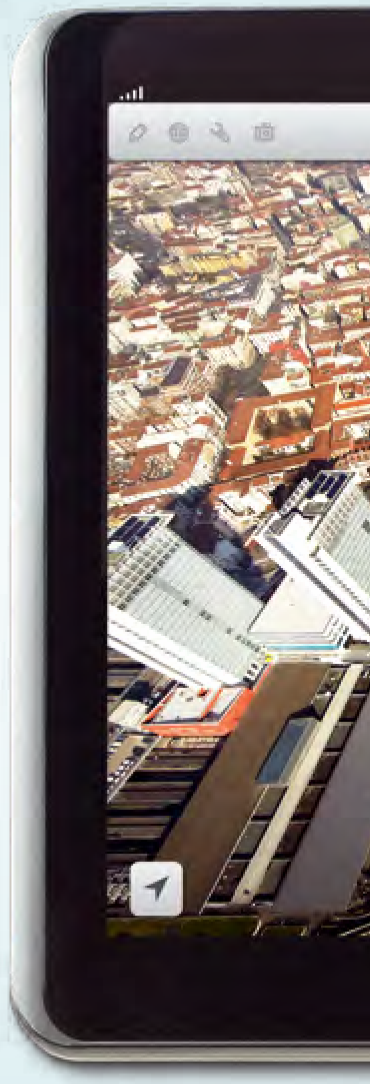

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