

UNICREDIT BULBANK AD

**UNCONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2009
WITH INDEPENDENT AUDITOR'S REPORT THEREON**

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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF UNICREDIT BULBANK AD**

18 February 2010

Introduction

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

Gilbert McCaul
Partner

KPMG Bulgaria OOD
45A Bulgaria Blvd
1404 Sofia
Bulgaria




Margarita Goleva
Registered auditor



INCOME STATEMENT


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

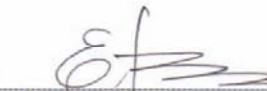

 Levon Hampartzumian
 Chairman of the Management
 Board and Chief Executive
 Officer

KPMG Bulgaria OOD

Gilbert McCaul
 Partner




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


 Emilia Palibachiyska
 Member of the
 Management Board and
 Chief Financial Officer

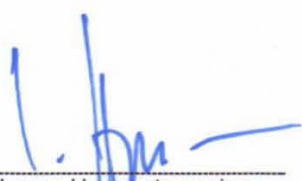
Margarita Goleva
 Registered auditor

0202
 Регистриран одитор


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

STATEMENT OF COMPREHENSIVE INCOME

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


 Levon Hampartzoumian
 Chairman of the Management
 Board and Chief Executive
 Officer

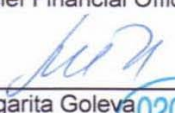

 Andrea Casini
 Deputy Chairman of the
 Management Board and
 Chief Operative Officer


 Emilia Palibachiyska
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Gilbert McCaul
 Partner





 Margarita Goleva
 Registered auditor



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 Регистриран одитор

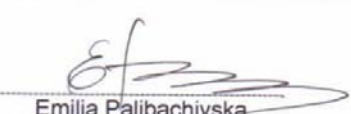
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STATEMENT OF FINANCIAL POSITION

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


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KPMG Bulgaria OOD


 Gilbert McCaul
 Partner

София
 Рег. №045


 Margarita Goleva
 Registered auditor

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 Регистриран одитор

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STATEMENT OF CHANGES IN EQUITY
In thousands of BGN

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

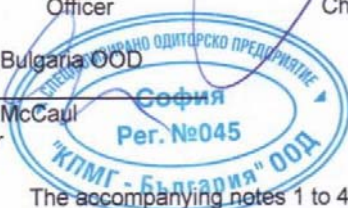
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Margarita Goleva
Registered auditor



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STATEMENT OF CASH FLOWS

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

Levon Hampartzoumian
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Management Board and
Chief Financial Officer

KPMG Bulgaria OOD

Gilbert McCaul
Partner



Margarita Goleva
Registered auditor

0202 **Маргарита
Голева**
Регистриран одитор

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

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

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

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

The Bank operates through its network comprising of 234 branches and offices.

2. Basis of preparation**(a) Statement of compliance**

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

These financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act. These unconsolidated financial statements should be read in conjunction with the consolidated financial statements which were approved by the Management Board of the Bank on February 17, 2010. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

These financial statements are approved by the Management Board of UniCredit Bulbank AD on February 17, 2010.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

2. Basis of preparation (continued)**(d) Use of estimates and judgement (continued)**

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

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

(e) Changes in accounting policy

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

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

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

3. Significant accounting policies

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

(a) Interest income and expense

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

Interest income and expense presented in the Income statement include:

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

(b) Fee and commission income and expenses

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

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

3. Significant accounting policies (continued)**(c) Net gains (losses) on financial assets and liabilities held for trading**

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

(d) Foreign currency transactions

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

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

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

(f) Dividend income

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

(g) Lease payments made

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

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

(h) Financial instruments**(i) Recognition**

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

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

3. Significant accounting policies (continued)**(h) Financial instruments (continued)****(ii) Classification****a) Cash and balances with the Central Bank**

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

b) Financial assets and derivatives held for trading

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

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

Previous change in accounting policy

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

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

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

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

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

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

3. Significant accounting policies (continued)**(h) Financial instruments (continued)****(ii) Classification (continued)****d) Loans and advances to banks and customers**

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

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

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

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

3. Significant accounting policies (continued)**(h) Financial instruments (continued)****(ii) Classification (continued)****g) Investments in subsidiaries and associates (continued)**

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

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

h) Deposits from banks, customers and subordinated liabilities

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

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

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

3. Significant accounting policies (continued)**(h) Financial instruments (continued)****(iv) Derecognition (continued)**

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

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

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

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

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

3. Significant accounting policies (continued)**(i) Impairment**

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

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

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

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

3. Significant accounting policies (continued)**(i) Impairment (continued)****(ii) Financial assets remeasured to fair value directly in other comprehensive income (continued)**

Where an asset measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the asset was previously recognized in other comprehensive income, the increase in fair value of the asset recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss.

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

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

(j) Derivatives used for hedging

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

3. Significant accounting policies (continued)
(j) Derivatives used for hedging (continued)

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

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

(k) Property, plant and equipment and investment property

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

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

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

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

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

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

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

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

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

	<i>Annual depreciation rates (%)</i>	<i>Equivalent expected useful life (years)</i>
▪ Buildings	4	25
▪ Computer hardware	20-50	2-5
▪ Fixtures and fittings	15-20	5-7
▪ Vehicles	25	4

3. Significant accounting policies (continued)**(l) Intangible assets**

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2009 the entire class of intangible assets includes only investments in software and related licenses.

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

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

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

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

(n) Provisions

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

(o) Employees' benefits**(i) Short-term employee's benefits**

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

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

(ii) Defined benefit obligation

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

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

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

3. Significant accounting policies (continued)**(o) Employee benefits (continued)****(ii) Defined benefit obligation (continued)**

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

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

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

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

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

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

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

(ii) Reserves

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

(q) Taxation

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

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

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

3. Significant accounting policies (continued)**(q) Taxation (continued)**

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

(r) Segment reporting

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

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

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

- IFRS 9 "Financial Instruments", published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently in the process of evaluating the potential effect of this standard.
- Revised IFRS 3 "Business Combinations" (2008) is effective for annual periods beginning on or after 1 July 2009. Management does not expect Revised IFRS 3 to have an effect on the Bank's consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

3. Significant accounting policies (continued)**(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date (continued)**

- Amendments to IAS 27 “Consolidated and Separate Financial Statements” are effective for annual periods beginning on or after 1 July 2009. Management does not expect Amendments to IAS 27 to have an effect on the Bank’s consolidated financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- Amendment to IAS 32 “Financial Instruments: Presentation – Classification of Rights Issues” is effective for annual period beginning on or after 1 February 2010. Management does not expect Amendment to IAS 32 to have an effect on the Bank’s consolidated financial statements as the Bank has not issued such instruments at any time in the past.
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement: Eligible Hedged Items are effective for annual periods beginning on or after 1 July 2009”. Management does not expect Amendments to IAS 39 to have an effect on the Bank’s consolidated financial statements.
- IFRIC 12 “Service Concession Arrangements” is effective, at the latest, for first annual reporting period beginning on or after 1 April 2009. Management does not expect IFRIC 12 to have an effect on the Bank’s consolidated financial statements as none of the Bank entities have entered into any service concession arrangements.
- IFRIC 15 “Agreements for the Construction of Real Estate” is effective for annual periods beginning on or after 1 January 2010. Management does not expect IFRIC 15 to have an effect on the Bank’s consolidated financial statements as the Bank does not provide real estate construction services or develop real estate for sale.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation Estate” is effective for annual periods beginning on or after 1 July 2009. Management does not expect IFRIC 16 to have an effect on the Bank’s consolidated financial statements as the Bank does not have any investments in a foreign operation.
- IFRIC 17 “Distributions of Non-cash Assets to Owners” is effective prospectively for annual periods beginning on or after 1 November 2009. As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.
- IFRIC 18 “Transfers of Assets from Customers” is effective prospectively for annual period beginning on or after 1 November 2009. IFRIC 18 is not relevant to the Bank’s financial statements as the Bank does normally receive contributions from customers.

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

- Improvements to IFRSs 2009 (issued April 2009), various effective dates, generally 1 January 2010;
- Amendment to IFRS 2 „Group Cash-Settled Share-based payment Transactions” (issued June 2009), effective from 1 January 2010;
- Amendments to IFRS 1 Additional exemptions for first-time adopters (issued July 2009), effective date 1 January 2010;

3. Significant accounting policies (continued)**(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date (continued)**

- Amendments to IAS 32 “Classification of Rights Issues” (issued October 2009), effective date 1 February 2010;
- Revised IAS 24 “Related Party Transactions” (issued November 2009), effective date 1 January 2011;
- IFRS 9 Financial Instruments (issued November 2009), effective date 1 January 2013;
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement (issued November 2009), effective date 1 January 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009), effective date 1 July 2010.

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

4. Financial risk management**(a) General framework**

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

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

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

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

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

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

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

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

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

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

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by Market Risk department. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in Market Risk Rule Book and International Markets Rule Book, reviewed at least annually.

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

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

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Bank Austria's internal model NoRISK. It is based on historical and Monte Carlo simulation of returns and accounts for risk reducing effects between the risk categories interest, credit spread, foreign exchange, equity, volatilities, and commodities. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the management. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the marking to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return").

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

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

Risk Category	Minimum	Maximum	Average	Year-end
Interest rate risk	0.6	3.8	1.2	0.6
Credit spread	1.3	9.7	3.8	1.4
Exchange risk	0.0	0.3	0.1	0.2
VaR overall¹	1.6	10.4	4.1	1.7

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

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

Reliability and accuracy of the internal model is monitored via daily back-testing, comparing the simulated results with actually observed fluctuations in market parameters and in the total value of books. Back-testing results for 2009 continued to confirm the reliability of the model.

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

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

Currency	0-3M	3M-1Y	1Y-3Y	3Y-10Y	Above 10Y	Total
BGN	1,215	4,401	(10,729)	(14,331)	(596)	(20,040)
CHF	323	17	(54)	(252)	(76)	(42)
EUR	9,741	9,885	(7,006)	18,064	(1,731)	28,953
GBP	70	118	5	-	-	193
JPY	(3)	-	-	-	-	(3)
USD	616	1,728	(2,011)	(12,766)	-	(12,433)
Total sensitivity¹	11,968	16,149	19,805	45,413	2,403	61,664

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

UniCredit Bulbank AD is exposed to exchange rate risk through transactions in foreign currencies. Net FX open positions in trading and banking book are monitored on daily basis and are restricted by volume overnight limits. During 2009, the Bank maintained long EURBGN position of EUR 105 million on average, with insignificant open position in other crosses.

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

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

As of December 31, 2009 the FX balances of UniCredit Bulbank are as outlined in the table below:

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

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

As of December 31, 2008 the FX balances of UniCredit Bulbank are as outlined in the table below:

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

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

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

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

The liquidity is operationally managed through Markets and Sales Division and the structural liquidity through Assets and Liabilities Division. According to the Liquidity Policy, Assets and Liabilities Division monitors on a daily basis short term flows, arising from treasury activities with a time horizon up to three months. The structural liquidity is monitored on a weekly basis prepared under three scenarios – going concern, liquidity crisis and name crisis. For the purposes of liquidity management are monitored daily short-term limits, defined as function of the primary funds and liquidity stress-test results. Structural liquidity limit ratios define minimum required coverage of long-term assets with coherent liabilities. During 2009 the Bank was in compliance with the Group liquidity limit requirements.

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

In thousands of BGN

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

4. Financial risk management (continued)
(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

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

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

(ii) Credit risk in the banking book

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

4. Financial risk management (continued)**(d) Credit risks (continued)****(ii) Credit risk in the banking book (continued)**

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

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

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

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

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

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

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

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

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

4. Financial risk management (continued)
(d) Credit risks (continued)
(ii) Credit risk in the banking book (continued)

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

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

4. Financial risk management (continued)
(d) Credit risks (continued)
(ii) Credit risk in the banking book (continued)

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

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

4. Financial risk management (continued)
(d) Credit risks (continued)
(ii) Credit risk in the banking book (continued)

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

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

4. Financial risk management (continued)**(e) Operational Risk**

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

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

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

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

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

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

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

4. Financial risk management (continued)
(f) Basel II disclosure

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

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

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

(i) Capital base (own funds)

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

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

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

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

4. Financial risk management (continued)
(f) Basel II disclosures (continued)
(ii) Capital requirements

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

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

4. Financial risk management (continued)**(f) Basel II disclosures (continued)****(ii) Capital requirements (continued)**

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

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

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

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

5. Use of estimates and judgement

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

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

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

(a) Fair value determination of financial instruments

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

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

5. Use of estimates and judgement (continued)
(a) Fair value determination of financial instruments (continued)

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

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

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

5. Use of estimates and judgement (continued)
(a) Fair value determination of financial instruments (continued)

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

In thousands of BGN

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

5. Use of estimates and judgement (continued)
(a) Fair value determination of financial instruments (continued)
In thousands of BGN

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

(b) Impairment of financial instruments

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

Collectively assessed impairment 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.

5. Use of estimates and judgement (continued)**(c) Provisions**

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

6. Segment reporting (continued)

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

6. Segment reporting (continued)

In thousands of BGN

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

7. Net interest income

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

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

8. Net fee and commission income

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

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

	<i>In thousands of BGN</i>	
	2009	2008
FX trading income, net	(626)	(11,377)
Net income from debt instruments	(371)	1,643
Net income from equity instruments	-	6
Net income from derivative instruments	2,774	(14,291)
Net trading income	1,777	(24,019)

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

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

11. Net income from investments

	<i>In thousands of BGN</i>	
	2009	2008
Realised gains on disposal of available for sale investments	1,676	1,037
Realised losses on disposal of available for sale investments	-	(2,206)
Realised gains (losses) on disposal of held to maturity investments	493	(108)
Net income from investments	2,169	(1,277)

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

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

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

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

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

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

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

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

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

13. Other operating income, net

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

14. Personnel expenses

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

14. Personnel expenses (continued)

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

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

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

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

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

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

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

15. General and administrative expenses

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

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

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

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

17. Provisions for risk and charges

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

17. Provisions for risk and charges (continued)

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

18. Restructuring costs

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

19. Net Impairment loss on financial assets

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

20. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2010.

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

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

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

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

21. Cash and balances with Central bank

<i>In thousands of BGN</i>		
	2009	2008
Cash in hand	119,816	182,008
Current account with Central Bank	712,342	723,921
Total cash and balance with Central bank	832,158	905,929

22. Financial assets held for trading

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

22. Financial assets held for trading (continued)

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

As of December 31, 2009 and December 31, 2008 financial assets held for trading in the amount of BGN 33,136 thousand and BGN 54,175 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note 43).

Change in accounting policy

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

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

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

23. Derivatives held for trading

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

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

24. Derivatives used for hedging

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

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

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

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

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

As of December 31, 2009 and December 31, 2008 assets designated at fair value through profit or loss in the amount of BGN 4,136 thousand and BGN 20,330 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note 45).

26. Loans and advances to banks

	<i>In thousands of BGN</i>	
	2009	2008
Loans and advances to banks	2,028,640	1,515,360
Current accounts with banks	42,923	34,599
Restricted accounts in foreign currency	4	37
Total loans and advances to banks	2,071,567	1,549,996

27. Loans and advances to customers

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

28. Available for sale investments

	<i>In thousands of BGN</i>	
	2009	2008
Government bonds	261,613	312,408
Bonds of credit institutions	20,766	41,985
Equities	3,106	3,061
Total available for sale investments	285,485	357,454

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

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

As of December 31, 2009 and December 31, 2008 all available for sale investments are assessed for impairment. As a result of this assessment no impairment has been recognized for the years.

As of December 31, 2009 and December 31, 2008 available for sale investments in the amount of BGN 133,400 thousand and BGN 307,132 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note 43).

29. Held to maturity investments

	<i>In thousands of BGN</i>	
	2009	2008
Government bonds	291,360	329,438
Bonds of credit institutions	23,389	26,564
Total held to maturity investments	314,749	356,002

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

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

30. Investments in subsidiaries and associates

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

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

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

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

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

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

31. Property, plant, equipment and investment properties

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

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

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

32. Intangible assets

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

33. Current tax assets

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

34. Deferred tax

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

In thousands of BGN

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

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

In thousands of BGN

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

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

In 2008 the Management has approved list of properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and has offered those properties on public auction. Due to the uncertainties surrounding real estate market, not all of the proposed properties were sold. Management has timely reacted to that with revising the selling price and believes that the sale will be completed by the end of 2010.

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

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

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

	<i>In thousands of BGN</i>	
	2009	2008
Land	161	169
Buildings	2,075	2,967
Total non-current assets held for sale	2,236	3,136

As of December 31, 2009 and December 31, 2008 the carrying amount of the assets held for sale is higher than estimated fair value less cost to sell.

36. Other assets

	<i>In thousands of BGN</i>	
	2009	2008
Receivables and prepayments	13,221	9,814
Receivables from the State Budget	11	10
Materials, spare parts and consumables	1,163	1,412
Other assets	5,243	5,422
Total other assets	19,638	16,658

37. Financial liabilities held for trading

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

38. Deposits from banks

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

39. Deposits from customers

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

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

As of December 31, 2009 and December 31, 2008 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments) or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

40. Subordinated liabilities

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

In thousands of BGN

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

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

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

41. Provisions

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

In thousands of BGN

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

41. Provisions (continued)
(a) Provisions on letters of guarantees

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

As of December 31, 2009 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 19,285 thousand.

(b) Provisions on legal cases

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

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

(c) Retirement benefit provision

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

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

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

The movement of the defined benefit obligation for year ended 2009 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

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

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

41. Provisions (continued)
(d) Provisions on constructive obligation

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

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

(e) Other provision

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

42. Other liabilities

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

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

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2009 and 2008 in accordance with the defined target settings.

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

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

43. Equity
a) Share capital

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

b) Statutory reserves

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

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

c) Retained earnings

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

d) Revaluation reserves

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

44. Contingent liabilities

	<i>In thousands of BGN</i>	
	2009	2008
Letters of credit and letters of guarantee	641,532	731,489
Credit commitments	928,597	1,442,245
Total contingent liabilities	1,570,129	2,173,734

a) Memorandum items

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

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

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

As of December 31, 2009 and December 31, 2008 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note 41).

44. Contingent liabilities (continued)
b) Litigation

As of December 31, 2009 there are open litigation proceedings against the Bank. There is significant uncertainty as to the timing and outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Total of litigation claims provided for in the financial statements as of December 31, 2009 is in the amount of BGN 10,108 thousand.

c) Credit commitments

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

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

45. Assets pledged as collateral

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

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

46. Related parties

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

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

46. Related parties (continued)

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

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

<i>In thousands of BGN</i>	
	Income (Expense)
Interest incomes	6,660
Interest expenses	(54,732)
Fee and commissions income	2,255
Fee and commissions expenses	(180)
Net trading income (expenses)	(241)
Administrative and personnel expenses	(5,835)
	(52,073)

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

47. Cash and cash equivalents

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

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

48. Leasing

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

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

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

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

Residual maturity	<i>In thousands of BGN</i>	
	Total future minimum lease payment	
	2009	2008
Up to one year	12,082	12,500
Between one and five years	26,663	26,819
Beyond five years	6,774	8,923
Total	45,519	48,242

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

Residual maturity	<i>In thousands of BGN</i>	
	Total future minimum lease payment	
	2009	2008
Up to one year	247	189
Between one and five years	85	119
Total	332	308

49. Group entities

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