UniCredit Bulbank

Meeting real needs with concrete solutions

2011 Annual Report

UniCredit Bulbank

Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and requires clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customized solutions. You will read stories about how we worked together to promote sports in schools and how we gave a boost to long-established industrial firms by enabling them to update their machinery. You will also learn about how we have supported the development of new computer systems and have provided broad support to the green economy.

These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference, day in and day out, for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories - snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships, where our stakeholders can best meet the changing needs of the times.

2011 Annual Report

Winning awards for green initiatives

As part of UniCredit's commitment to sustainable development, several hundred emplyees of UniCredit Bulbank volunteered to participate in the planting of 1,300 shrubs and 1,800 willow branches in Sofia's Vitosha Park. The successful initiative was recognized with an official certificate in national competition. UniCredit Bulbank also received an award from the Society of Loyalty for its support of important social causes. In 2011, the bank's green initiatives also included the recovery of empty toner cartridges and digitalized account statements, which reduced paper consumption. This is a part of the Group's practical response to protecting the environment and supporting the green economy.

Vitosha Park, Sofia. Girls who plant: Ekaterina Ancheva, Anna Ancheva, Blagorodka Todorova. Photo by Antoan Raichev

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Financial Highlights (Unconsolidated)

Income Statement Figures

(Thousands of BGN, unless otherwise stated)

	YEAR 2011	YEAR 2010	CHANGE
Net interest income	442 990	426 864	3.8%
Net fee and commission income	164 866	153 639	7.3%
Net income from trading, par value investments and dividends	22 526	15 143	48.8%
Other operating income, net	6 005	5 940	1.1%
Operating income	636 387	601 586	5.8%
Operating expenses	247 329	243 906	1.4%
Gross operating profit	389 058	357 680	8.8%
Impairment losses on financial assets and provisions	140 553	181 285	-22.5%
Profit before tax	251 241	176 634	42.2%
Net profit	**226 576**	**158 744**	**42.7%**

Volume Figures

	YEAR 2011	YEAR 2010	CHANGE
Total assets (eop)	11 903 648	11 275 640	5.6%
Bank customer deposits (eop)	7 293 666	6 540 524	11.5%
Bank customer loans (eop)	7 812 435	7 472 399	4.6%
Shareholders' equity (eop)	2 004 336	1 781 173	12.5%
RWA (eop)	**8 555 225**	**8 631 763**	**-0.9%**

Key Performance Indicators (%)

	YEAR 2011	YEAR 2010	CHANGE
Return on average assets (ROA)	2.0	1.4	0.6pp
Return on average equity (ROE)	12.0	9.3	2.7pp
Cost/Income ratio	38.9	40.5	-1.6pp
Net profit margin	35.6	26.4	9.2pp
Capital/Asset ratio (eop)	16.8	15.8	1.0pp
Total capital ratio (eop)	21.0	19.8	1.2pp
Tier 1 capital ratio (eop)	18.3	16.5	1.8pp
Risk weighted assets/Total assets ratio (eop)	71.9	76.6	-4.7pp
Non-performing loans/Gross loans	14.4	10.1	4.3pp
Net Loan/Deposit ratio	**107.1**	**114.2**	**-7.1pp**

Resources (number) - (eop)

	YEAR 2011	YEAR 2010	CHANGE
Bank operating outlets	218	216	2
Employees	3 750	3 770	(20)

Foreign exchange rate at period-end (BGN/USD)	**1.5116**	**1.4728**	**2.6%**
Average annual exchange rate over the period (BGN/USD)	**1.4065**	**1.4774**	**-4.8%**

Financial Highlights (Consolidated)

Income Statement Figures

(Thousands of BGN, unless otherwise stated)

	YEAR		CHANGE
	2011	2010	
Income Statement Figures			
Net interest income	445 588	428 949	3.9%
Net fee and commission income	167 242	155 534	7.5%
Net income from trading, par value investments and dividends	26 277	21 852	20.2%
Other operating income, net	6 087	5 962	2.1%
Operating income	645 194	612 297	5.4%
Operating expenses	249 155	245 810	1.4%
Gross operating profit	396 039	366 487	8.1%
Impairment losses on financial assets and provisions	141 018	182 033	-22.5%
Profit before tax	257 795	184 724	39.6%
Net profit	**232 858**	**166 705**	**39.7%**

Volume Figures

	YEAR		CHANGE
	2011	2010	
Total assets (eop)	11 973 012	11 340 833	5.6%
Customer deposits (eop)	7 287 104	6 535 848	11.5%
Customer loans (eop)	7 873 628	7 533 400	4.5%
Shareholders' equity (eop)	2 022 772	1 793 327	12.8%
RWA (eop)	**8 616 475**	**8 694 650**	**-0.9%**

Key Performance Indicators

	YEAR		CHANGE
	2011	2010	
Return on average assets (ROA)	2.0	1.5	0.5pp
Return on average equity (ROE)	12.2	9.7	2.5pp
Cost/Income ratio	38.6	40.1	-1.5pp
Net profit margin	36.1	27.2	8.9pp
Net Loan/Deposit ratio	**108.0**	**115.3**	**-7.3pp**

Letter to Shareholders

"For UniCredit Bulbank, 2011 was a year of innovation and transformation, and one in which we clearly strengthened our competitive position. We made significant progress in driving forward UniCredit Bulbank's business and strategy and in creating value to all stakeholders."

Dear shareholders,

In 2011 UniCredit Bulbank operated in a challenging economic environment. Although some positive data in the first half of the year, the outlook deteriorated sharply in the second half, due to increased concerns over the Greek sovereign debt crisis and its possible contagious effect. Considering the proximity of the euro zone's most problematic countries, the Bulgarian economy did fairly well in 2011, marking a positive growth of GDP at 1.6% yoy.

For UniCredit Bulbank, 2011 was a year of innovation and transformation, and one in which we clearly strengthened our competitive position. We made significant progress in driving forward UniCredit Bulbank's business and strategy and in creating value to all stakeholders. Leveraging on the distinguished brand name and our reputation as a reliable business partner and by consistently applying customer centric approach, we delivered an improved performance, which predominated over the repercussions of the crisis.

In 2011 we reaffirmed our position of an undisputable market leader. The bank ranked number one in Bulgaria in assets, customers' loans, customers' deposits and net profit. Total assets increased by 5.6% yoy to BGN 11.9bn. The growth was driven by the focused client-orientated approach that supported the increase in the net loans to customers by 4.6% yoy, to BGN 7.8bn. Liquidity was further enhanced through active participation on the deposit market with customer deposits' volume increasing by 11.5% yoy to BGN 7.3bn. Total operating income was BGN 636m, 5.8% higher than the year before, while total operating costs grew marginally by 1.4% to BGN 247m. The decelerating trend in portfolio deterioration and the optimization in risk costs lowered impairment charges on financial assets by 22.5% yoy to BGN 141m. As a result, the net profit recorded an impressive growth by 42.7% yoy, to BGN 227m, which represented about 40% of the banking system's net profit.

Furthermore, in 2011 the Bank capital position remained strong. The total capital adequacy ratio increased to 21.0% and the Tier 1 ratio reached 18.3%. Both indicators were well above the minimum BNB requirements and the average ratios for the banking sector.

Understanding customers' needs was the main prerequisite for our success. We continued serving the clients with integrity, creativity and the highest standards of excellence. Thanks to the creativity and dedication of our 3,750 employees and the operational enhancements, we managed to bring specific and relevant solutions to more than 1.1 million customers in the network of 218 branches.

We are well aware that the banking industry is undergoing significant changes, which requires that we remain flexible and reshape the way that we do business and service our clients. Considering that, in 2011 we concentrated on the enhancement of alternative channels, adjusting our supply chain, so that we can meet client expectations more efficiently and facilitate them in the usage of our services by promoting simplification and making the Bank available to customers 24/7. Launching Bulbank Mobile was a unique solution for the Bulgarian market. In addition to this, second generation ATMs was introduced, allowing customers to deposit money. In times of stringent bank financing requirements, UniCredit Bulbank ventured in several specialized lending programs (i.e. JEREMIE, EBRD and EIB lines; EU Funds) to boost lending to SMEs, large companies and municipalities. In the area of transactional services, the bank received several awards, recognizing its customer dedication and excellent product management in custody, trade finance, cash management, payments. UniCredit Bulbank remained the leader in the Bulgarian market in offering the full range of markets and hedging products, as well as brokerage and investment banking services to the customers and partners.

2011 was another year with repayment difficulties for the clients from all segments. In the challenging economic environment, UniCredit Bulbank focused from one side on the stabilization of existing exposures and support to customers in distressed financial situations and on the other side, continued to seek new lending opportunities and managed to acquire new businesses.

UniCredit Bulbank was the first bank in Bulgaria authorized to use since 2011 the highly efficient Internal Rating Based (IRB) Approach under Basel 2 for the calculation of credit risk capital requirements and the Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirements. They offer substantial benefits in terms of more accurate risk assessment that were used as a key input for reduction in the capital absorption and cost of risk.

The outstanding business results arise from the hard work and dedication of all employees. Therefore, we are committed to select, hire and manage people who crave for achievements and welcome the incitement to respond to business requirements and customer needs. By promoting a culture of mutual cooperation and respect, we preserved our workforce in such a difficult period and prevented any painful restructurings. Accordingly, we are continually listening and paying attention to employees' feedback received within the regular UniCredit People Survey.

Our corporate responsibility strategy was targeting to an integration of social, ecological and economic dimensions of the activities. During the year the bank remained committed to the continuous main focus of its social policy, namely health and social services, sports, arts and its traditional Gift Matching program. An important aspect of UniCredit Bulbank's sustainable development strategy was its National Green Campaign in which for the first time employees of the Bank and their families took part with voluntary work. 2011 marked the start of a new significant project "Trust in the family" in the field of child social services implemented through the joint actions of UniCredit Foundation, Tulip Foundation and UniCredit Bulbank. The corporate socially responsible behavior of UniCredit Bulbank brought to us several awards, namely CSR Company of the Year, Charity Project of the Year, Volunteer project of the Year, etc.

The achievements of the past year demonstrated that our business is on a solid footing and we are well positioned to continue our dynamic record of growth, despite the market turbulences. Our ambitious target is to further enhance the growth potential of our flagship commercial banking business and to continue generate sustainable value to all stakeholders. In that respect, we will work on being recognized as a leading universal bank in the country that delivers quality and diversified solutions to a large base of loyal clients, serviced by dedicated employees. Committed, responsible and robust - that is how UniCredit Bulbank is moving into 2012.

We would like to thank all customers, partners and shareholders for their trust, loyalty and patience given the specifics of the economic environment. We are also grateful to the employees, whose dedicated efforts and competences contributed to another year of profitable operations. And finally, the efforts of all Supervisory Board and Management Board members are very highly appreciated as they led the institution confidently and prudently, ensuring business continuity and corporate sustainability.

Robert Zadrazil
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board
and CEO

April 10, 2012
Sofia

Supervisory Board and Management Board[1]

Supervisory Board

Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Claudio Cesario Diter Paul Hengl Tomica Pustisek	**Members**

Management Board

Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Andrea Casini	**Deputy Chairman and Chief Operative Officer**
Emilia Palibachiyska Michele Amadei Alexander Krustev Pasquale Giamboi	**Members**

- On 10.06.2011 Mr. Michele Amadei was entered in the Commercial registry of the Registry Agency as a member of the Management Board.
- On 08.07.2011 Mr. Pasquale Giamboi was entered in the Commercial registry of the Registry Agency as a member of the Management Board.
- On 17.01.2011 Mr. Lyubomir Punchev was released in the Commercial registry of the Registry Agency as a member of the Management Board.
- On 11.05.2011 Mr. Gert Franz Walter Hebenstreit was released in the Commercial registry of the Registry Agency as a member of the Management Board.

[1]As of December 31st, 2011

Supervisory Board and Management Board (continued)

Art. 247, par. 1, pt. 4 from the Commercial Law (01.01.2011- 31.12.2011)

Members of the Supervisory Board

Robert Zadrazil
- Schoellerbank Ag – Chairman Of The Management Board (MB) And CEO
- Oesterreichische Kontrollbank Aktiengesellschaft – Member of the Supervisory Board (SB)
- UniCredit Bank Austria Ag – Member of MB
- Zagrebacka Banka Dd - Member of SB

Alberto Devoto
- UniCredit Bank Slovakia As - Member of SB

Heinz Meidlinger
- UniCredit Bank Slovakia As – Chairman of SB
- UniCredit Bank Czech Republic A.S. – Member of SB
- UniCredit Tiriac Bank S.A. – Member of SB
- Oesterreichische Clearingbank Ag, In Liquidation – Member of SB up to 24.03.2011
- UniCredit Caib Hungary Zrt. – Member of SB up to 24.02.2011
- UniCredit Caib Czech Republic – Member of SB up to 09.03.2011
- UniCredit Caib Slovenija D.O.O. – Member of SB up to 17.03.2011
- Meidlinger Investment & Consulting Gmbh – 99% ownership and managing partner

Dimitar Zhelev
- Stadis Ad - Member of the Board Of Directors (BD) and Executive Director
- Dzh Ad – Member of BD and Executive Director, 50% Ownership
- Allianz Bulgaria Holding Ad – Member of BD And Executive Director
- Bulls Ad - Member of BD And Executive Director, 51% Ownership
- Shiprepair Yard Odessos , Varna – Member of BD
- Pod Allianz Ad – Member of SB
- Allianz Bank Bulgaria Ad – Member of SB
- Zad Allianz Bulgaria Life – Member of BD

Claudio Cesario
- As UniCredit Bank Latvia – Deputy Chairman of SB
- UniCredit Bank A.D. Banja Luka – Member of SB
- UniCredit Bank D.D. - Member of SB
- UniCredit Bank Hungary Zrt. – Deputy Chairman of SB
- UniCredit Bank Slovakia A.S. - Member of SB

Diter Paul Hengl
- UniCredit Bank Austria Ag – Member of MB
- Mezzanin Finanzierungs Ag - Member of SB up to 28.09.2011
- OEsterreichische Kontrollbank Aktiengesellschaft - Member of SB
- Wien Mitte Immobilien - Member of SB

Tomica Pustisek
- UniCredit Bank Czech Republic A.S. – Member of SB
- UniCredit Bank Hungary Zrt. – Member of SB
- Ukrsotsbank - Member of SB
- UniCredit Bank D.D. - Member of SB up to 04.04.2011

Graciano Cameli

Released From UniCredit Bulbank's Sb On 31.05.2011, Written In The Commercial Registry On 27.06.2011
- Private Joint Stock Company Ferrotrade International – Chairman of SB
- Public Joint Stock Company Ukrsotsbank – First Deputy Chairman of MB and Chief Manager
- UniCredit Bank Czech Republic, A.S. – Member of SB up to 02.03.2011
- Zagrebachka Banka D.D. - Member of SB up to 03.02.2011

Members Of The Management Board

Levon Hampartzoumian
- UniCredit Consumer Financing Ad – Member of SB
- Borika-Bankservice Ad – Member of BD
- Bulbank Leasing Ead – Member of SB
- UniCredit Leasing Ad - Member of SB
- Prelios Ad, In Liquidation – Member of SB

Andrea Casini
- UniCredit Consumer Financing Ad – Member of SB
- Bulbank Leasing Ad - Member of SB
- UniCredit Leasing Ad - Member of SB
- Indaco Eood – 100% Ownership of Bgn 5 000 capital
- Prelios Ad, In Liquidation – Member of SB

Emilia Palibachiyska
- Cash Service Company AD – Member of BD

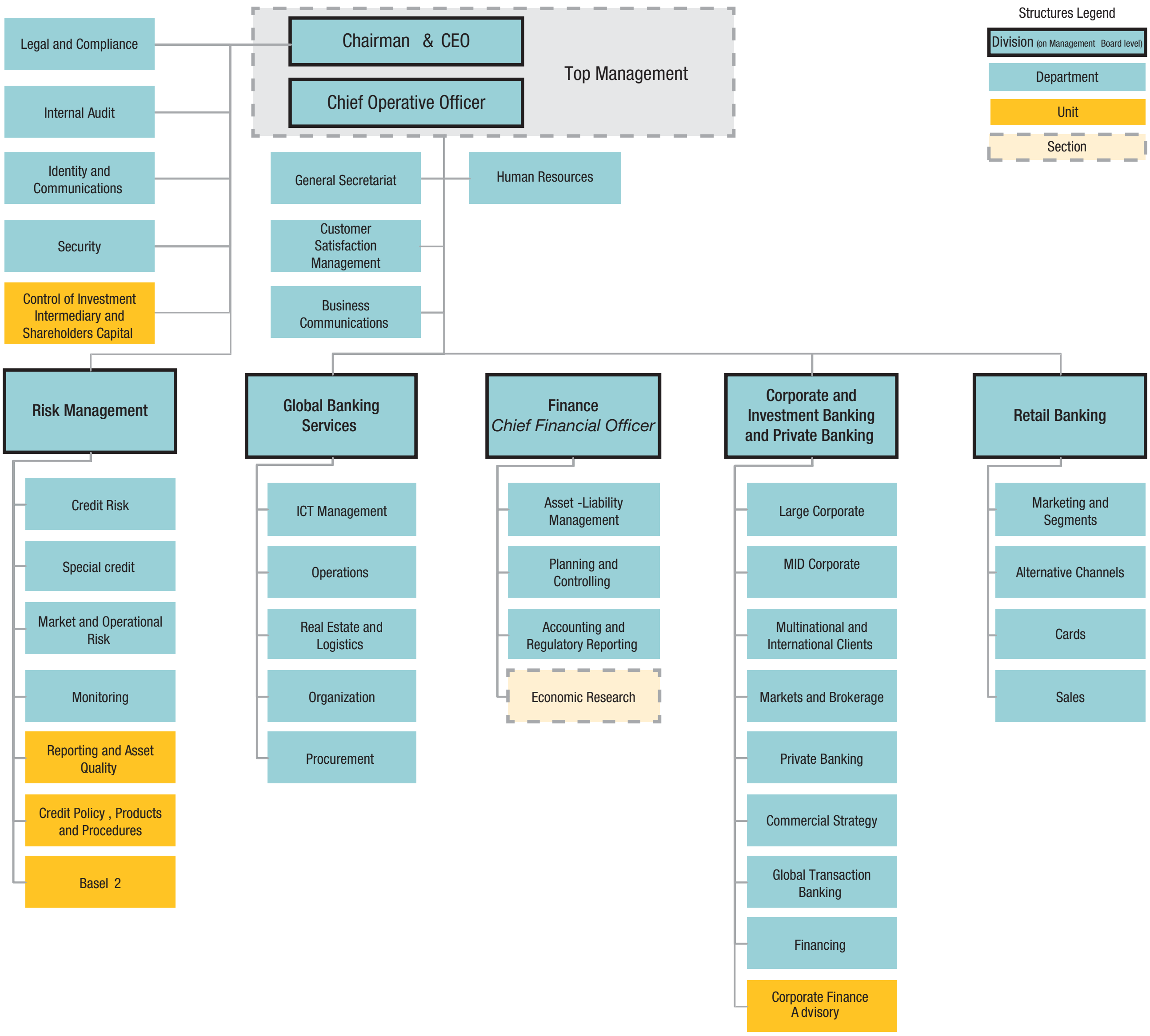
Pasquale Giamboi
- UniCredit Consumer Financing AD – Member of MB

Michele Amadei
- UniCredit Factoring Ead – Member of BD

Investing in sports at school

Sports mean healthy lives, especially for young students at the 100 Hungarian schools where UniCredit sponsors sporting events. The objective was to teach children to take care of their bodies and maintain proper health by participating in sports. This successful answer to the real and widespread need to promote physical and mental health is currently in its third year and has been enthusiastically embraced by teachers, children and their families. The programme “Pass it!On” is a concrete example of how UniCredit is close to Hungarian families and understands their needs.

Organisation Chart[1]



[1]As of December 31st, 2011

Credit Rating

Counterparty Credit Rating Standard & Poor's

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

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

Highlights

UniCredit operates in 22 Countries with more than 160,000 employees and nearly 9,500 branches.

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

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

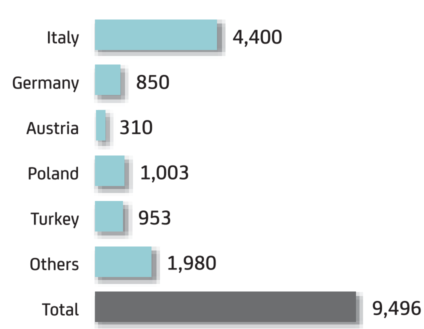
(currency amounts are shown in € million)

OPERATING INCOME	25,200
OPERATING PROFIT	9,740
NET PROFIT (LOSS)	(9,206)

SHAREHOLDERS' EQUITY	51,479
CORE TIER 1 RATIO	8.40%
TIER 1 RATIO	9.32%

EMPLOYEES[1]	over 160,000
BRANCHES[2]	nearly 9,500
TOTAL ASSETS	926,769

BRANCHES BY COUNTRY[2]

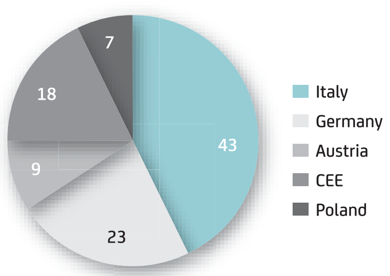


1. Data as at December 31, 2011. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

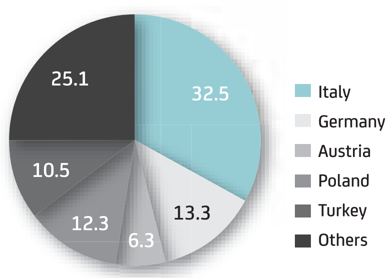
WHERE WE OPERATE

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

REVENUES BY REGION (%)



EMPLOYEES BY COUNTRY[1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

UniCredit is strategically positioned in Italy, Germany and Austria. These three countries account for more than one-third of the combined GDP of the European Union and collectively represent one of the continent's wealthiest transnational regions.

GDP per capita in each of these countries is higher than the average for the EU as a whole. Moreover, Germany ranks first in terms of GDP per capita among the four largest EU economies, surpassing France, the United Kingdom and Italy.

UniCredit has one of the largest banking networks in all three of these core Western European countries and provides access to 310 branches in Austria, 850 in Germany and 4,400 in Italy. Each country is closely linked to the growing economies of Central and Eastern Europe.

In terms of economic performance, 2011 was another year of moderate expansion for these core countries. The first half of the year saw a growth in momentum that was sustained by healthy global demand. During the second half of the year, there was a marked slowdown in economic activity following the sovereign debt crisis, which took place during the summer. In particular, market repricing of risk premiums on Italy's sovereign debt took its toll, fueled by investor concerns about the sustainability of the country's public debt in the context of structurally low GDP growth. The response of the Italian government in terms of fiscal consolidation was impressive, although this likely contributed to dampen the country's growth prospects, at least in the short-term. As for Germany, market sentiment remained extremely positive with regard to the country's perceived health.

GDP PER CAPITA[1]

Austria	139.6
Germany	124.2
Italy	105.2

MARKET SHARE[2] (%)

Austria	15.1
Germany	2.6
Italy	13.8

1. Nominal GDP per capita as at December 31, 2010 (EU27=100). Estimate of Nominal GDP per capita within the EU27 as at December 31, 2010
2. Market Share in terms of Total Customer Loans as at December 31, 2011.

Source: Eurostat, UniCredit Research.

For the next two years, our three core markets will face challenges. These will be particularly acute in Italy. Nevertheless, these three countries will continue to demonstrate their relative strength in comparison to the nations of southern Europe given their balanced growth model, relatively low level of private sector debt and continued prudent management of public finances. Italy and Germany possess the eurozone's largest manufacturing base, together generating more than 50 percent of the euro area's total nominal added value.

From 2011 to 2015, real economic growth is expected to continue at an average annual rate of roughly 2 percent in Austria and Germany, and nearly 0.5 percent in Italy. This is higher than the average rate achieved over the previous five-year period for the three countries. Moreover, while exports will certainly be an important factor behind the ongoing economic recovery, another favorable development will be seen in domestic demand, which will become an increasingly important engine of economic development. Particularly in Germany, this will result in a more sustainable pattern of growth that is not exclusively export-driven.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, where it has a broad network of roughly 3,900 branches.

Its regional footprint is diverse, and includes a direct presence in 19 countries. It is ranked in the top five in 11 of these countries*. In fact, the CEE now accounts for 18 percent of the Group's revenues.

UniCredit has a long history in this dynamic region, from which nearly half of all its employees come. The Group is well positioned to benefit from the process of economic convergence that has been generating higher living standards and a better business environment in these countries.

UniCredit's market position in this region gives its local banks a substantial competitive advantage. This includes the sharing of best practices, significant economies of scale, access to international markets and strong brand recognition. Moreover, the bank's diversified portfolio in this region enables modular growth and increased market penetration for UniCredit's global product lines.

In the first three quarters of 2011, most countries in the region posted strong gains in economic activity, supported by robust external demand, favorable agricultural conditions and, in some cases, resilient domestic demand growth. To date, available data indicates some slowdown in economic activity in the fourth quarter, in part as a result of weaker external and industrial demand. Nevertheless, the region as a whole proved relatively resilient to the challenges of the EMU. The risks, if any, to UniCredit prediction of 4.7 percent GDP growth for the CEE in 2011** are to the upside.

In 2012, GDP growth for the region is forecast at 3.3 percent, assuming a broadly flat first half-year followed by an improved second half-year. Among the largest economies in the region, Russia is expected to lead, posting growth of almost 4 percent, while in Turkey and Poland GDP should post gains of approximately 3 percent. These economies will benefit from lower debt levels as well as a head start in fiscal consolidation relative to the EMU. Other economies in the region, including Croatia, Slovenia and Hungary, will struggle to post positive gains in GDP.

MARKET SHARE[3] (%)

* as at September, 2011.

**GDP figures at December, 31 2011 are not yet final.

3. Market Share in terms of Total Assets as at December 31, 2011. Market Share in Azerbaijan and Kyrgyzstan not available.

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

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

This model focuses on four pillars:

Customer-centricity

This is the focus of the Business Divisions - *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking and Central Eastern Europe.* With their highly specialized services, they offer clear and simple solutions to all customer segments, thereby maximizing long-term value and generating customer satisfaction.

A multi-local approach

UniCredit combines an international distribution network with deep local roots and close ties to its customers by leveraging the global product lines, like Leasing and Factoring, its global service lines and the local expertise of UniCredit's people operating in the local markets.

Global product lines

Each of the product lines is responsible for the centralized development of a complete portfolio of financial products and services suitable to the diverse needs of its customers. These product lines generate added value for customer segments in all countries and regions by leveraging also the specialized skills and knowledge of the Group's Banks/Companies (e.g Fineco Bank).

Global service lines

UniCredit's service lines provide a broad range of specialized internal services such as information technologies, back-office activities, personnel administrative management, loan recovery, purchasing and the real estate management.

Organizational structure

UniCredit's organization reflects its divisional business model and geographic scope.
To meet customers' needs, UniCredit is divided into **specialized Business Divisions**, as follows:

- Three divisions - *Families & Small-Medium sized Enterprises, Corporate & Investment Banking, Private Banking* - manage the activities intended for their respective customer segments. These include marketing, defining service models and developing products, as well as overseeing and coordinating some specific businesses.
- The CEE Division serves to align the activities in 19 countries of Central and Eastern Europe to a single, comprehensive business vision.

In line with the multi-local approach, responsibility for individual countries is lodged with leadership roles - such as the Country Chairman in the four main markets of Austria, Germany, Italy and Poland and the Country CEO in the six divisionalized CEE countries. Their task is to combine the Group's strategic business vision with that of their country.

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

The UniCredit Strategic Plan

Clear goals, specific actions and a long-term vision are key elements of the UniCredit Strategic Plan that will be implemented through 2015. The strategic targets of the plan are related to commercial activity which meets real needs with concrete solutions, capital strength, operating efficiency, profitability and focus on Europe.

Commercial activity. Placing a renewed emphasis on the importance of being a commercial bank will put UniCredit at the center of the real economy. Customers primarily look to UniCredit to provide them with savings and loan services. Most importantly, the Group's return to traditional banking fundamentals means that it can provide tailored solutions to fit these needs.

Capital strength. UniCredit's position as one of the 29 global systematically important financial institutions (G-SIFIs) is official recognition that it is now one of the most secure banks in the world. However, it remains a priority to further improve its capital and liquidity positions, as well as its access to funding.

Operating efficiency. To be truly competitive in the years to come, UniCredit requires a simplified operating structure that is more customer-focused, efficient, cost-conscious and streamlined in terms of central functions.

Profitability. Profits must be sustainable. And only a strong, low-risk traditional business model can generate sustainable profits and a return on capital that is greater than its costs.

Focus on Europe. UniCredit's current orientation is towards Europe. Its geographic diversity is an unquestionable asset that will continue to serve the Group well into the future. In fact, its strong presence in Western Europe and in those CEE countries with high growth potential will strengthen UniCredit's relationships with strategic customers internationally.

The steps set forth in the UniCredit Strategic Plan to achieve these goals can be broken down into four areas of activity: use of capital; cost control and simplification; a business shift for CEE and CIB; and a resurgence in Italy.

Use of capital. This must be carefully addressed. Being a G-SIFI bank may mean that UniCredit is one of the 29 most secure banks in the world, but it also means it is one of the most regulated institutions. This is especially true with regard to the subjects of capital endowment and risk profile. UniCredit's successful €7.5 billion capital increase was the first step towards strengthening its position, and, in 2012, it gave the bank a Common Equity Tier 1 Ratio of over 9 percent based on Basel 3 criteria. UniCredit's goal is to exceed 10 percent by 2015. As for the reduction of its risk profile, this will require the sale of €48 billion in non-strategic assets and greater selectivity in lending as compared to the past. These transactions will allow UniCredit to focus more on its traditional banking business by raising funds and providing loans on an ongoing basis and under attractive conditions.

Cost controls and simplification. UniCredit aims to be efficient, streamlined, fast and unified. To achieve this as quickly as possible and starting in 2012, the strategic plan calls for difficult decisions requiring it to break with the past. UniCredit's organizational model and several other components will change according to customer needs and will involve a downsizing of support functions plus a shift to centralized departments. At the same time, spending will be thoroughly reviewed to achieve overall savings of €440 million.

Business shift for CEE and CIB. Both of these business areas will be reviewed. On one hand, this will involve leveraging countries with the greatest growth potential - especially those where UniCredit is well-positioned in terms of risk/return (the Czech Republic, Poland, Russia and Turkey). On the other hand, it will involve a shift in lending to focus on more strategic customers in order to create additional loans.

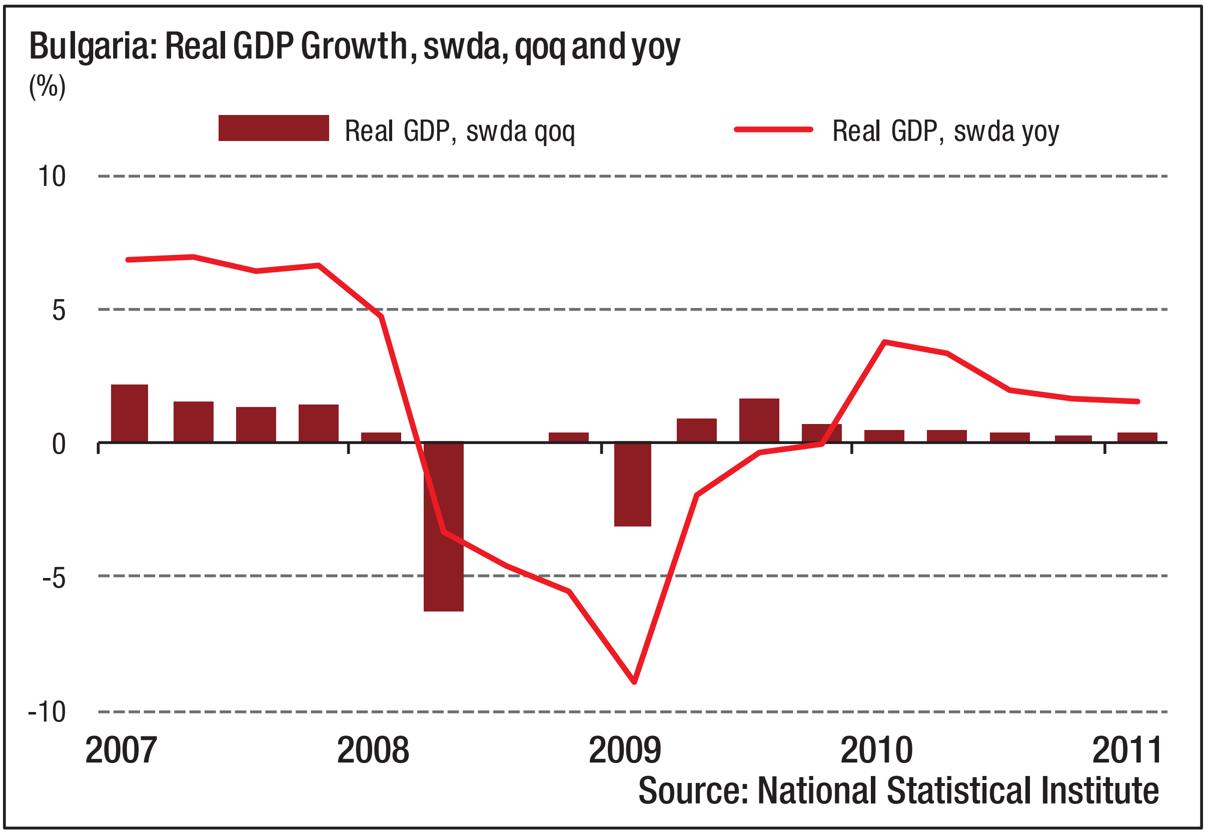
Resurgence in Italy. While Italy is number one for UniCredit in terms of revenues and loans, the country's profitability must improve. To do this, UniCredit will adjust the risk profile of its loan portfolio to favor higher credit ratings, reduce the efficiency gap with its main competitors and to be more selective in its lending. These steps will allow UniCredit to provide new medium- and long-term credit lines totaling €33 billion to SMEs, and to extend new loans to households totaling more than €39 billion.

Celebrating with three million young Europeans

Bank Austria is one of the main sponsors of the Donauinselfest - one of the largest open-air events in Europe. The 29th annual celebration of Donauinselfest will take place from 22 to 24 June, 2012 in Vienna. Each year, this free public festival attracts as many as three million young people from all over Europe. To appreciate the scale of this event, last year's festival featured 18 "festival islands" and 11 stages spread across 4.5 km and involved more than 2000 artists. The bank's significant sponsorship of Donauinselfest underscores Bank Austria's strong support for the social and cultural development of young people from across Europe.

Donauinselfest, Wien

Bulgarian Economy in 2011



The Bulgarian economy is struggling to stay on the road to sustainable recovery with austerity being the new norm in Europe

The Bulgarian economy did fairly well in 2011, considering the proximity to the euro zone's most problematic member states and the intensification of the debt crisis in the euro zone in the second half of the past year. GDP growth accelerated to 1.6%[1] yoy from 0.2% reported in 2010. However, growth rates decelerated constantly throughout 2011 as the positive contribution of export as a key economic driver waned while domestic recovery has progressed but very slowly. Positive net external trade balance and private consumption were the biggest contributors to the GDP score, while gross fixed capital formation disappointed, posting only a limited positive result in 2011.

Some positive data emerge in H1 2011 but the resurging global fear over debt-burdened Europe overwhelm in the second half of the year

Although private consumption rose in the past 12 months, this could hardly be reconfirmed by retail sales data. Domestic retail trade turned positive in H1 2011, but was squeezed again towards the end of the year and reported another series of monthly declines in volumes, signalling that households' expenditures are yet to recover. This could easily be explained with weak labor market during the year. Employment levels recovered somewhat towards Q3, but with resurging global fears and market uncertainty, employers are likely to wait a bit more before starting to increase the number of jobs by any non-negligible margins.

CPI slowdown encouraged consumption to some extent

Domestic consumption received some support from slowing consumer price inflation, a trend which is expected to continue in 2012. Both producer and consumer prices reached their respective peaks at the start of 2011 as energy-linked commodities and food stuffs surged on global markets. But with this temporary effect waning towards the end of H1, prices began decelerating, while constrained domestic demand and disinflationary base effects further sped up the process.

Deflationary forces and labor market uncertainties postpone housing price recovery

Lower core prices also reflected a continued rebalancing process in the housing market. Average dwelling prices for the economy dropped again in 2011, marking a 3rd consecutive year of deflation – a trend which is likely to persist, going forward, as demand remains subdued due to labour market uncertainties and an overall defensive position taken by the households sector.

[1] Flash estimate for 2011 yoy GDP real growth rate, released by NSI

MACROECONOMIC INDICATORS	2011	2010	2009	2008	2007	CHANGE 2011/2010
Nominal GDP (EUR million)	38 945	36 033	34 932	35 430	30 772	8.1%
GDP per capita (EUR)	5 236	4 801	4 618	4 658	4 028	9.1%
Real GDP growth, swda (%)	1.6	.2	(5.5)	6.2	6.4	1.4
Basic Interest Rate, avg (%)	0.20	0.20	2.41	5.12	3.92	0.0
Inflation, eop (%)	2.8	4.5	.6	7.8	12.5	-1.8
Inflation, avg (%)	4.2	2.4	2.8	12.4	8.4	1.8
Unemployment rate, SA, eop (%)	11.2	11.3	8.4	5.4	6.1	-0.1
Official exchange rate, eop (BGN/USD)	1.51	1.47	1.36	1.39	1.33	2.6%
Official exchange rate, avg (BGN/USD)	1.41	1.48	1.41	1.34	1.43	-4.8%
Current account balance (EUR millions)	744	(419)	(3 477)	(8 191)	(7 755)	n.a.
Current account balance / GDP (%)	1.9	(1.2)	(10.)	(23.1)	(25.2)	n.a.
Net foreign direct investments (EUR millions)	939	1 593	3 372	6 203	8 838	-41.0%
Net foreign direct investments / GDP (%)	2.4	4.4	9.7	17.5	28.7	-2.0
Gross foreign debt[1], eop (EUR millions)	35 543	37 042	37 816	37 246	29 017	-3.0%
Gross foreign debt[1] / GDP (%)	91.3	102.8	108.3	105.1	94.3	-8.8
Gross internal public debt, eop (EUR millions)	2 458	2 012	1 539	1 571	1 636	22.2%
BNB FX reserves (EUR millions)	13 349	12 977	12 919	12 713	11 937	2.9%
Budget balance / GDP (%)	(2.1)	(3.9)	(.8)	3.0	3.5	1.8
Acting commercial banks at the end of the period	31	30	30	30	29	1

Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] Data as of November 2011

The ongoing process of debt redemption puts pressure on the components of growth

One of the main causes of lackluster investment and hiring levels by the private sector is the continuing deleveraging process in the economy. Although the banking sector is looking close to reaching a sustainable level of its external liabilities, this process is yet to gather momentum in the non-financial corporations sector. Capital outflows are likely to continue in 2012 as well, counterbalanced by a reasonably strong C/A performance on the back of marginal deterioration of trade balance in combination with a solid transfer balance improvement.

The country's fiscal status remains solid when compared to neighbors

With a healthy fiscal stance built on capping expenditures and improving revenue collection, the negative effect on GDP growth coming from the fiscal position of the country is expected to shrink further in 2012 from an already low level, recorded in 2011. Bulgarian fiscal fundamentals continue to outperform those of regional peers and achieving the 2012 eop target for the budget deficit should not come as a challenge to the Ministry of Finance.

Bulgarian Economy in 2011 (continued)

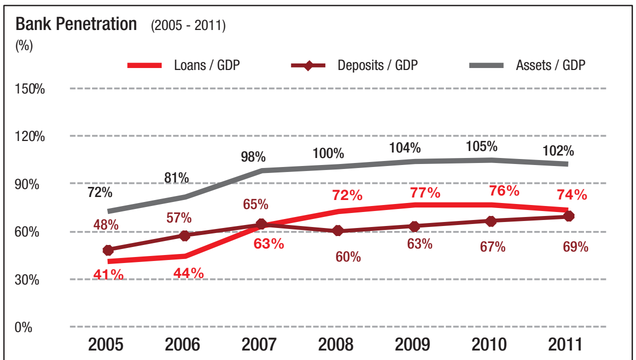
Banking Sector Overview

Higher borrowing costs, coupled with on-going economic deceleration, aggravate asset quality

The operating environment for the Bulgarian banking industry remained challenging in the course of the whole 2011. Prices of the most assets classes continued to follow a well pronounced downturn trend. The slowing economic activity, particularly in the second half of the year, put an additional pressure on the banks assets quality. Though in proportions smaller than those seen in other emerging market economies, Bulgarian CDS prices ticked up in the second half of 2011 adding to the already existing pressure on local banks to cutback further their external borrowing.

The consequences stemming from the alleviated debt levels put pressure on the business environment

The process of absorbing the losses stemming from the credit boom in the period 2006 – 2009 basically continued at the speed experienced over the past couple of years. Additional provisions for BGN 1,306m were build up in 2011, as compared with BGN 1,328m and BGN 1,028m set aside respectively in 2010 and 2009. This was made possible on the back of the combination of keeping total operating revenues a notch lower relative to one year earlier, while administrative cost were only marginally higher as both staff and non-staff costs increased broadly in line with inflation. Additional capital buffers for BGN 617m were made as banks added their entire after tax profit from 2010 to the capital reserves. Although very gradually, deposit interest rates eased further in the course of the previous year, allowing the banks to transfer most of this decline to the interest rates of loans for the real economy. To provide additional flexibility to the borrowers that are still experiencing difficulties, banks continued to renegotiate and restructure some of the exposures from their lending portfolios. Some borrowers were migrated to schemes for prolonged amortization of principle payments, while others were temporarily shifted to interest-only payments schemes.



Source: Bulgarian National Bank, National Statistical Institute

BANKING SYSTEM KEY FIGURES	2011	2010	2009	2008	2007	CHANGE 2011/2010
Income Statement (BGN million)						
Operating income	3 914	3 932	3 792	3 710	3 084	-0.5%
incl. Net interest income	2 869	2 917	2 847	2 788	2 172	-1.7%
incl. Net non-interest income	1 045	1 015	945	923	913	3.0%
Operating costs	1 958	1 918	1 907	1 855	1 461	2.1%
Operating profit	1 956	2 014	1 885	1 855	1 623	-2.9%
Provisions (net)	1 306	1 328	1 028	326	357	-1.7%
Pre-tax profit (before taxation)	664	694	870	1 542	1 266	-4.3%
Net profit (after taxation)	586	617	780	1 387	1 142	-4.9%
Balance Sheet (BGN million)						
Total assets	76 811	73 726	70 868	69 560	59 090	4.2%
Loans to customers	56 044	53 854	52 449	50 189	37 951	4.1%
thereof: Non-performing loans	8 365	6 409	3 184	1 590	929	30.5%
Deposits from customers	52 808	46 928	43 285	41 736	38 833	12.5%
Shareholders` equity	10 448	10 032	9 457	7 931	6 208	4.1%
Profitability Ratios (%)						
ROE (after tax)	5.7	6.3	9.0	19.6	21.5	-0.6
ROA (after tax)	0.8	0.9	1.1	2.2	2.3	-0.1
Cost / Income ratio	50.0	48.8	50.3	50.0	47.4	1.2

Source: BNB

Bulgarian Economy in 2011 (continued)

The real economy is increasing its savings, while credit is up only marginally

As gross savings rate for the total economy climbed to 25% relative to the GDP (compared with 15% annual average during the credit boom period), customer deposits growth exceeded expectation by a wide margin (up 12.3% yoy). In the context of persistently weak demand from companies a nd particularly households, credit for the real economy increased only modestly by 4.1% yoy (including credit for non-residents). The combination of these two pushed the process of reducing banks' external borrowing to a more sustainable level closer to its final stage. Thus on a consolidated level, the net external position (measured a difference between external assets and liabilities) of the Bulgarian banking sector at the end of 2011 (4.5% for net external liabilities to total liabilities ratio) was reduced close to the levels seen back in mid-2007.

Asset deterioration keeps industry risk high and continues to squeeze profitability

Headline profitability remained weak in 2011, with pre-tax ROAE at 6.5% annually, still below the perceived cost of equity for the local banking sector. The aggregate pre-tax profit of the system stood at BGN 664m and thus is estimated to have fallen by a modest 4.3% yoy in 2011, as compared with a much steeper decline in 2010 (20% down) and particularly in 2009 (44% down). This mostly reflects the provision charges on impaired loans. To a lesser extent, the weaker profitability was also attributable to the higher funding cost as external-borrowing conditions deteriorated in the second half of the year, while administrative costs were kept under control rising broadly in line with the average annual inflation.

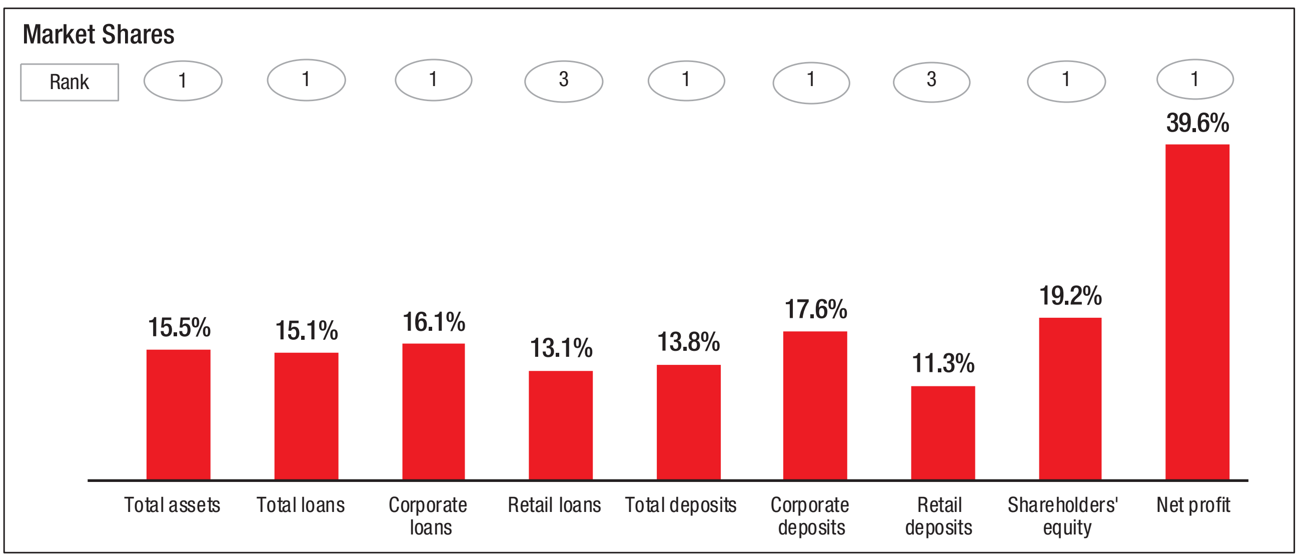
Market Positioning

UniCredit Bulbank retained its leadership position in the Bulgarian banking sector, serving 1.1 million clients in 218 branches. It is the largest bank in Bulgaria in terms of total assets, gross customer loans, customer deposits, shareholders' equity and net profit. This reflects the entity's strong business position, with adequate capital levels and sufficient liquidity. Regardless of the hesitant behavior of the economy, the Bank's solid operating performance, underpinned by the increasing volumes of customer business as well as strict operating cost control, provided for robust internal capital generation. In addition, UniCredit Bulbank remained strongly integrated with its immediate parent, UniCredit Bank Austria AG and enjoys its full support on the business strategy.

The Bank's market share in total assets in December 2011 stood at 15.5%, compared with 15.3% a year ago. The market share of shareholders' equity was uplifted by 148bp to 19.2%, thus providing supplemental buffer to absorb the losses resulting from asset quality deterioration. Following a recommendation from the regulator, UniCredit injected capital equivalent to what it paid in dividends over the past two years. Capital adequacy was further aided by operational synergies and efficiencies, creating net profit, which accounted for close to 40% of the sector's net result. The Bank also maintained a lower level of problem loans and stronger provisioning coverage than the system average due to its comparatively low risk appetite in the booming years.

Being attentive to the market conditions and supportive of the real economy, UniCredit Bulbank experienced above-average growth in gross customer loans. Hence its share in the system's loan portfolio also increased over the year, reaching 15.1% with focus on both retail and corporate customers' financing. The Bank reinforced the leading position on the corporate market, acting as a reliable and trustworthy partner. Corporate customers' lending remained the backbone of income creation with corporate loans market share at 16.1%. Households and individuals benefited from the Bank's responsiveness to their financial needs in such a difficult economic environment. For that purpose, several innovative products and services were offered, such as the fixed-rate mortgage and Bulbank Mobile, which contributed to the enhanced market share standing in retail loans (+47bp to 13.1%). Particularly, mortgages had their share 58bp higher to 17.6%, while consumer loans market share improved by 23bp yoy to 8.5%.

The entity funded its lending with newly-attracted deposits trough actively participating in the deposit market and leveraging on the abundant savings inflow in the economy. Critical to the success of this task were the Bank's leading position in Bulgaria, its high reputation and well-functioning supply chain. The access to a large base of customer deposits was mirrored in holding 13.8% of the system's deposits, which ensured adequate amount of liquidity. Corporate deposits represented 17.6% of the sector's deposits to business clients, while retail deposits had their share at 11.3%.



UniCredit Bulbank Activity Review

Unconsolidated Financial Results

In 2011, UniCredit Bulbank's **net profit** amounted to BGN 226.6m, recording an impressive growth of 42.7% yoy. This strong improvement was driven by volume growth, strengthening of the interest margin, lower negative market-related impacts and a more normalized level of risk costs.

Total operating income was BGN 639.4m, 5.8% higher than the year before. Almost all business segments contributed to the increase. In the meantime, operating expenses increased by only 1.4% to BGN 247.3m. This boosted **gross operating profit** by 8.8%, up to BGN 389.1m. Thus, operating performance proved resistant to external shocks and was strong enough to absorb the temporary risks, stemming from the surrounding economic environment.

UniCredit Bulbank's profitability and efficiency improved further, driven by better financial performance. Return on average assets was 2% (1.4% in 2010) and return on average equity grew to 12% (9.3% in 2010), both of which positioned well above the ones of the banking system. Net profit margin was up by 9.2pp to 35.6%. Cost/income ratio improved to 38.9%, remaining better than the market average.

Thousands of BGN

OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2011	2010	%	AMOUNT
Net interest income	442 990	426 864	3.8	16 126
Net fee and commission income	164 866	153 639	7.3	11 227
Net trading income	16 330	(795)	n.a.	17 125
Net result from investment securities and dividend	6 196	15 938	(61.1)	(9 742)
Other income	6 005	5 940	1.1	1.1 65
OPERATING INCOME	**636 387**	**601 586**	**5.8**	**34 801**
Operating expenses	(247 329)	(243 906)	1.4	(3 423)
GROSS OPERATING PROFIT	**389 058**	**357 680**	**8.8**	**31 378**
Income from PPE	2 736	239	1 044.8	2 497
Impairment losses on financial assets and provisions	(140 553)	(181 285)	(22.5)	40 732
Income tax expense	(24 665)	(17 890)	37.9	(6 775)
NET PROFIT	**226 576**	**158 744**	**42.7**	**67 832**

Operating income comes mainly from sustainable sources, which is in line with UniCredit Bulbank's client-oriented business strategy. In 2011, **net interest income** was the main earnings contributor with 70% of operating income. It grew to BGN 443m (+3.8% yoy) and changed its structure a bit. In particular, **lending interest income** generated 1.6% more revenues in 2011 but decreased its share in interest income to 88%. **Interest income from securities** accounted for 10% of interest income and increased by 4.8% yoy. Despite its growth (i.e. 62.3% yoy), **interest income from interbank placements** accounted for 2% of total interest income, which portrays the limited importance of the interbank business as a revenue source. Net interest margin[1] increased slightly to 3.8%.

REVENUE STRUCTURE	YEAR	
	2011	2010
Net interest income	70%	71%
Net fee and commission income	26%	26%
Net result from trading and securities and other income	4%	3%
OPERATING INCOME	**100%**	**100%**

Capitalizing on its brand image and well-established reputation, UniCredit Bulbank followed a balanced pricing policy and gradually shrank the cost of customer deposits in line with the market trend. The combination of the improved loan-to-deposit spread by 20bp yoy (up to 4.91% in 2011) and the increased loan volumes were the major driver of net interest income growth. In particular, total interest income was 2.6% higher for the year and amounted to BGN 649.4m but interest expense on customer deposits decreased by 10.2% to BGN 139.0m. Interest expense for bank deposits grew by 65.8% annually, due to increases in both volumes and credit spreads. Total interest expense remained almost flat (0.2% higher).

Net fees and commissions income, accounting for 26% of operating income, recorded a steady growth of 7.3% to BGN 164.9m. Its growth was mainly attributable to the focused actions in the area of fee-generating services, which resulted in increases of 5% in income from payment services, 22% in documentary business, and 14% in foreign exchange sales.

The rest of the operating income components: net trading income, net results from investment securities, dividend income, and other operating income, taken altogether reported a positive annual growth of BGN 7.5m, reaching BGN 28.5m. The key driver of profitability in

[1]Net interest income / Average assets.

Unconsolidated Financial Results (continued)

this group was the **net trading income**, which grew outstandingly, triggered by client-oriented trading activities (i.e. derivative instruments – mainly interest rate and commodity swaps with clients and securities). **Net income from PPE** increased more than tenfold due to the sale of an administrative building. **Dividend income** reported also a strong increase to BGN 7.6m, thereof BGN 6.4m dividend received from the Bank's subsidiary, specialized in the consumer financing.

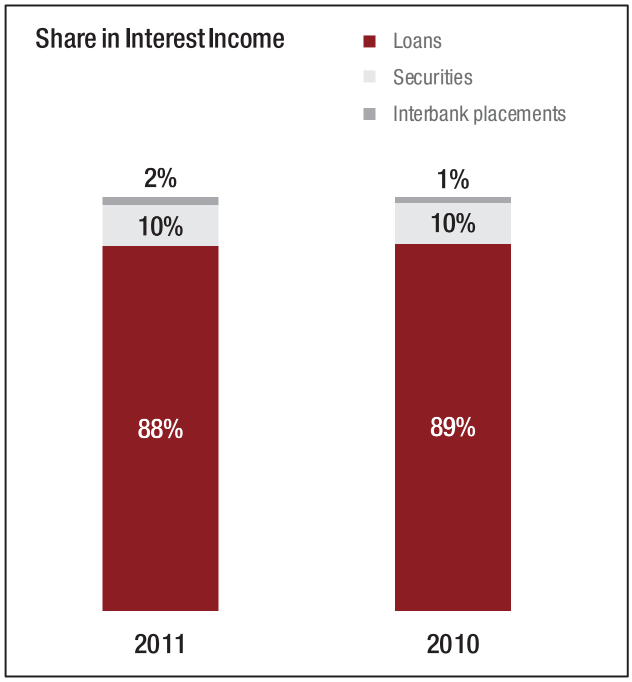
Despite the ongoing implementation of the various strategic projects, the Bank reported a marginal increase of 1.4% in **operating costs.** It was a result of effective cost containment measures and respective operating synergies.

Personnel costs reached BGN 98.3m, which is 2.9% more than the year before mainly due to regulatory defined increase in social security contributions (from 17.0% in 2010 to 17.8% in 2011) and increased health insurance costs.

Non-personnel costs went up by 1.9% to BGN 114.8m, mainly due to 6.6% increase in deposit insurance charges. Excluding the annual contribution to the Deposit Insurance Fund, non-personal expenses are close to the 2010 level.

Depreciation and impairment on non-current assets decreased by 4.3% to BGN 34.2m, mainly because of the lower impairments due to obsolescence.

Total impairment losses on financial assets and provisions decreased by 22.5%, reaching BGN 140.6m compared to BGN 181.3m in 2010, mainly due to a decelerating trend in portfolio deterioration and an optimization in the Bank's loan loss provision policy. The Bank continued to pursue a strict, conservative and prudent risk assessment and provisioning policy, thus properly covering potential risks in the rapidly changing lending market. As of January 1, 2011 UniCredit Bulbank is authorized to use the Internal Rating Based (IRB) Approach under Basel 2 for the calculation of credit risk capital requirements, which relies on high efficiency of the entire credit risk management process and better examines the borrowers' creditworthiness.



Reflective of the worsened customer conditions, the Bank's NPL ratio increased from 10.1% in 2010 to 14.4% a year later. Yet, on account of the prudent risk assessment, NPL ratio positioned below the one of the banking system (14.9%).

Income tax was BGN 24.7m, up by 37.9% YoY, driven by the increased gross profit figure.

Operating Profit by Business Segment

In 2011 the Bank's revenue was BGN 636.4m, reporting an increase of 5.8% from 2010. Individual business areas' contributions reflected the nature of their business and customer base.

	NET INTEREST INCOME	NET NONINTEREST INCOME	OPERATING INCOME	OPERATING COSTS	GROSS OPERATING PROFIT YEAR 2011	GROSS OPERATING PROFIT YEAR 2010	CHANGE %
Retail Banking	208.7	95.2	303.9	(178.7)	125.2	117.7	6.4%
Corporate and Investment Banking and Private Banking	219.0	95.2	314.2	(63.2)	251.0	250.0	0.4%
ALM and Other	15.3	3.1	18.4	(5.5)	12.9	(10.0)	228.7%
Total Bank	**443.0**	**193.4**	**636.4**	**(247.3)**	**389.1**	**357.7**	**8.8%**

Retail Division's operating profit was up by 6.4%, benefiting from the simultaneous increase of operating income and the decrease in operating costs. Net interest revenues posted a stable performance, despite the margin compression. Net fees and commissions recorded a steady growth of 7.2% yoy, mainly in the areas of assets management and agency fees.

Corporate and Investment Banking and Private Banking Division increased its operating profit by 0.4% yoy, despite the lower margin on deposits, arising from the competitive pressure on the deposit market. Higher fee income and gains from commodity and IR swaps provided a solid support to revenue generation. The bond portfolio result and income from proprietary FX trading, money markets and capital markets were other contributors to profitability, stemming from the Bank's leading market position in **Markets and Investment Banking**.

ALM and Other Divisions reversed the last year's negative result and added BGN 12.9m to the Bank's net operating profit, mainly due to improved banking book result.

Unconsolidated Assets and Liabilities

UniCredit Bulbank added another BGN 628m to its **total assets** in 2011, up to BGN 11,904m. Given the Bank's strong focus on the customer business, **net loans and advances to customers** contributed the most to asset expansion, increasing by BGN 340m to BGN 7,812m on December 31, 2011. **Loans to banks** also increased in 2011, posting 11.5% annual growth and reaching BGN 1,894m. The **securities** portfolio expanded, adding 2.8% during the period to BGN 866m. **Cash and balances with Central Bank** increased by 1.4% yoy to BGN 887m. **Property and equipment** was decreased by BGN 17m, most of which is attributed to a sale of a building.

Thousands of BGN

BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2011	2010	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	886 703	874 658	1.4	12 045
Due from banks	1 893 753	1 699 018	11.5	194 735
Securities	866 050	842 819	2.8	23 231
Loans and advances to customers	7 812 435	7 472 399	4.6	340 036
Property and equipment	218 244	235 226	(7.2)	(16 982)
Other assets, net	226 463	151 520	49.5	74 943
TOTAL ASSETS	**11 903 648**	**11 275 640**	**5.6**	**628 008**
LIABILITIES AND EQUITY				
Customer deposits	7 293 666	6 540 524	11.5	753 142
Deposits from banks	2 164 333	2 553 023	(15.2)	(388 690)
Other liabilities	441 313	400 920	10.1	40 393
TOTAL LIABILITIES	**9 899 312**	**9 494 467**	**4.3**	**404 845**
SHAREHOLDERS' EQUITY	**2 004 336**	**1 781 173**	**12.5**	**223 163**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11 903 648**	**11 275 640**	**5.6**	**628 008**

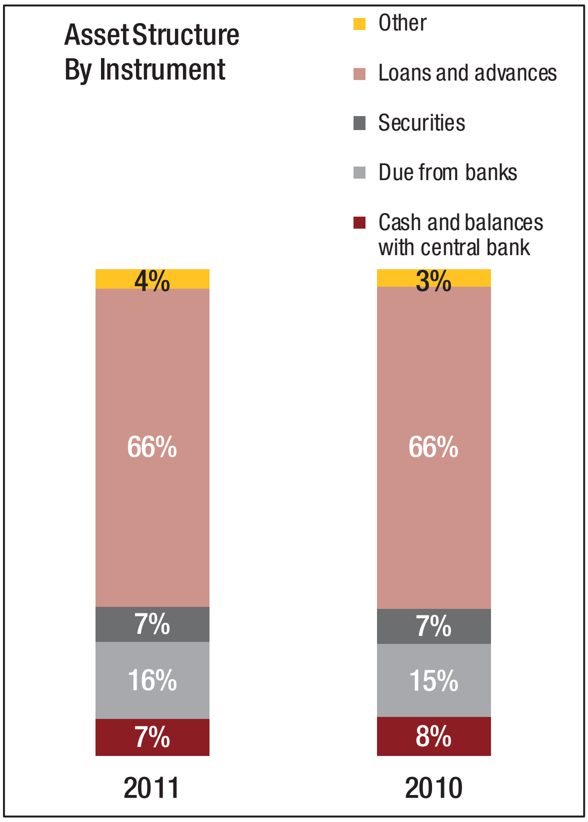
The asset structure, with 66% share of loans to customers, is a clear signal of the predominant position in the customer business. It remained relatively stable in 2011. Slight increases in share experienced loans to banks and other assets, compensated by the lower share of cash and balances with the Central Bank.

Loan portfolio growth was supported by 6.4% increase in loans to private companies, 4.5% growth in mortgage loans and 1.0% in consumer loans.

The securities portfolio had its structure changed with a focus on safety. Government bond holdings rose by 18% to BGN 716m, representing 83% of the entire portfolio. Bonds of credit institutions declined by 41% to BGN 61m and their share in total securities fell to 7%. Corporate bonds and municipal bonds also went down by 33% yoy and a share of 10%.

Asset growth was financed by the increase in **customer deposits** (+11.5% for the year to BGN 7,294m). The funds were mostly attracted by corporate clients, whose contributions grew by 14.4% to BGN 3,731m. The share of corporate deposits in total volume increased to 51% in 2011, signaling that the Bank is able to fund its operations at a relatively lower cost. Deposits from households and individuals were up by 8.7% to BGN 3,562m. **Deposits from banks** experienced a drop of 15.2% to BGN 2,164m, while the rest of liabilities had a positive change of 10.1% to BGN 441m.

Unconsolidated Assets and Liabilities (continued)



Continuous internal earnings generation was further enhanced by the growth in **shareholders' equity** (+12.5% to BGN 2,004m). The uptick is revealed by increases in both retained earnings and share capital. The former enjoyed a growth rate of 12.1% to a total of BGN 1,375m, while the latter experienced 8.3% growth to BGN 286m, partly driven by a successful capital increase. The entity boosted its total capital adequacy ratio to 21.0% (from 19.8% in 2010) while Tier 1 ratio also climbed, up to 18.3% (16.5% in 2010). These indicators were above both the minimum BNB requirements and the respective average measures for the banking sector.

UniCredit Bulbank Activity Review (continued)

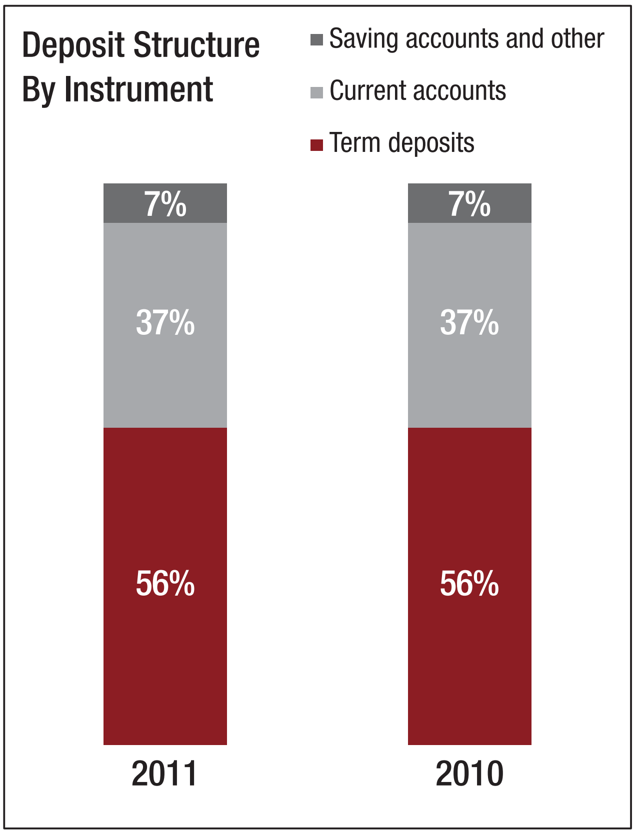
Unconsolidated Assets and Liabilities (continued)

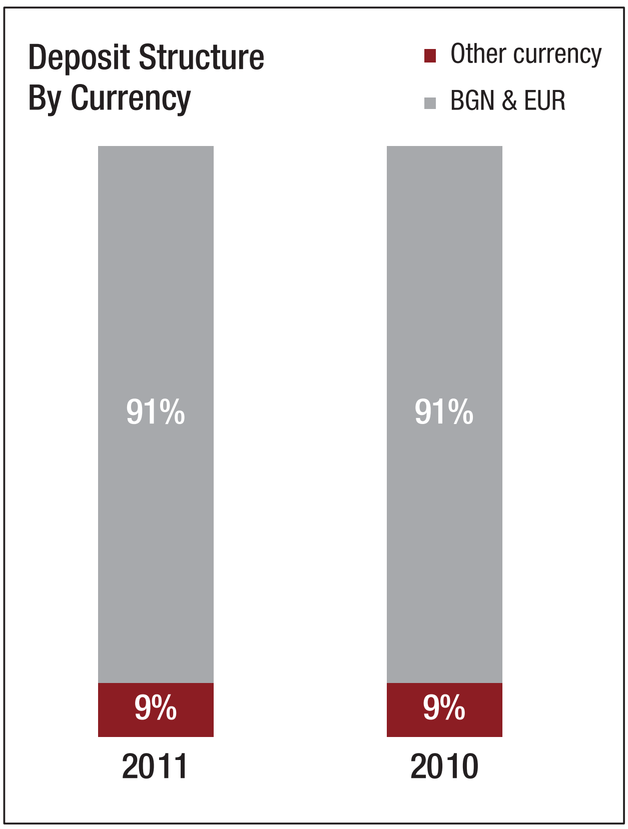
Customer Deposits

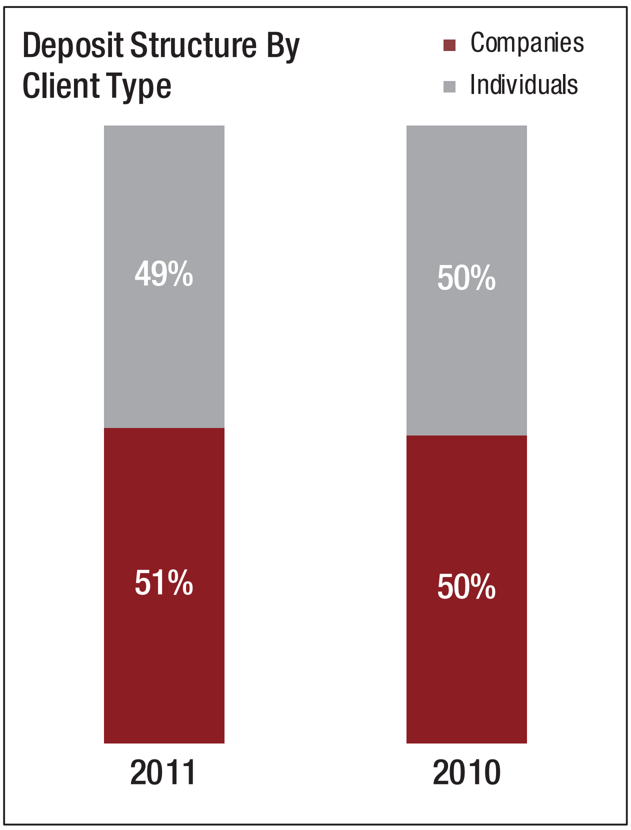
The market for deposits and savings remained highly competitive but the Bank was successful in maintaining and even increasing customer deposits by 11.5%, reaching BGN 7,294m. Both currency structure and deposit instrument structure remained unchanged due to similar growths in current accounts, term deposits and saving accounts. 91% of all deposits were denominated in EUR and BGN.

Deposits of individuals increased by 8.7%, to BGN 3,562m at the end of 2011, 49% of total. It was supported by a massive deposit campaign for new deposit attraction and retention of the existing ones. Several value propositions were presented through different marketing channels – direct marketing, mass media and in-branch materials.

Company deposits reported 14.4% annual growth and reached BGN 3,731m, supported by the excellent market positioning of the Bank and its image of a reliable partner and the most solid financial institution in the country.





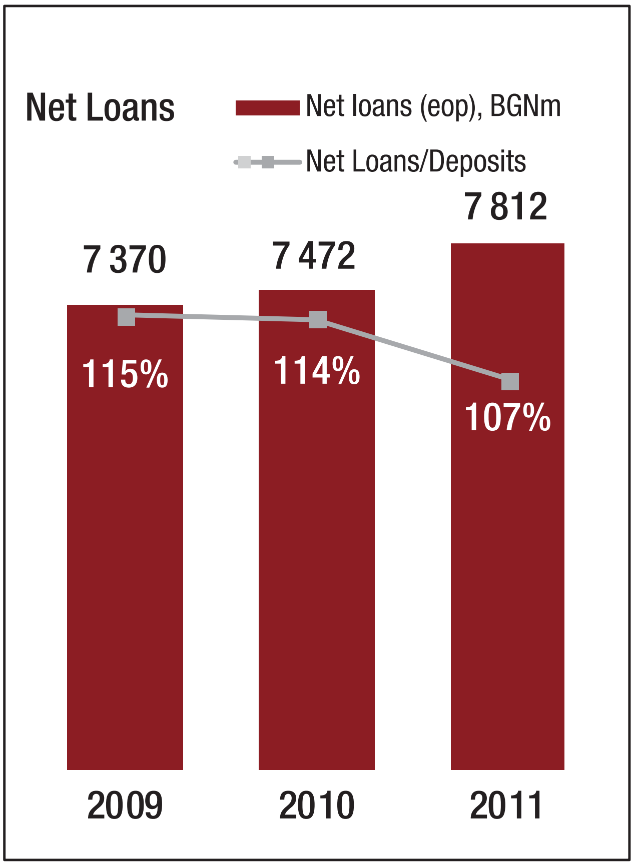


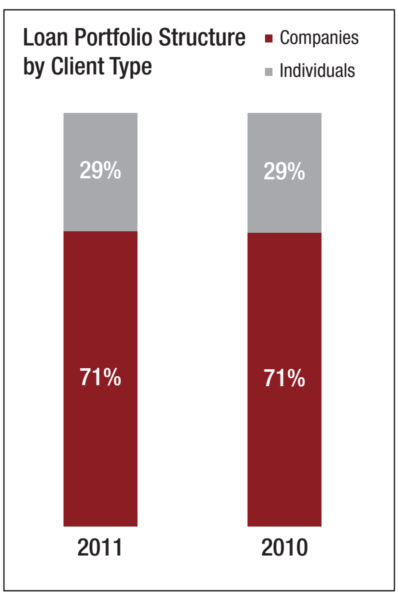
Unconsolidated Assets and Liabilities (continued)

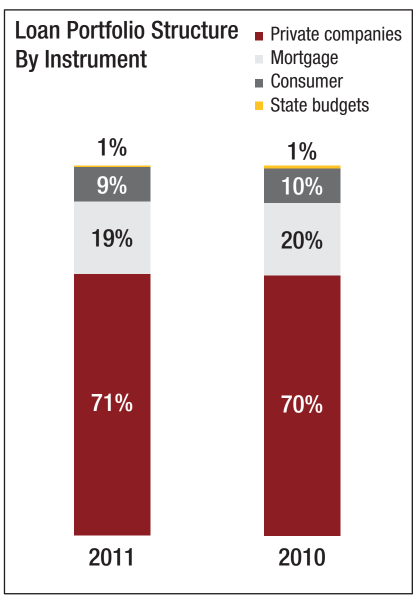
Bank Loan Portfolio

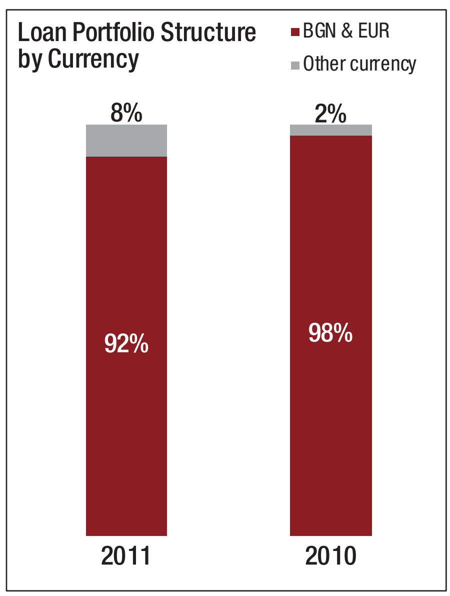
The economic slowdown continued to result in a low appetite for borrowing from businesses and individuals. However, by year-end the net loan portfolio of the Bank grew by 4.6% to BGN 7,812m, up from BGN 7,472m a year earlier. The currency structure of the loan portfolio changed a bit with the appreciating US dollar in 2011 and some large newly-extended loan tickets in USD currency. Loans in BGN and EUR accounted for 92% of the total portfolio.

The gross loan portfolio grew by 5.4% to BGN 8,490m, up from BGN 8,054m a year earlier, mainly driven by UniCredit's business philosophy to support the real economy. Loans to companies grew by 6.3% to BGN 6,069m, which accounted for 71% of the total portfolio. The stable growth was supported by several commercial lending initiatives, including one with a new pricing concept for SME. Loans to individuals increased by 3.4% to BGN 2,421m, thus representing 29% of total portfolio. Mortgages were up by 4.5% yoy to BGN 1,646m, benefiting from signs of stabilization in the property market and the lower interest rates. The share of mortgages in total loans amounted to 19% (20% in 2010). Consumer loans increased by 1.0% yoy to BGN 775m. That was largely affected by the Bank's transfer of the new production of BGN-denominated consumer loans to UniCredit Consumer Financing, which is a leading company specialized in consumer financing.









UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (continued)

The industry structure remained stable in 2011. The shares of commerce, construction and real estate and financial services increased by 1pp each, while the ones of transport and communication, housing loans and consumer loans decreased by 1pp each. The four largest areas of concentration were manufacturing (20%), commerce (21%), construction and real estate (18%) and retail financing (28%).

Thousands of BGN

INDUSTRY STRUCTURE	2011		2010	
	AMOUNT	SHARE	AMOUNT	SHARE
Sovereign	64 010	1%	59 253	1%
Manufacturing	1 708 152	20%	1 608 604	20%
Commerce	1 765 297	21%	1 629 901	20%
Construction and real estate	1 507 086	18%	1 408 276	17%
Agriculture and forestry	160 189	2%	149 010	2%
Transport and communication	221 683	3%	285 074	4%
Tourism	153 742	2%	174 127	2%
Services	268 305	3%	216 316	3%
Financial services	220 865	3%	181 594	2%
Retail				
Housing loans	1 645 838	19%	1 574 778	20%
Consumer loans	775 112	9%	767 404	10%
TOTAL LOAN PORTFOLIO	**8 490 279**	**100%**	**8 054 337**	**100%**

Consolidated Financial Results

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

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Factoring AD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing EAD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method
Prelios Bulgaria AD	25.0%	Equity method

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

In 2011, UniCredit Bulbank Group reported a consolidated net profit of BGN 232.9m, up by 39.7% for the year, with a stable increase of gross operating income, a limited increase in operating expenses and a decrease in loan loss provision charges.

The net operating income growth (+8.1%) of the Group was driven by the vigorous annual increases in net fee and commission income (+7.5%) and net interest income (+3.9%).

Impairment losses on financial assets and provisions decreased by 22.5% to BGN 141.0m, regardless of the difficult economic environment leading to deteriorations in the loan portfolio of the corporate business area.

Even though the Bank successfully implemented several commercial initiatives over the year, efficiency procedures and operational synergies curbed the Group's operating expenses to BGN 249.2m (+1.4% yoy) at the end of the year. Staff costs increased by 3.0% to BGN 99.8m, while non-staff costs and depreciation increased modestly by 0.3% to BGN 149.3m.

Total assets were increased by 5.6% on a consolidated basis and totaled BGN 11,973m. The Group's return on average assets ticked up to 2.0% in 2011; return on average equity was enhanced to 12.2%.

UniCredit Bulbank Activity Review (continued)

Risk Management

Credit Risk

2011 was another year with repayment challenges for the clients from all the segments. Yet, the Bank's larger exposure to the corporate segment and its deterioration over the year were the main triggers for the increase in the NPL ratio and the core driver in the loan loss provision charges.

In the credit underwriting area, 2011 activities were carried out in accordance with local credit risk policies, based on UniCredit Group Credit Risk Strategy, and taking also into account the industry strategies and the economic sectors outlook for 2011-2012. In particular, the Golden Underwriting Project for corporate clients was initiated, aimed to enhance efficiency and establish a stricter control system. A similar project is scheduled for small business clients and individuals in 2012. Significant efforts were made towards improving the control of the annual review dates, tracking more accurately the business and financial performance of the credit customers, updating collateral evaluations and approaching the corporate clients' rating approval process more prudently.

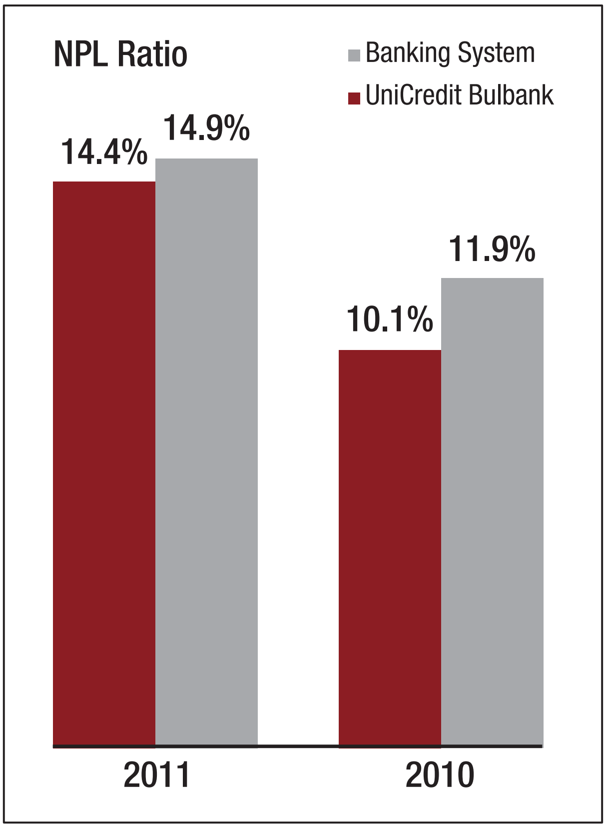
In the focus of the credit underwriting units remained the stabilization of the existing exposures and the alignment of the repayment plans to the borrowers' cash generating capacities by applying both standard stabilization schemes and tailored approaches. In the meantime, the Bank continued to seek new lending opportunities and managed to acquire some new businesses matching the more stringent risk management requirements.

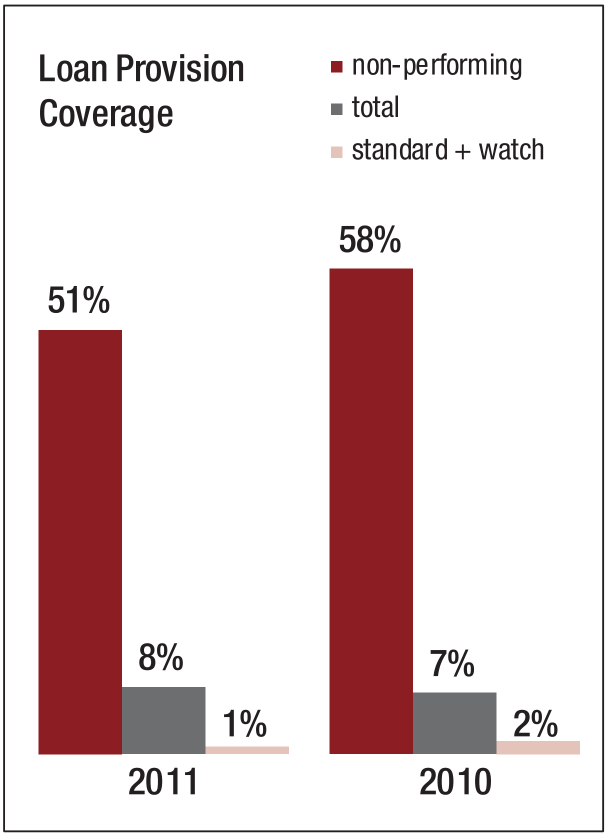
In 2011, the monitoring activity was further enhanced so as to mitigate the risk of further deterioration in the quality of exposures. This was achieved through a clear definition of the roles and the responsibilities, an automation of the processes, and warning signals optimization.

In April 2011, a new Corporate Monitoring IT tool (CMT) was implemented, which based on pre-defined warning signals, automatically proposes classification on Watch List of the endangered clients, generates a proposal for action plan, and tracks and reports the whole process. At the same time, an analysis of the local corporate monitoring process was performed, with warning signals being reconsidered so as to better respond to the respective business juncture.

With regard to Retail Monitoring, CEE Retail Monitoring Guidelines for private individuals and small business clients were approved on central level in the beginning of 2011, aiming to unify the monitoring process for retail clients across the CEE countries. Here, a similar IT tool was developed for retail clients facing potential payment difficulties

In the challenging economic environment, UniCredit Bulbank was constantly improving the management of the non-performing loans, targeting a decrease in the cost of risk, optimization of the process, improvement in the collection rates and support to customers in distressed financial situations. In this regard, several initiatives were launched during the year - a project for the optimization of the





Risk Management (continued)

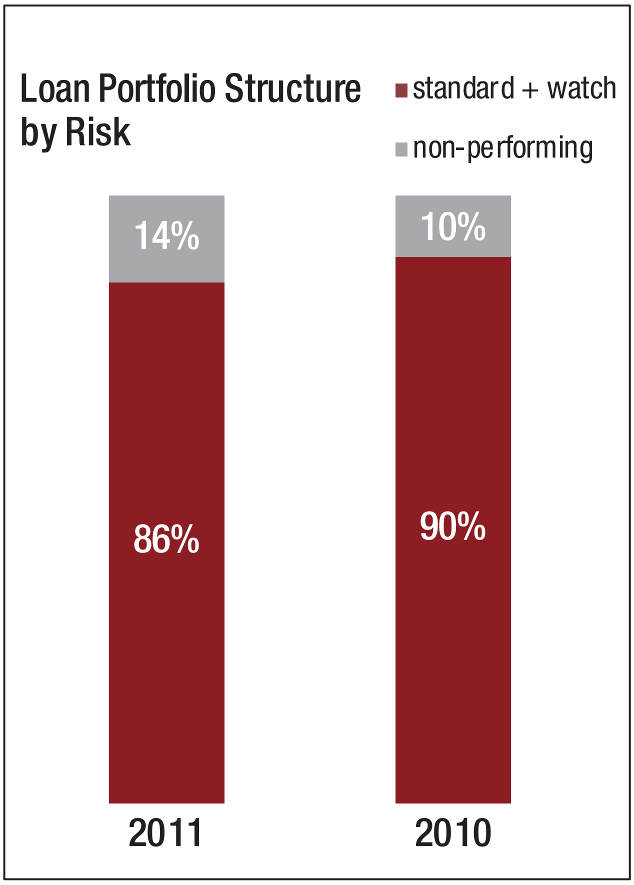
collection process for private individuals; upgrade of the collection IT tool; better management of the relations with customers and third parties; introduction of a contemporary IT solution for fraud prevention; creation of a specialized unit for restructuring of the corporate exposures.

In 2011, UniCredit Bulbank was authorized by the Bank of Italy to use the Internal Rating Based (IRB) Approach under Basel 2 for the calculation of credit risk capital requirements (scope of application covers exposures to banking institutions and corporate clients) and the Advanced Measurement Approach (AMA) for the calculation of operational risk capital requirements. As opposed to the Standardised Approach, currently applied across the other banks in Bulgaria, the IRB Approach relies on high efficiency of the entire credit risk management process and it also offers substantial benefits in terms of more accurate risk assessment that could be used as a key input to reduction in the capital absorption and cost of risk.

The authorizations were an international acknowledgement of the Bank's competence to use its internal models and estimates for the calculation of capital requirements, followed by a detailed and rigorous verification of this ability by both the Bank of Italy and the Bulgarian National Bank. To achieve this, the Bank devoted considerable time and financial resources to developing, adapting and implementing rules and methodologies, upgrading its rating and IT systems, and setting the stage for an improved senior management oversight and control.

According to the implementation plan, in 2014 the credit risk capital requirements framework will be extended with the use of the Advanced IRB approach.

With respect to the second pillar of Basel 2, which aims at enhancing the link between an institution's overall risk profile and its capital, the Bank pursued the Internal Capital Adequacy Assessment Process (ICAAP). The process requires an appropriate identification and measurement of risks (credit, market, operational, business, financial investments and real estate risks) and ensuring the adequate level of capital in relation to them. The definition of the risk profile is a statement of which risks' types and subtypes are considered material and relevant to the Bank in view of its business, as well as a description of these risks and the nature of losses they might potentially cause. The risk profile's quantitative assessment relies on internal models for the individual measurement of these risks in terms of required capital (capital charge).



Risk Management (continued)

Market Risk

In the area of market risk appetite and strategy, the risk management function supported reassessment of market risk limits considering budget targets and focus on client-oriented trading activity. Market risk policies and processes were regularly adapted to ensure Group-compliant risk measurement and control of trading activities, counterparty risk assessment, asset and liability management and liquidity oversight.

Regarding risk measurement and limit compliance control, the Market Risk management function continued to supply management with daily risk measurements and limit compliance reporting. These consisted of VaR metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, loss-warning level limits and operative liquidity triggers. Within the ALCO process, the Bank's management was regularly supplied with a comprehensive summary of the potential P&L impact of extreme shifts in FX, interest rates, credit spreads and market liquidity squeeze on major portfolios, both trading and investment.

With reference to risk methodology and architecture, UniCredit Bulbank continued to use a group-compliant VaR model for daily risk management and internal capital assessment. Activities of Market risk management function in 2012 will be focused on preparations for full adoption of the new group internal model for market risks IMOD, along with critical impact assessment of Basel 3 requirements for liquidity risk and counterparty risk.

Operational Risk

In 2011 the main achievement of the Operational Risk (OpRisk) Unit was the official authorization of UniCredit Bulbank by the Bank of Italy to be the first bank in Bulgaria to apply 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. The approval was followed by Group, Regulatory and Internal Audit control verifications. The main operational risk activities during the year were focused on the effective operational risk control, management and elaboration of risk mitigation actions, and application of governance rules, policies and guidelines.

The annual predefined plan for operational risk activities was fully accomplished according to the set deadlines.

In 2012, in addition to maintaining the current high level of OpRisk management, following the successful implementation of the AMA, the focus will be put on promoting operational risk awareness among all employees of UniCredit Bulbank as well as implementation of new risk mitigation solutions and Group initiatives.

Corporate, Investment and Private Banking

General Overview

In line with UniCredit Group's mission, a major objective throughout 2011 was to further develop customer centricity, support the customers and create value for them. The service model was strengthened, built on a uniform business approach. Emphasis was put on specialized services and the development of a long-term relationship, based on expertise, diversified product portfolios and reliability.

Customer centricity orientation was also underpinned by strategic projects. The most relevant one was the implementation of the Customer Relationship Management (CRM) system, which is expected to be fully operational in H2 2012. It gives a 360-degrees-view of the customer's needs, aiming to become more and more a Bank to be easy to deal with. The Cross Border Account Opening initiative will give the possibility of a uniform account opening for UniCredit Group's customers, who operate in several countries.

The result of the good partnership with the Bank's customers confirmed its leadership in Corporate, Investment and Private Banking. Responding to the customer's needs and market conditions in 2011, the deposits gathering reached BGN 3,451m in December (12.1% yoy growth), reflecting the sustainability of the Bank as a trustworthy partner. Significant efforts were directed also towards the transactional services and hedging solution to help customers secure their exposures in a highly volatile market. The Factoring business continued its double digit growth, effectively addressing the liquidity needs as well as the value chain risks, keeping at the same time the high quality of its assets. The Division kept on growing in loan volumes, with 6.0% yoy growth, up to BGN 5,343m, confirming its support to the major economic sectors.

Leadership, sustainability and asset quality are the key goals for 2012. The main focus will be offering of value adding transactional products and services to customers along with cross-sales initiatives and financial risk management solution. Being a first mover and a market leader in Factoring business, the Division will continue with the development of its services by introduction of state-of-the-art products. International and multinational clients will remain of prime importance to achieve the ambitious targets for 2012.

European Funds

In 2011, EU's programmes for subsidized financial support to SMEs continued to be a good tool to mitigate local market difficulties. Being the first bank in Bulgaria to offer specialized services to companies since 2005, UniCredit Bulbank broadened the expertise in this area and loans for bridge and co-financing subsidized projects, provided to SMEs, large companies and municipalities reached EUR 31.3m. Furthermore, the Bank focused on exploration of other possibilities via channelling the EU Fund management through the banking sector. This included financial assessment of the companies' projects submitted for grant support by public administration, advisory for the design of the regulatory framework in the field of Public Private Partnerships, implementation of a grant scheme dedicated to investments in energy efficiency measures and streamlining the cooperation with state administration in the subsidies in agricultural sector.

In times of stringent bank financing requirements, UniCredit Bulbank ventured in risk-sharing instruments and enriched its product portfolio with the JEREMIE FLPG programme, which aims at improving SMEs with access to financing. Also, UniCredit Bulbank continued to follow Group policy in supporting the green economy with the allocation of several specialized credit lines provided by International Financial Institutions (i.e. EBRD and EIB). Their implementation, along with the transactions granted with standard funding, added up to EUR 46m of portfolio in the field of energy efficiency and renewable energy sources.

Markets and Investment Banking

2011 was another challenging year for the global financial markets, marked by price volatility and sovereign debt discussions. As a local market specific, the Bulgarian market remained in a state of excess liquidity. In these conditions UniCredit Bulbank managed once again to benefit from its accumulated excess liquidity and take full advantage of local market conditions, relying on balanced risk-reward strategies. In 2011, the volume of placed interbank funds increased. The Bank continued to maintain its role of a first class provider of liquidity in BGN products both on the local interbank market and for the international flow coming from the global markets. Moreover, the Bank once again confirmed its leading positions on the primary market of government securities.

UniCredit Bulbank remained a leader in offering wide range of equity and ETF brokerage services. A target for 2012 was set to become a hub-broker for international clients not only for Bulgarian but also for the regional market. Over the year started the development of a new system for dealing with securities aiming to simplify the customers' access to orders submission that is expected to become effectively operative in 2012.

The Bank remained a wide range service provider for its customers in the field of foreign exchange and hedging products. It managed to maintain its leading position on the domestic foreign exchange market by increasing the turnover by approximately 22% yoy. The historically low short- and long-term interest rate levels allowed the customers to hedge their long-term credit exposures at attractive levels, while commodity hedging products guaranteed them stable prices and unwavering operations.

2011 was the first full year after UniCredit re-launched the offering of Corporate Finance Advisory services within the Investment Banking unit. The resumed M&A services helped Investment Banking to diversify its revenue sources and mitigate the continuing freeze on the capital markets. In the field of capital markets, UniCredit succeeded to originate one privately-placed corporate bond issue and one municipal bond issue.

UniCredit Bulbank Activity Review (continued)

Corporate, Investment and Private Banking (continued)

Global Transaction Banking

UniCredit Bulbank reinforced its leading position in global transaction banking (GTB) in 2011. The wide range of products delivered had a significant role in creating sustainable and risk-free revenue inflow. In the area of Trade Finance, the Bank achieved a market share of 40.8% in the export letters of credit and 25.5% in the import letters of credit at year-end. Furthermore, UniCredit Bulbank was chosen by several leading financial institutions for their business in Bulgaria. With its overall cash management strength, the Bank also succeeded to attract most of the main players on the retailers' market. Cash collection and reconciliation, electronic channels and information services were the main focus in 2011. The Bank introduced several product enhancements to meet the requirements of the corporate clients: SEPA Direct Debit, Interest statement, MT942, SEP settlement etc.

The Bank steadily increased the assets under custody and the number of processed transactions in comparison to 2010 volume of business by providing specialized custody services to Bulgarian and foreign institutional clients including Bulgarian pension funds and insurance companies, collective investment schemes, special purpose vehicles, local and international banks and broker-dealers, and global custodians. The Bank continued the development of its global security services and information system to provide high quality custodial services, and kept a close relationship with the Polish Central Depository (KDPW) which enables the listing of Bulgarian financial instruments on the Warsaw Stock Exchange.

As a result, in GTB area, UniCredit Bulbank received several awards and recognitions in 2011, including "Best Custodian Bank" by Global Custodian magazine, "Best Overall Bank for Cash Management in CEE 2011" and "Best Bank for Payments and Collections in CEE 2011" by Global Finance magazine, "Best Trade Finance Bank" by Euromoney magazine.

Private Banking

The main characteristic that defines the Private Banking Department is customer centricity. The department strives to maintain a stable and positive relationship with the clients. The goal is to become a reliable business partner to clients, by providing the highest level of services, leveraging on the Bank's positioning and Group expertise.

In order to support at best its clients, the Investment Strategy and Products Unit was set up with the capacity to bring innovation and diversification of the Bank's offer. Tailor-made solutions were engineered to bring flexibility accordingly with specific needs and clients risk profile.

2011 indicated outstanding results in terms of Customer Satisfaction. Once again it showed the Bank's care to clients and its importance for a sustainable growth. The challenge was to run for a selective growth, being the first choice for clients who aim to bring value to their assets, while preserving their investments.

The significant deposit growth in Private Banking showed the recognition to be the highest-rated Bank in the local market as well as one of the well-capitalized Groups in the world.

In the framework of deposit solutions, the Department launched a new product, titled "Combo Deposits". The product was introduced as an alternative to standard term deposits. The product will continue to be actively offered to Private Banking clients in 2012, in which new products opportunities will be proposed as alternative and complementary solutions.

Retail Banking

General Overview

Fulfilling the 2011 ambitious targets in Retail Banking was very challenging task, having in mind that the expected recovery of the economic environment was postponed. Maximizing customer satisfaction and improving active client base were the main strategic focuses, as they are the key pillars for sustainable results in the future. Both strategy and commercial actions were designed, originating from the customer-centric main commercial targets. The main directions were to transform pure single product actions into a full customer-oriented approach.

In 2011, Retail Banking adhered to the policy for customer retention, acquisition and development, succeeding to increase the active customer base and also to improve profitability. One of the main achievements during the year was the significant growth in customer satisfaction, measured by TRI*M methodology, which showed a very high degree of trust and overall satisfaction of the products and services provided. This positioned UniCredit Bulbank Retail Banking between the three best performers on the market.

Based on the main pillars of the Division's strategy and despite the worse-than-anticipated market conditions, Retail Banking succeeded to improve its revenues better than the market by 6.4% yoy reaching BGN 304m and representing 48% of the overall result of UniCredit Bulbank.

In the extremely challenging deposit market, retail deposits grew by 11.4% yoy, leveraging on the strong relationship with the customer and without investing into aggressive pricing policy. However, retail deposit market share slightly decreased to 11.3%. The deposit volumes of retail individuals and small business reached BGN 3,783m.

The loan portfolio grew by 4.2%, of which only loans to individuals increased by 3.6%. The retail loans market share went up by 47bp to 13.1%, consolidating its leading position in Retail Banking. The main growth drivers were both short-term business loans to small and micro-business companies and mortgage loans.

Preservation of the leading position in mortgage lending and loyalty generating business were among the key strategic goals. The target was over-achieved and mortgage market share reached 17.6%, growing by 58bp yoy, ranking second on the market. In order to answer to the more demanding customer needs for stability and predictability, a new product was launched – the fixed rate mortgage. The offer for a standard mortgage loan in EUR with a flat interest rate for the first 5 years will be in force by the end of September 2012. In consumer lending business, the Bank succeeded to increase its combined market share with the specialized company UniCredit Consumer Financing, reaching together 10% market share.

The small business area recorded traditionally strong business growth. The Bank continued to be a partner for the micro and small enterprises, showing deep customer understanding and quicker time to answer for the lending requests.

Channels

UniCredit Bulbank's decision for the branch network development in 2011 was to keep its market share and expand only in the major cities. In relation to this, 5 new branches were opened during the year, reaching 260 points of presence. Meanwhile the network efficiency and results were improved.

In synergy to the well-spread branch network, the Bank continued to invest in the development of the integrated multichannel offer. Several new solutions were offered in order to rationalize multichannel bank activities and simplify customer operations to increase retention and broaden product offerings. Launching the mobile banking service - Bulbank Mobile – was a major achievement during the year. The solution is highly innovative and unique on the market. It is operational on more than 1,200 devices enabling customers to conduct banking transactions on their mobile phones.

In Internet Banking the main focus was on the review of customer accessibility and usability. Based on a deep analysis of the customers' needs, suggestions and recommendations, a massive re-organization of the Bank's internet banking platform was done and new solutions and functionalities were created. As a result, the number of customers using the service grew by 43% on annual basis.

In 2011, the share of the Customer Contact Centre in customer interactions continued to grow, managing more than 320,000 calls during the year. The product portfolio for direct sales of this alternative channel was enlarged by adding the possibility for phone-applications for credit cards and consumer loans in BGN.

UniCredit Bulbank's ATM network was expanded, growing by 10%, and reaching 613 devices. A significant increase of the average number of transactions was observed - more than 14% per ATM. In addition to this, second generation ATMs was introduced, allowing the customers to not only withdraw, but also deposit money. Thus, the basis of the so-called self-service zones was established.

Service Model

UniCredit Bulbank has a well-developed Service Model dedicated to different types of customers, based on their needs and behaviour.

For Individual clients – families and affluent – the main focus is on "easy to deal" structured approach towards higher customer satisfaction and transparent communication. In 2011 the family business segment continued to focus on the cross-selling activities, while the portfolio based approach for affluent clients was additionally upgraded with comprehensive profiling and customized asset allocations.

The Service Model for small and micro enterprises is built on fully dedicated relationship management with deep knowledge of the customer's business and needs. Main focus in the segment during 2011 was the financing of projects related to EU operative programs.

Retail Banking (continued)

A new credit line for project financing in the area of energy efficiency and renewable energy sources was offered in cooperation with EIB, granting up to 20% from the projects. Another significant improvement of Retail Service model was the kick-off of the new Customer Relationship Management (CRM) system implementation.

Customer Relationship Management

The CRM project is one of the main strategic projects of UniCredit Group and Bulgaria was selected as a pilot country in CEE for its implementation. The Bank embraced the Group's strategy for further improvement of the quality and efficiency of the service in the focus of customer centricity and satisfaction improvement.

The project was launched in mid-2011 and will go live in the second half of 2012. With the successful implementation of the system covering both individual and corporate clients the Bank aims to utilize the Customer relationship management as main business strategy leveraging on operational excellence, customer knowledge and business interactions. This will lead to an improved Bank's business agility in the challenging environment with high demanding customer behavior and fast changing technologies, ensuring sustainable growth in profitability.

Cards

In 2011, card business proved resilient to the effects of the global financial crisis, showing a sustainable growth. The Bank succeeded to perform better than the market and increased its number of issued cards, bearing the Visa logo, by 19%, while total credit cards and installed POS terminals were raised by 23% and 39% respectively. In addition to that, there was a significant annual growth of 23% also in the POS terminals payments. The average consumption volume per card increased by 8.2%.

VPAY cards continued to be a strategic product. UniCredit Bulbank was the first bank in the world to launch VPAY with no financial data stored on the magnetic stripe (i.e. the danger of the data stored on the card being copied was eliminated).

Outlook for 2012

Macroeconomic projections for 2012 call for another difficult year in terms of economic recovery. Retail Banking will continue to put in the center of its focus the clients and their needs. Customer satisfaction improvement will remain a top priority, aiming to become the best choice for individuals, families and micro and small enterprises.

There are plans for a dramatic simplification of processes and products in order to be really easy to deal with and the best in class for retail customer service. The Multichannel area remains top priority for the future development as well as product innovations, focusing on the main customer needs of financing, saving, protection and transaction, structured On-boarding process for new clients and development of flexible product offer for optimal client "need based" servicing.

Customer Satisfaction Management

With respect to the mission of UniCredit Group and the strategic orientation towards its clients, people and local communities, Customer Satisfaction Management Department structured a set of activities focused on active listening and objective measurement of the perception of UniCredit Bulbank - its products, services, image, and single organizational structures. The surveys were conducted among various groups of stakeholders, such as external customers, internal customers, community members and employees.

External Client Satisfaction

Customer satisfaction is a structured process of collecting feedback from each of the customer segments on a quarterly basis. In Retail banking, more than 3,000 own customers and 2,000 competitors' customers were interviewed in 2011. The results, as measured by the official **TRI*M** index, showed higher customer satisfaction, mainly driven by better performance in Mass Segment. Private banking also recorded a very high level of satisfaction. The Bank also preserved its leading position in Corporate banking satisfaction, with the TRI*M score almost flat yoy. The entity's main strengths include stable lending capabilities, advisory professionalism and know-how, and dedicated branches for operational service.

Internal Client Satisfaction

In order to better service clients and improve customer satisfaction, UniCredit Bulbank measured the satisfaction of the interaction and internal service between the different structures in the Bank. The Internal Customer Satisfaction Survey was performed for a third consecutive year. For the first time the employees of the Head Office were included as respondents, evaluating other Head Office structures.

Complaints Management

The Complaints management process is structured in accordance with the Global Compliance Guidelines, allowing for a better understanding of the reasons behind complaints. In 2011, 80% of all complaints were answered within 3 working days, which is among the best practices on the Bulgarian banking market. Additional analyses of results were performed in order to identify repeated issues and system malfunctions.

Mystery Shopping

The Mystery Shopping Survey was performed continuously in the last 5 years with a stable trend of improvement on an annual basis, starting from 60% compliance with the service standards and reaching an overall bank result of above 80% in 2011. The result was measured by more than 2,000 mystery shopping visits – at least one visit per month in each branch. The concept of the survey was further developed with the introduction of online platform, giving the possibility of each branch manager to monitor the results from each mystery shopping visit.

Reputation Management

Following Group guidelines and the International Reputation Institute methodology, for a second consecutive year, the Bank implemented a dedicated survey in order to better understand its image and reputation. UniCredit Bulbank's reputation was measured among approximately 2,600 respondents from all customers segments (both customers of UniCredit Bulbank and other banks), Community opinion makers and Bank employees. The results showed that the Bank's reputation remains strong and maintains a leading market position in Corporate and Small Business Segments. Fostering the emotional link to its customers, the Bank is evaluated highly by both customers and non-customers of all segments with respect to products and service, governance, innovation, citizenship and workplace.

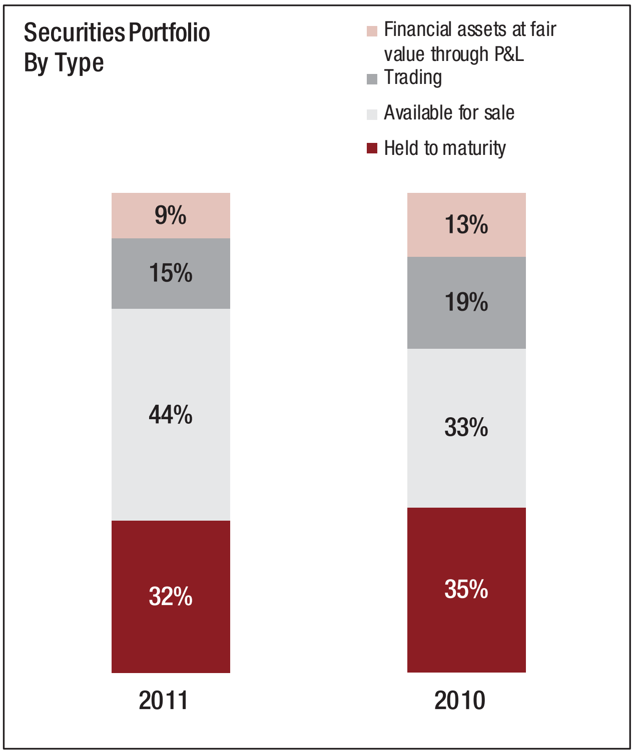
Asset and Liability Management

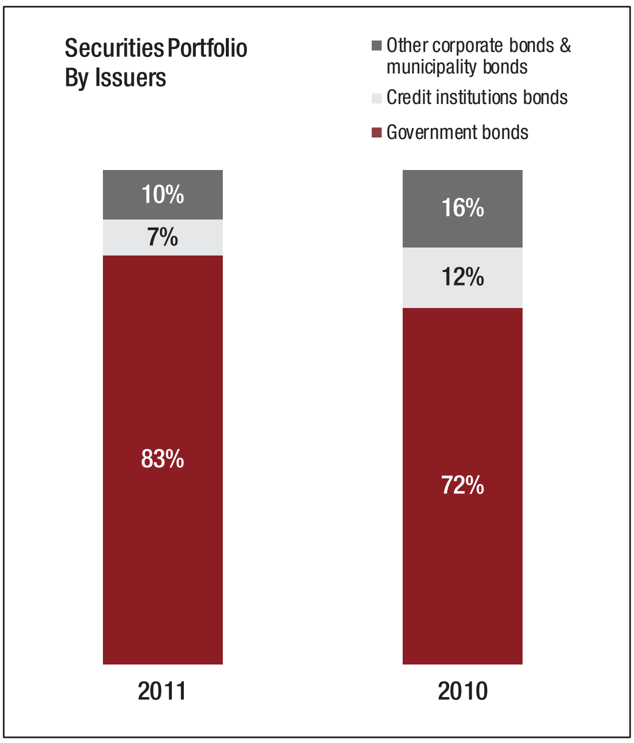
UniCredit Bulbank continued to maintain a diversified portfolio of mid-term and long-term wholesale funding sources. With regards to purpose-tied financing, the funds from supranational facilities (i.e. EIB and EBRD, some of them supplemented by EU grants) were drawn down and allocated to SME projects, investments in energy efficiency, renewable energy and municipal development. SMEs were also continuously supported through the dedicated facility of the Bulgarian Bank for Development, on the basis of reemployment of funds – once allocated and now maturing – under this credit line. Last but not least, the Bank utilized and allocated EUR 20m under a trade finance facility, thus supporting respective cross-border business.

As far as general-purpose interbank funding is concerned, it was maintained optimal in terms of pricing, tenor and seniority, with the intra-group funding having the largest share. The objective was to reduce the overall cost of funding for the Bank, while at the same time ensuring compliance with liquidity limits and capital adequacy requirements. Surplus liquidity was maintained at comfortable levels and sufficient liquidity buffers were built in a generally uneasy international environment. In turn, no bonds were issued in 2011 or planned for 2012.

Customer deposits grew faster than loans in 2011, which favourably brought down the loans-to-deposits ratio compared to 2010. Building on its excellent reputation, international franchising, and large variety of innovative products and quality services, the Bank has kept its focus on both retail and corporate deposits and will continue to do so in the future.

Over the course of the year, UniCredit Bulbank maintained an active but prudent investment policy compliant with strict internal limits and rules. The investment portfolio was structured with the goal to invest surplus liquidity, earning sufficient return on an acceptable risk basis. On the other hand, the securities portfolio served as a liquidity cushion when pledged as collateral for funds attracted from state budget entities and banking institutions. The Bank kept on optimizing its assets structure by gradually increasing the volume of its investment bond portfolio from BGN 554m to BGN 586m. In line with the preliminary approved investment policy, the only bonds that were acquired in 2011 were these issued by the Bulgarian government. Thus, the share of Bulgarian government bonds (domestic and global) in the investment portfolio was stabilized and even increased, reaching more than 92% as of the end of 2011. The average rating of the investment portfolio was “BBB” (as per S&P) and the average modified duration – 2.81 years.





Human Resources

The 2011 activities were focused on further improvement of the launched in 2010 new HR servicing model by fully integrating the role of the HR business partner in the processes and to sustaining the customer-oriented approach by providing adequate and timely consultancy and information to the internal clients. Efficiency, increased process swiftness and quality of the service provided to the business, were in the spotlight. A new IT based application for employee performance management was launched in 2011.

The overall number of active employees (FTE) declined by 0.53%, from 3,770 in 2010 to 3,750 in 2011, mainly due to optimization of the branch network. Staff structure remained stable. The distribution of employees working in HO to the ones working in the network was 38:62. Voluntary turnover during the year remained at a relatively low level – 4.06%, despite the slight increase compared to 2010 (3.69%). In the meantime, 365 new employees were employed (compared with 360 employees in 2010). The high reputation of UniCredit Bulbank as a stable business partner, responsible employer and a good place to work led to an increased number of job applicants. The internship program continued to attract the attention of young people and provide young professionals for the open entry-level positions. 22.5% of students who underwent an internship at the Bank were later employed on a permanent contract.

Personnel costs were maintained at an optimal level, as a result of a prudent and conservative policy with selective salary increases. The Human Investment Ratio (HIR) showed improvement in 2011, pointing at 3.7 versus 2.9 in 2010, while staff costs per FTE remained comparably unchanged. The Compensation policy was revised and updated in response to the increased requirements of the BNB.

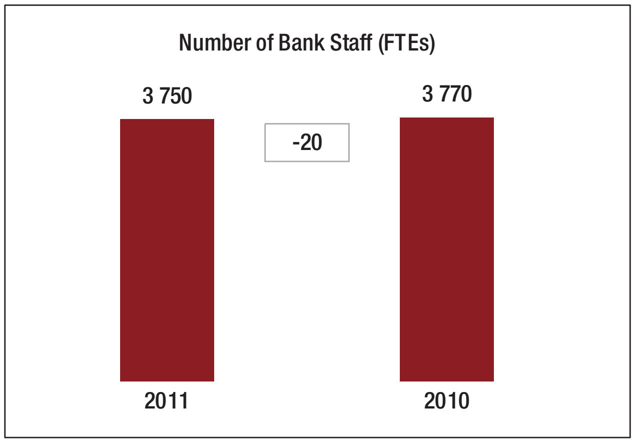
In terms of investments in Learning and Development of the employees, the focus fell on aligning the training initiatives with the business priorities of the organization and the skills required by the commercial sales force.

Consistent Leadership development promoted the internal generation of excellent performers and future managers as well as the professional and personal growth of the established leaders within the Bank. The number of people, part of the two key Group programmes – Executive Development Plan and Talent Management Review in 2011, amounted to 204 employees or 5% of the overall personnel in the Bank. The development initiatives, dedicated to them, included specialized learning programmes combining class-room training with learning on-the-job as mentoring, coaching and project work, one of which was the Unbound Project. An Assessment and Development Center was executed for all talents, aiming at observing their behavior in the context of the new definition for potential – learning agility.

86% of the employees shared their opinion in the Bank's People Survey, thus achieving the highest participation rate for the Bank ever. The results showed that although the level of the engagement index at Bank level (i.e. 83) had a slight decrease, it remained one of the highest in the Group.

There was a significant increase in the number of the training hours was mainly influenced by newly implemented initiatives such as: events fostering the collaboration culture in the Bank; enlarged e-learning portfolio as a part of the system for training, development and evaluation – UniLEAD; classroom and distant learning, linguistic opportunities. The average training hours per FTE increased to 34 hours compared to 21 hours in 2010.

Throughout the whole 2011, the Human Resources Department carried out a transparent and timely communication by ensuring a number of easily accessible channels. They not only informed the employees, but also gathered feedback and opinions on the work of the Department (e.g. HR Open day, HR newsletter, etc.).



UniCredit Bulbank Activity Review (continued)

Global Banking Services

In 2011, the Global Banking Services (GBS) Division focused its efforts on achieving operational excellence and optimizing expenses, while maintaining high level of services and enabling business units to be competitive in a difficult economic environment. In the first half of the year, the new HO building was completed and 450 people from six different locations moved into a single modern facility with open space. The improved communication, the motivated teams to excel in performance and the created synergies in the BackOffice area improved the overall efficiency of the Bank.

Numerous refurbishments and relocations were finalized and well-accepted across the country. The contract conditions of 21 locations were renegotiating with the landlords, which remains a focus in the upcoming year. Assets with a total area of 4775 m2 and approximately BGN 12.5m profit were sold out.

Being a dominant service provider to all business and support units within the Bank, the Division deemed it very important to pay special attention to the quality of services rendered. For the second consecutive year McKinsey positioned ICT Department of UniCredit Bulbank among the best “business enablers”. Several technological initiatives served as business enablers and improved ICT services. Some software upgrades improved real-time communications and collaboration between users in the Bank and UniCredit Group. All traffic from Head Office to the Data Center was encrypted as a result of some optimizations of the existing network equipment.

In the past two years, Loan Administration and Cards Operations units joined GBS, with the major focus to constantly increase efficiency of processing and quality of services provided. Now, GBS is playing the role of competence and execution centre for the Payments, Back office and administrative activities in the Bank. As a main driver for more synergies and better servicing, management initiatives have been finalized, resulting in full consolidation of Loan Administration area and higher centralization rates in foreign and domestic payments areas (30 new branches in scope). Besides operational excellence assured in the daily activities, GBS put strong operational support to various business and organization initiatives like the strategic Bulbank Mobile, SEPA adoption, Securities system implementation and Loan contract tool development.

The Procurement Department persistently increased its coverage to new areas in the Bank, thus improving not only financial performance, but influencing also the related internal maintenance processes. The Department worked closely with all internal customers to enhance delivery process, optimize pricing and improve or maintain quality of delivered goods.

In 2011, the Organization Department activities spread over enhancement of project portfolio and demand management, business processes efficiency optimization, analysis and update of cost management rules. In support to the strategy adopted for a massive transformation of the business activities, some projects were started. In particular, there were further developments in the CRM project and Unipay project (unification of utility payments) in order to boost end-customers’ service and satisfaction. In the area of business process management, the focus was put on optimization and automation of processes – domestic and cross border payments, loans processing, and treasury back office. Quality review cycles are implemented regarding Law 262 requirements and the initial analysis related to the implementation of the upcoming FATCA initiative is completed. UniCredit Bulbank’s demand management and project portfolio management was recognized by GBS CEE as best practice.

Unquestionably though, 2011 was a very exigent year for the banking industry in general, hence the GBS Division commenced some difficult transformational exercises, maintaining high level of service and contribution to overall Bank performance. It is expected that 2012 would be another demanding year in a row and GBS’ team is ready to confront all the challenges and deliver the expected level of efficiency.

Corporate Social Responsibility

Corporate Sustainability is the interaction of economic, ecological and social dimensions of business activities. Therefore, UniCredit Bulbank tries to be a good corporate organization, building its future on sound business ethics and respect for its stakeholders. The Bank acts with integrity and is socially and environmentally responsible.

Throughout 2011, the Bank continued to be among the companies in Bulgaria with the strongest social commitment. When selecting which causes to support, UniCredit Bulbank followed the principle that the projects and initiatives should lay the foundations for long-term and sustainable practices. Corporate sustainability activities ranged from sponsoring and public events, cooperation under various arrangements, and initiatives focusing on operations and products ecology and voluntary work.

Health and Social Services – 2011 marked the start of a new significant project in the field of social services. The project Trust in the Family aims at preserving the integrity of families at risk and preventing the abandoning of children in institutions. The necessary funding of about BGN 190,000 was provided entirely by UniCredit Foundation.

The already established Home Care Centers in Dobrich and Smolyan continued to operate, providing care to elderly people left by themselves due to the migration of their close people.

The Bank expressed its involvement in the cause of I CAN TOO Foundation with the opening of a center for autistic children in Plovdiv. UniCredit Bulbank committed to donating a percentage of its revenues, related to the Dona Product, to the campaigns posted on the website www.save-darina.org for treatment of children with diseases.

Sports – 2011 marked the end of the first three-year period of partnership with UEFA Champions League, which was continued by UniCredit with another three-year contract for the seasons (2012-2015).

Further to football, in 2011 UniCredit Bulbank tied its name closely with another sport - golf. In September, the Bank organized the UniCredit PGA Professional Championship of Europe with the participation of 60 top golfers from over 30 European countries, members of PGA (the Professional Golf Association).

During the year, the project for the theme children's playground focusing on sound and music perception was also completed in Sofia. The playground was developed jointly by Sofia Municipality and UniCredit Bulbank, with the necessary funding being ensured entirely by the bank.

Culture and Art – UniCredit Bulbank continued building up its identity as a member of a leading European banking financial group by supporting significant cultural projects. The Bank continued its work on further developing the established long-term partnerships in the field of art. By supporting innovative and valuable projects the Bank gave a push to the career development of young artists and presented the best art examples. Young violinists got their chance to make an appearance thanks to the First International Violin Competition Vasco Abadjiev organized again with the cooperation of UniCredit Bulbank by Club UNESCO Leonardo da Vinci Sofia and the National Music Academy Prof. Pancho Vladigerov.

In 2011, the Bank provided one more time its traditional support to the Theatre Festival in Bansko. The international exhibition Europe in Pictures, organized by the Embassy of Italy in Bulgaria under the patronage of the mayor of Sofia Mrs. Yordanka Fandakova, was another UniCredit Bulbank initiative. The exhibition presented more than 150 unique photos, property of the Italian Alinari Foundation, in the archaeological museum in Sofia.

Donation Program – the Donation Program included six causes proposed by three partner organizations – the Bulgarian Red Cross, the Bulgarian Charities Aid Foundation and the Association of Patients with Oncological Diseases (APOZ). UniCredit Bulbank employees donated more than 10,000 Bulgarian leva for charitable causes and after that the amount was doubled by the Bank and tripled by UniCredit Foundation. The beneficiaries of the program in reality received more than 30,000 Bulgarian leva.

National Green Program of UniCredit - For the first time the Bank's employees joined the eco initiatives of the Bank through voluntary work. At the end of October, nearly 300 employees of UniCredit Bulbank and their families planted 1,300 willow trees and around 1,800 herbal shrubs in Vitosha Park. Along with that, the Bank started a large-scale campaign to discourage the use of paper statements and replace them with electronic ones instead. Soon afterwards, the Bank took another step towards a greener environment by announcing that it will be using only recycled paper for its printed advertising materials. As a proof of UniCredit's commitment to combating climate change, the Bank joined the Earth Hour campaign for a second consecutive year.

Awards – The corporate socially responsible behavior of UniCredit Bulbank brought to it several awards for achievements in this field. The Bank got recognition with the special award in the annual poll of Pari newspaper for **CSR Company of the Year**. UniCredit Bulbank and UniCredit Foundation received the award for **Charity Project of the Year** at the ceremony of the 6th Annual Awards of the Bulgarian Donors Forum. The initiative for planting willow trees in Vitosha was honored as **Voluntary Initiative of the Year**. At the end of the year, UniCredit Bulbank received an Honorary Sign for Charity from the Bulgarian Red Cross in the category **Corporate Partner Donor**.

Financing the excitement of UEFA EURO 2012

Bank Pekao participated in acquisition of financing of three UEFA EURO 2012 stadiums: Stadion Narodowy in Warsaw, the Poznań Stadium and Stadium in Gdańsk. From an architectural standpoint, the Stadium in Gdańsk is considered the most impressive construction of UEFA EURO 2012. This year for UEFA EURO 2012 Bank Pekao has also financed other infrastructures, such as highways, regional airports and public transportation. As the official slogan states "simple emotions are sometimes not enough", Bank Pekao has really become part of EURO UEFA 2012 as a National Sponsor.
This is another way to be close to local communities and a concrete sign of trust in the future of the country.

Stadium in Gdańsk

Rewarding talented young entrepreneurs

As Italy's future relies on its young talents, Il talento delle idee (The Talent of Ideas), a contest involving UniCredit and the Young Entrepreneurs Association, provides a valuable challenge. Dedicated to entrepreneurs between the ages of 18 and 40, the contest identifies and promotes business ideas based on feasibility and innovation. Originators of the three best ideas are awarded with specialized financial support, entrepreneurial training, introductions to potential investors and mentoring from UniCredit. Financial awards go to selected projects at a national level. This is a concrete example of how real needs find clear answers at UniCredit.

Independent Auditors' Report

KPMG

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
UniCredit Bulbank AD

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2011, the unconsolidated income statement, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Independet Auditors' Report (continued)

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

As required under the Accountancy Act, we report that the unconsolidated historical financial information disclosed in the annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the unconsolidated financial information disclosed in the audited unconsolidated financial statements of the Bank as of and for the year ended 31 December 2011. 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 6 March 2012.

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 6 March 2012

София
Рег. №045
"КПМГ - България" ООД

Unconsolidated Financial Statements (continued)

Income Statement

In thousands of BGN

	Notes	2011	2010
Interest income		649,355	632,772
Interest expense		(206,365)	(205,908)
Net interest income	7	**442,990**	**426,864**
Dividend income		**7,600**	**133**
Fee and commission income		173,523	162,389
Fee and commission expense		(8,657)	(8,750)
Net fee and commission income	8	**164,866**	**153,639**
Net gains (losses) on financial assets and liabilities held for trading	9	16,330	(795)
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	(1,603)	5,819
Net income from investments	11	199	9,986
Other operating income, net	12	6,005	5,940
TOTAL OPERATING INCOME		**636,387**	**601,586**
Net income related to property, plant and equipment	13	2,736	239
Personnel expenses	14	(98,321)	(95,549)
General and administrative expenses	15	(114,792)	(112,600)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(34,216)	(35,757)
Provisions for risk and charges	17	(4,426)	3,336
Net impairment loss on financial assets	18	(136,127)	(184,621)
PROFIT BEFORE INCOME TAX		**251,241**	**176,634**
Income tax expense	19	(24,665)	(17,890)
PROFIT FOR THE PERIOD		**226,576**	**158,744**

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

KPMG Bulgaria OOD

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

The accompanying notes 1 to 45 are an integral part of these financial statements

Statement of Comprehensive Income

In thousands of BGN

	Notes	2011	2010
Profit for the period		226,576	158,744
Other comprehensive income:			
Available for sale investments		(1,846)	6,876
Cash flow hedge		(1,906)	(4,299)
Income tax relating to components of other comprehensive income		376	(259)
Other distribution		(37)	(76)
Total other comprehensive income for the year net of tax		**(3,413)**	**2,242**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**223,163**	**160,986**

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

KPMG Bulgaria OOD

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

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

Statement of Financial Position

In thousands of BGN

	Notes	2011	2010
ASSETS			
Cash and balances with Central Bank	20	886,703	874,658
Financial assets held for trading	21	129,174	162,160
Derivatives held for trading	22	112,024	56,250
Financial assets designated at fair value through profit or loss	24	79,682	110,545
Loans and advances to banks	25	1,893,753	1,699,018
Loans and advances to customers	26	7,812,435	7,472,399
Available for sale investments	27	383,947	278,732
Held to maturity investments	28	273,247	291,382
Investments in subsidiaries and associates	29	27,499	27,499
Property, plant, equipment and investment properties	30	218,244	235,226
Intangible assets	31	31,734	31,065
Current tax assets	32	-	3,467
Deferred tax assets	33	6,964	6,302
Non-current assets and disposal group classified as held for sale	34	797	21
Other assets	35	47,445	26,916
TOTAL ASSETS		**11,903,648**	**11,275,640**
LIABILITIES			
Financial liabilities held for trading	36	88,388	62,317
Derivatives used for hedging	23	6,027	4,527
Deposits from banks	37	2,164,333	2,553,023
Deposits from customers	38	7,293,666	6,540,524
Subordinated liabilities	39	216,710	214,053
Provisions	40	38,912	34,266
Current tax liabilities	32	6,218	-
Deferred tax liabilities	33	18,282	20,187
Other liabilities	41	66,776	65,570
TOTAL LIABILITIES		**9,899,312**	**9,494,467**
EQUITY			
Share capital		285,777	263,911
Revaluation reserves		117,212	132,073
Retained earnings		1,374,771	1,226,445
Profit for the period		226,576	158,744
TOTAL EQUITY	42	**2,004,336**	**1,781,173**
TOTAL LIABILITIES AND EQUITY		**11,903,648**	**11,275,640**

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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, 2010	**239,256**	**51,155**	**1,215,420**	**145,220**	**(16,692)**	**1,581**	**1,635,940**
Profit for the period	-	-	158,744	-	-	-	**158,744**
Transfer of revaluation reserve on non-current assets disposed of	-	-	354	(354)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	6,876	-	**6,876**
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	(4,299)	**(4,299)**
Other distribution	-	-	(76)	-	-	-	**(76)**
Income tax relating to components of other comprehensive income	-	-	-	-	(688)	429	**(259)**
Total other comprehensive income for the year net of tax	-	-	**278**	**(354)**	**6,188**	**(3,870)**	**2,242**
Total comprehensive income for the year net of tax	-	-	**159,022**	**(354)**	**6,188**	**(3,870)**	**160,986**
Dividends paid	-	-	(194,753)	-	-	-	**(194,753)**
Increase of capital	24,655	154,345	-	-	-	-	**179,000**
Balance as of December 31, 2010	**263,911**	**205,500**	**1,179,689**	**144,866**	**(10,504)**	**(2,289)**	**1,781,173**
Profit for the period	-	-	226,576	-	-	-	**226,576**
Transfer of revaluation reserve on non-current assets disposed of	-	-	11,485	(11,485)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(1,846)	-	**(1,846)**
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	(1,906)	**(1,906)**
Other distribution	-	-	(37)	-	-	-	**(37)**
Income tax relating to components of other comprehensive income	-	-	-	-	185	191	**376**
Total other comprehensive income for the year net of tax	-	-	**11,448**	**(11,485)**	**(1,661)**	**(1,715)**	**(3,413)**
Total comprehensive income for the year net of tax	-	-	**238,024**	**(11,485)**	**(1,661)**	**(1,715)**	**223,163**
Dividends paid	-	-	(158,744)	-	-	-	**(158,744)**
Increase of capital	21,866	136,878	-	-	-	-	**158,744**
Balance as of December 31, 2011	**285,777**	**342,378**	**1,258,969**	**133,381**	**(12,165)**	**(4,004)**	**2,004,336**

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The accompanying notes 1 to [illegible] are an integral part of these financial statements.

Statement of Cash Flows

In thousands of BGN

	Notes	2011	2010
Net profit		**226,576**	**156,744**
Current and deferred tax income, recognised in income statement		(4,606)	(4,388)
Current and deferred tax expenses, recognised in income statement		29,471	22,276
Adjustments for non-cash items			
Depreciation and amortisation	30,31	32,926	33,337
Impairment	16,18,30,31	142,075	187,629
Provisions, net		5,551	(1,398)
Unrealised fair value gains (losses) through profit or loss, net		(24,216)	(3,249)
Unrealised fair value gains (losses) on FX revaluation		(188)	632
Net (gains)/losses on sale of investments		(3,027)	(240)
Net interest income		(442,990)	(426,864)
Dividend income		(7,600)	(133)
Increase in other accruals		19,024	18,794
Cash flows from profits before changes in operating assets and liabilities		**(27,294)**	**(14,858)**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		(1,205,741)	104,448
(Increase) in loans and advances to customers		(473,966)	(269,953)
Decrease (increase) in available for sale investments		(103,600)	21,646
Decrease (increase) in financial instruments held for trading and hedging derivatives		31,726	(38,483)
Decrease in financial instruments at fair value trough profit or loss		27,389	21,772
(Increase) in other assets		(17,688)	(6,699)
Change in operating liabilities:			
(Decrease) in deposits from banks		(400,747)	(554,534)
Increase in amounts owed to customers		738,808	119,761
Provisions utilization		(1,396)	(900)
Increase in other liabilities		16,295	451
Interest received		646,190	617,290
Interest paid		(200,446)	(202,395)
Dividends received		7,600	133
Taxes paid		(17,335)	(12,288)
Net cash flow from operating activities		**(976,124)**	**(214,609)**
Cash flow from investing activities			
Cash payments to acquire tangible assets		(19,905)	(14,097)
Cash receipt from sale of tangible assets		16,095	1,038
Cash payments to acquire intangible assets		(11,642)	(6,660)
Cash receipts from the sale of held to maturity investments		21,607	22,960
Net cash flow from investing activities		**6,155**	**3,241**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2011	2010
Cash flow from financial activities			
Dividends paid		(158,744)	(194,753)
Capital increase		158,744	179,000
Other cash payments related to financing activities		(37)	(78)
Net cash flows from financial activities		**(37)**	**(15,831)**
Effect of exchange rate changes on cash and cash equivalents		**(29,751)**	**2,505**
Net increase in cash and cash equivalents		**(999,757)**	**(224,694)**
Cash and cash equivalents at the beginning of period	46	**2,573,176**	**2,797,870**
Cash and cash equivalents at the end of period	46	**1,573,419**	**2,573,176**

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

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

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

KPMG Bulgaria OOD

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

The accompanying notes 1 to 48 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 a triple legal merger, performed on April 27th, 2007 between Bulbank AD, HVB Bank Biochim AD and Hebros Bank AD.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address 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 218 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act. They should be read in conjunction with the consolidated financial statements which were approved by the Management Board of the Bank on March 6, 2012. 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 March 6, 2012.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policy

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

- Presentation of foreclosed properties – in accordance with UCI Group updated presentation requirements, acquisition and selling of such properties is deemed ordinary Bank activity thus the respective amounts are presented as **Other assets** under IAS 2 “Inventories”;
- Unrealised FX gains/losses on impairment allowances and provisions – in accordance with UCI updated presentation requirements are presented as part of Net gains (losses) on financial assets and liabilities held for trading.

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

In thousands of BGN

DESCRIPTION	2010 PRESENTATION	2011 COMPARATIVE PRIOR YEAR PRESENTATION	AMOUNT
Foreclosed properties	Property, plant, equipment and investment properties	Other assets	4,613
Unrealised FX gains/losses on provisions	Provision for risk and charges	Net gains (losses) on financial assets and liabilities held for trading	1,379
Unrealised FX gains/losses on impairment allowances	Net impairment loss on financial assets	Net gains (losses) on financial assets and liabilities held for trading	270

(a) Interest income and expense

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

Interest income and expense presented in the Income statement include:

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

(b) Fee and commission income and expenses

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

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

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

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

(d) Foreign currency transactions

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

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

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

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

(f) Dividend income

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

(g) Lease payments made

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

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

(h) Financial instruments

(i) Recognition

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

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

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

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

d) Loans and advances to banks and customers

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

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

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

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

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

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

h) Deposits from banks, customers and subordinated liabilities

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

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

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm’s length transaction on the 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 instruments at a certain date in the future at a fixed price. Instruments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. Financial instruments sold under repurchase agreements continue to be recognized in the statement of financial position and measured in accordance with the accounting policy. The proceeds from the sale of the investments are reported in the statement of financial position under deposits from customers or banks, respectively. The difference between the sale and repurchase consideration is recognised on an accrual basis over agreed term of the deal and is included in net interest income.

(i) Impairment

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

- for loans and receivables – by the end of each month for the purposes of preparing interim financial statements reported to the Bulgarian National Bank and Management;
- for available for sale 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. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

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

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

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

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

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

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

(j) Derivatives used for hedging

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

(k) Property, plant, equipment and investment property

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

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

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

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

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

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

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

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

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

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

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2011 and December 31, 2010 intangible assets includes primarily investments in software and related licenses.

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

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

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

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

(n) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2011 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(o) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments as well as stock options and performance share granted by the ultimate parent 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 ends UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments.

As of December 31, 2011 and December 31, 2010 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(p) Share capital and reserves

(i) Share capital

As described in Note 1, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of 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 as of the date of the merger was in the amount of BGN 239,256 thousand and comprise of the share capital of Bulbank AD before the merger in the amount of BGN 166,370 thousand, increased by the newly issued ordinary shares exchanged for the ordinary shares of the merging Banks HVB Bank Biochim AD and Hebros Bank AD (increase in the amount of BGN 72,886 thousand).

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

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

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve. As of December 31, 2011 and December 31, 2010 the reserves includes also the premium of newly issued shares corresponding to the difference between the issuing price and the face value.

(q) Taxation

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

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

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

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

(r) Segment reporting

As of January 1, 2009 the Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. This adoption 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 effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.

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

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (issued October 2010) – effective from the first financial year that starts after 1 July 2011.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, generally 1 January 2011

IASB/IFRIC documents not yet endorsed by EC:

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 EC.

- IFRS 9 Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- In May 2011 the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of Interests in Other Entities and IFRS 13 Fair Value Measurement, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued December 2010) has an effective date 1 July 2012.
- In June 2011 the IASB issued Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 Employee Benefits with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2014.
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine with an effective date of 1 January 2013.

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UCB is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee.

(b) Market risks

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

Market risk management in UniCredit Bulbank 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 sensitivity and position limits. Additional element is the loss-warning level limit, providing early indication of any accumulation of position losses.

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

During 2011, VaR (1 day holding period, confidence interval of 99 %) moved in a range between EUR 2.41 million and EUR 5.22 million, averaging EUR 3.44 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

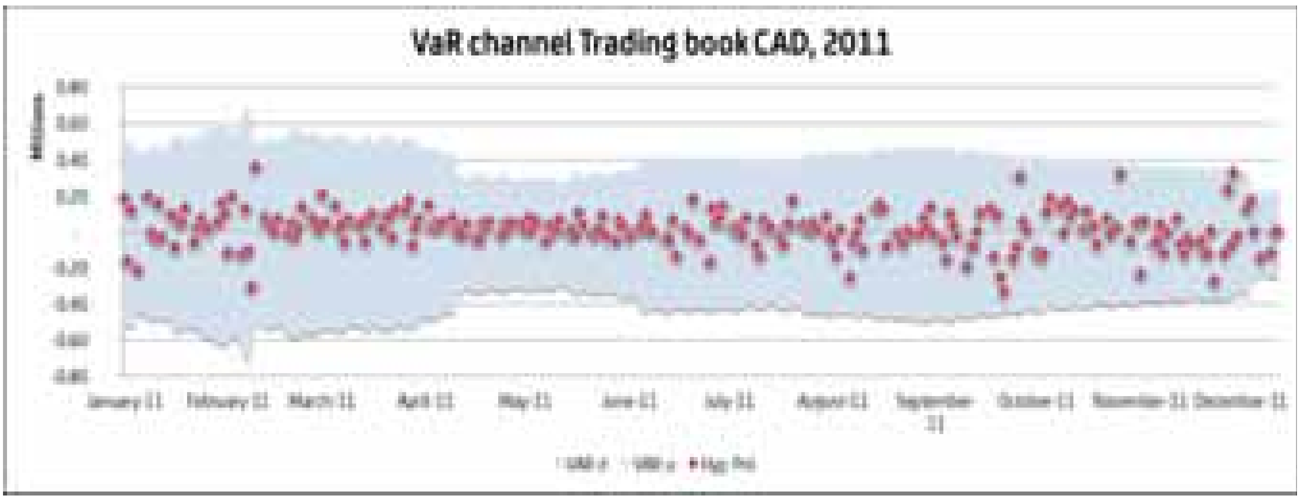
VaR of UniCredit Bulbank AD by risk category in EUR million for 2011 is as follows:

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 2011 confirm the reliability of used internal model.

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	2.11	5.42	2.64	2.42
Credit spread	1.73	3.08	2.30	2.25
Exchange rate risk	0.00	0.02	0.01	0.02
Vega risk	0.00	0.01	0.00	0.00
VaR overall	2.41	5.22	3.44	3.28

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate /spread changes of 0.01 % by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In



the interest rate sector, the Basis-Point-Value (BPV) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (trading and banking book) as of December 30, 2011 (change in value due to 1 basis point shift, amounts in EUR):

Measured by the total basis-point value, the credit spread position of UniCredit Bulbank as of December 31, 2011 totalled EUR 95,605. Treasury-near instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively lower.

CURRENCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	ABOVE 10Y	TOTAL
BGN	2,741	13,929	(13,998)	(33,641)	(311)	(31,279)
CHF	(412)	1,136	(23)	(146)	3	557
EUR	9,541	13,693	1,680	16,052	(155)	40,811
GBP	(143)	(138)	7	-	-	(274)
USD	(857)	764	(12,630)	(241)	-	(12,964)
AUD	3	-	-	-	-	3
Total sensitivity	**13,698**	**29,660**	**28,338**	**50,079**	**469**	**85,889**

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

SP Basis Point Shift

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Long	Short	Sum
MARKIT_CONSUMER_GOODS_B_CDS	0	[illegible]	[illegible]			[illegible]		[illegible]
MARKIT_FINANCIAL_B_CDS	[illegible]	[illegible]				[illegible]		[illegible]
MARKIT_GOVERNMENT_BB_CDS	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
STR_SUPRANATIONALS	[illegible]	[illegible]	[illegible]			[illegible]		[illegible]
TREAS_AT	0	[illegible]	[illegible]			[illegible]		[illegible]
TREAS_BG_CDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
TREAS_IT	0	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
TREAS_RO	[illegible]	[illegible]				[illegible]		[illegible]
TREAS_TR		[illegible]				[illegible]		[illegible]
UNICREDITO_ITALIANO_CDS	0	[illegible]	[illegible]			[illegible]		[illegible]
Sum	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]

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 2011 the Bank's Management continued vigilant risk management practices by limiting risk taking and focus on client-driven business.

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

As of December 31, 2011 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

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

As of December 31, 2010 the FX balances of UniCredit Bulbank are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central bank	865,664	8,994	**874,658**
Financial assets held for trading	161,270	890	**162,160**
Derivatives held for trading	55,020	1,230	**56,250**
Financial assets designated at fair value through profit or loss	102,278	8,267	**110,545**
Loans and advances to banks	1,678,561	20,457	**1,699,018**
Loans and advances to customers	7,300,928	171,471	**7,472,399**
Available for sale Investments	278,732	-	**278,732**
Held to maturity Investments	126,603	164,779	**291,382**
Investments in subsidiaries and associates	27,499	-	**27,499**
Property, plant, equipment and investment properties	235,226	-	**235,226**
Intangible assets	31,065	-	**31,065**
Current tax assets	3,467		**3,467**
Deferred tax assets	6,302	-	**6,302**
Non-current assets and disposal group classified as held for sale	21	-	**21**
Other assets	26,774	142	**26,916**
TOTAL ASSETS	**10,899,410**	**376,230**	**11,275,640**
LIABILITIES			
Financial liabilities held for trading	61,166	1,151	**62,317**
Derivatives used for hedging	2,313	2,214	**4,527**
Deposits from banks	2,414,961	138,062	**2,553,023**
Deposits from customers	5,939,035	601,489	**6,540,524**
Subordinated liabilities	214,053	-	**214,053**
Provisions	15,579	18,687	**34,266**
Deferred tax liabilities	20,187	-	**20,187**
Other liabilities	64,257	1,313	**65,570**
TOTAL LIABILITIES	**8,731,551**	**762,916**	**9,494,467**
EQUITY	**1,781,173**	**-**	**1,781,173**
Net off-balance sheet spot and forward position	**(395,590)**	**388,523**	**(7,067)**
Net position	**(8,904)**	**1,837**	**(7,067)**

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

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 the contractual one (deposits are consistently rolled over).

In thousands of BGN

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

MATURITY TABLE AS AT 31 DECEMBER 2010	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**2,553,023**	**(2,604,616)**	(1,358,619)	(50,989)	(318,030)	(876,978)
Deposits from customers	**6,540,524**	**(6,581,367)**	(2,179,937)	(1,755,287)	(1,505,458)	(1,140,685)
Subordinated liabilities	**214,053**	**(256,571)**	-	-	-	(256,571)
Issued financial guarantee contracts	**20,305**	**(20,305)**	-	-	-	(20,305)
Unutilized credit lines	**-**	**(1,139,353)**	(17,090)	-	(210,780)	(911,482)
Total non-derivative instruments	**9,327,905**	**(10,602,212)**	**(3,555,646)**	**(1,806,276)**	**(2,034,268)**	**(3,206,021)**
Trading derivatives, net	**(6,067)**					
Outflow		**(1,660,814)**	(877,963)	(257,113)	(247,955)	(277,783)
Inflow		**1,655,186**	869,295	254,966	251,301	279,624
Derivatives used for hedging, net	**4,527**					
Outflow		**(12,342)**	(2,286)	(107)	(1,394)	(8,555)
Inflow		**7,865**	518	46	898	6,403
Total derivatives	**(1,540)**	**(10,105)**	**(10,436)**	**(2,208)**	**2,850**	**(311)**
Total financial liabilities	**9,326,365**	**(10,612,317)**	**(3,566,082)**	**(1,808,484)**	**(2,031,418)**	**(3,206,332)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2011 and December 31, 2010 is as shown in the next table:

In thousands of BGN

	2011	2010
Government bonds		
Rated BBB	42,180	18,159
Rated BBB+	40,206	45,824
Bonds of credit institutions		
Rated AAA	45,609	35,949
Rated BB	-	35,176
Corporate bonds		
Rated BB	1,179	22,277
Unrated	-	3,093
Equities	-	**1,682**
Derivatives (net)		
Banks and financial institution counterparties	(34,227)	(45,425)
Corporate counterparties	57,865	39,358
Total trading assets and liabilities	**152,812**	**156,093**

(ii) Credit risk in the banking book

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

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

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

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

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

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

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

As of December 31, 2011 and December 31, 2010 the Bank has fulfilled all statutory lending limits.

The table below analyses the breakdown of impairment allowances as of December 31, 2011 and December 31, 2010:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	2011	2010	2011	2010	2011	2010
Individually impaired	**1,054,381**	**775,921**	**619,498**	**473,310**	**434,883**	**302,611**
Collectively impaired	**6,624,799**	**6,708,496**	**58,346**	**108,628**	**6,566,453**	**6,599,868**
Past due but not impaired	**165,000**	**39,204**	**-**	**-**	**165,000**	**39,204**
Past due comprises						
from 31 to 90 days	11,608	1,440	-	-	11,608	1,440
from 91 to 180 days	40,651	7,829	-	-	40,651	7,829
over 181 days	112,741	29,935	-	-	112,741	29,935
	165,000	39,204	-	-	165,000	39,204
Neither past due nor impaired	**646,099**	**530,716**	**-**	**-**	**646,099**	**530,716**
Total	**8,490,279**	**8,054,337**	**677,844**	**581,938**	**7,812,435**	**7,472,399**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	2011	2010
Against individually impaired		
Cash collateral	187	143
Property	960,474	775,930
Other collateral	2,397,852	1,934,880
Against collectively impaired		
Cash collateral	22,628	18,223
Property	7,892,022	9,661,502
Debt securities	119	10,021
Other collateral	16,975,705	17,221,236
Against past due but not impaired		
Cash collateral	387	325
Property	455,867	124,586
Debt securities	13	13
Other collateral	496,152	89,998
Neither past due nor impaired		
Cash collateral	75,137	87,777
Property	1,714,861	1,711,043
Debt securities	10,020	79,079
Other collateral	889,509	620,807
Total	**31,890,933**	**32,335,563**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	2011	2010	2011	2010	2011	2010
Concentration by sectors						
Sovereign	64,010	59,253	-	-	629,358	526,122
Manufacturing	1,708,152	1,608,604	-	-	-	-
Commerce	1,765,297	1,629,901	-	-	-	-
Construction and real estate	1,507,086	1,408,276	-	-	-	-
Agriculture and forestry	160,189	149,010	-	-	-	-
Transport and communication	221,683	285,074	-	-	-	-
Tourism	153,742	174,127	-	-	-	-
Services	268,305	216,316	-	-	-	-
Financial services	220,865	181,594	1,893,753	1,699,018	55,335	71,491
Retail (individuals)						
Housing loans	1,645,838	1,574,778	-	-	-	-
Consumer loans	775,112	767,404	-	-	-	-
	8,490,279	**8,054,337**	**1,893,753**	**1,699,018**	**684,693**	**597,613**
Impairment allowances	(677,844)	(581,938)	-	-	-	-
Total	**7,812,435**	**7,472,399**	**1,893,753**	**1,699,018**	**684,693**	**597,613**
Concentration by geographic location						
Europe	8,448,422	8,052,703	1,888,158	1,685,597	670,667	583,684
North America	135	97	2,404	4,691	3,031	2,951
Asia	941	1,377	3,009	8,513	10,995	10,978
Africa	46	46	-	-	-	-
South America	38	22	-	-	-	-
Australia	40,697	92	182	217	-	-
	8,490,279	**8,054,337**	**1,893,753**	**1,699,018**	**684,693**	**597,613**
Impairment allowances	(677,844)	(581,938)	-	-	-	-
Total	**7,812,435**	**7,472,399**	**1,893,753**	**1,699,018**	**684,693**	**597,613**

(e) Operational Risk

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

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

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

In February 2011 UniCredit Bulbank was officially authorized by Bank of Italy to apply the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA. Activities during the year focused primarily on maintaining the high level of quality of the operational risk system. As part of the annual validation activities related to the AMA use in the Bank, control verifications by UniCredit Group Internal Validation and UCB Internal Audit took place. Based on these independent assessments, the operational risk management and control system was found sound and well developed.

(f) Basel II disclosure

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

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

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

The authorization is an international acknowledgement of the Bank's competence to use its internal models and estimates for the calculation of capital requirements and it follows a detailed and rigorous verification of this ability by both the Bank of Italy and the Bulgarian National Bank.

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

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

Applicable calculation techniques for capital requirements for credit risk, market risk and operational risk for the years ended December 31, 2011 and December 31, 2010 is as follows:

	2011	2010 (RECALCULATED)	2010 (REPORTED)
Credit risk requirements			
Exposures to:			
Corporate clients	F-IRB	F-IRB	STA
Banks	F-IRB	F-IRB	STA
SME clients, individuals and other clients	STA	STA	STA
Other exposures	STA	STA	STA
Market risk requirements	**STA**	**STA**	**STA**
Operational risk requirements	**AMA**	**AMA**	**STA**

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

(i) Capital base (own funds)

Capital base (own funds) eligible for regulatory purposes include Tier I and Tier II capital as defined by Bulgarian National Bank. The data as of prior year has been recalculated for comparative reasons as if the F-IRB Approach has been also applied as of December 31, 2010.

As of December 31, 2011 and December 31, 2010 the unconsolidated Capital base of UniCredit Bulbank AD comprises as follows:

In thousands of BGN

	2011	2010 (RECALCULATED)
Share capital	285,777	263,911
Statutory reserve	342,378	205,500
Retained earnings	1,020,574	1,020,220
Total capital and reserves	**1,648,729**	**1,489,631**
Deductions		
Unrealized loss on available-for-sale instruments	(14,030)	(11,955)
Intangible assets	(31,734)	(31,065)
Total deductions	**(45,764)**	**(43,020)**
Total Tier I capital	**1,602,965**	**1,446,611**
Revaluation reserve on real estate properties occupied by the Bank	122,324	137,368
Subordinated long-term debt	146,296	165,072
Total Tier II capital	**268,620**	**302,440**
Additional deductions from Tier I and Tier II capital	**(71,671)**	**(40,762)**
Total Capital base (Own funds)	**1,799,914**	**1,708,289**

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

(ii) Capital requirements

As of December 31, 2011 and December 31, 2010 the capital requirements for credit, market and operational risks are as follows:

In thousands of BGN

	2011	2010 (RECALCULATED)
Capital requirements for credit risk		
Exposures under standardized approach	192,617	211,335
Exposures under FIRB	413,344	401,918
Total capital requirements for credit risk	**605,961**	**613,253**
Capital requirements for market risk	**9,380**	**11,558**
Capital requirements for operational risk AMA	69,077	53,180
Additional requirement for operational risk		12,550
Total capital requirements for operational risk	**69,077**	**65,730**
Total capital requirements for credit, market and operational risk	**684,418**	**690,541**
Additional capital requirements subject to National discretions from the Regulator	342,209	345,271
Total regulatory capital requirements	**1,026,627**	**1,035,812**
Capital Base (Own funds)	1,799,914	1,708,289
there off Tier I	1,567,130	1,426,230
Free equity (Own funds)	773,287	672,478
Total capital adequacy ratio	**21.04%**	**19.79%**
Tier I ratio	**18.32%**	**16.52%**

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

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

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

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

5. Use of estimates and judgement

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments carried at fair value by valuation method applied by the Bank as of December 31, 2011 and December 31, 2010.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial assets held for trading	-	-	127,996	136,790	1,178	25,370	129,174	25,370
Derivatives held for trading	-	-	112,024	56,250	-	-	112,024	-
Financial assets designated at fair value through profit or loss	-	-	8,363	19,912	71,319	90,633	79,682	90,633
Available for sale Investments	300	-	367,895	266,906	15,752	11,826	383,947	11,826
	300	**-**	**616,278**	**479,858**	**88,249**	**127,829**	**704,827**	**127,829**
Financial liabilities held for trading	-	-	88,386	62,317	-	-	88,386	-
Derivatives used for hedging	-	-	6,027	4,527	-	-	6,027	-
	-	**-**	**94,413**	**66,844**	**-**	**-**	**94,413**	**-**
Total	**300**	**-**	**710,691**	**546,702**	**88,249**	**127,829**	**799,240**	**127,829**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2011 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2011)	**25,370**	**90,633**	**11,826**
Increases	**2,883**	**5,117**	**3,989**
Purchases	-	-	3,924
Profit recognized in income statement	2,883	2,837	65
Transfer from other levels	-	2,280	-
Decreases	**(27,075)**	**(24,431)**	**(63)**
Sales	(26,500)	(20,000)	-
Redemption	(425)	(491)	-
Loses recognized in income statement	(150)	(3,940)	(7)
Transfers to other levels	-	-	(56)
Closing balance (December 31, 2011)	**1,178**	**71,319**	**15,752**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2011 and December 31, 2010.

In thousands of BGN

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

In thousands of BGN

DECEMBER 2010	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIV.	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	874,658	**874,658**	**874,658**
Financial assets held for trading	162,160	-	-	-	-	-	**162,160**	**162,160**
Derivatives held for trading	56,250	-	-	-	-	-	**56,250**	**56,250**
Financial assets designated at fair value through profit or loss	110,545	-	-	-	-	-	**110,545**	**110,545**
Loans and advances to banks	-	-	1,699,018	-	-	-	**1,699,018**	**1,699,018**
Loans and advances to customers	-	-	7,472,399	-	-	-	**7,472,399**	**7,472,337**
Available for sale Investments	-	-	-	278,732	-	-	**278,732**	**278,732**
Held to maturity Investments	-	291,382	-	-	-	-	**291,382**	**306,771**
TOTAL ASSETS	**328,955**	**291,382**	**9,171,417**	**278,732**	**-**	**874,658**	**10,945,144**	**10,960,471**
LIABILITIES								
Financial liabilities held for trading	62,317	-	-	-	-	-	**62,317**	**62,317**
Derivatives used for hedging	-	-	-	-	4,527	-	**4,527**	**4,527**
Deposits from banks	-	-	-	-	-	2,553,023	**2,553,023**	**2,562,439**
Deposits from customers	-	-	-	-	-	6,540,524	**6,540,524**	**6,569,475**
Subordinated liabilities	-	-	-	-	-	214,053	**214,053**	**214,053**
TOTAL LIABILITIES	**62,317**	**-**	**-**	**-**	**4,527**	**9,307,600**	**9,374,444**	**9,412,811**

(b) Impairment of financial instruments

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

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

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2011	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	208,699	219,001	15,290	**442,990**
Dividend income	-	98	7,502	**7,600**
Net fee and commission income	95,175	70,075	(384)	**164,866**
Net gains (losses) from financial assets and liabilities held for trading	141	24,982	(8,793)	**16,330**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(1,603)	-	**(1,603)**
Net income from investments	-	199	-	**199**
Other operating income	(140)	1,409	4,736	**6,005**
TOTAL OPERATING INCOME	**303,875**	**314,161**	**18,351**	**636,387**
Personnel expenses	(41,633)	(13,877)	(42,811)	**(98,321)**
General and administrative expenses	(72,325)	(19,991)	(22,476)	**(114,792)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17,420)	(3,081)	(13,715)	**(34,216)**
Total direct expenses	**(131,378)**	**(36,949)**	**(79,002)**	**(247,329)**
Allocation of indirect and overhead expenses	(47,317)	(26,207)	73,524	**-**
TOTAL OPERATING EXPENSES	**(178,695)**	**(63,156)**	**(5,478)**	**(247,329)**
Provisions for risk and charges			(4,426)	**(4,426)**
Net impairment loss on financial assets	(41,937)	(93,640)	(550)	**(136,127)**
Net income related to property, plant and equipment	-	-	2,736	**2,736**
PROFIT BEFORE INCOME TAX	**83,243**	**157,365**	**10,633**	**251,241**
Income tax expense	-	-	(24,665)	**(24,665)**
PROFIT FOR THE PERIOD	**83,243**	**157,365**	**(14,032)**	**226,576**
ASSETS	**3,118,385**	**7,720,810**	**1,064,453**	**11,903,648**
LIABILITIES	**3,782,780**	**3,794,204**	**2,322,328**	**9,899,312**

In thousands of BGN

DECEMBER 2010	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	208,389	239,567	(21,092)	**426,864**
Dividend income	-	103	30	**133**
Net fee and commission income	88,805	65,200	(366)	**153,639**
Net gains (losses) from financial assets and liabilities held for trading	91	(363)	(523)	**(795)**
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	5,819	-	**5,819**
Net income from investments	-	-	9,986	**9,986**
Other operating income	(108)	784	5,264	**5,940**
TOTAL OPERATING INCOME	**297,177**	**311,110**	**(6,701)**	**601,586**
Personnel expenses	(41,188)	(13,842)	(40,519)	**(95,549)**
General and administrative expenses	(74,799)	(19,173)	(18,628)	**(112,600)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(18,194)	(3,220)	(14,343)	**(35,757)**
Total direct expenses	**(134,181)**	**(36,235)**	**(73,490)**	**(243,906)**
Allocation of indirect and overhead expenses	(45,303)	(24,884)	70,187	**-**
TOTAL OPERATING EXPENSES	**(179,484)**	**(61,119)**	**(3,303)**	**(243,906)**
Provisions for risk and charges	-	-	3,336	**3,336**
Net impairment loss on financial assets	(8,291)	(174,931)	(1,399)	**(184,621)**
Net income related to property, plant and equipment	-	-	239	**239**
PROFIT BEFORE INCOME TAX	**109,402**	**75,060**	**(7,828)**	**176,634**
Income tax expense			(17,890)	**(17,890)**
PROFIT FOR THE PERIOD	**109,402**	**75,060**	**(25,718)**	**158,744**
ASSETS	**2,994,102**	**7,065,881**	**1,215,657**	**11,275,640**
LIABILITIES	**3,394,418**	**3,518,952**	**2,581,097**	**9,494,467**

7. Net interest income

In thousands of BGN

	2011	2010
Interest income		
Financial assets held for trading	8,020	7,354
Derivatives held for trading	23,544	21,481
Financial assets designated at fair value through profit or loss	5,546	7,600
Loans and advances to banks	12,068	7,435
Loans and advances to customers	572,037	563,052
Available for sale investments	13,791	9,905
Held to maturity investments	14,349	15,945
	649,355	**632,772**
Interest expense		
Derivatives held for trading	(20,475)	(19,944)
Derivatives used for hedging	(2,003)	(2,545)
Deposits from banks	(37,680)	(22,724)
Deposits from customers	(139,032)	(154,848)
Subordinated debt	(7,175)	(5,847)
	(206,365)	**(205,908)**
Net interest income	**442,990**	**426,864**

For the financial years ended December 31, 2011 and December 31, 2010 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 22,942 thousand and BGN 20,729 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2011	2010
Fee and commission income		
Collection and payment services	74,244	70,989
Lending business	19,092	21,510
Account services	14,128	16,750
Currency trading	29,881	26,319
Management, brokerage and securities trading	5,000	6,311
Documentary business	11,784	9,637
Package accounts	8,620	6,796
Other	10,774	4,077
	173,523	**162,389**
Fee and commission expense		
Collection and payment services	(6,796)	(6,643)
Management, brokerage and securities trading	(694)	(708)
Lending business	(907)	(1,160)
Other	(260)	(239)
	(8,657)	**(8,750)**
Net fee and commission income	**164,866**	**153,639**

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

In thousands of BGN

	2011	2010
FX trading income, net	(1,236)	840
Net income from debt instruments	9,107	(4,900)
Net income from equity instruments	(435)	(133)
Net income from derivative instruments	8,894	3,398
Net gains (losses) on financial assets and liabilities held for trading	**16,330**	**(795)**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2011 and December 31, 2010 are BGN (1,603) thousand and BGN 5,819 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2011	2010
Realised gains on disposal of available for sale investments	199	9,986
Net income from investments	**199**	**9,986**

In 2010 the shareholders of Borika AD (Bulgarian card operator) and Bankservice AD (Bulgarian settlement operator) agreed to combine their activities through merging the two companies into a new company (Borika-Bankservice AD) thus gaining some competitive advantage and benefiting from operative synergies. As of the date of merger UniCredit Bulbank AD maintained minority interests in both merging companies. According to the agreement the merger represented share-exchange transaction where the shareholders of the merging companies received shares in the new company on the basis of share-exchange ratios. These ratios were derived on the basis of fair market valuation of the new company and were approved by all the shareholders and verified by external auditor as required by Bulgarian Commercial Law. The difference between the fair market valuation of the received by UniCredit Bulbank AD new shares and the value of the participations in the two merging companies before the transformation, adjusted by previously recognized revaluation reserve, amounting in total BGN 8,961 thousand, is reported in the position realized gains on disposal of available for sale investments.

12. Other operating income, net

In thousands of BGN

	2011	2010
Other operating income		
Income from non-financial services	2,148	1,317
Rental income from investment property	365	314
Other income	3,635	4,424
	6,148	**6,055**
Other operating expenses		
Other operating expenses	(143)	(115)
	(143)	**(115)**
Other operating income, net	**6,005**	**5,940**

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized on disposal of long-term assets. For the year ended December 31, 2011 and December 31, 2010 the gains is BGN 2,736 thousand and BGN 239 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2011	2010
Wages and salaries	(78,185)	(78,332)
Social security charges	(10,065)	(9,971)
Pension and similar expenses	(634)	(559)
Temporary staff expenses	(5,925)	(5,325)
Share-based payments	(593)	(56)
Other	(2,919)	(1,306)
Total personnel expenses	**(98,321)**	**(95,549)**

As of December 31, 2011 the total number of employees, expressed in full time employee equivalent is 3,750 (December 31, 2010: 3,770)

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

As described in note **3 (o) (iii)** ultimate parent company UniCredit 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. In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the “Enrolment period”. The granting of free ordinary shares is subordinated to vesting conditions.

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2010	2011 COST	SETTLED IN 2011	ECONOMIC VALUE AT DECEMBER 31, 2011
Stock Options 06 2006	213	-	(213)	-
Stock Options 06 2007	224	37	-	261
Stock Options 06 2008	180	82	-	262
Stock Options 03 2011	-	113	-	113
Total Stock Options	**617**	**232**	**(213)**	**636**
Performance Shares 06 2007	190	(190)	-	-
Performance Shares 06 2008	-	113	-	113
Performance Shares 03 2011	-	169	-	169
Total Performance Shares	**190**	**92**	**-**	**282**
Deferred Short Term Incentive (ordinary shares)	-	258	-	258
Total deferred Short Term Incentive (shares)	**-**	**258**	**-**	**258**
ESOP	**15**	**11**	**-**	**26**
Total Options and Shares	**822**	**593**	**(213)**	**1,202**

15. General and administrative expenses

In thousands of BGN

	2011	2010
Deposit guarantee fund annual contribution	(28,823)	(27,031)
Advertising, marketing and communication	(6,844)	(6,986)
Credit information and searches	(1,528)	(1,626)
Information, communication and technology expenses	(29,704)	(28,829)
Consulting, audit and other professionals services	(2,438)	(2,219)
Real estate expenses	(13,057)	(12,872)
Rents	(14,237)	(13,466)
Travel expenses and car rentals	(3,339)	(3,262)
Insurance	(1,178)	(1,101)
Supply and miscellaneous services rendered by third parties	(9,118)	(10,652)
Other costs	(4,526)	(4,556)
Total general and administrative expenses	**(114,792)**	**(112,600)**

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

In thousands of BGN

	2011	2010
Depreciation charge	(32,926)	(33,337)
Impairment due to obsolescence	(1,290)	(2,149)
Decrease in value due to revaluation	-	(271)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(34,216)**	**(35,757)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2011 and December 31, 2010 the impairment of long-terms assets other than real estate properties, is in the amount of BGN 1,290 thousand and BGN 2,149 thousand, respectively.

Bank also performed review of the entire class of real estate properties. For all such properties, where material decline in fair value is observed, the decrease in value due to revaluation in excess of previously recognized revaluation reserve (devaluation) is recognized in profit or loss.

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 **40**).

In thousands of BGN

	2011	2010
Additions of provisions		
Legal cases provisions	(5,046)	(6)
Other provisions	(293)	(254)
	(5,339)	**(260)**
Reversal of provisions		
Legal cases provisions	405	3,180
Provisions on constructive obligations	508	416
	913	**3,596**
Net provisions charge	**(4,426)**	**3,336**

18. Net Impairment loss on financial assets

In thousands of BGN

	2011	2010
Balance 1 January		
Loans and advances to customers	581,938	**404,382**
Increase		
Loans and advances to customers	277,643	329,269
Loans and advances to banks	21	-
Decrease		
Loans and advances to customers	(136,878)	(144,330)
Recoveries from loans previously written-off	(4,659)	(318)
	(141,537)	**(144,648)**
Net impairment losses	136,127	184,621
FX revaluation effect on impairment allowances	599	270
Written-off		
Loans and advances to customers	(45,458)	(7,653)
Loans and advances to banks	(21)	-
Balance December 31		
Loans and advances to customers	**677,844**	**581,938**

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2012.

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

In thousands of BGN

	2011	2010
Current tax	(26,692)	(18,451)
Deferred tax income (expense) related to origination and reversal of temporary differences	2,191	734
Underprovided prior year income tax	(164)	(173)
Income tax expense	**(24,665)**	**(17,890)**

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

In thousands of BGN

	2011	2010
Accounting profit before tax	251,241	176,634
Corporate tax at applicable tax rate (10% for 2011 and 2010)	(25,124)	(17,663)
Tax effect of non taxable revenue	784	25
Tax effect of non tax deductible expenses	(300)	(245)
Underprovided prior year income tax	(25)	(7)
Income tax expense	**(24,665)**	**(17,890)**
Effective tax rate	**9.82%**	**10.13%**

20. Cash and balances with Central bank

In thousands of BGN

	2011	2010
Cash in hand and in ATM	125,902	101,689
Cash in transit	23,767	28,934
Current account with Central Bank	737,034	744,035
Total cash and balance with Central Bank	**886,703**	**874,658**

21. Financial assets held for trading

In thousands of BGN

	2011	2010
Government bonds	82,387	63,983
Bonds of credit institutions	45,609	71,125
Corporate bonds	1,178	25,370
Equities	-	1,682
Total financial assets held for trading	**129,174**	**162,160**

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

As of December 31, 2011 and December 31, 2010 financial assets held for trading in the amount of BGN 3,748 thousand and BGN 70,355 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

Previous change in accounting policy

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

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

In thousands of BGN

	2011	CUMULATIVELY SINCE RECLASSIFICATION (JULY 2008 - DECEMBER 2011)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,314)	5,848
Net interest income		
Net interest income recognized for the period after reclassification	4,501	16,209
Net interest income after reclassification that should have been recognized had the assets not been reclassified	**5,842**	**20,689**

22. Derivatives held for trading

In thousands of BGN

	2011	2010
Interest rate swaps	61,589	39,984
Equity options	183	1,828
FX forward contracts	39,781	14,031
FX options	-	1
Other options	22	198
FX swaps	57	72
Commodity swaps	10,392	136
Total trading derivatives	**112,024**	**56,250**

Derivatives comprise of trading instruments that have positive market value as of December 31, 2011 and December 31, 2010. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank's customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (j)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book. As of December 31, 2011 and December 31, 2010 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, 2011 and December 31, 2010 the fair value of hedging derivatives is negative in the amount of BGN 6,027 thousand and BGN 4,527 thousand, respectively.

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

In thousands of BGN

	2011	2010
Government bonds	8,363	17,063
Municipality bonds	2,280	2,850
Corporate bonds	69,039	90,632
Total financial assets designated at fair value through profit or loss	**79,682**	**110,545**

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, 2011 and December 31, 2010 assets designated at fair value through profit or loss in the amount of BGN 71 thousand and BGN 11,197 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

25. Loans and advances to banks

In thousands of BGN

	2011	2010
Loans and advances to banks	1,878,969	1,662,203
Current accounts with banks	14,784	36,344
Restricted accounts in foreign currency	-	471
Total loans and advances to banks	**1,893,753**	**1,699,018**

26. Loans and advances to customers

In thousands of BGN

	2011	2010
Companies	6,014,296	5,652,902
Individuals		
Housing loans	1,645,838	1,574,778
Consumer loans	775,112	767,404
Central and local governments	55,033	59,253
	8,490,279	**8,054,337**
Less impairment allowances	(677,844)	(581,938)
Total loans and advances to customers	**7,812,435**	**7,472,399**

27. Available for sale investments

In thousands of BGN

	2011	2010
Government bonds	355,160	249,613
Municipality bonds	3,982	-
Bonds of credit institutions	12,735	17,293
Equities	12,070	11,826
Total available for sale investments	**383,947**	**278,732**

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, 2011 and December 31, 2010 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, 2011 and December 31, 2010 available for sale investments in the amount of BGN 273,050 thousand and BGN 145,007 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

In thousands of BGN

	2011	2010
Government bonds	270,216	276,509
Bonds of credit institutions	3,031	14,873
Total held to maturity investments	**273,247**	**291,382**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2011 and December 31, 2010.

29. Investments in subsidiaries and associates

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2011
UniCredit Factoring EAD	Factoring activities	100.0%	3,000
Hypovereins Immobilien EOOD	Transport services and real estate lending activities	100.0%	654
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	19,574
UniCredit Leasing AD	Leasing activities	24.4%	1,771
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,500
Prelios Bulgaria 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.

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

30. Property, plant, equipment and investment properties

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

* The transfers in the amount of BGN 797 represent properties in advance stage of a disposal, classified as non-current assets held for sale.

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost or revalued amount							
As of December 31, 2009	**7,384**	**203,752**	**3,892**	**75,841**	**34,066**	**473**	**325,408**
Reclassification*	(122)	(290)	-	-	-	-	**(412)**
As of December 31, 2009 after reclassification	**7,262**	**203,462**	**3,892**	**75,841**	**34,066**	**473**	**324,996**
Additions	-	50	57	2,259	11,731	-	**14,097**
Transfers	375	8,903	39	4,461	(11,371)	68	**2,475**
Write offs	-	(1,722)	(331)	(3,331)	(1,614)	-	**(6,998)**
Disposals	-	(298)	-	(511)	(274)	(212)	**(1,295)**
As of December 31, 2010	**7,637**	**210,395**	**3,657**	**78,719**	**32,538**	**329**	**333,275**
Depreciation							
As of December 31, 2009	**-**	**9,627**	**1,787**	**51,501**	**16,968**	**62**	**79,945**
Depreciation charge	-	9,921	413	9,605	2,973	20	**22,932**
Impairment due to obsolescence	-	403	7	1,238	759	-	**2,407**
Write offs	-	(1,722)	(331)	(3,331)	(1,610)	-	**(6,994)**
On disposals	-	(66)	-	(506)	(269)	(29)	**(870)**
Transfers	-	609	-	-	16	4	**629**
As of December 31, 2010	**-**	**18,772**	**1,876**	**58,507**	**18,837**	**57**	**98,049**
Net book value as of December 31, 2010	**7,637**	**191,623**	**1,781**	**20,212**	**13,701**	**272**	**235,226**
Net book value as of December 31, 2009	**7,384**	**194,125**	**2,105**	**24,340**	**17,098**	**411**	**245,463**

* Reclassification of foreclosed properties presented as other assets under IAS 2 "Inventories" (see also Note **3**)

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

In 2011 Management of the Bank assesses the real estate market as relatively stable compared to 2010 and no material changes in market prices have occurred. Based on that, no revaluation is recognized on entire class of properties as of December 31, 2011.

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

31. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2010	**77,110**
Additions	11,842
Write offs	-
Disposals	-
As of December 31, 2011	88,952
Depreciation	
As of December 31, 2010	**46,045**
Depreciation charge	11,173
Impairment due to obsolescence	-
Write offs	-
As of December 31, 2011	**57,218**
Net book value as of December 31, 2011	**31,734**
Net book value as of December 31, 2010	**31,065**

In thousands of BGN

Cost	
As of December 31, 2009	**98,607**
Additions	6,660
Write offs	(28,157)
Disposals	-
As of December 31, 2010	**77,110**
Depreciation	
As of December 31, 2009	**63,784**
Depreciation charge	10,405
Impairment due to obsolescence	13
Write offs	(28,157)
As of December 31, 2010	**46,045**
Net book value as of December 31, 2010	**31,065**
Net book value as of December 31, 2009	**34,823**

32. Current tax

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2011 and December 31, 2010. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Based on that as of December 31, 2010 Bank is in net prepaid position with regard to corporate income tax in the amount of BGN 3,467, presented as current tax assets. As of December 31, 2011 Bank has net liability position in the amount of BGN 6,218 thousand, presented as current tax liabilities.

33. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2011 and December 31, 2010 is as outlined below:

In thousands of BGN

	ASSETS		LIABILITIES		NET	
	2011	2010	2011	2010	2011	2010
Property, plant and intangible assets	(30)	(30)	15,681	17,956	15,651	17,926
Available for sale investments	(1,352)	(1,167)	2,156	1,977	804	810
Provisions	(1,595)	(1,117)	-	-	(1,595)	(1,117)
Cash flow hedge	(445)	(254)	445	254	-	-
Other liabilities	(3,542)	(3,734)	-	-	(3,542)	(3,734)
Net tax (assets) liabilities	**(6,964)**	**(6,302)**	**18,282**	**20,187**	**11,318**	**13,885**

The movements of deferred tax assets and liabilities on net basis throughout 2011 are as outlined below:

	BALANCE 2010	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 2011
Property, plant and equipment	17,926	(2,275)	-	15,651
Available for sale investments	810	179	(185)	804
Provisions	(1,117)	(478)	-	(1,595)
Cash flow hedge	-	191	(191)	-
Other liabilities	(3,734)	192	-	(3,542)
Net tax (assets) liabilities	**13,885**	**(2,191)**	**(376)**	**11,318**

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

Bank presents as non-current assets and disposal group held for sale only properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends. The breakdowns as of December 31, 2011 and December 31, 2010 are as follows:

In thousands of BGN

	2011	2010
Land	650	-
Buildings	147	21
Total non-current assets held for sale	**797**	**21**

35. Other assets

In thousands of BGN

	2011	2010
Receivables and prepayments	19,192	15,244
Receivables from the State Budget	8	104
Materials, spare parts and consumables	1,499	1,266
Other assets	5,832	5,689
Foreclosed properties	20,914	4,613
Total other assets	**47,445**	**26,916**

36. Financial liabilities held for trading

In thousands of BGN

	2011	2010
Interest rate swaps	60,571	38,869
FX forward contracts	18,913	21,324
Equity options	182	1,766
Other options	22	198
FX options	-	1
FX swaps	38	29
Commodity swaps	8,660	130
Total trading liabilities	**88,386**	**62,317**

37. Deposits from banks

In thousands of BGN

	2011	2010
Current accounts and overnight deposits		
Local banks	142,383	238,159
Foreign banks	575,211	665,387
	717,594	**903,546**
Deposits		
Local banks	130,878	126,254
Foreign banks	1,303,412	1,480,402
	1,434,290	**1,606,656**
Liabilities under repurchase agreements	**-**	**30,310**
Other	**12,449**	**12,511**
Total deposits from banks	**2,164,333**	**2,553,023**

38. Deposits from customers

In thousands of BGN

	2011	2010
Current accounts and overnight deposits		
Individuals	569,632	533,317
Corporate	1,926,831	1,705,400
Budget and State companies	172,144	159,554
	2,668,607	**2,398,271**
Term deposits		
Individuals	2,521,459	2,337,207
Corporate	1,484,450	1,194,654
Budget and State companies	113,700	160,253
	4,119,609	**3,692,114**
Saving accounts	**471,393**	**407,670**
Transfers in execution process	**34,057**	**42,324**
Other	**-**	**145**
Total deposits from customers	**7,293,666**	**6,540,524**

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

As of December 31, 2011 and December 31, 2010 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

As of December 31, 2011 the total amount of BGN 216,710 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, 2011
November 26, 2004	10 years	19,558	25,260
December 20, 2004	10 years	19,558	25,292
February 3, 2005	10 years	25,426	32,039
August 2, 2005	10 years	29,337	36,166
November 19, 2008	10 years	97,792	97,953
Total		**191,671**	**216,710**

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

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

40. Provisions

Balances of provisions as of December 31, 2011 and December 31, 2010 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, 2010	**20,305**	**7,282**	**3,286**	**2,963**	**430**	**34,266**
Allocations	-	5,046	634	-	293	5,973
Releases	-	(405)	-	(508)	-	(913)
Additions due to FX revaluation	9,451	3,317	-	-	-	12,768
Releases due to FX revaluation	(9,086)	(3,190)	-	-	-	(12,276)
Utilization	-	(33)	(270)	(379)	(224)	(906)
Balance as of December 31, 2011	**20,670**	**12,017**	**3,650**	**2,076**	**499**	**38,912**

(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, 2011 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 20,670 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, 2011 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 12,017 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 2011 Defined benefit obligation are as follows:

- Discount rate – 5.28%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63, women 60 for 2011 and increase by 4 months each year until we get 65 for men and 63 for women

The movement of the defined benefit obligation for year ended 2011 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2010	**3,286**
Current service costs for 2011	347
Interest cost for 2011	224
Amortisation of actuarial (gains) loss	63
Benefits paid	(270)
Recognized defined benefit obligation as of December 31, 2011	**3,650**
Unrecognized actuarial loss as of December 31, 2011	154
Interest rate Beginning of the year	5.8%
Interest rate End of the year	5.28%
Future increase of salaries	5.0%
Expected 2012 service costs	297
Expected 2012 interest costs	188
Amortization of actuarial loss	-
Expected 2012 benefit payments	**608**

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

(d) Provisions on constructive obligation

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

As of December 31, 2011 and December 31, 2010 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 2011 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 508 thousand.

(e) Other provision

Other provisions in the amount of BGN 499 thousand (BGN 430 thousand in 2010) relates to coverage of claims related to credit cards business as well as other claims.

41. Other liabilities

In thousands of BGN

	2011	2010
Liabilities to the State budget	4,408	4,723
Liabilities to personnel	22,898	20,707
Liabilities for unused paid leave	6,331	6,786
Dividends	414	331
Incentive plan liabilities	1,202	822
Other liabilities	31,525	32,201
Total other liabilities	**66,778**	**65,570**

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 2011 and 2010 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 the Bank has to pay should the labour contracts with the employees had been terminated as of December 31, 2011 and December 31, 2010, 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.

42. Equity

a) Share capital

As of December 31, 2011 share capital comprises of 285,776,647 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

As described in **3 (p) (i)** in 2011 General Meeting of Shareholders of UniCredit Bulbank AD approved capital increase through cash contributions in total amount of BGN 158,744 thousand comprising of 21,865,500 new ordinary shares with issuing price BGN 7.26 each. The capital increase was effectively completed and registered in December 2011.

b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The share-premium of newly issued ordinary shares are also allocated into statutory reserves (see **42 a**) above)

c) Retained earnings

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

d) Revaluation reserves

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

43. Contingent liabilities

In thousands of BGN

	2011	2010
Letters of credit and letters of guarantee	901,858	729,562
Credit commitments	1,170,899	1,139,353
Total contingent liabilities	**2,072,757**	**1,868,915**

a) Memorandum items

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

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

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

As of December 31, 2011 and December 31, 2010 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

b) Litigation

As of December 31, 2011 there are open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Litigation claims provided for in these financial statements as of December 31, 2011 are in the amount of BGN 12,017 thousand (BGN 7,282 thousand in 2010).

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, 2011 and December 31, 2010 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

	2011	2010
Securities pledged for budget holders' account service	274,647	265,302
Securities pledged on REPO deals	3,748	27,886
Securities pledged on other deals	76,058	69,171
Blocked deposit on other deals	-	471
	354,453	**362,830**
Pledged securities include		
Assets held for trading	3,748	70,355
Assets designated at fair value through profit or loss	71	11,197
Available for sale assets	273,050	145,007
Assets held to maturity	77,584	107,914
	354,453	**334,473**

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

45. Related parties

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

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

The related parties' transactions in terms of statement of financial position items as of December 31, 2011 and Income statement items for the year ended thereafter are as follows:

In thousands of BGN

	ASSETS	LIABILITIES
Financial assets held for trading	38,272	
Available for sale investments	2,781	
Current accounts and deposits placed	1,823,008	
Extended loans	103,204	
Other assets	6,058	
Financial liabilities held for trading		73,325
Derivatives used for hedging		5,940
Current accounts and deposits taken		1,884,554
Subordinated loans		216,710
Other liabilities		1,771
Total	**1,973,323**	**2,182,300**
Guarantees received by the Group	**99,611**	

In thousands of BGN

	INCOME (EXPENSE)
Interest incomes	13,856
Interest expenses	(62,387)
Fee and commissions income	4,486
Fee and commissions expenses	(137)
Administrative and personnel expenses	(8,747)
Other operating income	86
	(52,843)

As of December 31, 2011 the loans extended to key management personnel amount to BGN 1,262 thousand. For the twelve months ended December 31, 2011 the compensation paid to key management personnel amounts to BGN 3,498 thousand.

46. Cash and cash equivalents

In thousands of BGN

	2011	2010
Cash in hand and in ATM	125,902	101,689
Cash in transit	23,767	28,934
Current account with the Central Bank	737,034	744,035
Current accounts with banks	14,784	36,344
Receivables under repurchase agreements	-	84,038
Placements with banks with original maturity less than 3 months	671,932	1,578,136
Total cash and cash equivalents	**1,573,419**	**2,573,176**

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

47. Leasing

Bank has concluded numerous operating 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 and cars.

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

In thousands of BGN

	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
RESIDUAL MATURITY	2011	2010	2011	2010
Up to one year	-	141	-	135
Between one and five years	-	10	-	9
Total	**-**	**151**	**-**	**144**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT 2011	2010
Up to one year	12,279	12,850
Between one and five years	26,004	31,135
Beyond five years	7,127	6,718
Total	**45,410**	**50,703**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT 2011	2010
Up to one year	412	290
Between one and five years	614	274
Beyond five years	53	67
Total	**1,079**	**631**

48. Group entities

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2011 and December 31, 2010 the ultimate parent company is UniCredito Italiano S.p.A.

Sponsoring a great orchestra for a great cause

The Great Orchestra of Christmas Charity, WOSP, is one of Poland's most famous charitable foundations. Donations collected by WOSP the whole year long are used to purchase medical equipments for sick children. Orchestra's public fund raises activity peaks at the day of the Final, when WOSP organizes different events: concerts, games, happenings across Poland, and world-wide. It is a long term commitment lasting now 14 years. And always, Bank Pekao not only donates considerable amount, but furthermore, over a thousand of Pekao employees volunteers at the day of the Final, and many, many more make personal donations to this good cause. Bank Pekao is finding concrete ways to help those in need.

20th Finale of the WOSP in the TV Studio, Bank Pekao colleagues are counting money collected by WOSP volunteers

Consolidated Financial Statements

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
UniCredit Bulbank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Independet Auditors' Report (continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

As required under the Accountancy Act, we report that the consolidated historical financial information disclosed in the annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated financial statements of the Bank as of and for the year ended 31 December 2011. 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 6 March 2012.

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 6 March 2012

София
Рег. №045
КПМГ - България ООД

Income Statement

In thousands of BGN

	Notes	2011	2010
Interest income		653,175	634,760
Interest expense		(207,587)	(205,811)
Net interest income	7	**445,588**	**428,949**
Dividend income		**1,196**	**133**
Fee and commission income		176,274	164,584
Fee and commission expense		(9,032)	(9,050)
Net fee and commission income	8	**167,242**	**155,534**
Net gains (losses) on financial assets and liabilities held for trading	9	16,332	(793)
Net gains (losses) on other financial assets designated at fair value through profit or loss	10	(1,603)	5,819
Net income from investments	11	10,352	16,693
Other operating income, net	12	6,087	5,962
TOTAL OPERATING INCOME		**645,194**	**612,297**
Net income related to property, plant and equipment	13	2,774	270
Personnel expenses	14	(99,845)	(96,925)
General and administrative expenses	15	(114,444)	(112,508)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(34,866)	(36,377)
Provisions for risk and charges	17	(4,426)	3,336
Net impairment loss on financial assets	18	(136,592)	(185,369)
PROFIT BEFORE INCOME TAX		**257,795**	**184,724**
Income tax expense	19	(24,937)	(18,019)
PROFIT FOR THE PERIOD		**232,858**	**166,705**

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KPMG Bulgaria OOD

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Margarita Goleva
Registered auditor

София
Рег. №045

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

Statement of Comprehensive Income

in thousands of BGN

	Notes	2011	2010
Profit for the period		232,858	166,705
Other comprehensive income:			
Available for sale investments		(1,846)	6,876
Cash flow hedge		(1,906)	(4,299)
Income tax relating to components of other comprehensive income		376	(259)
Other distribution		(37)	(77)
Total other comprehensive income for the year net of tax		**(3,413)**	**2,241**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**229,445**	**168,946**

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KPMG Bulgaria OOD

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Margarita Goleva
Registered auditor

София
Рег. №045

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Statement of Financial Position

In thousands of BGN

	Notes	2011	2010
ASSETS			
Cash and balances with Central Bank	20	886,704	874,660
Financial assets held for trading	21	129,174	162,160
Derivatives held for trading	22	112,024	56,250
Financial assets designated at fair value through profit or loss	24	79,682	110,545
Loans and advances to banks	25	1,893,784	1,699,214
Loans and advances to customers	26	7,873,628	7,533,400
Available for sale investments	27	383,947	278,732
Held to maturity investments	28	273,247	291,382
Investments in associates	29	32,967	29,218
Property, plant, equipment and investment properties	30	220,841	237,152
Intangible assets	31	31,762	31,097
Current tax assets	32	1	3,471
Deferred tax assets	33	6,995	6,321
Non-current assets and disposal group classified as held for sale	34	797	21
Other assets	35	47,659	27,210
TOTAL ASSETS		**11,973,012**	**11,340,833**
LIABILITIES			
Financial liabilities held for trading	36	88,388	62,317
Derivatives used for hedging	23	8,027	4,527
Deposits from banks	37	2,221,082	2,610,171
Deposits from customers	38	7,287,104	6,535,848
Subordinated liabilities	39	216,710	214,053
Provisions	40	38,912	34,266
Current tax liabilities	32	6,339	60
Deferred tax liabilities	33	18,307	20,193
Other liabilities	41	67,373	66,051
TOTAL LIABILITIES		**9,950,240**	**9,547,506**
EQUITY			
Share capital		285,777	263,911
Revaluation reserves		117,212	132,073
Retained earnings		1,386,925	1,230,638
Profit for the period		232,858	166,705
TOTAL EQUITY	42	**2,022,772**	**1,793,327**
TOTAL LIABILITIES AND EQUITY		**11,973,012**	**11,340,833**

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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, 2010	**239,256**	**51,155**	**1,219,614**	**145,220**	**(16,692)**	**1,581**	**1,640,134**
Profit for the period	-	-	166,705	-	-	-	**166,705**
Transfer of revaluation reserve on non-current assets disposed of	-	-	354	(354)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	6,876	-	**6,876**
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	(4,299)	**(4,299)**
Other distribution	-	-	(77)	-	-	-	**(77)**
Income tax relating to components of other comprehensive income	-	-	-	-	(688)	429	**(259)**
Total other comprehensive income for the year net of tax	**-**	**-**	**277**	**(354)**	**6,188**	**(3,870)**	**2,241**
Total comprehensive income for the year net of tax	**-**	**-**	**166,982**	**(354)**	**6,188**	**(3,870)**	**168,946**
Dividends paid	-	-	(194,753)	-	-	-	**(194,753)**
Increase of capital	24,655	154,345	-	-	-	-	**179,000**
Balance as of December 31, 2010	**263,911**	**205,500**	**1,191,843**	**144,866**	**(10,504)**	**(2,289)**	**1,793,327**
Profit for the period	-	-	232,858	-	-	-	**232,858**
Transfer of revaluation reserve on non-current assets disposed of	-	-	11,485	(11,485)	-	-	-
Change of revaluation reserve on available for sale investments	-	-	-	-	(1,846)	-	**(1,846)**
Change of revaluation reserve on cash flow hedges reserves	-	-	-	-	-	(1,906)	**(1,906)**
Other distribution	-	-	(37)	-	-	-	**(37)**
Income tax relating to components of other comprehensive income	-	-	-	-	185	191	**376**
Total other comprehensive income for the year net of tax	**-**	**-**	**11,448**	**(11,485)**	**(1,661)**	**(1,715)**	**(3,413)**
Total comprehensive income for the year net of tax	**-**	**-**	**244,306**	**(11,485)**	**(1,661)**	**(1,715)**	**229,445**
Dividends paid	-	-	(158,744)	-	-	-	**(158,744)**
Increase of capital	21,866	136,878	-	-	-	-	**158,744**
Balance as of December 31, 2011	**285,777**	**342,378**	**1,277,405**	**133,381**	**(12,165)**	**(4,004)**	**2,022,772**

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

Statement of Cash Flows

in thousands of BGN

	Notes	2011	2010
Net profit		**232,858**	**166,705**
Current and deferred tax income, recognised in income statement		(4,534)	(4,388)
Current and deferred tax expenses, recognised in income statement		29,471	22,407
Adjustments for non-cash items			
Depreciation and amortisation	30,31	33,578	33,954
Impairment	16,18,30,31	142,540	188,380
Provisions, net		5,551	(1,398)
Unrealised fair value gains (losses) through profit or loss, net		(24,216)	(3,249)
Unrealised fair value gains (losses) on FX revaluation		(188)	632
Net (gains)/losses on sale of investments and equity consolidation		(13,218)	(8,977)
Net interest income		(445,588)	(428,949)
Dividend income		(1,196)	(133)
Increase in other accruals		19,328	18,808
Cash flows from profits before changes in operating assets and liabilities		**(25,616)**	**(14,208)**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		(1,205,515)	104,252
(Increase) in loans and advances to customers		(474,823)	(323,520)
Decrease (increase) in available for sale investments		(103,600)	21,646
Decrease (increase) in financial instruments held for trading and hedging derivatives		31,726	(38,654)
Decrease in financial instruments at fair value trough profit or loss		27,389	21,943
(Increase) in other assets		(17,603)	(7,321)
Change in operating liabilities:			
(Decrease) in deposits from banks		(401,146)	(506,036)
Increase in amounts owed to customers		736,920	123,373
Provisions utilization		(1,396)	(900)
Increase in other liabilities		18,096	613
Interest received		652,010	619,278
Interest paid		(201,667)	(202,298)
Dividends received		1,196	133
Taxes paid		(17,559)	(12,366)
Net cash flow from operating activities		**(981,388)**	**(214,065)**
Cash flow from investing activities			
Cash payments to acquire tangible assets		(21,039)	(14,682)
Cash receipt from sale of tangible assets		16,156	1,074
Cash payments to acquire intangible assets		(11,848)	(6,660)
Cash receipt from subsidiaries and associates		6,404	-
Cash receipts from the sale of held to maturity investments		21,807	22,960
Net cash flow from investing activities		**11,480**	**2,692**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2011	2010
Cash flow from financial activities			
Dividends paid		(158,744)	(194,753)
Capital increase		158,744	179,000
Other cash payments related to financing activities		(37)	(77)
Net cash flows from financial activities		**(37)**	**(15,830)**
Effect of exchange rate changes on cash and cash equivalents		**(29,751)**	**2,505**
Net increase in cash and cash equivalents		**(999,696)**	**(224,698)**
Cash and cash equivalents at the beginning of period	46	**2,573,178**	**2,797,876**
Cash and cash equivalents at the end of period	46	**1,573,482**	**2,573,178**

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Notes to Consolidated Financial Statements

1. Reporting entity

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

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address 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 218 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act. They were approved by the Management Board of the Bank on March 6, 2012. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policy

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

- Presentation of foreclosed properties – in accordance with UCI Group updated presentation requirements, acquisition and selling of such properties is deemed ordinary Bank activity thus the respective amounts are presented as **Other assets** under IAS 2 "Inventories";
- Unrealised FX gains/losses on impairment allowances and provisions – in accordance with UCI updated presentation requirements are presented as part of Net gains (losses) on financial assets and liabilities held for trading.

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

In thousands of BGN

DESCRIPTION	2010 PRESENTATION	2011 COMPARATIVE PRIOR YEAR PRESENTATION	AMOUNT
Foreclosed properties	Property, plant, equipment and investment properties	Other assets	4,613
Unrealised FX gains/losses on provisions	Provision for risk and charges	Net gains (losses) on financial assets and liabilities held for trading	1,379
Unrealised FX gains/losses on impairment allowances	Net impairment loss on financial assets	Net gains (losses) on financial assets and liabilities held for trading	270

(a) Basis of consolidation

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

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. For more detailed information on applying equity method on associates see also note **29**.

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.0%	Full consolidation
Hypovereins Immobilien EOOD	100.0%	Full consolidation
UniCredit Consumer Financing AD	49.9%	Equity method
UniCredit Leasing AD	24.4%	Equity method
Cash Service Company AD	20.0%	Equity method
Prelios Bulgaria AD (in liquidation)	25.0%	Equity method

(b) Interest income and expense

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

Interest income and expense presented in the Income statement include:

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

(c) Fee and commission income and expenses

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

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

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

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

(e) Foreign currency transactions

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

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

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

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

(g) Dividend income

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

(h) Lease payments made

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

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

(i) Financial instruments

(i) Recognition

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

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

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

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

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

d) Loans and advances to banks and customers

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

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

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

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

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

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

h) Deposits from banks, customers and subordinated liabilities

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

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

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on the 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 instruments at a certain date in the future at a fixed price. Instruments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. Financial instruments sold under repurchase agreements continue to be recognized in the statement of financial position and measured in accordance with the accounting policy. The proceeds from the sale of the investments are reported in the statement of financial position under deposits from customers or banks, respectively. The difference between the sale and repurchase consideration is recognised on an accrual basis over agreed term of the deal and is included in net interest income.

(j) Impairment

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

- for loans and receivables – by the end of each month for the purposes of preparing interim financial statements reported to the Bulgarian National Bank and Management;
- for available for sale 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. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

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

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

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

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

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

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

(k) Derivatives used for hedging

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

(l) Property, plant, equipment and investment property

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

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

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

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

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

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

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

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

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

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

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2011 and December 31, 2010 intangible assets includes primarily investments in software and related licenses.

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

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

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

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

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2011 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments as well as stock options and performance share granted by the ultimate parent 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 ends UniCredit Bulbank is required to settle the monetary amount, corresponding to the economic value of the respective instruments.

As of December 31, 2011 and December 31, 2010 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

As described in Note 1, HVB Bank Biochim AD and Hebros Bank AD merged into Bulbank AD legally as of April 27th, 2007 with retroactive effect for accounting purposes since January 1st, 2007. At the time of the merger the three merging entities were under direct control of 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 as of the date of the merger was in the amount of BGN 239,256 thousand and comprise of the share capital of Bulbank AD before the merger in the amount of BGN 166,370 thousand, increased by the newly issued ordinary shares exchanged for the ordinary shares of the merging Banks HVB Bank Biochim AD and Hebros Bank AD (increase in the amount of BGN 72,886 thousand).

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

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

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as revaluation reserves on property, available for sale investments and cash flow hedge reserve. As of December 31, 2011 and December 31, 2010 the reserves includes also the premium of newly issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

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

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

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

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

(s) Segment reporting

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.

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

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (issued October 2010) – effective from the first financial year that starts after 1 July 2011.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, generally 1 January 2011

IASB/IFRIC documents not yet endorsed by EC:

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 EC.

- IFRS 9 Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.

- In May 2011 the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of Interests in Other Entities and IFRS 13 Fair Value Measurement, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued December 2010) has an effective date 1 July 2012.
- In June 2011 the IASB issued Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 Employee Benefits with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities with an effective date of 1 January 2014.
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine with an effective date of 1 January 2013.

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

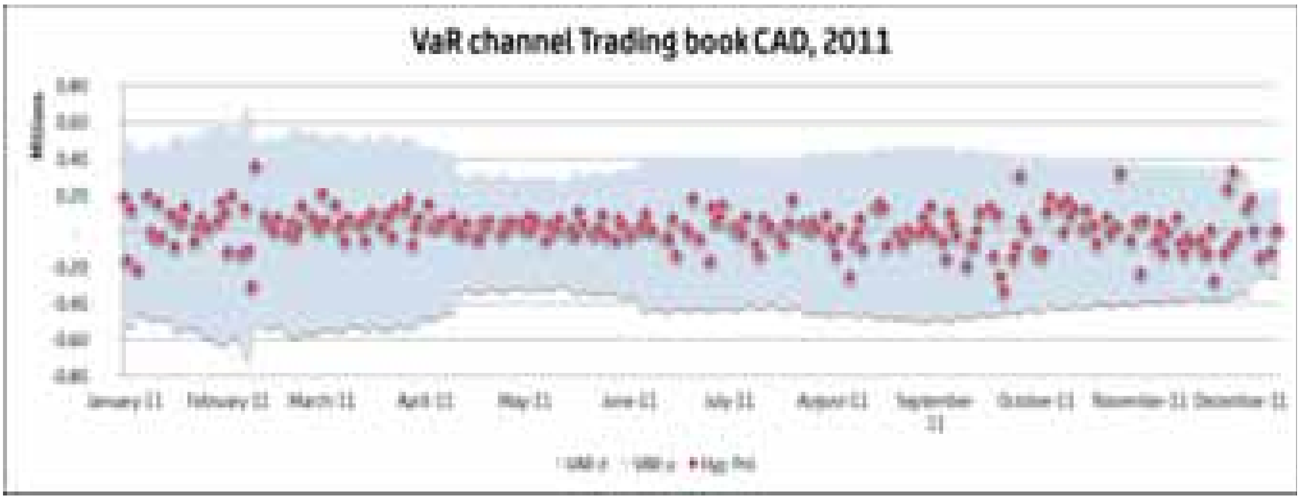
The operational risk governance system of UCB is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee.

(b) Market risks

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

Market risk management in UniCredit Bulbank 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 sensitivity and position limits. Additional element is the loss-warning level limit, providing early indication of any accumulation of position losses.



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

During 2011 for the Bank stand alone, VaR (1 day holding period, confidence interval of 99%) moved in a range between EUR 2.41 million and EUR 5.22 million, averaging EUR 3.44 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books.

VaR of UniCredit Bulbank AD (stand alone) by risk category in EUR million for 2011 is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	2.11	5.42	2.64	2.42
Credit spread	1.73	3.08	2.30	2.25
Exchange rate risk	0.00	0.02	0.01	0.02
Vega risk	0.00	0.01	0.00	0.00
VaR overall	**2.41**	**5.22**	**3.44**	**3.28**

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 2011 confirm the reliability of used internal model.

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

The following sensitivities' table provides summary of the interest rate risk exposure of UniCredit Bulbank AD (stand alone trading and banking book) as of December 30, 2011 (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	2,741	13,929	(13,998)	(33,641)	(311)	(31,279)
CHF	(412)	1,136	(23)	(146)	3	557
EUR	9,541	13,693	1,680	16,052	(155)	40,811
GBP	(143)	(138)	7	-	-	(274)
USD	(857)	764	(12,630)	(241)	-	(12,964)
AUD	3	-	-	-	-	3
Total sensitivity[1]	**13,698**	**29,660**	**28,338**	**50,079**	**469**	**85,889**

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

Issuer/Risk factor	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y+	Long	Short	Sum
MARKIT_CONSUMER_GOODS_B_CDS	6	-44	-84			-146		-146
MARKIT_FINANCIAL_B_CDS	19	2,228				2,249		2,249
MARKIT_GOVERNMENT_BB_CDS	1	29	187	15		220		220
CDS_SUPRANATIONALS	-4	2,213	1,188			3,394		3,394
TRSBG_AT	8	329	278			614		614
TRSBG_BG_CDS	171	9,227	41,083	37,278	38	87,989		87,989
TRSBG_IT	8	242	481	5		946		946
TRSBG_RO	46	71				111		111
TRSBG_TR		237				237		237
UNICREDITO_ITALIANO_CDS	8	135	3			144		144
Sum	-234	-14,646	-43,083	-37,309	-38	-95,605	0	-95,605
Total	234	14,646	43,083	37,309	38	95,605	0	95,605

Measured by the total basis-point value, the credit spread position of UniCredit Bulbank as of December 31, 2011 totalled EUR 95,605. Treasury-near instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively lower.

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 2011 the Bank's Management continued vigilant risk management practices by limiting risk taking and focus on client-driven business.

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

As of December 31, 2011 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

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

As of December 31, 2010 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central bank	865,666	8,994	**874,660**
Financial assets held for trading	161,270	890	**162,160**
Derivatives held for trading	55,020	1,230	**56,250**
Financial assets designated at fair value through profit or loss	102,278	8,267	**110,545**
Loans and advances to banks	1,678,757	20,457	**1,699,214**
Loans and advances to customers	7,361,256	172,144	**7,533,400**
Available for sale Investments	278,732	-	**278,732**
Held to maturity Investments	126,603	164,779	**291,382**
Investments in associates	29,218	-	**29,218**
Property, plant, equipment and investment properties	237,152	-	**237,152**
Intangible assets	31,097	-	**31,097**
Current tax assets	3,471	-	**3,471**
Deferred tax assets	6,321	-	**6,321**
Non-current assets and disposal group classified as held for sale	21	-	**21**
Other assets	27,068	142	**27,210**
TOTAL ASSETS	**10,963,930**	**376,903**	**11,340,833**
LIABILITIES			
Financial liabilities held for trading	61,166	1,151	**62,317**
Derivatives used for hedging	2,313	2,214	**4,527**
Deposits from banks	2,472,110	138,061	**2,610,171**
Deposits from customers	5,933,688	602,160	**6,535,848**
Subordinated liabilities	214,053	-	**214,053**
Provisions	15,579	18,687	**34,266**
Current tax liabilities	80	-	**80**
Deferred tax liabilities	20,193	-	**20,193**
Other liabilities	64,735	1,316	**66,051**
TOTAL LIABILITIES	**8,783,917**	**763,589**	**9,547,506**
EQUITY	**1,793,327**	**-**	**1,793,327**
Net off-balance sheet spot and forward position	**(395,590)**	**388,523**	**(7,067)**
Net position	**(8,904)**	**1,837**	**(7,067)**

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

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 the contractual one (deposits are consistently rolled over).

In thousands of BGN

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2010	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**2,610,171**	**(2,664,311)**	(1,359,054)	(51,272)	(367,904)	(886,081)
Deposits from customers	**6,535,848**	**(6,581,367)**	(2,179,937)	(1,755,287)	(1,505,458)	(1,140,685)
Subordinated liabilities	**214,053**	**(256,571)**	-	-	-	(256,571)
Issued financial guarantee contracts	**20,305**	**(20,305)**	-	-	-	(20,305)
Unutilized credit lines	**-**	**(1,121,434)**	(16,822)	-	(207,465)	(897,147)
Total non-derivative instruments	**9,380,377**	**(10,643,988)**	**(3,555,813)**	**(1,806,559)**	**(2,080,827)**	**(3,200,789)**
Trading derivatives, net	**(6,067)**					
Outflow		**(1,660,814)**	(877,963)	(257,113)	(247,955)	(277,783)
Inflow		**1,655,186**	869,295	254,966	251,301	279,624
Derivatives used for hedging, net	**4,527**					
Outflow		**(12,342)**	(2,286)	(107)	(1,394)	(8,555)
Inflow		**7,865**	518	46	898	6,403
Total derivatives	**(1,540)**	**(10,105)**	**(10,436)**	**(2,208)**	**2,850**	**(311)**
Total financial liabilities	**9,378,837**	**(10,654,093)**	**(3,566,249)**	**(1,808,767)**	**(2,077,977)**	**(3,201,100)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2011 and December 31, 2010 is as shown in the next table:

In thousands of BGN

	2011	2010
Government bonds		
Rated BBB	42,180	18,159
Rated BBB+	40,206	45,824
Bonds of credit institutions		
Rated AAA	45,609	35,949
Rated BB	-	35,176
Corporate bonds		
Rated BB	1,179	22,277
Unrated	-	3,093
Equities	-	1,682
Derivatives (net)		
Banks and financial institution counterparties	(34,227)	(45,425)
Corporate counterparties	57,865	39,358
Total trading assets and liabilities	**152,812**	**156,093**

(ii) Credit risk in the banking book

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

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

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

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

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

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

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

As of December 31, 2011 and December 31, 2010 the Bank has fulfilled all statutory lending limits.

The table below analyses the breakdown of impairment allowances as of December 31, 2011 and December 31, 2010:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	2011	2010	2011	2010	2011	2010
Individually impaired	1,058,097	779,072	620,811	474,306	437,286	304,766
Collectively impaired	6,700,380	6,767,724	58,876	109,010	6,641,504	6,658,714
Past due but not impaired	165,000	39,204	-	-	165,000	39,204
Past due comprises						
from 31 to 90 days	*11,608*	*1,440*	-	-	*11,608*	*1,440*
from 91 to 180 days	*40,651*	*7,829*	-	-	*40,651*	*7,829*
over 181 days	*112,741*	*29,935*	-	-	*112,741*	*29,935*
	165,000	*39,204*	-	-	*165,000*	*39,204*
Neither past due nor impaired	629,838	530,716	-	-	629,838	530,716
Total	**8,553,315**	**8,116,716**	**679,687**	**583,316**	**7,873,628**	**7,533,400**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	2011	2010
Against individually impaired		
Cash collateral	187	143
Property	960,474	775,930
Other collateral	2,397,852	1,934,880
Against collectively impaired		
Cash collateral	22,628	18,223
Property	7,892,022	9,661,502
Debt securities	119	10,021
Other collateral	16,975,705	17,221,236
Against past due but not impaired		
Cash collateral	387	325
Property	455,867	124,586
Debt securities	13	13
Other collateral	496,152	89,998
Neither past due nor impaired		
Cash collateral	75,137	87,777
Property	1,714,861	1,711,043
Debt securities	10,020	79,079
Other collateral	889,509	620,807
Total	**31,890,933**	**32,335,563**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	2011	2010	2011	2010	2011	2010
Concentration by sectors						
Sovereign	64,010	59,253	-	-	629,358	526,122
Manufacturing	1,727,089	1,622,898	-	-	-	-
Commerce	1,808,209	1,669,173	-	-	-	-
Construction and real estate	1,507,602	1,409,335	-	-	-	-
Agriculture and forestry	161,230	149,096	-	-	-	-
Transport and communication	223,761	289,222	-	-	-	-
Tourism	153,742	174,127	-	-	-	-
Services	282,118	229,533	-	-	-	-
Financial services	204,604	171,897	1,893,784	1,699,214	60,803	73,210
Retail (individuals)						
Housing loans	1,645,838	1,574,778	-	-	-	-
Consumer loans	775,112	767,404	-	-	-	-
	8,553,315	**8,116,716**	**1,893,784**	**1,699,214**	**690,161**	**599,332**
Impairment allowances	(679,687)	(583,316)	-	-	-	-
Total	**7,873,628**	**7,533,400**	**1,893,784**	**1,699,214**	**690,161**	**599,332**
Concentration by geographic location						
Europe	8,511,458	8,115,082	1,888,189	1,685,793	676,135	585,403
North America	135	97	2,404	4,691	3,031	2,951
Asia	941	1,377	3,009	8,513	10,995	10,978
Africa	46	46	-	-	-	-
South America	38	22	-	-	-	-
Australia	40,697	92	182	217	-	-
	8,553,315	**8,116,716**	**1,893,784**	**1,699,214**	**690,161**	**599,332**
Impairment allowances	(679,687)	(583,316)	-	-	-	-
Total	7,873,628	**7,533,400**	1,893,784	**1,699,214**	690,161	**599,332**

(e) Operational Risk

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

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

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

In February 2011 UniCredit Bulbank was officially authorized by Bank of Italy to apply the Advanced Measurement Approach (AMA) for its capital calculation of operational risk, making it the first bank in Bulgaria certified to use AMA. Activities during the year focused primarily on maintaining the high level of quality of the operational risk system. As part of the annual validation activities related to the AMA use in the Bank, control verifications by UniCredit Group Internal Validation and UCB Internal Audit took place. Based on these independent assessments, the operational risk management and control system was found sound and well developed.

(f) Basel II disclosure

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

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

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

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

The authorization is an international acknowledgement of the Bank's competence to use its internal models and estimates for the calculation of capital requirements and it follows a detailed and rigorous verification of this ability by both the Bank of Italy and the Bulgarian National Bank.

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

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

Applicable calculation techniques for capital requirements for credit risk, market risk and operational risk for the years ended December 31, 2011 and December 31, 2010 is as follows:

	2011	2010 (RECALCULATED)	2010 (REPORTED)
Credit risk requirements			
Exposures to:			
Corporate clients	F-IRB	F-IRB	STA
Banks	F-IRB	F-IRB	STA
SME clients, individuals and other clients	STA	STA	STA
Other exposures	STA	STA	STA
Market risk requirements	**STA**	**STA**	**STA**
Operational risk requirements	**AMA**	**AMA**	**STA**

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

(i) Capital base (own funds)

Capital base (own funds) eligible for regulatory purposes include Tier I and Tier II capital as defined by Bulgarian National Bank. The data as of prior year has been recalculated for comparative reasons as if the F-IRB Approach has been also applied as of December 31, 2010.

As of December 31, 2011 and December 31, 2010 the consolidated Capital base of UniCredit Bulbank AD comprises as follows:

In thousands of BGN

	2011	2010 (RECALCULATED)
Share capital	285,777	263,911
Statutory reserve	342,378	205,500
Retained earnings	1,027,418	1,019,309
Total capital and reserves	**1,655,573**	**1,488,720**
Deductions		
Unrealized loss on available-for-sale instruments	(14,030)	(11,955)
Intangible assets	(31,759)	(31,092)
Total deductions	**(45,789)**	**(43,047)**
Total Tier I capital	**1,609,784**	**1,445,673**
Revaluation reserve on real estate properties occupied by the Bank	122,324	137,368
Subordinated long-term debt	146,296	165,072
Total Tier II capital	**268,620**	**302,440**
Additional deductions from Tier I and Tier II capital	(77,794)	(43,136)
Total Capital base (Own funds)	**1,800,610**	**1,704,977**

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

(ii) Capital requirements

As of December 31, 2011 and December 31, 2010 the capital requirements for credit, market and operational risks are as follows:

In thousands of BGN

	2011	2010 (RECALCULATED)
Capital requirements for credit risk		
Exposures under standardized approach	197,517	215,962
Exposures under FIRB	413,344	401,918
Total capital requirements for credit risk	**610,861**	**617,880**
Capital requirements for market risk	9,380	11,558
Capital requirements for operational risk AMA	69,077	53,180
Additional requirement for operational risk		12,954
Total capital requirements for operational risk	**69,077**	**66,134**
Total capital requirements for credit, market and operational risk	689,318	**695,572**
Additional capital requirements subject to National discretions from the Regulator	**344,659**	**347,786**
Total regulatory capital requirements	**1,033,977**	**1,043,358**
Capital Base (Own funds)	**1,800,610**	**1,704,977**
there off Tier I	1,570,887	1,424,105
Free equity (Own funds)	**766,633**	**661,619**
Total capital adequacy ratio	**20.90%**	**19.61%**
Tier I ratio	**18.23%**	**16.38%**

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

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

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

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

5. Use of estimates and judgement

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments carried at fair value by valuation method applied by the Bank as of December 31, 2011 and December 31, 2010.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial assets held for trading	-	-	127,996	136,790	1,178	25,370	129,174	25,370
Derivatives held for trading	-	-	112,024	56,250	-	-	112,024	-
Financial assets designated at fair value through profit or loss	-	-	8,363	19,912	71,319	90,633	79,682	90,633
Available for sale Investments	300	-	367,895	266,906	15,752	11,826	383,947	11,826
	300	**-**	**616,278**	**479,858**	**88,249**	**127,829**	**704,827**	**127,829**
Financial liabilities held for trading	-	-	88,386	62,317	-	-	88,386	-
Derivatives used for hedging	-	-	6,027	4,527	-	-	6,027	-
	-	**-**	**94,413**	**66,844**	**-**	**-**	**94,413**	**-**
Total	**300**	**-**	**710,691**	**546,702**	**88,249**	**127,829**	**799,240**	**127,829**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2011 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2011)	**25,370**	**90,633**	**11,826**
Increases	**2,883**	**5,117**	**3,989**
Purchases	-	-	3,924
Profit recognized in income statement	2,883	2,837	65
Transfer from other levels	-	2,280	-
Decreases	**(27,075)**	**(24,431)**	**(63)**
Sales	(26,500)	(20,000)	-
Redemption	(425)	(491)	-
Loses recognized in income statement	(150)	(3,940)	(7)
Transfers to other levels	-	-	(56)
Closing balance (December 31, 2011)	**1,178**	**71,319**	**15,752**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2011 and December 31, 2010.

In thousands of BGN

DECEMBER 2011	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIV.	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	886,704	886,704	886,704
Financial assets held for trading	129,174	-	-	-	-	-	129,174	129,174
Derivatives held for trading	112,024	-	-	-	-	-	112,024	112,024
Financial assets designated at fair value through profit or loss	79,682	-	-	-	-	-	79,682	79,682
Loans and advances to banks	-	-	1,893,784	-	-	-	1,893,784	1,887,542
Loans and advances to customers	-	-	7,873,628	-	-	-	7,873,628	7,873,667
Available for sale Investments	-	-	-	383,947	-	-	383,947	383,947
Held to maturity Investments	-	273,247	-	-	-	-	273,247	281,772
TOTAL ASSETS	**320,880**	**273,247**	**9,767,412**	**383,947**	**-**	**886,704**	**11,632,190**	**11,634,512**
LIABILITIES								
Financial liabilities held for trading	88,386	-	-	-	-	-	88,386	88,386
Derivatives used for hedging	-	-	-	-	6,027	-	6,027	6,027
Deposits from banks	-	-	-	-	-	2,221,082	2,221,082	2,223,007
Deposits from customers	-	-	-	-	-	7,287,104	7,287,104	7,313,735
Subordinated liabilities	-	-	-	-	-	216,710	216,710	216,710
TOTAL LIABILITIES	**88,386**	**-**	**-**	**-**	**6,027**	**9,724,896**	**9,819,309**	**9,847,865**

In thousands of BGN

DECEMBER 2010	FAIR VALUE THROUGH PROFIT OR LOSS	HELD-TO-MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS								
Cash and balances with Central bank	-	-	-	-	-	874,660	874,660	874,660
Financial assets held for trading	162,160	-	-	-	-	-	162,160	162,160
Derivatives held for trading	56,250	-	-	-	-	-	56,250	56,250
Financial assets designated at fair value through profit or loss	110,545	-	-	-	-	-	110,545	110,545
Loans and advances to banks	-	-	1,699,214	-	-	-	1,699,214	1,699,214
Loans and advances to customers	-	-	7,533,400	-	-	-	7,533,400	7,533,338
Available for sale Investments	-	-	-	278,732	-	-	278,732	278,732
Held to maturity Investments	-	291,382	-	-	-	-	291,382	306,771
TOTAL ASSETS	**328,955**	**291,382**	**9,232,614**	**278,732**	**-**	**874,660**	**11,006,343**	**11,021,670**
LIABILITIES								
Financial liabilities held for trading	62,317	-	-	-	-	-	62,317	62,317
Derivatives used for hedging	-	-	-	-	4,527	-	4,527	4,527
Deposits from banks	-	-	-	-	-	2,610,171	2,610,171	2,619,587
Deposits from customers	-	-	-	-	-	6,535,848	6,535,848	6,564,799
Subordinated liabilities	-	-	-	-	-	214,053	214,053	214,053
TOTAL LIABILITIES	**62,317**	**-**	**-**	**-**	**4,527**	**9,360,072**	**9,426,916**	**9,465,283**

(b) Impairment of financial instruments

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

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

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

(c) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2011	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	208,699	221,488	15,401	445,588
Dividend income	-	98	1,098	1,196
Net fee and commission income	95,175	72,453	(386)	167,242
Net gains (losses) from financial assets and liabilities held for trading	141	24,984	(8,793)	16,332
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	(1,603)	-	(1,603)
Net income from investments	-	214	10,138	10,352
Other operating income	(140)	1,487	4,740	6,087
TOTAL OPERATING INCOME	**303,875**	**319,121**	**22,198**	**645,194**
Personnel expenses	(41,633)	(14,319)	(43,893)	(99,845)
General and administrative expenses	(72,325)	(20,168)	(21,951)	(114,444)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17,420)	(3,103)	(14,343)	(34,866)
Total direct expenses	(131,378)	(37,590)	(80,187)	(249,155)
Allocation of indirect and overhead expenses	(47,317)	(27,537)	74,854	-
TOTAL OPERATING EXPENSES	**(178,695)**	**(65,127)**	**(5,333)**	**(249,155)**
Provisions for risk and charges	-	-	(4,426)	(4,426)
Net impairment loss on financial assets	(41,937)	(94,105)	(550)	(136,592)
Net income related to property, plant and equipment	-	-	2,774	2,774
PROFIT BEFORE INCOME TAX	**83,243**	**159,889**	**14,663**	**257,795**
Income tax expense	-	-	(24,937)	(24,937)
PROFIT FOR THE PERIOD	**83,243**	**159,889**	**(10,274)**	**232,858**
ASSETS	**3,118,385**	**7,783,877**	**1,070,750**	**11,973,012**
LIABILITIES	**3,782,780**	**3,794,204**	**2,373,256**	**9,950,240**

In thousands of BGN

DECEMBER 2010	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	208,389	241,542	(20,982)	428,949
Dividend income	-	103	30	133
Net fee and commission income	88,805	67,096	(367)	155,534
Net gains (losses) from financial assets and liabilities held for trading	91	(361)	(523)	(793)
Net gains (losses) from other financial assets designated at fair value through profit or loss	-	5,819	-	5,819
Net income from investments	-	-	16,693	16,693
Other operating income	(108)	784	5,286	5,962
TOTAL OPERATING INCOME	**297,177**	**314,983**	**137**	**612,297**
Personnel expenses	(41,188)	(15,057)	(40,680)	(96,925)
General and administrative expenses	(74,799)	(19,843)	(17,866)	(112,508)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(18,194)	(3,294)	(14,889)	(36,377)
Total direct expenses	**(134,181)**	**(38,194)**	**(73,435)**	**(245,810)**
Allocation of indirect and overhead expenses	(45,303)	(24,884)	70,187	-
TOTAL OPERATING EXPENSES	**(179,484)**	**(63,078)**	**(3,248)**	**(245,810)**
Provisions for risk and charges	-	-	3,336	3,336
Net impairment loss on financial assets	(8,291)	(175,679)	(1,399)	(185,369)
Net income related to property, plant and equipment	-	-	270	270
PROFIT BEFORE INCOME TAX	**109,402**	**76,226**	**(904)**	**184,724**
Income tax expense	-	-	(18,019)	(18,019)
PROFIT FOR THE PERIOD	**109,402**	**76,226**	**(18,923)**	**166,705**
ASSETS	**2,994,102**	**7,128,113**	**1,218,618**	**11,340,833**
LIABILITIES	**3,394,418**	**3,518,952**	**2,634,136**	**9,547,506**

7. Net interest income

In thousands of BGN

	2011	2010
Interest income		
Financial assets held for trading	8,020	7,354
Derivatives held for trading	23,544	21,481
Financial assets designated at fair value through profit or loss	5,546	7,600
Loans and advances to banks	12,068	7,435
Loans and advances to customers	575,857	565,040
Available for sale investments	13,791	9,905
Held to maturity investments	14,349	15,945
	653,175	**634,760**
Interest expense		
Derivatives held for trading	(20,475)	(19,944)
Derivatives used for hedging	(2,003)	(2,545)
Deposits from banks	(38,902)	(22,627)
Deposits from customers	(139,032)	(154,848)
Subordinated debt	(7,175)	(5,847)
	(207,587)	**(205,811)**
Net interest income	**445,588**	**428,949**

For the financial years ended December 31, 2011 and December 31, 2010 the interest income recognized on individually impaired financial instruments (loans and advances to customers) is in the amount of BGN 22,942 thousand and BGN 20,729 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2011	2010
Fee and commission income		
Collection and payment services	74,203	70,973
Lending business	21,884	23,721
Account services	14,128	16,750
Currency trading	29,881	26,319
Management, brokerage and securities trading	5,000	6,311
Documentary business	11,784	9,637
Package accounts	8,620	6,796
Other	10,774	4,077
	176,274	**164,584**
Fee and commission expense		
Collection and payment services	(7,171)	(6,943)
Management, brokerage and securities trading	(694)	(708)
Lending business	(907)	(1,160)
Other	(260)	(239)
	(9,032)	**(9,050)**
Net fee and commission income	**167,242**	**155,534**

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

In thousands of BGN

	2011	2010
FX trading income, net	(1,234)	842
Net income from debt instruments	9,107	(4,900)
Net income from equity instruments	(435)	(133)
Net income from derivative instruments	8,894	3,398
Net trading income	**16,332**	**(793)**

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

Bank designates as financial assets at fair value through profit or loss only marketable debt securities, which fair value can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2011 and December 31, 2010 are BGN (1,603) thousand and BGN 5,819 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2011	2010
Realised gains on disposal of available for sale investments	199	9,986
Effect of equity method consolidation on associates	10,153	6,707
Net income from investments	**10,352**	**16,693**

In 2010 the shareholders of Borika AD (Bulgarian card operator) and Bankservice AD (Bulgarian settlement operator) agreed to combine their activities through merging the two companies into a new company (Borika-Bankservice AD) thus gaining some competitive advantage and benefiting from operative synergies. As of the date of merger UniCredit Bulbank AD maintained minority interests in both merging companies. According to the agreement the merger represented share-exchange transaction where the shareholders of the merging companies received shares in the new company on the basis of share-exchange ratios. These ratios were derived on the basis of fair market valuation of the new company and were approved by all the shareholders and verified by external auditor as required by Bulgarian Commercial Law. The difference between the fair market valuation of the received by UniCredit Bulbank AD new shares and the value of the participations in the two merging companies before the transformation, adjusted by previously recognized revaluation reserve, amounting in total BGN 8,961 thousand, is reported in the position realized gains on disposal of available for sale investments.

12. Other operating income, net

In thousands of BGN

	2011	2010
Other operating income		
Income from non-financial services	2,148	1,339
Rental income from investment property	292	314
Other income	3,790	4,424
	6,230	6,077
Other operating expenses		
Other operating expenses	(143)	(115)
	(143)	(115)
Other operating income, net	**6,087**	**5,962**

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized on disposal of long-term assets. For the year ended December 31, 2011 and December 31, 2010 the gains is BGN 2,774 thousand and BGN 270 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2011	2010
Wages and salaries	(79,501)	(79,551)
Social security charges	(10,186)	(10,128)
Pension and similar expenses	(634)	(559)
Temporary staff expenses	(5,925)	(5,325)
Share-based payments	(593)	(56)
Other	(3,006)	(1,306)
Total personnel expenses	**(99,845)**	**(96,925)**

As of December 31, 2011 the total number of employees, expressed in full time employee equivalent is 3,783 (December 31, 2010: 3,799)

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

As described in note **3 (p) (iii)** ultimate parent company UniCredit 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.

In addition to that, employees of the Bank can voluntarily participate in Employee Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2010	2011 COST	SETTLED IN 2011	ECONOMIC VALUE AT DECEMBER 31, 2011
Stock Options 06 2006	213	-	(213)	-
Stock Options 06 2007	224	37	-	261
Stock Options 06 2008	180	82	-	262
Stock Options 03 2011	-	113	-	113
Total Stock Options	**617**	**232**	**(213)**	**636**
Performance Shares 06 2007	190	(190)	-	-
Performance Shares 06 2008	-	113	-	113
Performance Shares 03 2011	-	169	-	169
Total Performance Shares	**190**	**92**	**-**	**282**
Deferred Short Term Incentive (ordinary shares)	-	258	-	258
Total deferred Short Term Incentive (shares)	**-**	**258**	**-**	258
ESOP	**15**	**11**	**-**	**26**
Total Options and Shares	**822**	**593**	**(213)**	**1,202**

15. General and administrative expenses

In thousands of BGN

	2011	2010
Deposit guarantee fund annual contribution	(28,823)	(27,031)
Advertising, marketing and communication	(6,874)	(6,992)
Credit information and searches	(1,654)	(1,712)
Information, communication and technology expenses	(29,785)	(29,022)
Consulting, audit and other professionals services	(2,469)	(2,224)
Real estate expenses	(13,067)	(13,026)
Rents	(14,320)	(13,466)
Travel expenses and car rentals	(2,360)	(2,386)
Insurance	(1,303)	(1,101)
Supply and miscellaneous services rendered by third parties	(9,118)	(10,652)
Other costs	(4,671)	(4,896)
Total general and administrative expenses	**(114,444)**	**(112,508)**

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

In thousands of BGN

	2011	2010
Depreciation charge	(33,576)	(33,954)
Impairment due to obsolescence	(1,290)	(2,152)
Decrease in value due to revaluation	-	(271)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(34,866)**	**(36,377)**

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2011 and December 31, 2010 the impairment of long-terms assets other than real estate properties, is in the amount of BGN 1,290 thousand and BGN 2,152 thousand, respectively.

Bank also performed review of the entire class of real estate properties. For all such properties, where material decline in fair value is observed, the decrease in value due to revaluation in excess of previously recognized revaluation reserve (devaluation) is recognized in profit or loss.

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 **40**).

In thousands of BGN

	2011	2010
Additions of provisions		
Legal cases provisions	(5,046)	(6)
Other provisions	(293)	(254)
	(5,339)	**(260)**
Reversal of provisions		
Legal cases provisions	405	3,180
Provisions on constructive obligations	508	416
	913	**3,596**
Net provisions charge	**(4,426)**	**3,336**

18. Net Impairment loss on financial assets

In thousands of BGN

	2011	2010
Balance 1 January		
Loans and advances to customers	583,316	405,012
Increase		
Loans and advances to customers	281,760	330,533
Loans and advances to banks	21	-
Decrease		
Loans and advances to customers	(140,530)	(144,846)
Recoveries from loans previously written-off	(4,659)	(318)
	(145,189)	(145,164)
Net impairment losses	136,592	185,369
FX revaluation effect on impairment allowances	599	270
Written-off		
Loans and advances to customers	(45,458)	(7,653)
Loans and advances to banks	(21)	-
Balance December 31 Loans and advances to customers	**679,687**	**583,316**

19. Income tax expense

Taxation is payable at a statutory rate of 10 % on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2012.

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

In thousands of BGN

	2011	2010
Current tax	(26,957)	(18,578)
Deferred tax income (expense) related to origination and reversal of temporary differences	2,184	732
Underprovided prior year income tax	(164)	(173)
Income tax expense	**(24,937)**	**(18,019)**

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

In thousands of BGN

	2011	2010
Accounting profit before tax	257,795	184,724
Corporate tax at applicable tax rate (10% for 2011 and 2010)	(25,780)	(18,472)
Tax effect of non taxable revenue	1,168	705
Tax effect of non tax deductible expenses	(300)	(245)
Underprovided prior year income tax	(25)	(7)
Income tax expense	**(24,937)**	**(18,019)**
Effective tax rate	**9.67%**	**9.75%**

20. Cash and balances with Central bank

In thousands of BGN

	2011	2010
Cash in hand and in ATM	125,903	101,691
Cash in transit	23,767	28,934
Current account with Central Bank	737,034	744,035
Total cash and balance with Central Bank	**886,704**	**874,660**

21. Financial assets held for trading

In thousands of BGN

	2011	2010
Government bonds	82,387	63,983
Bonds of credit institutions	45,609	71,125
Corporate bonds	1,178	25,370
Equities	-	1,682
Total financial assets held for trading	**129,174**	**162,160**

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

As of December 31, 2011 and December 31, 2010 financial assets held for trading in the amount of BGN 3,748 thousand and BGN 70,355 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

Previous change in accounting policy

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

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

In thousands of BGN

	2011	CUMULATIVELY SINCE RECLASSIFICATION (JULY 2008 - DECEMBER 2011)
Fair value changes		
Fair value gain (loss) that should have been recognized had the assets not been reclassified	(2,314)	5,848
Net interest income		
Net interest income recognized for the period after reclassification	4,501	16,209
Net interest income after reclassification that should have been recognized had the assets not been reclassified	5,842	20,689

22. Derivatives held for trading

In thousands of BGN

	2011	2010
Interest rate swaps	61,589	39,984
Equity options	183	1,828
FX forward contracts	39,781	14,031
FX options	-	1
Other options	22	198
FX swaps	57	72
Commodity swaps	10,392	136
Total trading derivatives	**112,024**	**56,250**

Derivatives comprise of trading instruments that have positive market value as of December 31, 2011 and December 31, 2010. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank's customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (k)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book. As of December 31, 2011 and December 31, 2010 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, 2011 and December 31, 2010 the fair value of hedging derivatives is negative in the amount of BGN 6,027 thousand and BGN 4,527 thousand, respectively.

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

In thousands of BGN

	2011	2010
Government bonds	8,363	17,063
Municipality bonds	2,280	2,850
Corporate bonds	69,039	90,632
Total financial assets designated at fair value through profit or loss	**79,682**	**110,545**

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, 2011 and December 31, 2010 assets designated at fair value through profit or loss in the amount of BGN 71 thousand and BGN 11,197 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

25. Loans and advances to banks

In thousands of BGN

	2011	2010
Loans and advances to banks	1,878,969	1,662,399
Current accounts with banks	14,815	36,344
Restricted accounts in foreign currency	-	471
Total loans and advances to banks	**1,893,784**	**1,699,214**

26. Loans and advances to customers

In thousands of BGN

	2011	2010
Companies	6,077,332	5,715,281
Individuals		
Housing loans	1,645,838	1,574,778
Consumer loans	775,112	767,404
Central and local governments	55,033	59,253
	8,553,315	**8,116,716**
Less impairment allowances	(679,687)	(583,316)
Total loans and advances to customers	**7,873,628**	**7,533,400**

27. Available for sale investments

In thousands of BGN

	2011	2010
Government bonds	355,160	249,613
Municipality bonds	3,982	-
Bonds of credit institutions	12,735	17,293
Equities	12,070	11,826
Total available for sale investments	**383,947**	**278,732**

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, 2011 and December 31, 2010 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, 2011 and December 31, 2010 available for sale investments in the amount of BGN 273,050 thousand and BGN 145,007 thousand, respectively, are pledged either on open repo-deals and other funding deals or under regulatory requirement to pledge government bonds as collateral for servicing State Budget accounts (see also Note **44**).

28. Held to maturity investments

In thousands of BGN

	2011	2010
Government bonds	270,216	276,509
Bonds of credit institutions	3,031	14,873
Total held to maturity investments	**273,247**	**291,382**

Held to maturity investments comprise only of first class government and corporate bonds with determinable payments that the Bank has the intention and ability to hold to maturity. All such investments are assessed for impairment and as a result of this assessment no impairment has been recognized as of December 31, 2011 and December 31, 2010.

29. Investments in associates

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2011
UniCredit Consumer Financing AD	Consumer lending and other similar activities in line with the applicable law and regulations	49.9%	26,883
UniCredit Leasing AD	Leasing activities	24.4%	3,664
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20.0%	2,420
Prelios Bulgaria AD (in liquidation)	Management of real estate portfolio	25.0%	-
		Total	**32,967**

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

All investments in associates are accounted for in these consolidated financial statements at applying equity method (for more information see note **11**).

30. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost or revalued amount							
As of December 31, 2010	**7,637**	**210,395**	**3,715**	**78,831**	**36,115**	**329**	**337,022**
Additions	138	3,312	699	7,993	8,899	-	21,041
Transfers*	(1,029)	(9,543)	520	(66)	(495)	9,816	(797)
Write offs	-	(1,745)	(137)	(3,057)	(958)	-	(5,897)
Disposals	(346)	(13,605)	-	(613)	(689)	-	(15,253)
As of December 31, 2011	**6,400**	**188,814**	**4,797**	**83,088**	**42,872**	**10,145**	**336,116**
Depreciation							
As of December 31, 2010	**-**	**18,772**	**1,929**	**58,590**	**20,522**	**57**	**99,870**
Depreciation charge	-	9,538	488	8,384	3,618	365	22,393
Impairment due to obsolescence	-	336	23	525	406	-	1,290
Write offs	-	(1,745)	(137)	(3,057)	(958)	-	(5,897)
On disposals	-	(947)	-	(583)	(651)	-	(2,181)
Transfers	-	(1,482)	167	(5,797)	5,630	1,482	-
As of December 31, 2011	**-**	**24,472**	**2,470**	**58,062**	**28,567**	**1,904**	**115,475**
Net book value as of December 31, 2011	**6,400**	**164,342**	**2,327**	**25,026**	**14,305**	**8,241**	**220,641**
Net book value as of December 31, 2010	**7,637**	**191,623**	**1,786**	**20,241**	**15,593**	**272**	**237,152**

* The transfers in the amount of BGN 797 represent properties in advance stage of a disposal, classified as non-current assets held for sale.

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost or revalued amount							
As of December 31, 2009	**7,384**	**203,752**	**3,950**	**75,925**	**36,706**	**473**	**328,190**
Reclassification*	(122)	(290)	-	-	-	-	(412)
As of December 31, 2009 after reclassification	**7,262**	**203,462**	**3,950**	**75,925**	**36,706**	**473**	**327,778**
Additions	-	50	57	2,288	12,699	-	15,094
Transfers	375	8,903	39	4,461	(11,371)	68	2,475
Write offs	-	(1,722)	(331)	(3,331)	(1,715)	-	(7,099)
Disposals	-	(298)	-	(512)	(298)	(212)	(1,320)
As of December 31, 2010	**7,637**	**210,395**	**3,715**	**78,831**	**36,021**	**329**	**336,928**
Depreciation							
As of December 31, 2009	**-**	**9,627**	**1,831**	**51,557**	**18,091**	**62**	**81,168**
Depreciation charge	-	9,921	422	9,633	3,542	20	23,538
Impairment due to obsolescence	-	403	7	1,238	762	-	2,410
Write offs	-	(1,722)	(331)	(3,331)	(1,696)	-	(7,080)
On disposals	-	(66)	-	(507)	(287)	(29)	(889)
Transfers	-	609	-	-	16	4	629
As of December 31, 2010	**-**	**18,772**	**1,929**	**58,590**	**20,428**	**57**	**99,776**
Net book value as of December 31, 2010	**7,637**	**191,623**	**1,786**	**20,241**	**15,593**	**272**	**237,152**
Net book value as of December 31, 2009	**7,384**	**194,125**	**2,119**	**24,368**	**18,615**	**411**	**247,022**

* Reclassification of foreclosed properties presented as other assets under IAS 2 “Inventories” (see also Note 3)

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

In 2011 Management of the Bank assesses the real estate market as relatively stable compared to 2010 and no material changes in market prices have occurred. Based on that, no revaluation is recognized on entire class of properties as of December 31, 2011.

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

31. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2010	**77,214**
Additions	11,848
Write offs	-
Disposals	-
As of December 31,2011	**89,062**
Depreciation	
As of December 31, 2010	**46,117**
Depreciation charge	11,183
Impairment due to obsolescence	-
Write offs	-
As of December 31,2011	**57,300**
Net book value as of December 31, 2011	**31,762**
Net book value as of December 31, 2010	**31,097**

In thousands of BGN

Cost	
As of December 31, 2009	**98,711**
Additions	6,660
Write offs	(28,157)
Disposals	-
As of December 31, 2010	**77,214**
Depreciation	
As of December 31, 2009	**63,845**
Depreciation charge	10,416
Impairment due to obsolescence	13
Write offs	(28,157)
As of December 31, 2010	**46,117**
Net book value as of December 31, 2010	**31,097**
Net book value as of December 31, 2009	**34,866**

32. Current tax

The current tax assets comprise of Bank's net tax position with regard to corporate income tax as of December 31, 2011 and December 31, 2010. According to the statutory requirements, the Bank stand alone and its subsidiaries pay during the year advance instalments for corporate income tax on the basis of its tax profit for the prior year. Corporate income tax in Bulgaria is charged in single entity basis. Based on that as of December 31, 2011 Bank reports current tax assets in the amount of BGN 1 thousand and current tax liabilities in the amount of BGN 6,339 thousands. The corresponding amounts as of December 31, 2010 are BGN 3,471 thousands and BGN 80 thousands, respectively.

33. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2011 and December 31, 2010 is as outlined below:

In thousands of BGN

	ASSETS		LIABILITIES		NET	
	2011	2010	2011	2010	2011	2010
Property, plant and intangible assets	(30)	(30)	15,706	17,962	15,676	17,932
Available for sale investments	(1,352)	(1,167)	2,156	1,977	804	810
Provisions	(1,595)	(1,117)	-	-	(1,595)	(1,117)
Cash flow hedge	(445)	(254)	445	254	-	-
Other liabilities	(3,573)	(3,753)	-	-	(3,573)	(3,753)
Net tax (assets) liabilities	**(6,995)**	**(6,321)**	**18,307**	**20,193**	**11,312**	**13,872**

The movements of deferred tax assets and liabilities on net basis throughout 2011 are as outlined below:

In thousands of BGN

	BALANCE 2010	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 2011
Property, plant and equipment	17,932	(2,256)	-	15,676
Available for sale investments	810	179	(185)	804
Provisions	(1,117)	(478)	-	(1,595)
Cash flow hedge	-	191	(191)	-
Other liabilities	(3,753)	180	-	(3,573)
Net tax (assets) liabilities	**13,872**	**(2,184)**	**(376)**	**11,312**

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

Bank presents as non-current assets and disposal group held for sale only properties that no longer will be used in the ordinary activity of the Bank nor will be utilized as investment properties. For all such assets Management has started intensively looking for a buyer and the selling negotiations are in advance stage as of the year-ends. The breakdowns as of December 31, 2011 and December 31, 2010 are as follows:

In thousands of BGN

	2011	2010
Land	650	-
Buildings	147	21
Total non-current assets held for sale	**797**	**21**

35. Other assets

In thousands of BGN

	2011	2010
Receivables and prepayments	19,336	15,244
Receivables from the State Budget	27	133
Materials, spare parts and consumables	1,521	1,286
Other assets	5,861	5,934
Foreclosed properties	20,914	4,613
Total other assets	**47,659**	**27,210**

36. Financial liabilities held for trading

In thousands of BGN

	2011	2010
Interest rate swaps	60,571	38,869
FX forward contracts	18,913	21,324
Equity options	182	1,766
Other options	22	198
FX options	-	1
FX swaps	38	29
Commodity swaps	8,660	130
Total trading liabilities	**88,386**	**62,317**

37. Deposits from banks

In thousands of BGN

	2011	2010
Current accounts and overnight deposits		
Local banks	142,383	238,159
Foreign banks	575,211	665,387
	717,594	**903,546**
Deposits		
Local banks	130,878	126,254
Foreign banks	1,360,161	1,537,550
	1,491,039	**1,663,804**
Liabilities under repurchase agreements	**-**	**30,310**
Other	**12,449**	**12,511**
Total deposits from banks	**2,221,082**	**2,610,171**

38. Deposits from customers

In thousands of BGN

	2011	2010
Current accounts and overnight deposits		
Individuals	569,632	533,317
Corporate	1,926,831	1,705,376
Budget and State companies	172,144	159,554
	2,668,607	**2,398,247**
Term deposits		
Individuals	2,521,459	2,337,207
Corporate	1,476,468	1,188,900
Budget and State companies	113,700	160,253
	4,111,627	**3,686,360**
Saving accounts	**471,393**	**407,670**
Transfers in execution process	**34,057**	**42,324**
Other	**1,420**	**1,247**
Total deposits from customers	**7,287,104**	**6,535,848**

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

As of December 31, 2011 and December 31, 2010 there are transfers in execution that have either not left the Bank's patrimony (outgoing payments), or clients' accounts have not been yet credited (incoming payments). These temporary balances are presented as deposits from customers under transfers in execution and process.

39. Subordinated liabilities

As of December 31, 2011 the total amount of BGN 216,710 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, 2011
November 26, 2004	10 years	19,558	25,260
December 20, 2004	10 years	19,558	25,292
February 3, 2005	10 years	25,426	32,039
August 2, 2005	10 years	29,337	36,166
November 19, 2008	10 years	97,792	97,953
Total		**191,671**	**216,710**

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

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

40. Provisions

Balances of provisions as of December 31, 2011 and December 31, 2010 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, 2010	**20,305**	**7,282**	**3,286**	**2,963**	**430**	**34,266**
Allocations	-	5,046	634	-	293	5,973
Releases	-	(405)	-	(508)	-	(913)
Additions due to FX revaluation	9,451	3,317	-	-	-	12,768
Releases due to FX revaluation	(9,086)	(3,190)	-	-	-	(12,276)
Utilization	-	(33)	(270)	(379)	(224)	(906)
Balance as of December 31, 2011	**20,670**	**12,017**	**3,650**	**2,076**	**499**	**38,912**

(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, 2011 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 20,670 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, 2011 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 12,017 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 2011 Defined benefit obligation are as follows:

- Discount rate – 5.28%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63, women 60 for 2011 and increase by 4 months each year until we get 65 for men and 63 for women

The movement of the defined benefit obligation for year ended 2011 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2010	**3,286**
Current service costs for 2011	347
Interest cost for 2011	224
Amortisation of actuarial (gains) loss	63
Benefits paid	(270)
Recognized defined benefit obligation as of December 31, 2011	**3,650**
Unrecognized actuarial loss as of December 31, 2011	154
Interest rate Beginning of the year	5.8%
Interest rate End of the year	5.28%
Future increase of salaries	5.0%
Expected 2012 service costs	297
Expected 2012 interest costs	188
Amortization of actuarial loss	-
Expected 2012 benefit payments	608

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

(d) Provisions on constructive obligation

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

As of December 31, 2011 and December 31, 2010 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 2011 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 508 thousand.

(e) Other provision

Other provisions in the amount of BGN 499 thousand (BGN 430 thousand in 2010) relates to coverage of claims related to credit cards business as well as other claims.

41. Other liabilities

In thousands of BGN

	2011	2010
Liabilities to the State budget	4,475	4,780
Liabilities to personnel	23,109	20,849
Liabilities for unused paid leave	6,360	6,813
Dividends	414	331
Incentive plan liabilities	1,284	822
Other liabilities	31,731	32,456
Total other liabilities	**67,373**	**66,051**

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 2011 and 2010 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 the Bank has to pay should the labour contracts with the employees had been terminated as of December 31, 2011 and December 31, 2010, respectively.

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

42. Equity

a) Share capital

As of December 31, 2011 share capital comprises of 285,776,647 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

As described in **3 (q) (i)** in 2011 General Meeting of Shareholders of UniCredit Bulbank AD approved capital increase through cash contributions in total amount of BGN 158,744 thousand comprising of 21,865,500 new ordinary shares with issuing price BGN 7.26 each. The capital increase was effectively completed and registered in December 2011.

b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The share-premium of newly issued ordinary shares are also allocated into statutory reserves (see **42 a)** above)

c) Retained earnings

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

d) Revaluation reserves

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

43. Contingent liabilities

In thousands of BGN

	2011	2010
Letters of credit and letters of guarantee	901,858	729,562
Credit commitments	1,228,916	1,121,434
Total contingent liabilities	**2,130,774**	**1,850,996**

a) Memorandum items

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

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

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

(a) Memorandum items (continued)

As of December 31, 2011 and December 31, 2010 the Bank has made assessment in compliance with IAS 37 "Provisions, Contingent liabilities and Contingent assets". Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank (see also Note **40**).

b) Litigation

As of December 31, 2011 there are open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Litigation claims provided for in these financial statements as of December 31, 2011 are in the amount of BGN 12,017 thousand (BGN 7,282 thousand in 2010).

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, 2011 and December 31, 2010 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

	2011	2010
Securities pledged for budget holders' account service	274,647	265,302
Securities pledged on REPO deals	3,748	27,886
Securities pledged on other deals	76,058	69,171
Blocked deposit on other deals	-	471
	354,453	**362,830**
Pledged securities include		
Assets held for trading	3,748	70,355
Assets designated at fair value through profit or loss	71	11,197
Available for sale assets	273,050	145,007
Assets held to maturity	77,584	107,914
	354,453	**334,473**

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

45. Related parties

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

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

The related parties' transactions in terms of statement of financial position items as of December 31, 2011 and Income statement items for the year ended thereafter are as follows:

In thousands of BGN

	ASSETS	LIABILITIES
Financial assets held for trading	38,272	
Available for sale investments	2,781	
Current accounts and deposits placed	1,823,039	
Extended loans	87,569	
Other assets	6,058	
Financial liabilities held for trading		73,325
Derivatives used for hedging		5,940
Current accounts and deposits taken		1,927,794
Subordinated loans		216,710
Other liabilities		1,771
Total	**1,957,719**	**2,225,540**
Guarantees received by the Group	**99,611**	

In thousands of BGN

	INCOME (EXPENSE)
Interest incomes	13,695
Interest expenses	(63,609)
Fee and commissions income	4,445
Fee and commissions expenses	(191)
Administrative and personnel expenses	(7,440)
Other operating income	13
	(53,087)

As of December 31, 2011 the loans extended to key management personnel amount to BGN 1,888 thousand. For the twelve months ended December 31, 2011 the compensation paid to key management personnel amounts to BGN 3,771 thousand.

46. Cash and cash equivalents

In thousands of BGN

	2011	2010
Cash in hand and in ATM	125,903	101,691
Cash in transit	23,767	28,934
Current account with the Central Bank	737,034	744,035
Current accounts with banks	14,846	36,344
Receivables under repurchase agreements	-	84,038
Placements with banks with original maturity less than 3 months	671,932	1,578,136
Total cash and cash equivalents	**1,573,482**	**2,573,178**

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

47. Leasing

Bank has concluded numerous operating 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 and cars.

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2011	2010	2011	2010
Up to one year	593	598	525	553
Between one and five years	1,002	741	895	693
Total	**1,595**	**1,339**	**1,420**	**1,246**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2011	2010
Up to one year	11,565	12,307
Between one and five years	24,877	30,048
Beyond five years	7,127	6,718
Total	**43,569**	**49,073**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	2011	2010
Up to one year	412	290
Between one and five years	614	274
Beyond five years	53	-
Total	**1,079**	**564**

48. Group entities

The direct parent company of UniCredit Bulbank AD is UniCredit Bank Austria AG. As of December 31, 2011 and December 31, 2010 the ultimate parent company is UniCredito Italiano S.p.A.

Building a camp for socially impaired children

In Debeli rtič on the Slovenian coast, a new summer camp for socially impaired children was restored, equipped and decorated by UniCredit Bank Slovenija d.d.employees. Petra Majdič, the famous cross-country skier, joined the bank's volunteers after hearing about the initiative. Completing this camp required more than funding, which is why bank employees and managers volunteered their time, taking action that provided a concrete solution to a real need.
A practical solution that combines the efforts of the Group and individuals to improve kids lives.

Camp for socially impaired children, Debeli rtič, Slovenia. Painting people: Petra Majdič famous cross-country skier and France Arhar, CEO of UniCredit Bank in Slovenia

Bank Network

Aitos

27, Stancionna str.	0558 / 26 164

Asenovgrad

8, Radi Ovcharov str.	0331 / 62 655

Balchik

34A Cherno more str	0579 / 71 120
3, Ivan Vazov str.	74 061

Bansko

3, Pirin str.	0749 / 88 125

Belene

1, Dechev Ferdinand str.	0658 / 34 752

Berkovitsa

1, Yordan Radichkov str.	0953 / 88 484
100, Nikolaevska str.	88 686

Blagoevgrad

1, Macedonia sq.	073/ 86 70 28
5, St. Dimitur Solunski str.	83 40 74
17, Zelenopolsko shose str.	02 / 926 47 85
22, Ivan Shishman str.	82 86 34
18, St. Kiril and Metodius blvd.	82 87 18
57, Vasil Levski blvd	88 50 65

Bojuriste

85, Evropa blvd, Bojuriste	02 / 993 88 45

Borovets

Borovets	0750 / 322 04

Botevgrad

24 Saransk sq.	0723 / 668 72

Burgas

22, Alexandrovska str.	056 / 87 72 62
22, Alexandrovska str.	87 72 62
68-70 Hristo Botev	80 68 11
Lukoil Neftohim	89 80 36
Burgas Airport	87 25 32
Burgas Airport	84 02 77
4-6, P. Yavorov str.	87 41 33
Slaveikov district, block 46	89 66 81
94 block of Slaveikov District	58 12 18
30, Todor Aleksandrov blvd	58 99 13
103, Stefan Stambolov blvd	68 98 30
22 Alexandrovska Str.	87 72 18

Chepelare

1, Han Asparuh str.	03051 / 20 35

Chirpan

2, Yavorov str.	0416 / 90 100

Devnia

Devnia in the building of Solvei Sodi	0519 / 97 110

Dimitrovgrad

4B, Bulgaria blvd	0391 / 68 613

Dobrich

3, Bulgaria str	058 / 65 57 32
54, Okolovrusten put Dobrotica	60 06 50
7, Nezavisimost str.	651 420
4, Petko Balgaranov str.	05743 / 50 11

Dulovo

21, Vasil Levski str.	0855 / 223 56

Dupnitza

3, Ivan Vazov str.	0701/ 599 14

Elena

1, Chr. Momchilov str.	06151 / 61 13

Elin Pelin

5, Nezavisimost square	0725 / 688 27

Etropole

22, M. Gavrailova str.	0720 / 672 22

Galabovo

13, Radecki str.	066 / 81 42 06
8, dr. Jekov str.	0418 / 622 24

Bank Network (continued)

General Toshevo

5, Treti Mart str.	05731 / 21 37

Godech

2, Svoboda square	0729 / 22322

Gorna Malina

Municipality G. Malina	07152 / 222

Gorna Orjahovitsa

1A, M. Todorv str.	0618 / 681 12
2, Partriarch Evtimii str.	618 22

Gotse Delchev

11, Byalo More	0751 / 69620

Harmanli

1, Vazrajdane sq.	0373 / 800 61

Haskovo

4, Han Kubrat str.	038/ 60 77 21
Haskovo Policia	66 24 39
Haskovo KAT	66 24 47
12-14 Stefan Karadja str.	60 27 24

Ihtiman

8, Polk. B. Drangov str.	0724 / 820 91

Kardjali

51, Bulgaria blvd	0361 / 670 20

Karlovo

2, Vodopad str.	0335 / 905 25
4, Dimitur Subev str.	931 71

Karnobat

14, Bulgaria blvd Karnobat	0559 / 288 21

Kavarna

37, Dobrotica str.	0570 / 811 10

Kazanlak

4 Rozova Dolina str.	0431/ 681 35
16, Paisii Hilendarski str.	634 86

Knezha

5, Nikola Petkov str.	09132 / 67 50

Kostenets

2, Belmeken str	07142 / 22 52

Kostinbrod

7, Ohrid str	0721 / 681 25

Kozlodui

Kozlodui Nuclear Plant	0973 / 736 77
1 str. Kiril I Metodii	800 04

4, Belomorski blvd.	0361 / 610 77

Kiustendil

39, Democracy str.	078 / 55 96 13
5, Gueshevo shosse str.	54 12 34

Levski

40, Al. Stambolijski str.	0650 / 831 67

Lom

14, Dunavska str.	0971 / 687 62

Lovech

10 Akad Ishirkov str.	068 / 68 99 43
2, Stephan Karadja str.	66 83 30

Malko Tarnovo

2, Malkoturnovska Komuna str.	05952 / 31 49

Mezdra

8, Georgi Dimitrov str.	0910 / 920 78

Montana

72, Treti Mart blvd	096 / 39 19 57
216 Treti Mart blvd.	30 03 93
51 Treti Mart blvd.	096 / 38 31 68

Nessebar

Nesebar, 38, Han Krum str	0554/ 219 20
10, Zedelvais	440 81

Bank Network (continued)

Nova Zagora

49 Vasil Levski str.	0457 / 612 60
60, M. Balkanski str.	62 203

Novi Pazar

4, Rakovski str.	0537 / 258 52

Panagiurishte

1, G. Benkovski str.	0357 / 632 60

Parvomai

2 B, Hristo Botev str.	0336 / 620 53

Pavlikeni

20, Svoboda sq.	6010 / 511 80

Pazardjik

6, Bulgaria blvd	034 / 40 51 31
RDVR Pazard	44 09 93
Pazardjik KAT	44 12 90
3, Han Krum str.	44 48 86
13, Stefan Stambolov blvd.	44 53 80
5, Esperanto str.	40 57 18

Pernik

14, K. Pernishki sq.	076 / 60 32 01
21, St Kiril and Methodius blvd.	60 53 87
2, Chereshovo topche str.	68 87 16

Peshtera

16, Dimitar Gorov str.	0350 / 64 16

Petrich

48, Rokfeler str.	0745 / 695 28

Pirdop

Todor Vlaikov square, block 2	07181 / 57 83

Pleven

121 Vasil Levski str.	064 / 89 07 30
4, Georgi Kochev blvd.	83 10 65
1, Kosta Hadjipakev str.	88 02 32
13 Danail Popov str; block Volga	89 21 63
11, Metro str.	02/ 926 47 87
11 Tzar Simeon Str.	89 03 35

Plovdiv

4, Ivan Vazov blvd	032 / 60 16 15
8, Vasil Levski str.	94 54 66
1, Kostievska str.	90 58 40
032-646961; 032/646952	64 69 63
51, Raiko Daskalov str.	65 60 44
133 Sankt Peterburg blvd.	68 02 50
82, Hristo Botev blvd	63 26 00
13, Kniaz Alexander Ist str.	90 58 16
135, Sankt Peterburg blvd.	90 58 95
15 A, Vasil Aprilov blvd.	90 58 37
66, Pestersko Shosse str.	90 58 41
24, Tsar Assen Str.	90 58 44
31, Ivan Vazov str.	90 59 33
32A Kuklensko shosse blvd	67 36 02/107
1, Asenovgradsko Shosse str.	62 37 46
8, Karlovsko shosse str.	94 63 35

Polski Trumbesh

55, Turgovska str.	06141 / 67 16

Pomorie

40, Yavorov blvd	0596 / 262 62

Popovo

99, Bulgaria blvd	0608 / 409 51

Primorsko

1, Chavdar str.	0550 / 337 82

Radnevo

10A, G. Dimitrov	0417 / 810 11

Rakovski

1, Moskva str.	03151 / 50 12

Razgrad

21, Ivan Vazov str.	084 / 66 07 63
66,Aprilsko vastanie blvd. Razgrad	60 98 02
1, Momina Cheshma sq.	61 21 18

Bank Network (continued)

Razlog

1, Eksarh Iosif str.	0747 / 898 09

Russe

5, Sveta Troica square	082 / 81 82 58
Hristo Botev blvd.	24 14 92
75, Alexnadrovska str	82 57 76
55, Alexandrovska str.	81 83 50
60, Treti Mart blvd	062 / 61 10 68
5 Sveta Troitsa Str.	81 82 65
13 Vassil Levski Str.	062 / 61 10 17

Samokov

3, Prof V. Zahariev str.	0722 / 688 14

Sandanski

52, Macedonia str.	0746 / 348 52

Sapareva bania

2, Germaneya str.	0707 / 22 28

Sevlievo

21, Svoboda sq.	0675 / 345 86

Shumen

8, Slavianski blvd.	054 /85 81 26
5, Simeon Veliki blvd.	83 00 56
64, Slavianski blvd	85 81 33

Silistra

3, Dobrudzhai str.	086 / 87 83 42
33, 7mi septemvri blvd.	83 31 99

Slanchev Briag

Slanchev briag Complex	0554 / 280 23

Sliven

11 Hadji Dimitar blvd	044 / 61 31 27
19 General Stolipin str.	61 02 31
6 Stephan Karadja str.	63 00 35
23 Rakovski str.	61 08 61

Slivnitsa

2, Saedinenie square	0727 / 422 66;

Smolyan

59, Kolio Shishmanov str.	0301 / 673 14

Sofia

7, Sveta Nedelya Square	02 / 923 24 88
1, Christofor Columb blvd	98 09 601
84, Veslec str.	81 05 921
18, Parva Bulgarska Armiya blvd	931 18 46
2, Buzludja str.	895 10 19
2, Lomsko shosse	890 49 52
13, 202 str., Nadezhda	833 41 74
7, Sveta Nedelya Square	923 21 86
90, Al. Stambolijski blvd	810 26 26
14, Gueshevo str.	812 39 48
54 Cherni Vruh blvd	969 00 25
90, Vitosha blvd	952 23 33
105, Gotse Delchev blvd	818 27 22
102, Bulgaria blvd	808 28 15
1, P.U. Todorov block 1	818 67 20
3, Akad St. Mladenov blvd	965 81 98
8, Vitosha blvd	810 29 26
Hotel Trivia, Botunec	994 54 42
444 A, Slivnica blvd	827 91 72
2, Sofroniy Vrachanski, str.	937 70 71
Iliyanci	892 05 12
Nishava str. Block 12	818 87 60
Liulin 4, block 417	814 52 72
Tsaritsa Ioanna blvd.	825 89 46
182, Europa blvd.	926 47 84
22, Zlaten rog, str.	926 48 50
41, Tzar Boris III blvd	895 40 28
134, Tzar Boris III blvd	926 48 47
46, Liubliana str.	926 48 67
1, Kukush str.	802 42 11
1, Skopie blvd	803 35 82
127, Slivnica blvd	802 19 83
56, Georgi Sofiiski str.	815 49 71
1 Ivan Vazov str.	926 96 51
12, Al. Batenberg str.	935 78 41
3, Kaloyan str	926 83 86
8, Aksakov, str.	923 34 85
1, Madrid blvd	948 09 71
88, Yanko Sakuzov blvd.	861 30 63
2, Ivan Asen IInd str	942 30 24
65, Shipchenski prohod str.	817 29 24

Bank Network (continued)

52, Kosta Lulchev str.	971 34 95
133, Tsarigradsko Shosse - 7th km	817 80 29
Tsarigradsko Shosse - 7th-11th km	926 47 83
147, Tsarigradsko Shosse blvd	976 78 64
18, Dondukov str.	921 89 53
SFA 459, Botevgradsko shosse blvd	89 22 199
58, Alabin Str	939 78 17
58, Alabin Str	939 78 27
9, Julio Kiuri str.	817 37 29
28, Hristo Smirnenski blvd	963 09 88;
22 Serdika str.	926 48 73
140, Rakovski str.	815 70 24
40, Vasil Levski str.	950 46 50
9A Boris Stefanov str.	819 28 72
62, G.M. Dimitrov str.	816 90 71
32, Zlatuvruh str.	819 07 11
9, Shipchenski prohod blvd	892 45 61
16, Alexander Malinov blvd, 1st floor, MLADOST	817 49 21
Business park Sofia, 2nd building	817 3322
Mladost; 265 Okolovrusten put	877 04 73
1, Yanko Sakazov blvd	814 50 25
1 Ivan Vazov Str.	926 95 01
7 Sveta Nedelya Sq.	923 27 88

Sozopol

2, Parvi May Str.	0550 / 263 20

Stamboliiski

2, Osmi Mart str.	0339 / 624 87

Stara Zagora

126 Simeon Veliki blvd	042 / 69 63 26;
126 Simeon Veliki blvd	69 63 76
Nikola Petkov str.	26 01 06
62, Tzar Simeon Veliki blvd	69 21 12
Rudnik Troyanovo Sever	0417 / 824 02
115, Tsar Simeon Veliki blvd.	61 51 29
157, Tzar Simeon str.	61 07 83
30, Hristian Voivoda str.	62 29 36
126 Tzar Simeon Veliki Blvd.	69 62 46

Sungurlare

15, Hristo Smirnenski str.	05571 / 52-50

Svilengrad

60, Bulgaria blvd	0379 / 707 28
4, Assen Iliew str.	730 33
Customs Kap. Andreevo	710 44

Svishtov

16, Tzar Osvoboditel str.10, Dunav str.	0631 / 611 27

Svoge

35, Tsar Simeon str.	0726 / 223 49

Targovishte

23, Vasil Levski str.	0601 / 612 20

Tervel

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

Troyan

1, Gen. Karzov str.	0670 / 688 85

Tzarevo

20, Kraimorska str.	0590 / 554 67

Varna

1, P. Karavelov str.	052 / 66 21 28
39 Maria Luiza str.	66 31 37
2, Gabrovo str.	68 98 03
2, Patleina str.	66 33 35
13, Treti Mart str.	05131 / 24 07
36-38 Vladislav Varnenchik str.	68 79 49
43, Kniaz Boris str.	66 40 26
112, Osmi Primorski polk	78 57 11
Business park building 1	73 01 27
20, Drujba str.	35 58 43
61, Pirin str.	66 13 46
117, Republika blvd.	73 95 01
Vladislavovo, Zapadna obikolna str.	68 98 20
28 Slivnitsa Str.	67 80 13

Veliko Tarnovo

13. Vasil Levskli Str	062 / 61 10 07
4 Magistralna str.	61 10 88
78, Balgaria blvd.	61 10 68
2B, Marno Pole str.	61 10 37

Bank Network (continued)

Velingrad

99, Suedinenie sq.	0359 / 570 22

Vidin

3 Tzar Simeon Veliki str.	094 / 69 02 14
66 A, Tzar Simeon Veliki str.	60 06 83
Panoniya blvd.	60 20 32

Vratsa

2nd July blvd.	092 / 62 13 12
10, Lukashov str.	66 88 52
8, Lukashov str.	66 82 34

Yakoruda

40, Kiril and Metodius str.	07442 / 23 88

Yambol

56, Targovska str.	046 / 68 51 13
173-175 Graf Ignatiev blvd.	64 11 53
3, Gorg Papazov str.	67 71 62

Zlatitsa

1, Sofiisko shosse blovd	0728 / 660 38