One Bank One UniCredit

2016

Consolidated Reports and Accounts

Welcome to UniCredit Bulbank

We are a simple pan-European commercial bank with a fully plugged in Corporate & Investment Banking, delivering our unique Western Central and Eastern European network to our extensive client franchise.

We offer local expertise as well as international reach. We accompany and support our 25 million clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to another 18 countries worldwide.

Our vision is to be “One Bank, One UniCredit”.

Everything we do to implement our vision is based on our Five Fundamentals.

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First).

To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as “One Bank, One UniCredit” (Cooperation & Synergies).

We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

Life is full of ups and downs.
We’re there for both.

Welcome to
UniCredit Bulbank

One Bank, One UniCredit.

A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be "One Bank, One UniCredit". A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Contents

Financial Highlights (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2016	YEAR 2015	CHANGE
Net interest income	446 682	469 321	(4.8%)
Net fee and commission income	200 573	197 868	1.4%
Net income from trading, investments and dividends	113 447	78 965	43.7%
Other operating income/expenses, net	(46 265)	(71 651)	(35.4%)
Operating income	714 437	674 503	5.9%
Operating expenses	(246 314)	(243 542)	1.1%
Gross operating profit	468 123	430 961	8.6%
Impairment losses on financial assets	(139 249)	(103 112)	35.0%
Provisions for risk and charges	(6 491)	(5 279)	23.0%
Income from PPE	2 285	451	406.7%
Profit before tax	324 668	323 021	0.5%
Net profit	291 438	290 007	0.5%

Volume Figures

	YEAR 2016	YEAR 2015	CHANGE
Total assets (eop)	18 625 832	17 368 317	7.2%
Net customer loans (eop)	9 070 237	8 769 392	3.4%
Customer deposits (eop)	14 893 732	13 485 196	10.4%
Shareholders' equity (eop)	2 709 842	2 507 791	8.1%
RWA (eop)	8 528 002	8 825 466	(3.4%)

Key Performance Indicators (%)

	YEAR 2016	YEAR 2015	CHANGE
Return on average assets (ROA)	1.6	1.8	(0.2pp)
Return on average equity (ROE)	11.2	12.2	(1.0pp)
Cost/Income ratio	34.5	36.1	(1.6pp)
Net profit margin	40.8	43.0	(2.2pp)
Capital/Asset ratio (eop)	14.5	14.4	0.1pp
Total capital adequacy ratio (eop)	27.6	24.7	3.0pp
Tier 1 capital ratio (eop)	27.5	24.4	3.1pp
CET 1 capital ratio (eop)	27.5	24.4	3.1pp
Risk weighted assets/Total assets ratio (eop)	45.8	50.8	(5.0pp)
Non-performing loans/Gross loans	14.0	15.8	(1.8pp)
Net Loan/Deposit ratio	60.9	65.0	(4.1pp)

Resources (number) - (eop)

	YEAR 2016	YEAR 2015	CHANGE
Employees	3 560	3 565	(5)
Branches	170	176	(6)

Financial Highlights (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2016	2015	CHANGE
Net interest income	582 351	579 391	0.5%
Net fee and commission income	210 207	198 752	5.8%
Net income from trading, investments and dividends	113 488	78 979	43.7%
Other operating income/expenses, net	(48 360)	(72 313)	(33.1%)
Operating income	857 686	784 809	9.3%
Operating expenses	(274 564)	(271 289)	1.2%
Gross operating profit	583 122	513 520	13.6%
Impairment losses on financial assets	(197 776)	(124 289)	59.1%
Provisions for risk and charges	14 359	(11 116)	(229.2%)
Income from PPE	2 462	451	445.9%
Profit before tax	402 167	378 566	6.2%
Net profit	361 345	340 191	6.2%

Volume Figures

	YEAR 2016	2015	CHANGE
Total assets (eop)	20 386 681	18 878 645	8.0%
Net customer loans (eop)	10 872 961	10 322 202	5.3%
Customer deposits (eop)	14 838 200	13 295 739	11.6%
Shareholders' equity (eop)	2 941 748	2 669 790	10.2%
RWA (eop)	10 013 749	10 157 047	(1.4%)

Key Performance Indicators (%)

	YEAR 2016	2015	CHANGE
Return on average assets (ROA)	1.8	2.0	(0.1pp)
Return on average equity (ROE)	12.9	13.5	(0.7pp)
Cost/Income ratio	32.0	34.6	(2.6pp)
Net profit margin	42.1	43.3	(1.2pp)
Capital/Asset ratio (eop)	14.4	14.1	0.3pp
Total capital adequacy ratio (eop)	25.1	22.5	2.6pp
Tier 1 capital ratio (eop)	25.0	22.3	2.7pp
CET 1 capital ratio (eop)	25.0	22.3	2.7pp
Risk weighted assets/Total assets ratio (eop)	49.1	53.8	(4.7pp)
Non-performing loans/Gross loans	13.0	14.9	(1.9pp)
Net Loan/Deposit ratio	73.3	77.6	(4.4pp)

Resources (number) - (eop)

	YEAR 2016	2015	CHANGE
Employees	4 149	4 161	(12)
Branches	179	185	(6)

Chairman's message

“The customer centric commercial approach, based on “solution-oriented” client focus, impeccable service offer and tailor-made solution in the daily activities remained one of the main strategic pillars of the bank in 2016.**”**

Levon Hampartzoumian
Chairman of the Management Board and CEO

Dear Shareholders,

2016 was a year marked with **positive macro-economic development in Bulgaria.** The country's GDP recorded for a second consecutive year **solid growth rate of 3.4%,** thanks to the contribution of the private consumption and the exports. Labor market recovered with unemployment rate decreasing to 7.7% (9.1% in 2015). FDIs stabilized at about 3% with capital inflows directed to new projects, which was positive for both job creation and increased production capacity.

Thanks to economic recovery, the operating conditions in the banking sector marked an improvement in 2016. The credit demand increased and loans in the **banking system** returned to slight positive growth (+0.6% yoy). Deposits build-up continued at high speed of 7.0% yoy, backed by a solid gross saving rate of 21.6%. The profitability of the banking system significantly improved. The banking system after-tax profit marked a 40.5% yoy growth, thanks to growing revenues (+5.7% yoy) and declining loan loss provision charges (-26.5% yoy).

In 2016 Bulgarian banking system **passed successfully an Assets Quality Review** process (AQR). The results revealed a strong capitalization of the system, indicated by CET1 ratio after AQR adjustments at 18.9%, well above the regulatory minimum.

For UniCredit Bulbank in particular, 2016 was another year of distinguished expansion of its market standing. The Bank asserted its position of indisputable leader and NUMBER ONE bank in terms of size and financial performance. The Bank's **total assets** grew by 7.2% yoy, to BGN 18.6 mln at the end of 2016, which made 20.2% from the assets of the Bulgarian banking system. **On the lending market**, UniCredit Bulbank was one of the most active lenders and confirmed its top position with a market share of 18.2%, backed by its sustainable business strategy of establishing long-term relations with customers. Thus the Bank remained the main partner of households and companies and continued to support the development of the real economy in Bulgaria. **On the deposits market**, UniCredit Bulbank continued to be the most trusted bank. The impressive growth of 10.4% yoy in customer deposits translated into highest absolute growth of funds in the system and pushed banks' market share up to 20.1%.

Furthermore, we consolidated our **strong liquidity position** and the net loans-to-deposits ratio declined to historically low 60.9%. **Capitalization** was confirmed at the **very solid levels** well above the regulatory minimums: CET 1 ratio reached 27.5% and was very close to the total capital adequacy ratio of 27.6%, thus proving the **high quality of the capital instruments** – i.e. mainly CET 1 eligible ones.

In 2016 UniCredit Bulbank continued its **robust financial performance**. The Bank recorded 5.9% yoy growth in **revenues**

to BGN 714.4 mln, achieving 18.1% market share. Targeting an increase in value proposition to our customers, the Bank focused on business re-design, which resulted in transforming revenues structure. **Non-interest revenues** became the main growth driver increasing by 13.3% yoy, thanks to the strong positioning in traditional fee-generating banking services combined with focus on their digitalization, enrichment of the product portfolio with innovative offers on investment products and strong markets and investment banking services to customers, fully plugged into commercial banking. In challenging global environment of **historically low interest rate**, **Net interest income** was supressed to BGN 446.7 mln, decreasing by 4.8% yoy. **Operating expenses** reached BGN 246.3 mln and grew annually by 1.1%, driven up by some strategic business and operational projects. Aiming at increased coverage of NPE exposures, **loan loss impairment charges** increased by 35.0% yoy and reached BGN 139.2 mln. Thus, **the Bank's net profit amounted to BGN 291.4 mln**, close to the 2015 level. Thanks to its competitive advantages in terms of revenues generation and efficiency in operations, **UniCredit Bulbank delivered 23.1% of the Net Profit of the Bulgarian banking system**. Profitability generation capacity remained above the one of the market average with Return on Equity of 11.2% compared to 10.7% for the market.

In 2016 **the main cornerstone of UniCredit Bulbank strategy** that supported the sustainable growth of the Bank continued to be a variety of **innovation and digitalization initiatives.** The Bank stayed concentrated on implementing digital solutions across both product and process lines. New **digital process for selling overdrafts to individual customers via Bulbank online** was implemented, fully paperless and with pre-approved limits. Business customers can now enjoy a new **application for managing package programs** that significantly reduced time to serve. **Bulbank Mobile** application was **enriched** with utility payments functionality. New platform for **electronic Trade Finance** was developed to speed up communication, processing and access to real-time information. **Mobile point of sale (mPOS)** solution was developed that allows transforming merchant's smart devices into mPOS, thus facilitating their sales process. The web-based platform **"eFactoring.bg"** was utilized not only as service platform but also as a client origination engine.

A major innovation in 2016 was the deployment of **fully fledged program for Startups** with partnership of a local accelerator.

The **customer centric commercial approach,** based on "solution-oriented" client focus, impeccable service offer and tailor-made solution in the daily activities remained one of the main strategic pillars of UniCredit. **In Retail banking**, the implementation of the standardized fast service model was successfully finalized across network. In addition, a Customer Experience Governance model was launched with focus on service quality level. In **Corporate Banking**, the Big Data initiative has been initiated to enhance the value creation by the predictive analysis of customer preferences. For international customers, the UniCredit Bulbank's International Center remained the focal point for doing international business offering the benefits of the "one-stop service" concept. **In Private banking**, the "Need based" advisory concept was implemented to cover all financial needs of the customers, including an online solution for securities' trading.

In 2016 UniCredit Bulbank continued the activities on creating an objective measurement of the **perception of the Bank,** its products, services and image among various groups of stakeholders. The overall reputation of the Bank remained strong and stable showing increasing positive gap vs peers.

In 2016 UniCredit Bulbank continued the development of its **corporate social responsibility program** in the areas of education, business and social entrepreneurship, art and culture. UniCredit Bulbank has partnered with numerous **schools and universities** for projects, fostering cultural exchange and empowering young talents. The Bank also assumed the special mission **to raise general financial literacy** of the society trough a dedicated program "Finance for non-specialist". The Bank continued to organize **numerous exhibitions** in its own gallery for contemporary art "UniCredit Studio" as well as in the National Art Gallery. UniCredit Bulbank was also an active participant in **social and charity events**, gathering the business, political and diplomatic elite of the country. Many of the Bank's employees and partners were involved in projects developed by the national volunteering network.

Thanks to the strong brand of UniCredit, the good image of a stable and reliable organization and the extensive participation in different career events, UniCredit Bulbank continued to be considered as a **stable and reliable employe**r and an excellent place for career development.

UniCredit Bulbank remained firmly grounded on UniCredit Group principles and values. They provided the basis for long-term and sustainable business partnerships thus ensuring solid foundation for strong development in the future. We enter 2017 as a robust institution **with outstanding reputation and capable of delivering value-added solutions to customers, overall society and to shareholders**. For these achievements, I would like to thank to the management team and all employees for their commitment and great contribution as well as to our customers and shareholders for their trust.

Levon Hampartzoumian
Chairman

Supervisory Board and Management Board[1]

Supervisory Board (SB)

Robert Zadrazil	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Silvano Silvestri Csilla Ihasz Gerhard Deschkan	**Members**

Management Board (MB)

Levon Hampartzoumian	**Chairman and Chief Executive Officer**
Enrico Minniti	**Deputy Chairman and Chief Operative Officer**
Emilia Palibachiyska Antoaneta Curteanu Tsvetanka Mincheva Teodora Petkova Luboslava Uram	**Members**

- As of 29 February 2016 Mauro Maschio and Simone Marcucci were released as SB members.
- As of 29 February 2016 Silvano Silvestri and Csilla Ihasz were appointed as SB members.

- As of 19 May 2016 Michele Amadei was released as MB member.
- As of 20 September 2016 Patrick Schmitt was released as MB member.
- As of 10 October 2016 Andrea Casini was released as Deputy Chairman and General Manager.

- As of 19 May 2016 Antoaneta Curteanu was appointed as MB member.
- As of 20 September 2016 Teodora Petkova was appointed as MB member.
- As of 10 October 2016 Enrico Minniti was appointed as Deputy Chairman and General Manager.

[1] As of December 31st, 2016

Supervisory Board and Management Board (continued)

ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW
(01 JANUARY 2016 – 31 DECEMBER 2016)

Members of the Supervisory Board

Robert Zadrazil
- SCHOELLERBANK AG – Chairman of SB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – Member of SB
- UNICREDIT BANK AUSTRIA AG – Chairman of MB and CEO
- ZAGREBACKA BANKA DD – Member of SB until 25 March 2016
- UNICREDIT BUSINESS INTEGRATED SOLUTIONS AUSTRIA GMBH – Chairman of SB
- UNICREDIT BUSINESS INTEGRATED SOLUTIONS SOCIETA CONSORTILE PER AZIONI – Member of the Board of Directors
- CARD COMPLETE SERVICE BANK AG – Chairman of SB
- UNICREDIT SpA – Member of the Executive Management Committee and representative in the Permanent Establishment in Vienna

Alberto Devoto
- Does not participate in the management of any other entities

Heinz Meidlinger
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – Deputy Chairman of SB
- UNICREDIT BANK S.A. – Member of SB
- MEIDLINGER INVESTMENT&CONSULTING GMBH – 99% ownership and managing partner
- WIENER PRIVATRBANK SE, WIEN – Member of SB

Dimitar Zhelev
- STADIS AD – Member of the Board of Directors (BD), majority control through BULLS AD and INSURANCE AND SHIPPING FOUNDATION
- DZH AD – Member of BD, 50% ownership
- ALLIANZ BULGARIA HOLDING AD – Chairman of BD and executive director, 34% ownership through STADIS AD and BULLS AD
- BULLS AD – Member of BD, 51% ownership (49% owned by INSURANCE AND SHIPPING FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA – 49.5% ownership through both BULLS AD and DZH AD
- ALLIANZ BANK BULGARIA AD – Chairman of SB

Gerhard Deschkan
- UNICREDIT BANK HUNGARY ZRT. – Member of SB

Silvano Silvestri
- UNICREDIT BANK HUNGARY ZRT. – Deputy Chairman of SB
- UNICREDIT GLOBAL LEASING EXPORT GMBH – Deputy Chairman of SB
- BARN BV – MEMBER OF BOARD OF DIRECTORS
- RN BANK – Member of SB
- UNICREDIT BANK SERBIA JSC – Member of SB

Csilla Ihasz
- UNICREDIT BANK SERBIA JSC – Chairperson of the MB and CEO
- UNICREDIT BANK HUNGARY ZRT. – Member of SB
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S. – Member of SB

Simone Marcucci – released as of 29 February 2016
- Does not participate in the management of any other entities

Mauro Maschio – released as of 29 February 2016
- UKRSOTSBANK – Deputy Chairman of MB until 31 October 2016

Members of the Management Board

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

Enrico Minniti
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB
- UNICREDIT BANK HUNGARY ZRT. – Member of SB
- AO UNICREDIT Bank – Member of SB
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S. – Member of SB until 20 December 2016

Emilia Palibachiyska
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB

Tsvetanka Mincheva
- UNICREDIT CONSUMER FINANCING EAD – Member of MB
- CASH SERVICE COMPANY AD – Member of BD

Teodora Petkova
- UNICREDIT CONSUMER FINANCING EAD – Member of SB

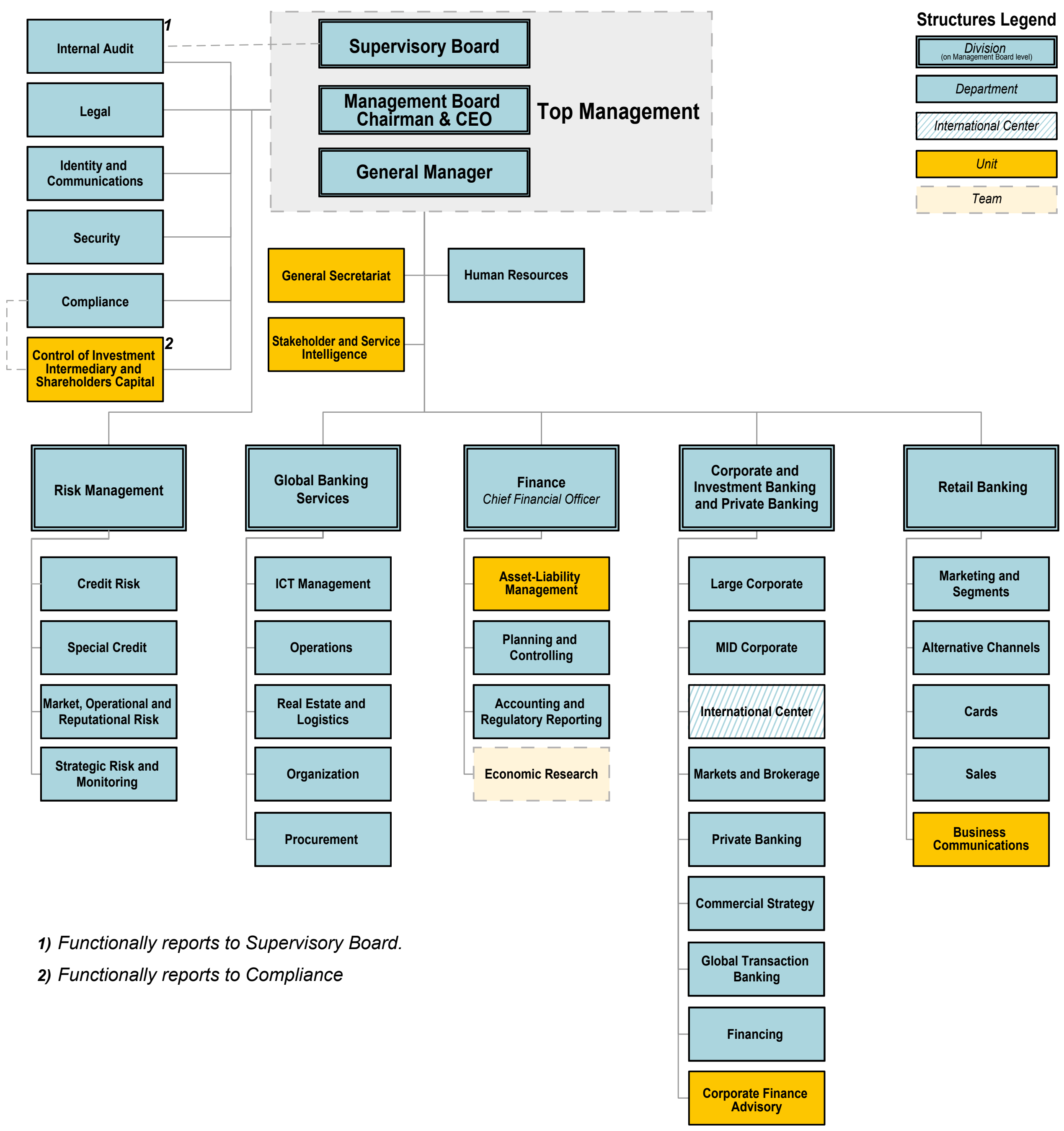
Luboslava Uram
- Does not participate in the management of any other entities

Michele Amadei – released as of 19 May 2016
- UNICREDIT FACTORING EAD – Member of BD until 13 May 2016
- UNICREDIT LEASING EAD – Member of SB until 14 June 2016

Patrick Schmitt – released as of 20 September 2016
- UNICREDIT CONSUMER FINANCING EAD – Member of SB until 3 November 2016

Andrea Casini – released as of 10 October 2016
- UNICREDIT CONSUMER FINANCING EAD – Member of SB until 3 November 2016
- UNICREDIT LEASING EAD – Member of SB until 2 November 2016
- INDACO EOOD – 100% ownership of capital

Organisation Chart[1]



[1] As of December 31, 2016

CREDIT RATING

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

Long-term	**BBB**
Short-term	**F2**
Outlook	**Negative**

2016 AWARDS

- Bank of the year – Association Bank Of The Year
- Best Bank for 2016 – Global Finance magazine
- Best Digital Bank in Bulgaria for 2016 – Global Finance magazine
- Most Innovative Bank in Bulgaria – Forbes magazine, Bulgarian edition
- Best Bank in Bulgaria – K10 annual ranking by Capital newspaper
- Best Bank in Bulgaria – EMEA Finance magazine
- Best Trade Finance Bank in Bulgaria – Global Finance magazine
- Best Trade Finance Bank in Bulgaria – Euromoney magazine
- Primary dealer of securities that has purchased the largest number of securities in the primary market in 2016 – Ministry of Finance
- Primary dealer of securities that has purchased the largest number of securities in the primary market 2016 for its own account – Ministry of Finance
- Best sub-custodian Bank in Bulgaria by Global Finance Magazine
- Best Cash Manager in Bulgaria by the Euromoney Cash Management Survey

Highlights

UniCredit is a strong pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise. UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as an another 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

Financial Highlights[1]

Operating income
€ 18,801 m

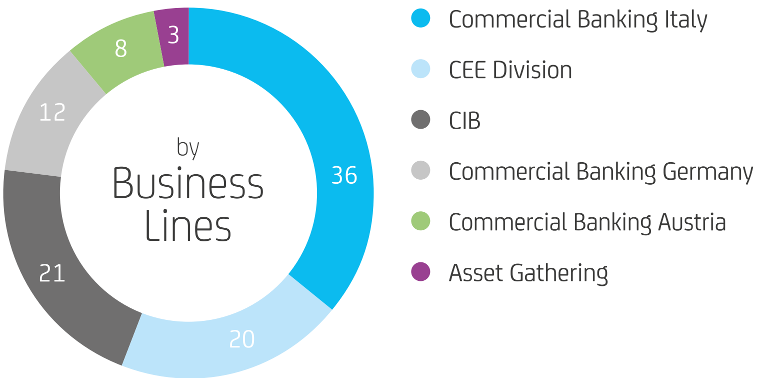
Net profit (loss)
€ (11,790) m

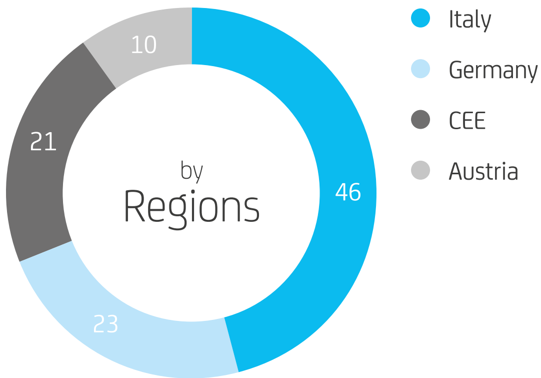
Shareholder's equity
€ 39,336 m

Total assets
€ 859,533 m

Common Equity Tier 1 ratio*
11.15%

Revenues[1] (%)



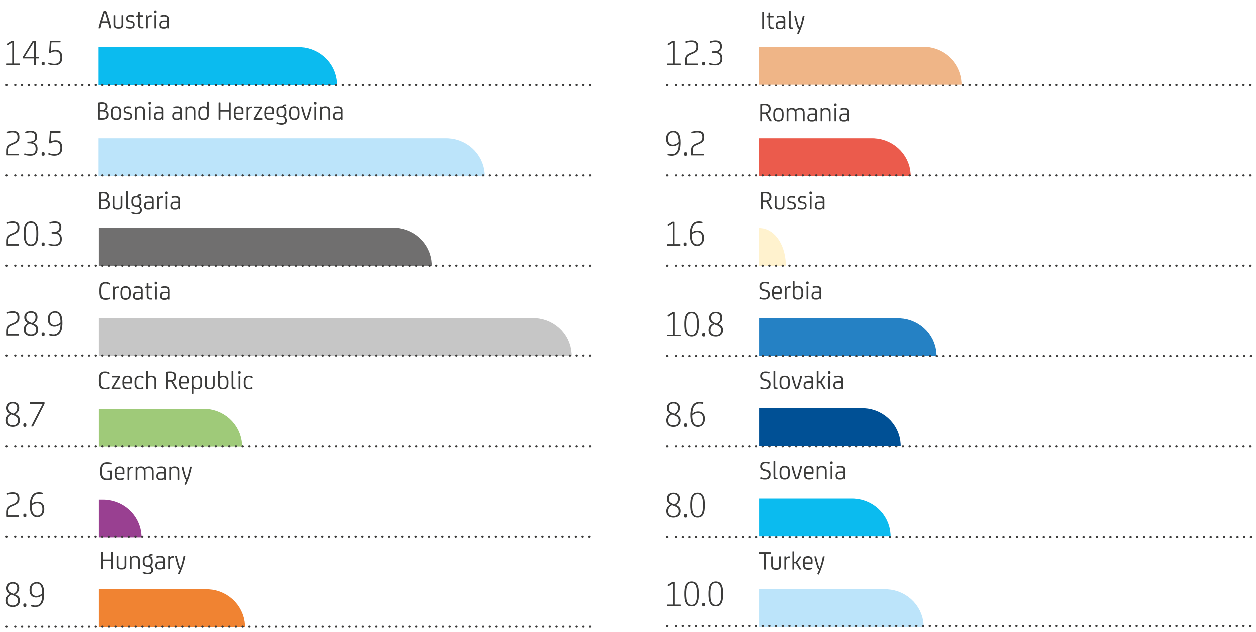


1. Data as at December 31, 2016. As at December 31, 2016, in accordance with IFRS5, the assets/liabilities and the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies, as a result of their classification as "discontinued operations", were recognized:
• in Balance Sheet under items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale";
• in Income Statement under item "Profit (loss) after tax from discontinued operation";
• the previous periods were restated accordingly to increase comparability.
* Fully loaded CET1 ratio at 11.15% post capital increase, above 12% including Pioneer and Pekao deals. CET1 ratio transitional at 11.49% post capital increase.

International Presence[2]

- Austria
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Germany
- Hungary
- Italy
- Romania
- Russia
- Serbia
- Slovakia
- Slovenia
- Turkey

Market Shares[3] (%)



2. On December 8, 2016, UniCredit ("UCG") entered into a binding agreement with PZU SA and PFR (Polish Development Fund) for the sale of a 32.8% stake in Bank Pekao (Poland) and, on the same date, it announced the disposal of the remaining 7.3% via a market transaction. The CEE division includes only the 11 countries in which the Group operates through Retail branches. Accordingly, Azerbaijan, Estonia, Latvia and Lithuania have been excluded.
3. Market Shares in terms of Total Loans as at December 31, 2016. Source: Company data, National Central Banks.

One Bank, One UniCredit Transform 2019

A challenging business environment marked by greater regulatory pressure and a lengthy period of low growth and low interest rates has prompted a deep strategic review of every major area of the bank. More specifically, the review has focused on how to reinforce and optimize the Group's capital position, reduce the risk profile of the balance sheet, improve profitability, and ensure that operations are transformed continuously in ways that enable increased client focus, further cost reductions and cross-selling across Group entities. These goals are to be pursued while maintaining the flexibility to seize value-creating opportunities and while improving risk discipline still further.

Hence, the Transform 2019 strategic plan targets are pragmatic, tangible and achievable and are based on conservative assumptions associated with five strategic pillars defined as follows:

- **Strengthen and optimize capital,** to align capital ratios with the best in class G-SIFIs
- **Improve the asset quality,** addressing Italian legacies via a proactive balance sheet de-risking
- **Transform the operating model,** strengthening our client focus while simplifying and streamlining products and services
- **Maximize commercial bank value,** capitalizing on the potential of our retail client relationships and our status as the "go-to" bank for corporate clients in Western Europe while building on our leadership position in Central and Eastern Europe and increasing cross-selling across business lines and countries
- **Adopt a lean but strong steering Group Corporate Center,** establishing consistent Groupwide KPIs to drive performance and improve accountability

This transformation will enable the Group to take advantage of future opportunities and generate long-term profits, functioning successfully as a **simple pan-European commercial bank with a fully plugged in CIB and a unique network in Western, Central and Eastern Europe.**

Five Strategic Pillars

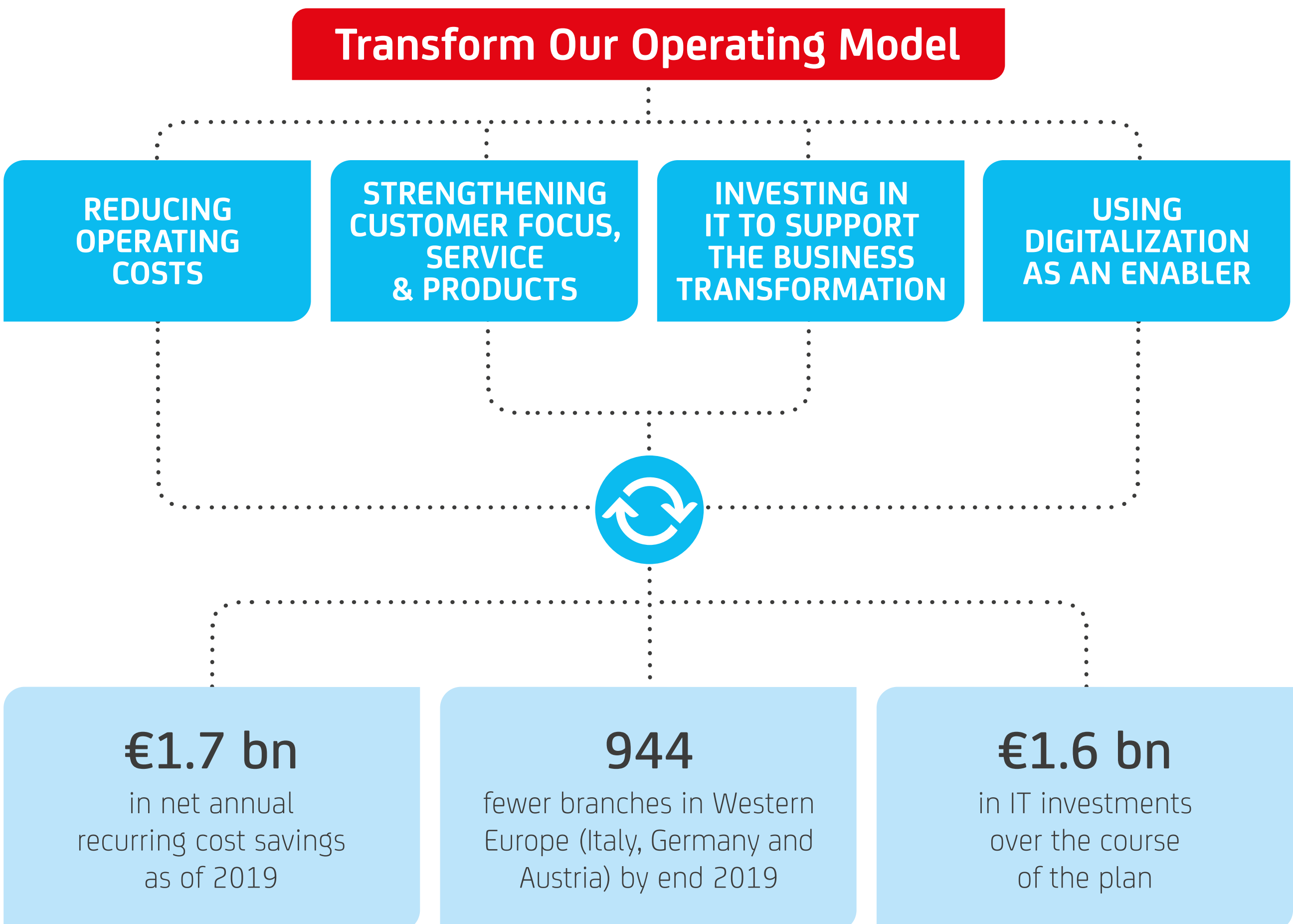
STRENGTHEN AND OPTIMIZE CAPITAL	IMPROVE ASSET QUALITY	TRANSFORM OPERATING MODEL	MAXIMIZE COMMERCIAL BANK VALUE	ADOPT LEAN BUT STEERING CENTER
Reinforce capital	Increasing coverage ratio of bad loans	Digitalization and process redesign	Tailored strategies	KPIs to drive performance and accountability
Capital optimization actions	Strong risk discipline	Improved efficiency and customer focus	Synergies and cross-selling	Leaner support functions and transparent cost allocation

Transform Our Operating Model

Among the key pillars of UniCredit's strategic plan for 2017-2019, one of the most important objectives is the transformation of the Group's operating model. The purpose of this is to strengthen our customer focus, service and products while simplifying our structure and increasing our efficiency.
Digitalization will enable the transformation and make it possible to achieve a lower sustainable cost base.

The main initiatives include:

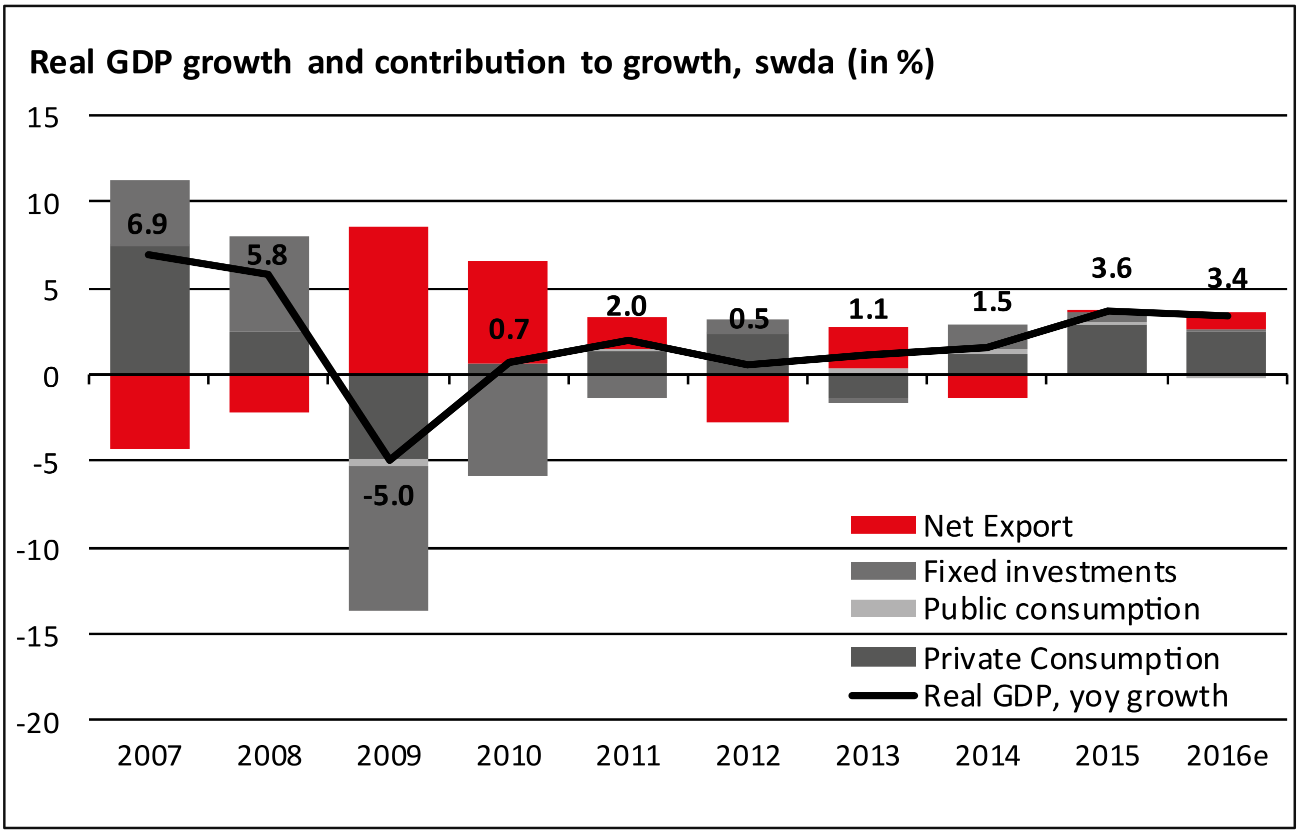
- **Redesigning end-to-end processes and lowering the cost of "running the bank"** by leveraging our global operations and developing economies of scale
- **Strengthening client focus** by further improving the customer experience, carrying out product standardization, and engaging in more client-facing activities
- **Investments in IT** that will support the business transformation with greater digitalization,



Simple Pan-European Commercial Bank

We are a simple pan-European commercial bank with a fully plugged in CIB, enriched by multiple cultures and strong local knowledge, where everybody shares the same vision: One Bank, One UniCredit. That's why when it comes to our client's international needs we have the solution. Whether it is trade or other banking services, we can help: with our deep local knowledge and our unique Western Central and Eastern European network serving our clients in Europe and beyond, we are fully equipped to meet our clients' needs, both in our home-markets and further afield.

Bulgarian Economy in 2016[1]



Source: National Statistica lInstitute, UniCredit Bulbank

2016 was one of the best years for the Bulgarian economy since the start of the transition. The recovery process gathered momentum with the pace of real **GDP growth stabilizing at about 3.4%,** close to the solid levels already reached in 2015. This marked a second consecutive year of strong GDP growth following a painful rebalancing during the 2009-2012 period and a weak initial recovery phase in 2013 and early 2014.

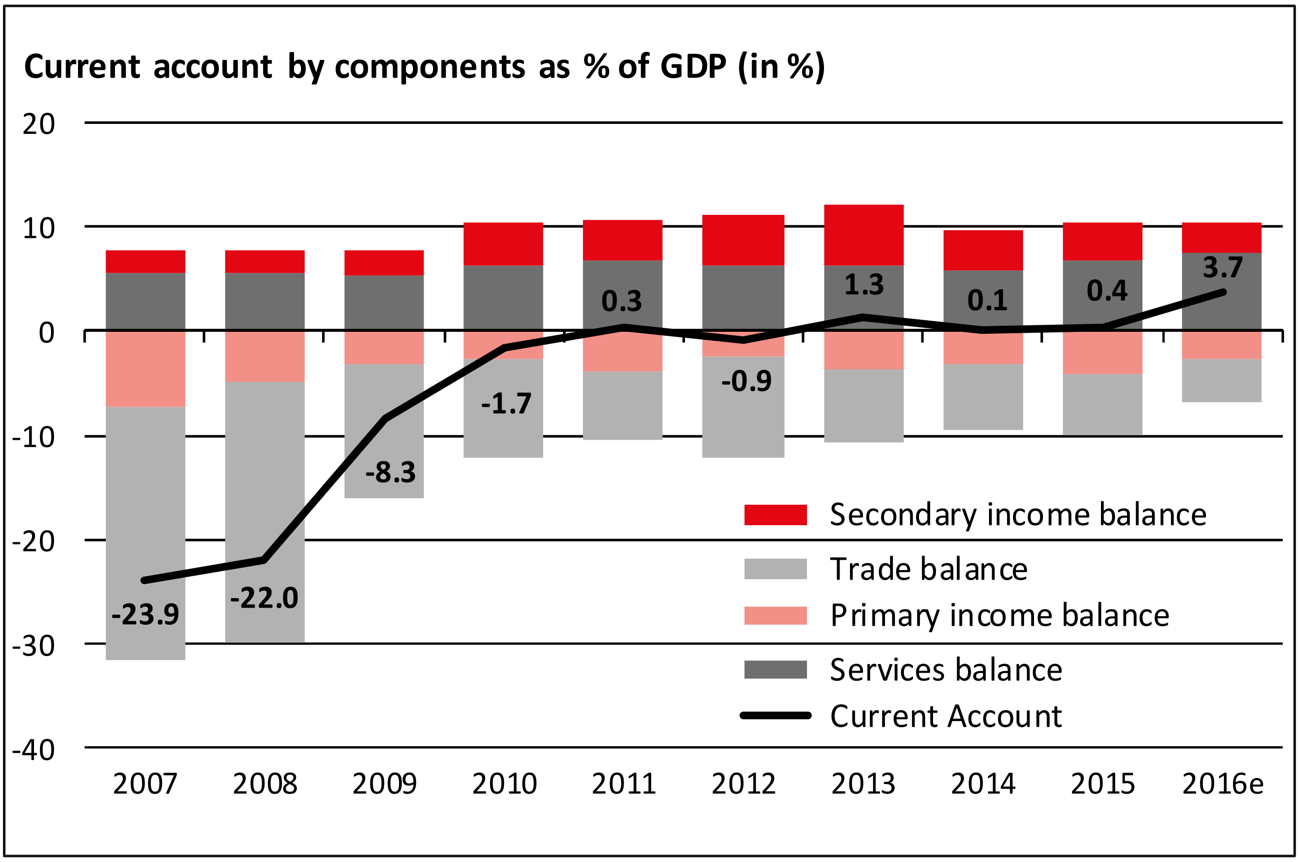
The economy's **resilience to shocks** was the most remarkable characteristics of the ongoing recovery. Another positive feature is that unlike the pre-2008 period, when growth was dependent on artificial factors – a credit-financed real estate and consumption boom – today it doesn't contribute to the emergence of new or worsening of already existing macroeconomic imbalances.

The **C/A recorded a surplus for a fourth year** in a row and is expected to come in at a record 3.7% of GDP in 2016 eop, which indicates that despite the rapid increase in wages last year cost competitiveness of Bulgarian exporters is not at risk.

The deepening in the integration of Bulgarian export-oriented companies in the supply chains of euro zone manufacturers continued. This trend, which accelerated in the wake of the 2008 crisis, made possible the pace of export expansion to exceed demand at a solid margin, indicating the strong positioning of Bulgarian companies in export markets.

In the **labor market**, the **number of employed people is expected to come in with a growth rate** similar to that in the previous two years. Unlike the pre-2008 period, when employment gains were driven mostly by lower-payed jobs in sectors benefiting from the real estate and consumption boom, today most of the **new jobs are created in sectors with some of the highest average wages** such as IT and business processes' outsourcing. The unemployment rate dropped to an expected average of 7.7% (the fourth best outcome over the past 21 years), compared to 9.1% in 2015. Thus, if the current pace of labor market improvement holds over the forecast horizon we expect the economy to reach full employment

[1] Data cut-off as of 17.02.2016



Source: National Statistical Institute, Bulgarian National Bank, UniCredit Bulbank

(consistent with an unemployment rate of 5%) in 2H2018. **FDI stabilized at circa 3% of GDP**, but unlike the pre-2008 period, when most of the flows financed acquisition of already existing assets, today **capital inflows fund new projects**, which is positive for both job creation and capacity of the economy to produce more goods and services. **Risk premia fell to record low levels**, at the same time, while lending conditions improved, helped by ample liquidity and successful passing of the Asset Quality Review (AQR) and stress tests in the banking sector in mid-2016.

Bulgarian Economy in 2016 (continued)

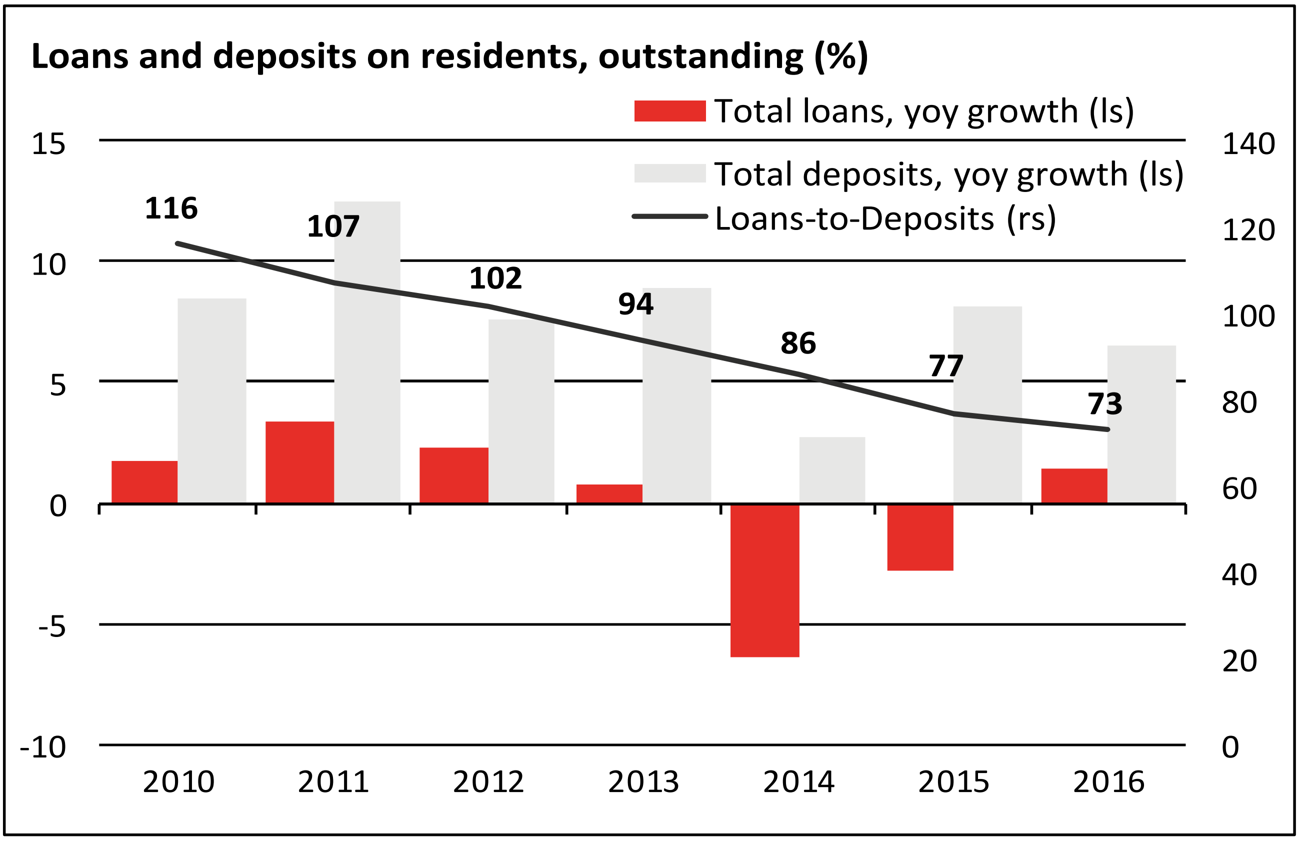
Improving government policies in two key areas also contributed to these results – improving tax compliance and limiting the heavy imbalances in the Energy sector. Limited progress was also achieved with regards to implementation of some structural measures in crucial areas such as fighting corruption, healthcare and education.

MACROECONOMIC INDICATORS	2016	2015	2014	2013	2012	CHANGE 2016/2015
Nominal GDP[1] (BGN million)	90 876	88 571	83 634	80 282	80 044	2.6%
GDP per capita[1] (BGN)	12 770	12 381	11 612	11 340	11 262	3.1%
Real GDP growth[1], swda (%)	3.4	3.6	1.5	1.1	0.5	(0.2 pp)
Basic Interest Rate, avg (%)	(0.16)	0.01	0.03	0.02	0.10	(0.17 pp)
Inflation, eop (%)	0.1	(0.4)	(1.4)	(1.6)	4.2	+0.5 pp
Inflation, avg (%)	(0.8)	(0.1)	(1.4)	0.9	3.0	(0.7 pp)
Unemployment rate[2], SA, eop (%)	7.1	7.9	10.8	12.8	12.5	(0.8 pp)
Official exchange rate, eop (BGN/USD)	1.86	1.79	1.61	1.42	1.48	3.7%
Official exchange rate, avg (BGN/USD)	1.77	1.76	1.47	1.47	1.52	0.2%
Current account balance[2] (BGN millions)	3 326	337	69	1 048	(700)	275.0%
Current account balance[2] / GDP[1] (%)	3.7	0.4	0.1	1.3	(0.9)	+2.7 pp
Net foreign direct investments[2] (BGN millions)	2 726	3 121	1 724	2 431	2 089	(18.5%)
Net foreign direct investments[2] / GDP[1] (%)	3.0	3.5	2.1	3.0	2.6	(0.8 pp)
Gross foreign debt[2], eop (BGN millions)	66 821	66 671	76 975	72 240	73 761	(1.4%)
Gross foreign debt[2] / GDP[1] (%)	73.5	75.3	92.0	90.0	92.2	(3.0 pp)
Public debt[2], eop (BGN millions)	25 806	22 714	22 102	13 795	13 169	10.5%
Public debt[2] / GDP[1] (%)	28.4	25.6	26.4	17.2	16.5	+2.02 pp
BNB FX reserves (BGN millions)	46 742	39 675	32 338	28 215	30 418	17.8%
Budget balance / GDP[1] (%)	1.6	(2.8)	(3.6)	(1.8)	(0.4)	+4.4 pp
Acting commercial banks at the end of the period	27	28	28	30	31	(1)

Source: Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] UniCredit Bulbank forecast for 2016
[2] Data as of November 2016

Banking Sector Overview

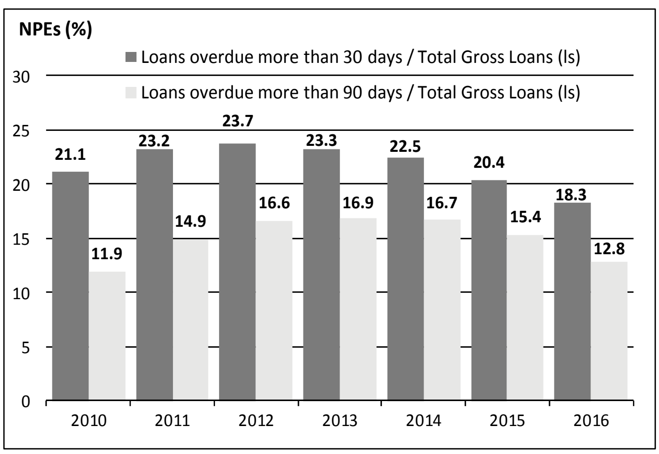
Successful completion of the Asset Quality Review and stress tests was the central event for the banking sector in 2016. All local lenders were found having sufficient capital and reserves to meet minimum regulatory standards. The net AQR adjustment for the total sector turned at the level of BGN 665 mln, equivalent to 1.3% of RWA at the end of 2015. **The banking system CET 1 ratio after AQR adjustments was 18.9% well above the regulatory minimum of 4.5%.** The foreign owned banks performed particularly well, with results showing that this specific part of the financial industry has had available capital buffers, which were not only above the system's average but also strong enough to withstand significant hypothetical deterioration in market conditions looking ahead. Furthermore, the AQR and stress tests revealed that needs to boost available capital buffers are limited to only two banks, both of which being domestically owned lenders.



Source: Bulgarian National Bank, UniCredit Bulbank

Operating conditions posted an improvement last year, as economic recovery became more firmly entrenched, labor market strengthened and real estate prices increase remained moderate. During the year, banks set aside BGN 907 mln of additional provisions, which made possible the NPEs coverage with provisions to increase to 52.9% in the end of 2016 (51.5% in 2015). This along with successful AQR completion pushed the pace of NPEs sales to collection companies to anticipated amount well above BGN 1 bln, with volumes gradually shifting from unsecured consumer loans toward larger relevance of corporate related exposures. As a result **NPEs went down** to less than BGN 10 bln (18.3% of total gross loans and 11.0% from GDP) for the first time since 2009.

Also very positively, the consolidated capital position improved, as unaudited **after-tax profit of the banking sector reached BGN 1.262 bln** – level close to the pre-crisis peak in 2008. Solid



Source: Bulgarian National Bank, UniCredit Bulbank

Bulgarian Economy in 2016 (continued)

profitability performance was attributable to a modest rise in net interest income (NII) and Fee and commission income on top of markedly lower loan loss provisions. The spread between interest rates on loans and deposits remained flat, but nevertheless, NII rose by 1.2% yoy mostly as bonds' portfolio held by Bulgarian banks mustered 22% increase to 14.0% of total assets. Fee and commission income posted a modest 3.5% yoy growth broadly in line with the pace of business volumes recovery and rise in payments services, including overseas transactions. Revenues improvement drew support also from some one-off event, such as gains from Visa shares following the acquisition of VISA Europe by VISA Inc.

Lending growth last year returned in the positive territory (0.6% yoy) for a first time since 2013, driven by the corporate segment and retail lending in particular. When taking into account accelerated recycling of NPEs last year lending growth is likely to have been even stronger, perhaps reaching level slightly in excess of 2% yoy. The latter mostly reflects the advanced phase of economic recovery as GDP growth stabilized at close to 4% over the last two consecutive years. **Deposit growth** continued decelerating its growth pace (7% yoy) when compared to 2015 (8.7% yoy), on the back of persistently solid gross savings rate of 21.6% anticipated for the whole 2016.

BANKING SYSTEM KEY FIGURES	2016	2015	2014	2013	2012	CHANGE 2016/2015
INCOME STATEMENT (BGN MILLION)						
Operating income	4 080	4 198	3 905	3 709	3 816	(2.8%)
incl. Net interest income	2 805	2 771	2 632	2 541	2 625	1.2%
incl. Net non-interest income	1 274	1 427	1 272	1 169	1 190	(10.7%)
Operating costs	1 762	2 022	1 924	1 986	1 983	(12.8%)
Operating profit	2 317	2 176	1 981	1 723	1 832	6.5%
Provisions (net)	907	1 164	1 143	1 135	1 196	(22.0%)
Pre-tax profit	1 410	1 013	838	588	636	39.2%
Net profit	1 262	898	745	527	567	40.5%
BALANCE SHEET (BGN MILLION)						
Total assets	92 095	87 524	85 135	85 689	82 416	5.2%
Loans to customers (incl. non-residents)	54 467	54 121	55 590	58 489	57 841	0.6%
thereof: Non-performing loans[1]	9 956	11 021	9 309	9 870	9 614	(9.7%)
Deposits from customers (incl. non-residents)	74 129	69 276	63 710	62 230	57 256	7.0%
Shareholders' equity	12 133	11 523	10 839	11 106	10 850	5.3%
MAIN RATIOS (%)						
Loans-to-Deposits ratio (on residents)	73.3	77.0	85.7	93.9	101.6	(3.7 pp)
Cost / Income ratio	43.2	48.2	49.3	53.5	52.0	(5.0 pp)
NPEs[1] ratio	18.3	20.4	16.7	16.9	16.6	(2.1 pp)
Cost of Risk[2]	1.8	2.3	2.1	2.1	2.2	(0.5 pp)
ROAE (after tax)	10.7	8.0	6.8	4.8	5.3	+2.6 pp
ROAA (after tax)	1.4	1.0	0.9	0.6	0.7	+0.4 pp

Source: Bulgarian National Bank

[1] Since 2015 nonperforming loans consist of not due but unlikely to pay and overdue exposures. Before 2015 NPE was defined as Loans overdue more than 90 days.

[2] Provisions flow / Avg gross loans (on residents)

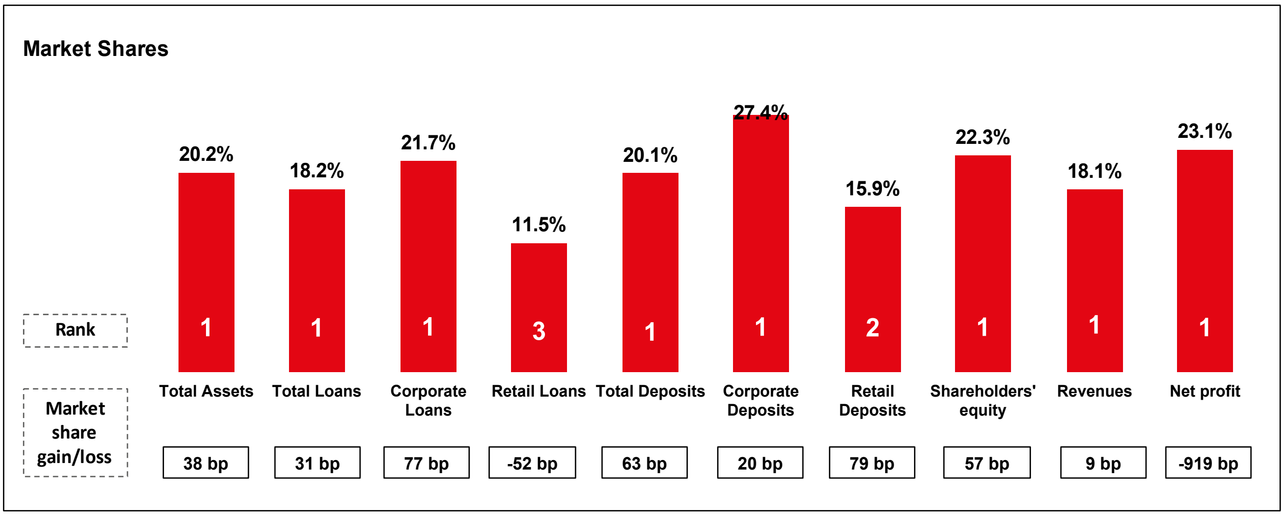
Long-anticipated **transformation in the ownership structure of the sector also gained momentum** last year, after Eurobank Bulgaria completed the acquisition of Alpha Bank (subsidiary of Greek owned company with the same name), while Belgian KBC Group won the bidding for UBB (local subsidiary of another Greek bank – NBG).

Market Positioning

In 2016 UniCredit Bulbank clearly established itself as **NUMBER ONE BANK** in terms of **SIZE** (Total Assets), **CUSTOMER FRANCHISE** (Customer Loans and Customer Deposits) and **PERFORMANCE** (Revenues and Net Profit). With a client portfolio of more than one million customers and a branch network of 170 units, UCB reaffirmed its position of a **distinguished leader** on the Bulgarian Banking Market. UniCredit Bulbank is part of UniCredit Group, a Pan European commercial bank with inherent competitive advantages servicing more than 25 million clients. It provides unique commercial banking model throughout Western, Central and Eastern European network to extensive Retail and Corporate client franchise.

The strong market position has been achieved thanks to the Bank's **outstanding reputation, customer centric commercial approach and a sustainable strategy.** UniCredit Bulbank continued to be one of the most active banks in terms of innovations with strong focus on digitalization and proactive actions to maximize value creation.

UniCredit Bulbank outperformed the market announcing **7.2% yoy growth in Total Assets** which is the highest organic growth among Top 5 Banks. Thus, the Bank increased its market share by 38bp to 20.2%. Moreover, UniCredit Bulbank extended its distinguished position vs the second largest competitor to 7.6 pp. (7.2 pp in 2015).



Source: Regulatory financial statements of UniCredit Bulbank and BNB

Although 50% of Net Profit for 2015 has been paid in 2016 as dividends, UniCredit Bulbank **improved its market share in Shareholders' Equity** by 0.57 pp to 22.3%, thus surpassing the banking system in terms of yoy growth. UniCredit Bulbank remained one of the best capitalized commercial banks, reporting a **CET1 capital ratio of 27.5%** as of December 2016.

The unfavorable impact of negative market interest rates and pressure on loan margins has been offset by streamlined liquidity optimization: increased investments in bonds and reduction in wholesale funding. UniCredit Bulbank **reinforced its leader position in Bonds' holdings** increasing its market share by 2.73 pp to 24%.

UniCredit Bulbank affirmed the Bank's **number one position in Lending Market** sustaining the challenging market conditions and imposes itself as **one of THE MOST ACTIVE BANKS in** extending financing to both companies and households. The banking system reported a positive yoy lending growth (0.6%) for the first time since 2013 while UniCredit Bulbank strengthened its **leadership position** through organic growth achieving 2.4% yoy increase. If including the business generated through the Bank's subsidiary specialized in consumer financing (UCFin), results would be even better: 4.1% yoy growth. UCB's market share in gross customer loans improved by 0.31 pp to 18.2%, thus increasing the distance with the second largest peer to 5.1 pp.

In **Corporate Loans sector** UCB continues to be **absolute market dominant** adding 0.77 pp yoy and achieved 21.7% market share. Furthermore, the Bank outperformed the banking system achieving 3.9% yoy growth compared to flat development of +0.2% yoy for the market.

Thanks to its strong focus on products specialization, simplification of processes and enhancement of the service models, UniCredit Bulbank achieved remarkable results in both Consumer and Mortgage Lending, thus considerably outperforming the banking system in terms of yoy growth. **Retail Loans** market share (when considering the UniCredit Consumer Financing's contribution) increased by 0.31 pp reaching 15.5%.

UCB clearly established itself as **the most trusted bank on the Deposit market** with market share of 20.1% (0.63 pp increase yoy) outperforming the banking system in both Retail and Corporate segments in terms of yoy growth. Based on its image of trusted and reputable partner UCB positioned itself as a preferred bank for households, announcing **the highest volume growth within**

Market Positioning (continued)

the Retail segment. Thus, market share in retail deposits market improved by 0.79 pp to 15.9% and the distance to the largest retail bank shrank to 0.3 pp in 2016 (1.1 pp in 2015). Within Corporate segment UCB remains **indisputable market leader** with market share of 27.4% (0.20 pp yoy increase).

Despite the challenging environment of still low loan demand and negative interest rates, UniCredit Bulbank **finished 2016 as NUMBER ONE BANK** in **Total Revenues, Gross Operating Profit and Net Profit** reporting growth in all the three positions.

UCB **outperformed the market** in terms of Total Revenue (6.3% yoy growth vs 5.7% for the system) improving its market share by 9 bp to 18.1%. The main contributor was non-interest income.

The Bank achieved **23.1% market share in Net Profit** outperforming the Market Average in terms of all the fundamental efficiency and profitability indicators: ROA, ROE and Cost/Income Ratio.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

In 2016 UniCredit Bulbank continued its steady growth in profitability indicators. **Operating income reached BGN 714 mln** and grew by a solid 5.9%. The Bank focused on business redesign targeting an increased value proposition to customers which resulted in revenue structure transformation. **Non-interest income** became the main growth driver, increasing its share in total operating income to 37% (from 30% in 2015). Fee and commission income (BGN 200.6 mln) increased by 1.4% yoy, mainly in transactional services (payments and cards). Trading income (BGN 81.2 mln) grew by 32.2% yoy, driven by the gains on treasury products sold to customers. Income from investment securities and dividends (BGN 32.2 mln) recorded 83.8% yoy growth, supported by a one-off gain from equity investment[1]. Other operating income/expenses (BGN 46.3 mln) improved by 35.4% as a result of lower systemic charges for Deposits Guarantee and Resolution Funds. In a historically low interest rates environment, **Net interest income** (BGN 446.7 mln) decreased by 4.8% yoy. **Operating expenses** (BGN 246.3 mln) slightly increased by 1.1% yoy, in regulatory costs (local Asset Quality Review), IT and real estate expenses. **Gross operating profit** (BGN 468.1 mln) scored a solid 8.6% yoy growth, which was enough to compensate for the increase in **Impairment on financial assets** (BGN 139.2 mln) growing by 35.0% yoy. Thus **Net Profit retained flat at BGN 291.4 mln** (+0.5% yoy).

In thousands of BGN

OPERATING INCOME COMPONENTS	YEAR		CHANGE	
	2016	2015	%	AMOUNT
Net interest income	446 682	469 321	-4.8%	(22 639)
Net fee and commission income	200 573	197 868	1.4%	2 705
Net trading income	81 246	61 442	32.2%	19 804
Net result from investment securities and dividend	32 201	17 523	83.8%	14 678
Other operating income/expenses, net	(46 265)	(71 651)	-35.4%	25 386
OPERATING INCOME	**714 437**	**674 503**	**5.9%**	**39 934**
Operating expenses	(246 314)	(243 542)	1.1%	(2 772)
GROSS OPERATING PROFIT	**468 123**	**430 961**	**8.6%**	**37 162**
Impairment losses on financial assets	(139 249)	(103 112)	35.0%	(36 137)
Provisions for risk and charges	(6 491)	(5 279)	23.0%	(1 212)
Income from property, plant and equipment	2 285	451	406.7%	1 834
Income tax expense	(33 230)	(33 014)	0.7%	(216)
NET PROFIT	**291 438**	**290 007**	**0.5%**	**1 431**

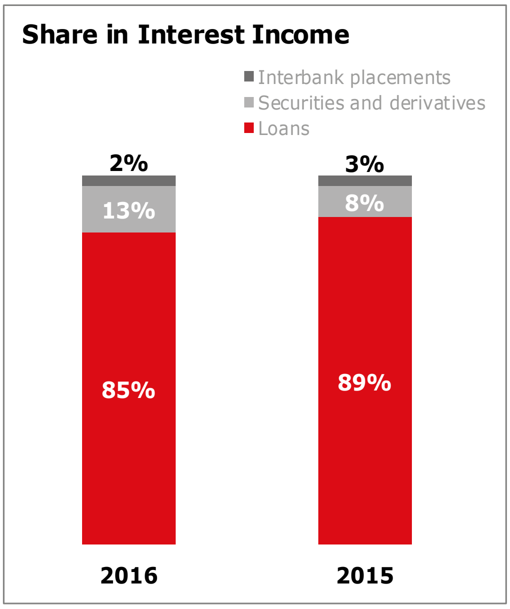
In 2016 UniCredit Bulbank continued to outperform the market in terms of profitability and efficiency. Return on equity (**ROE**) reached 11.2% (vs 10.7% for the banking system), return on assets (**ROA**) reached 1.6% (vs 1.4% for the market) and **net profit margin** reached 40.8% (vs 30.9% for the system). The operating efficiency significantly outpaced the market average expressed by cost/income ratio (**C/I**) at 34.5% compared to 43.2% for the market. Cost of risk on net loans is at 1.6% (**COR**), above the market because of conservative provisioning policy resulting in better NPE provision coverage. The COR increase (+0.5 pp yoy) is the main reason for the yoy decrease in profitability ratios.

Net interest income (BGN 446.7 mln) decreased by 4.8% yoy. Excluding the charges on excess liquidity (introduced in the beginning of 2016) and the non-recurring income in 2015 (from a bridge-to-bond facility) net interest income decreased by 2.7% yoy, due to decline in inter-bank reference rates and competition driven pressure on margins. This was partially offset by deposits costs optimization, increased investments in bonds and decrease in wholesale funding. Although the share of the net interest income shrank to 63% of the total operating income, it remained the major item in revenues composition.

[1] As a shareholder in VISA Europe Ltd, UniCredit Bulbank booked BGN 24 mln gain when VISA Inc purchased the shares of VISA Europe Ltd in 2016.

UniCredit Bulbank Activity Review (continued)

Unconsolidated Financial Results (continued)



Interest income (BGN 512.8 mln) is primarily earned from the lending business, which accounted for 85% of total interest income, affirming the Bank's strategic focus on commercial banking and the commitment to the local economy. On annual basis interest income decreased by 8.5%, due to drop in interest income from loans and interbank placements, while those from securities increased. **Interest income from loans** (BGN 435.1 mln) declined by 12.9% yoy, because of the decrease in loan rates, triggered by general decline in interbank reference rates and competition driven margin compression. **Interest income from securities and derivatives** (BGN 65.4 mln) marked an impressive 40.1% yoy growth and account for 13% from interest revenues (compared to 8% in 2015). It is a result from an increase in the bonds portfolio volumes aiming at liquidity utilization and favored by the leading position of the Bank in the government securities market. **Interest income from interbank placements** (BGN 12.4 mln) dropped by 16.4% yoy, due to lower interest rates.

Interest expenses (BGN 66.1 mln) declined significantly by 27.7% yoy. Following the common market trend the cost of customer deposits continued decreasing which contributed to lower interest expenses despite the growth in the deposit volumes by 10.4% yoy. In particular, **interest expenses on customer deposits** (BGN 34.4 mln) dropped by 51.8% yoy and account for 52% of total interest expenses (from 78% in 2015). On the other hand, **Interest expenses on derivatives used for hedging** (BGN 17.1 mln) almost doubled (+89.1% yoy), achieving a share in total interest expenses of 26% (from 10% in 2015). **Interest expenses on deposits from banks** (BGN 14.6 mln) increased by 36.1% yoy and reached 22% share in total interest expenses (12% in 2015) mainly because of the charges on excess liquidity held with Bulgarian National Bank, while the wholesale funding costs decreased yoy thanks to optimization in their volumes.

In 2016 UCB remained well positioned in traditional banking services. Enhancement of investment products' portfolio and enriching of cards business together with further development of alternative banking channels and deepening the digitalization profile of the trade finance and factoring services were the main initiatives for enlarging fee-generating product portfolio. In combination with maximized synergy value coming from active collaboration with the external product factories for consumer financing, leasing and insurance businesses, this strategy made the net fee and commission income an important driver of revenues' growth. **Net fee and commission income** (BGN 200.6 mln) accounts for 28% of total operating income and increased by 1.4% yoy, mainly in fees on accounts servicing, incl. package products (+35.4% yoy) as well as documentary business (+5.5% yoy).

REVENUE STRUCTURE	YEAR	
	2016	2015
Net interest income	63%	70%
Net fee and commission income	28%	29%
Net result from trading and securities and other income	9%	1%
OPERATING INCOME	100%	100%

Net trading income (BGN 81.2 mln) grew significantly by 32.2% yoy, driven by higher revenues from FX operations and gains on customer derivatives, which is fully in line with the Bank's strategy to have the financial markets business fully plugged into the commercial banking services to corporate customers.

Net result from investment securities and dividend (BGN 32.2 mln) increased by 83.8% yoy, driven by one-off gain from VISA ownership shift (BGN 24.2 mln) as well as gains from the sale of bonds (AFS portfolio). Dividends (BGN 1.5 mln) increased by 56.5% yoy.

Other operating income/expenses, net (BGN 46.3 mln) decreased by 35.4% yoy, mainly due to lower contributions to the Deposit Guarantee and Resolution Funds (systemic charges). In 2016 they amount to BGN 48.0 mln and decrease by 27.2% yoy.

Operating expenses (BGN 246.3 mln) slightly increased by 1.1% yoy, in other administrative expenses. **Personnel costs** (BGN 114.0 mln) remained at their level a year ago (-0.3% yoy). **Non-personnel costs** (BGN 132.4 mln) grew by 2.4% yoy, driven by regulatory costs (local AQR), higher real estate costs (new Head Office building), IT and depreciation expenses, related with the implementation of strategic business and operational projects. The increase in non-personnel costs is partially counterbalanced by lower impairment of investment property (BGN 10.7 mln in 2016 and -21.0% yoy).

Impairment losses on financial assets (BGN 139.2 mln) grew by 35.0% yoy, influenced by growing loan volumes and allocations on several large cases. COR (on net loans) increased to 1.6% in 2016 while NPE ratio decreased to 14.0% (from 15.8% a year ago) and NPE coverage reached 58.2% (57.4% in 2016 or 80bp improvement).

Profit before tax amounted to BGN 324.7 mln, +0.5% yoy and respectively the income taxes went up by 0.7% yoy to BGN 33.2 mln as of December 2016.

As a result of the above developments, **Net Profit after tax reached BGN 291.4 mln** (+0.5% yoy) which represents about **23% from the net profit of the Bulgarian banking system**.

UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities

In 2016 UniCredit Bulbank re-affirmed its leadership position on the market in terms of **total assets** which reached BGN 18 626 mln, growing by 7.2% yoy. Customer deposits (+10.4% yoy) remained the main funding source as well as an important customer acquisition channel. To optimize liquidity in a low-credit-demand environment, investments in securities increased (38.3% yoy) while funding from banks decreased (33.2% yoy).

High credibility and real-value-added services remained the key success factor for the Bank in developing a trustworthy relationship with customers. **Net loans and advances to customers** represent 49% of total assets, affirming the focus of UniCredit Bulbank on the sustainable development of commercial banking. Net loans reached BGN 9 070 mln, growing by 3.4% yoy, driven by Corporate lending, while the production of the consumer lending to individuals was performed via the Bank's specialized subsidiary – UniCredit Consumer Financing.

Securities portfolio reached BGN 3 170 mln, growing by 38.3% yoy and increasing its share in total assets to 17% (from 13% in 2015). Almost the entire portfolio (99%) consists of Bulgarian government bonds. In 2016 the Bank was awarded in both categories for the fourth consecutive year – primary dealer of securities that has purchased the largest number of securities on the primary market in 2016 and a primary dealer of securities that has purchased the largest number of securities on the primary market in 2016 for its own account.

Taking advantage of the banking system liquidity, its steady market position and impeccable reputation, UniCredit Bulbank achieved another two digit growth in **customer deposits** (10.4% yoy) for third consecutive year. They reached BGN 14 894 mln (94% of total liabilities) and are evenly distributed between individuals and companies, confirming UniCredit Bulbank balanced approach - expanding in retail banking along with maintaining its pronounced corporate profile.

The **net loans/deposits ratio** improved by 4.1 pp yoy to 60.9% in 2016. It is better than the market average of 66.4% and positions the Bank favorably for successful exploitation of further growth opportunities.

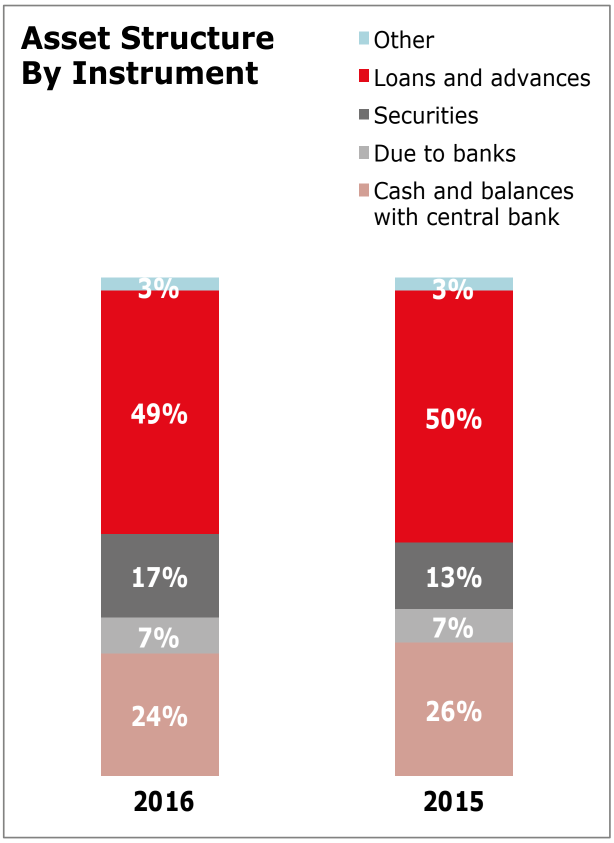
Deposits from banks decreased by 33.2% yoy to BGN 729 mln which is in line with the liquidity management strategy of reduction in wholesale funding.

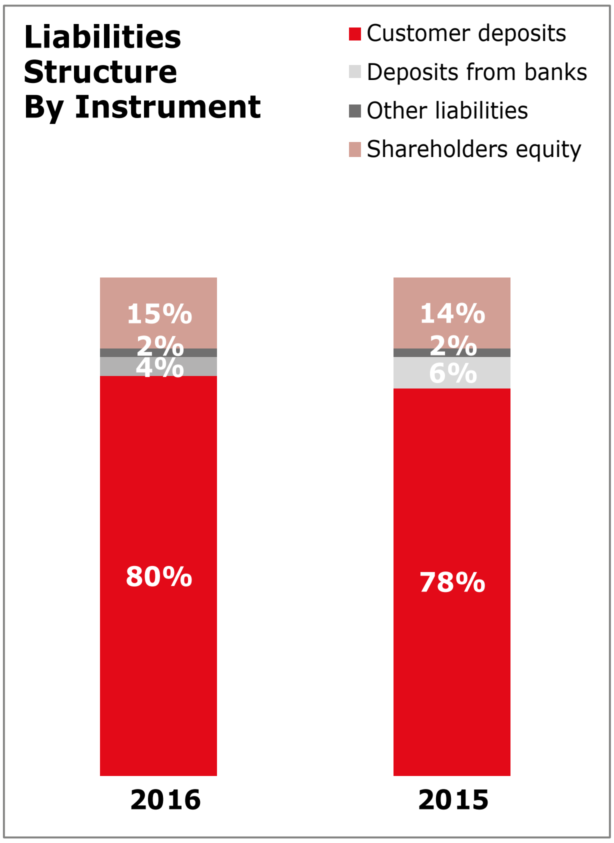
Shareholders' equity reached BGN 2 710 mln, growing by 8.1% yoy and increasing its share to 15% of total assets. The increase includes BGN 145 mln retained earnings (50% out of 2015 net profit) and BGN 56 mln increase in revaluation reserves (mainly available-for-sale financial assets).

In thousands of BGN

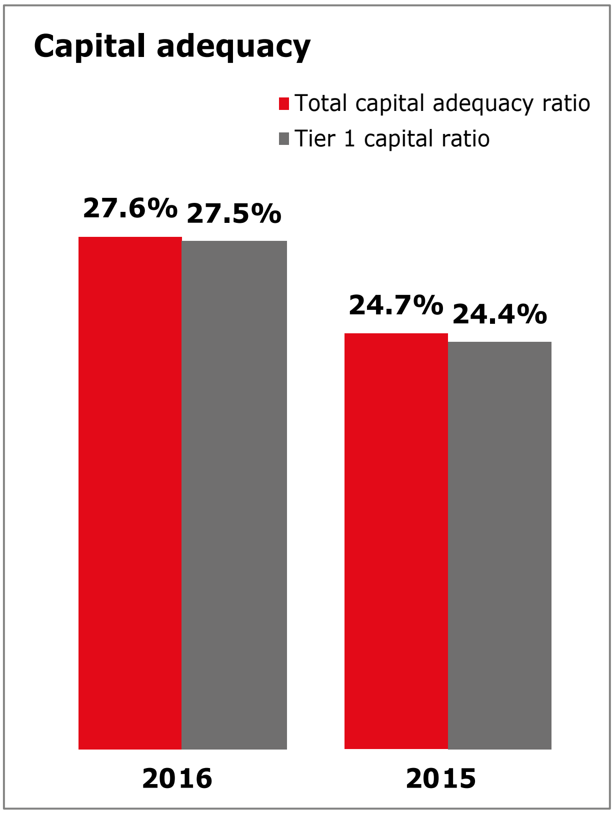
BALANCE SHEET STRUCTURE	YEAR		CHANGE	
	2016	2015	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	4 547 510	4 585 396	-0.8%	(37 886)
Loans and advances to banks	1 320 905	1 225 373	7.8%	95 532
Securities	3 169 962	2 292 373	38.3%	877 589
Loans and advances to customers	9 070 237	8 769 392	3.4%	300 845
Property, plant, equipment and investment properties	193 921	165 523	17.2%	28 398
Other assets, net	323 297	330 260	-2.1%	(6 963)
TOTAL ASSETS	**18 625 832**	**17 368 317**	**7.2%**	**1 257 515**
LIABILITIES AND EQUITY				
Customer deposits	14 893 732	13 485 196	10.4%	1 408 536
Deposits from banks	728 882	1 090 445	-33.2%	(361 563)
Other liabilities	293 376	284 885	3.0%	8 491
TOTAL LIABILITIES	**15 915 990**	**14 860 526**	**7.1%**	**1 055 464**
SHAREHOLDERS' EQUITY	**2 709 842**	**2 507 791**	**8.1%**	**202 051**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**18 625 832**	**17 368 317**	**7.2%**	**1 257 515**

Unconsolidated Assets and Liabilities (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2016 UniCredit Bulbank fulfilled **with significant buffers** the minimum requirements of 13.5% for total capital adequacy ratio and 11.5% for Tier 1 ratio. The **total capital adequacy ratio reached 27.6%** (24.7% in 2015) and **Tier 1 ratio reached 27.5%** (24.4% in 2015), which also indicates the **high quality of the capital instruments – i.e. mainly Tier I eligible ones**.



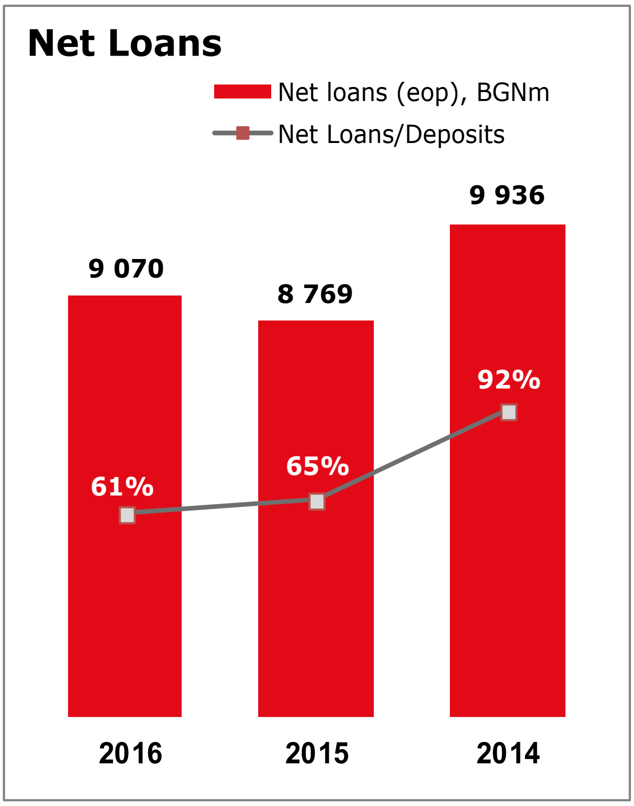
Unconsolidated Assets and Liabilities (continued)

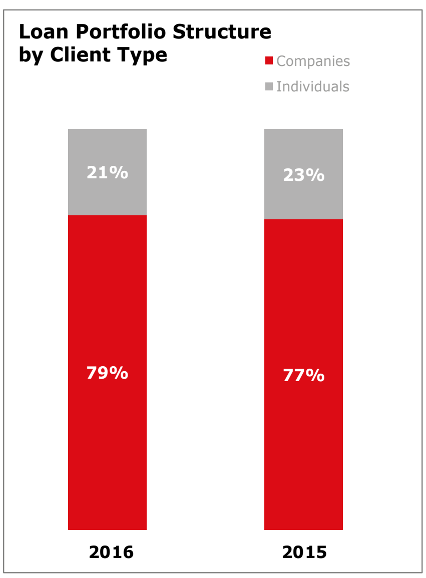
Customer Loans

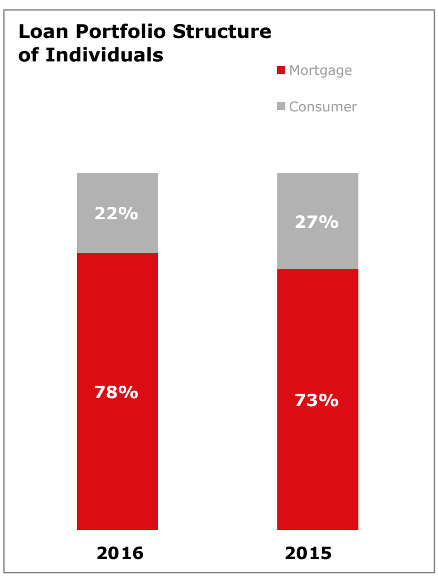
In 2016 the Bulgarian economy showed signs of gradual recovery, where the lending conditions were also improving, helped by a favorable combination of abundant liquidity and the falling cost of borrowings. In this environment UniCredit Bulbank successfully retained its existing clients and further focused on new businesses. The commercial initiatives were addressed to providing a comprehensive range of Bank financing products supplemented also by factoring and leasing products to fully meet customer needs.

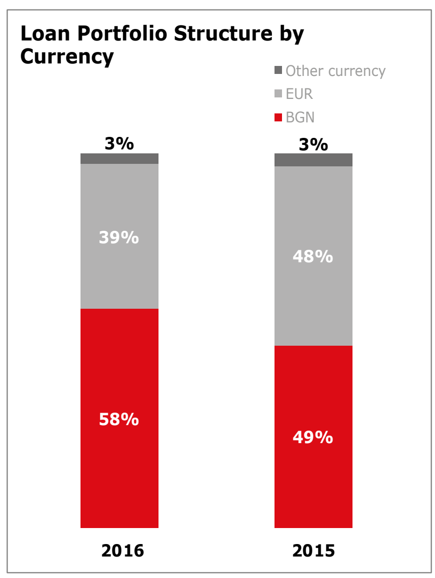
As of December 31, 2016, UniCredit Bulbank remained the top lending banking institution in Bulgaria with **net customer loans** at the amount of BGN 9 070 mln and a **gross loan portfolio** of BGN 9 923 mln. Thanks to above-market growth in both Retail and Corporate segment the Bank consolidated its market position with a share of 18.2% (17.9% in 2015) and continued to be the most active player in the Bulgarian lending market.

The largest portion of the Bank's loan portfolio (79%) represented **loans to companies and government** at the amount of BGN 7 796 mln. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments along with the long-term trusted relationships resulted in effective financing solutions for the customers and new healthy revenue generation for the Bank. **Loans to individuals** amounted to BGN 2 128 mln, declining to 21% share of total volume (23% in 2015). In 2016 the share of mortgage loans in loans to individuals increased to 78% yoy (17% share in total loans) from 73% in 2015. They marked a positive trend of 3.2% yoy, reflecting the continuing upturn of the real estate market in Bulgaria. The strategic decision to channel the new consumer financing production through the specialized subsidiary UniCredit Consumer Financing is the reason for the reported decrease in Bank's stand-alone consumer loans portfolio by 19.8% yoy to BGN 471 mln. They represent 5% of total loans (22% share in loans to individuals vs 27% in 2015). If however adding the banking consumer loans produced via UniCredit Consumer Financing, the growth in the consolidated consumer loans portfolio approached 6.1% yoy, while the market reported the modest average annual growth of 1.6%. This affirms the strong positioning of UniCredit Bulbank group also in the retail lending market.







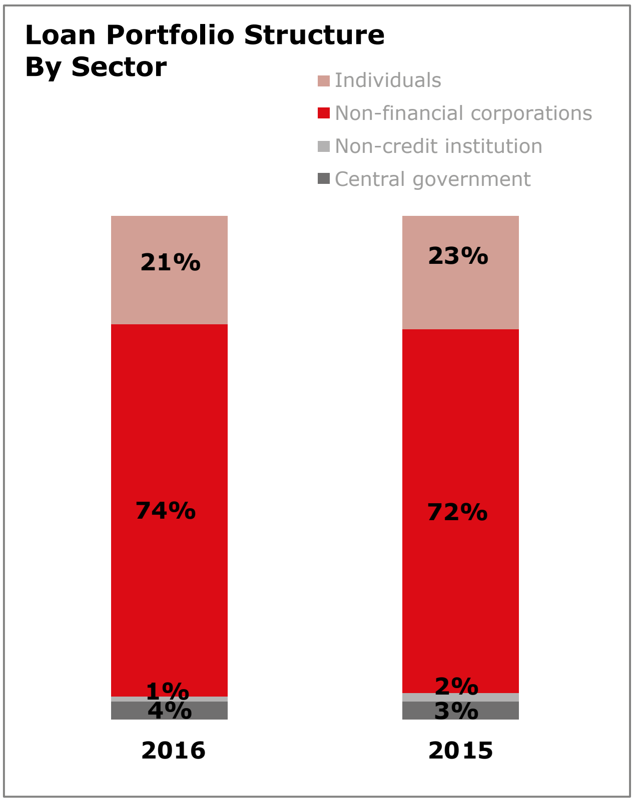


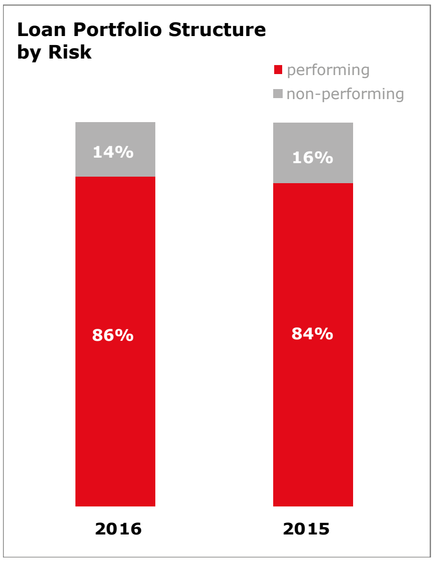
Unconsolidated Assets and Liabilities (continued)

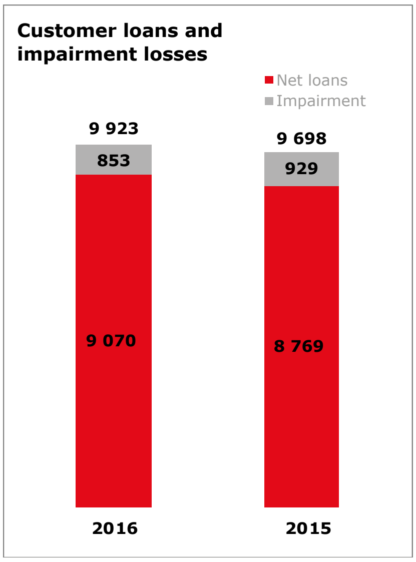
Regarding the **currency structure** of the Bank's gross loan portfolio the loans in EUR shrank in share to 39% amounting to BGN 3 833 mln. Loans in BGN marked significant growth by 22.7% yoy thus taking a share of 58% (49% in 2015). Loans in other currencies remained immaterial with 3% share.

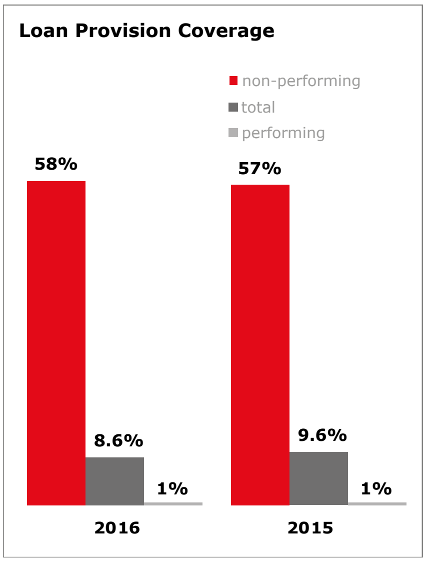
In terms of **structure by economic sectors** loans granted to non-financial corporations represented the largest portion in the loan portfolio, increasing their share from 72% a year ago to 74% at the expense of the share of loans to individuals (21% in 2016 vs. 23% in 2015). Loans to central government and to non-credit institutions constituted 4% and 1%, respectively.

With regard to **assets quality**, performing loans portfolio represented 86% and amounted to BGN 8 533 mln. Thanks to strong recovery activities the non-performing loans marked a decline by 9.4% yoy to BGN 1 390 mln. As of December 2016 the Bank reported NPE ratio of 14%. The loan loss provision coverage of non-performing exposures acquired additional 80bp and reached 58%. Total loan loss impairments decreased by 8.1% on an annual basis and reached BGN 853 mln. Total coverage ratio reached 8.6% (9.6% for 2015).









Unconsolidated Assets and Liabilities (continued)

In terms of industry structure, in 2016 the most significant growth in share marked Manufacturing, where the absolute amount of the exposure increased by 17.4% yoy, mainly at the expense of Commerce (decrease by 10.6% yoy). Transport and communication, Tourism and Agriculture and forestry also report a slight increase in their share, while the share of Construction and real estate and Financial services declined. In line with the Bank's strategy Housing loans marked an increase by 3.2% yoy with share of 17%. At the end of 2016 the largest areas of concentration were manufacturing (23%), retail financing (21%) and commerce (20%).

In thousands of BGN

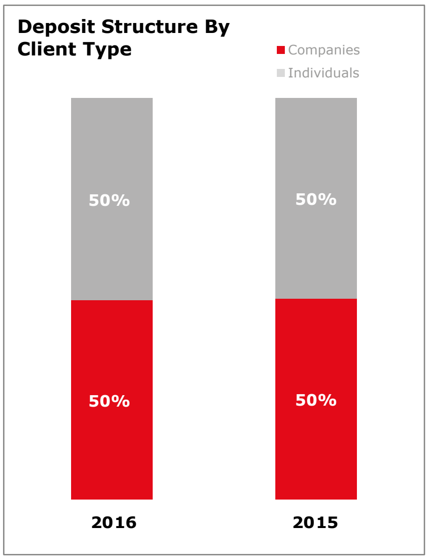
INDUSTRY STRUCTURE	2016		2015	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 311 833	23%	1 969 390	20%
Commerce	1 949 629	20%	2 179 715	22%
Construction and real estate	1 536 218	15%	1 528 474	16%
Services	500 266	5%	507 809	5%
Agriculture and forestry	456 810	5%	426 445	4%
Sovereign	339 082	3%	315 605	3%
Transport and communication	321 596	3%	229 109	2%
Tourism	253 122	3%	155 673	2%
Financial services	127 058	1%	192 643	2%
RETAIL (INDIVIDUALS)	**2 127 616**	**21%**	**2 192 937**	**23%**
Housing loans	1 656 185	17%	1 604 843	17%
Consumer loans	350 560	4%	457 418	5%
Other	120 871	1%	130 676	1%
TOTAL LOAN PORTFOLIO	**9 923 230**	**100%**	**9 697 800**	**100%**

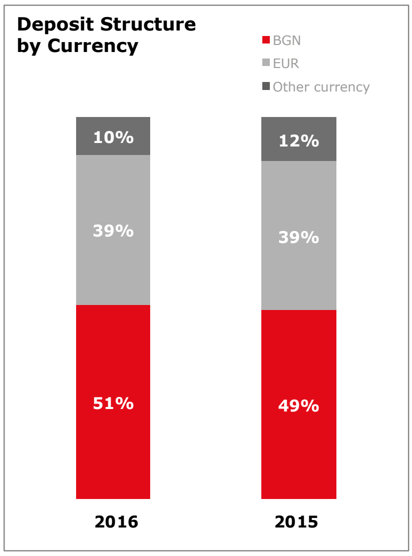
UniCredit Bulbank Activity Review (continued)

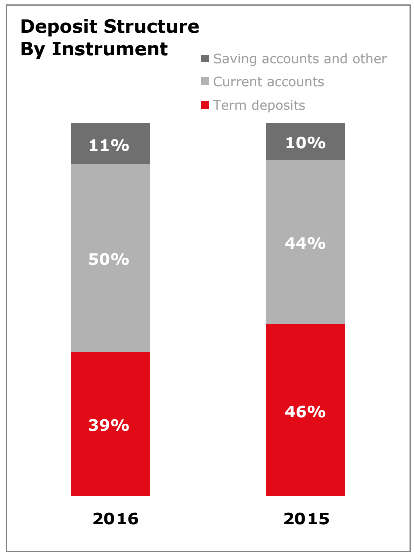
Unconsolidated Assets and Liabilities (continued)

Customer Deposits

In 2016 UniCredit Bulbank continued expanding its market presence leveraging on its distinguished trustworthiness. The Bank realized 10.4% annual growth and attracted about 30% from the new customer deposits in the banking system which was the highest absolute growth for a third consecutive year within the market. **Deposits from customers** amounted to BGN 14 894 mln. Market share reached 20.1%, gaining additional 63bp yoy, further extending the distance from the second on the market. Moreover, UniCredit Bulbank attracted 28% of the new Retail banking deposits volume of the system which placed it very close to the second in the ranking. UniCredit Bulbank became the bank of choice for the individual clients and companies thanks to its indisputable safety and stability as well as excellent reputation.







In terms of **currency distribution** the structure of deposits remained balanced. It displayed a 51% share of BGN denominated deposits, compared to 49% in 2015. Deposits denominated in EUR remained 39% of total volume although they grew by 10.9% yoy. Deposits in other currencies shrank yoy decreasing in share of total funds to 10% in favor of the BGN ones.

With regard to the **product structure**, current accounts gained additional share to 50% at the expense of term deposits. Saving accounts increased their share to 11% of total funds.

Both **Deposits of individuals** (BGN 7 513 mln) and **Company deposits** (BGN 7 380 mln) grew firmly respectively by 11.8% and 9.1% yoy, each accounting for a 50% share from total deposits. Following customer behavior trends, the Bank continuously enriched its product portfolio. Besides the standard deposits, a variety of long-term investment and saving solutions are offered to customers, such as structured deposits, mutual funds of Pioneer Investments, life insurances and pension funds of Allianz.

Consolidated Financial Results

The following table represents the list of UniCredit Bulbank's subsidiaries, their consolidation method and respective participation in equity as of 31 December 2016:

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Consumer Financing EAD	100.0%	Full consolidation
UniCredit Leasing Group	100.0%	Full consolidation
UniCredit Factoring EAD	100.0%	Full consolidation
UniCredit Fleet Management EOOD	100.0%	Full consolidation
Cash Service Company AD	20.0%	Equity method

The trends in the consolidated financial results are defined mainly by those of UniCredit Bulbank (as already described in previous section of the report).

The **consolidated net profit** of UniCredit Group for 2016 was at BGN 361.3 mln increasing by 6.2% yoy. The growth was mainly driven by increase in revenues of both Bank stand-alone and subsidiaries (UniCredit Consumer Financing and UniCredit Leasing). Net interest income increased by 0.5% yoy. Fees and commissions income (+5.8% yoy) and net income from trading, investments and dividends (+43.7% yoy) scored higher performance yoy. In addition to the positive contribution of the growing revenues of the Bank, the growth in **consolidated revenues** (9.3% yoy) was supported by robust increase in the income from consumer lending channeled through UniCredit Consumer Financing.

Group's **consolidated operating expenses** had an upward trend of 1.2% yoy to BGN 274.6 mln mainly due to growth in costs of the Bank (stand-alone).

The increase in operating costs, were more than counterbalanced by the growth in operating income and thus **gross operating profit** was up by 13.6% yoy.

Consolidated impairment losses on financial assets increased by 59.1% yoy to BGN 197.8 mln, following the trend of the Bank's stand-alone figures, influenced by allocations on several large cases and growing loan volumes. However, consolidated NPE ratio declined significantly to 13.0% (from 14.9% in 2015) and thanks to conservative provisioning NPE coverage reached 59.6%.

Total **consolidated assets** reported 8.0% annual increase and reached BGN 20 387 mln. Thanks to the positive contribution of subsidiaries - mainly UniCredit Consumer Financing but also UniCredit Leasing Group, the consolidated net customer loans grew by 5.3% to BGN 10 873 mln. Customer deposits of the Group were at BGN 14 838 mln, rising by 11.6% yoy.

In thousands of BGN

	YEAR		CHANGE %
	2016	2015	
INCOME STATEMENT FIGURES			
Operating income	857 686	784 809	9.3%
Operating expenses	(274 564)	(271 289)	1.2%
Gross operating profit	583 122	513 520	13.6%
Impairment losses on financial assets	(197 776)	(124 289)	59.1%
Net profit	361 345	340 191	6.2%
VOLUME FIGURES			
Total assets (eop)	20 386 681	18 878 645	8.0%
Net customer loans (eop)	10 872 961	10 322 202	5.3%
Customer deposits (eop)	14 838 200	13 295 739	11.6%

Risk Management

Credit Risk

In 2016 the Bank performed its credit activities in compliance with the governing rules and policies and in respect of the defined risk appetite framework. During the year the deterioration in retail loan portfolio slowed down, while in corporate portfolio several exposures had to be reclassified and forbearance measures on a few big exposures had to be approved. Due to the mentioned reasons consolidated cost of risk ratio (on net loans) increased from 116 bp to 187 bp.

The impaired portfolio remained a major focus. Therefore in 2016 the measures related to assets repossession, debt collection and realization of several successful cessions of loan packages in individuals and small business segments continued. Along with it, for the first time the Bank sold a relatively big package of corporate loans to an external investor (these were classified as held for sale as of December 31, 2016 as the sale was finalised in January 2017). A number of fully provisioned loans without collaterals or with sold collaterals from which no recovery is expected, were written-off from the balance sheet. **All those activities resulted in a significant improvement in consolidated NPE ratio by 189 bp to 13.0%** (compared to 14.9% in 2015), despite the new inflow from performing to impaired portfolio.

The activities related to **IFRS 9 conversion project**, in particular the ones in loan loss provisioning stream, are progressing. The Bank has started preparation for the forthcoming parallel run. In order to meet all criteria of the new standard, local modelling team developed IFRS 9 compliant PD models and related transfer logic. The expectation is the loss given default (LGD) and exposure at default (EAD) models to be ready mid of 2017.

In the first half of 2016 BNB performed **Asset Quality Review** of the Bulgarian banking system. During the Credit File Review 151 Retail Mortgage and 456 Corporate credit files were checked by the AQR provider. As a result the Bank got a recommendation to reclassify few borrowers from performing to non-performing portfolio and to increase the LLP coverage on several existing non-performing exposures, due to collateral devaluation. The net AQR adjustments in terms of loan provisioning were at the amount of BGN 19.2 mln. All the reclassifications as well as the allocation of additional loan loss provisions were closed as at the end of 2016.

The **credit underwriting** activity in 2016 was performed in accordance with the adopted local Credit Risk Policies, based on UniCredit Group Credit Risk and Industry Strategies as well as Economic Sectors Outlooks. In the origination of new loans, the Bank conformed to the prescribed financing principles for probability of defaults, transaction's structural features, covenants and conditions and provision of collateral. During the year several initiatives were performed aiming to introduce more flexible and efficient underwriting process.

The **monitoring** activity has been strongly focused on streamlining the overall Monitoring and Watch list process including optimization of the Watch list structure, refinement of the used monitoring criteria (anomalies) and simplification of the produced reports. The upgrade of the Monitoring web-based application started in the last quarter of 2016.

Following the closure of the collateral workflow process improvement project, the monitoring function both in Corporate and Retail continue to play significant role in the collateral Data Quality's maintenance as well as in the process of renewal of insurances and collateral evaluations through ensuring of its informational coverage: periodical reports delivered to the respective business lines as well as preparation of high level reports to the Management.

The process of Monitoring **information exchange between the Bank and local subsidiaries** was initiated in the first quarter of 2016, which laid the foundation of the Watch list-related synchronization in terms of detected anomalies, approval of common classification and defining a strategy in the cases of common clients with exposures in the Bank, Leasing and Factoring companies.

Starting from July 2016, UniCredit Bulbank reported regulatory capital for credit risk under the **Advanced Internal Rating Based Approach (A-IRB)** for **corporate and retail clients**. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB), while exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

In parallel to regulatory capital calculation, the Bank also maintained full-scale economic capital quantification and reporting and stress testing as part of its **Internal Capital Adequacy Assessment Process (ICAAP).** Along this process the Bank has also implemented the **Group Risk Appetite Framework** which explicitly defines the level of risk it is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interest of its customers and shareholders as well as regulatory requirements.

Market, Counterparty and Liquidity Risk

In the area of risk appetite and strategy, the Market risk management function supported regular reassessment of market and liquidity risk limits. The transfer of ownership of all UniCredit CEE legal entities (including UniCredit Bulbank) to UniCredit Holding in October 2016 triggered a process of implementation of **variety of UC Group regulations**. In 2016 the Bank started also the implementation of new liquidity risk tools aimed at higher efficiency in managing liquidity risks as well as adopted additional Valuation Adjustments in the context of prudent valuation processes and further enhanced the Independent Price Valuation tools.

Regarding **limit control and reporting**, the Market risk management function continued to supply management with daily limit compliance reports. These consisted of VaR metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, combined with stop-loss and operative liquidity triggers. Within ALCO process, the Bank's management was regularly supplied

Risk Management (continued)

with comprehensive summary of potential profit and loss impact of extreme shifts in FX, interest rates, credit spreads and market liquidity squeeze on major portfolios, both trading and investment.

With reference to **market risk methodology and architecture**, UniCredit Bulbank makes use of the group internal model IMOD for daily risk control and economic capital assessment. Regarding liquidity risk, the risk management systems were adapted to facilitate calculation of regulatory ratios, such as Liquidity coverage ratio and Net stable funding ratio, and of Additional Liquidity Monitoring Metrics, such as Funding concentration by counterparts and by product, as well as Concentration of Counterbalancing capacity by issuer. The system for counterparty risk measurement and control was upgraded to facilitate quantification of Funding Valuation adjustments along with CVA risks in pricing and valuation.

Activities of Market risk management function **in 2017** will be focused on further adaptation of tools and processes related to fair valuation of financial instruments in the context of IFRS 13. Major step ahead in the area of interest rate risks in the banking book is the adoption of new group tool ERMAS for simulating net interest income under various scenarios. Refinement of liquidity models and introduction of intraday liquidity control will be another area for development.

Operational and Reputational Risk

The main activities of the Operational and Reputational Risk unit in 2016 were focused on the further development of its management, with emphasis on preventative and mitigation actions to reduce future losses. A new activity, Operational Risk Assessment for the identification and assessment of **ICT risks** and mitigating controls, was performed in UniCredit Bulbank. Also, as part of the definition of the Operational Risk Strategies 2017, the **Business Syndication activity** was performed for the first time in 2016. It involves collection of information related to business strategies in a forward looking perspective with focus on measuring the operational risk arising from Strategies implementation. The unit continued to develop the reputational risk procedures in compliance with UniCredit Group principles, policies and rules for monitoring the Reputational risk exposure.

The Operational Risk management at UniCredit Bulbank AD is established at a high level of quality according to the annual Self-Validation report. This fact was confirmed by the **control verifications** of UniCredit Group Internal Validation function and the Bank's Internal Audit inspections, which both gave the highest possible scores and found the operational risk management and control system fully adequate and compliant with regulatory and Group standards.

Moreover, the **risk culture** has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures within the Bank ensure the outstanding Operational Risk awareness at Bank level.

In 2017 the Operational and Reputational Risk unit will have to further develop and finalize several projects and activities started in 2016. The unit will continue monitoring the UniCredit Bulbank Operational Risk Strategies, which include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk, etc. In 2017 a significant part of the resources will be devoted to new Group projects and initiatives in the Operational and Reputational Risk areas. Additional efforts will be dedicated to the operational risk mitigation actions elaboration and monitoring.

Corporate, Investment and Private Banking

General Overview

In 2016, the strategy of Corporate, Investment and Private Banking (CIB&PB) division continues to be twofold: (1) acquisition of selected new customers in export-oriented and high-potential sectors; (2) broadening the offerings to existing customers with the objective to nurture long-lasting relationships. Business origination is driven by "solution-oriented" client focus in the daily activities of both product experts and sales force.

CEE 2020 Plus initiatives – in leadership position

CIB&PB Division was again actively involved in UniCredit strategic initiatives under the CEE 2020 Plus Program, harnessing innovation and digitalization in order to enhance value creation across the CEE Division. In this respect, Corporate Banking continued developing two Bold Initiatives - Big Data and One CIB. In Private Banking the Need Based advisory concept is being implemented to cover all financial needs of clients, including an online solution for securities trading. Further, the investment tool Unique, aiming to provide the best-in-class financial solutions and guided asset allocation propositions was successfully started in technical go-live phase.

The International Center – a focal point for doing international business

The International Center is exclusively dedicated to international business clients, with a service model which aims to position UniCredit Bulbank as a one stop solution provider. The Center offers temporary offices and lounge services for the Bank's clients. The meeting room zones are also used for organizing official events, business-to-business networking, themed sector events and joint-marketing initiatives: 1 667 meetings and 45 events were organized in 2016 resulting in various commercial actions.

Innovation and digitalization – further significant steps realized

The **electronic Trade Finance module** was successfully launched in 2016. The new platform was developed to ease and speed up communication, processing and access to real-time information regarding bank guarantees, letters of credit and documentary collections. In 2016 more than 25% of corporate clients' trade finance transactions were possessed using the online tool.

Factoring subsidiary has digitalized its services to corporate clients, both suppliers and buyers, with **eFactoring.bg**. As a first mover and market leader, UniCredit Factoring targets to boost speed, minimize paper usage, enhance security, uplift process control and in addition – to utilize the tool as a client origination engine. More than 50% of all factoring customers already work with the application and the share of the factoring turnover through eFactoring reached 25%.

The **mobile point of sale (mPOS) device** and application for SME and Corporate customers were introduced. It enables merchants to transform their smart devices (phones, tablets, hybrid PCs) into mPOS solution as well as to connect the mPOS device with physical cash registers. Merchants, in courier and tourist sectors have their own mobile apps integrated with our solution for a fully automated sales process.

Leveraging on the new program period for EU Funds with focus on low mid-cap clients

UniCredit Bulbank participates with guaranteed portfolio under the SME Initiative, which is a joint financial instrument structured as a separate operational program (OP) in Bulgaria and uses funds from OP "Innovation and competitiveness 2014-2020", the European Commission and EIB-Group. It provides uncapped portfolio guarantees, with the aim to stimulate SME financing by providing partial risk cover for SME loan portfolios.

Bulbank United Initiative

The joint initiative between "Retail banking division" and "Corporate, investment and private banking division" – Bulbank United started in June 2016. Leveraging on combined commercial efforts of the relationship managers in both divisions, the initiative targets an increase in the number of individuals with payroll accounts at UCB and use of additional products and services as well as expanding the usage of the Payroll service by corporate clients. The initiative was a success story and it has been prolonged in 2017.

Financial Performance

In terms of **financial performance,** CIB&PB revenues (consolidated with Leasing and Factoring subsidiaries) remained almost flat (-0.3% yoy). The net interest income down-push is offset by 7.1% growth in non-interest revenues, with contribution of all main sources. Before-tax profit was 32.1% lower vs. previous year, compressed by significantly higher costs of risk.

Revenue performance across business lines was mixed. The fastest revenue growth was generated by Private banking up by 22.7% yoy. Leasing subsidiary increased revenues by 5.8% yoy, while Factoring revenues were down by 12.6% yoy. Markets and Brokerage department registered a 2.5% yoy increase, while the corporate banking on had a 3.2% yoy decline in revenues, influenced by some large gains in 2015.

Increasing deposit base

Customer deposits continued to grow by a brisk pace in 2016 supported by UniCredit's reputation and its leadership position on the local market. The **deposit base of CIB&PB reached BGN 6.9 billion** as of December 31, 2016, registering an **annual growth rate of 10.6%.** Current accounts expanded by 32.1%, while term deposits dropped by 22.8%, also due to the significantly decreased interest rate. Real estate deposits grew fastest by 32.1% yoy, followed by financial institutions, with 30.3%, and the large corporate business,

Corporate, Investment and Private Banking (continued)

growing by 15.1% yoy. By contrast international business showed decline in deposits (-2.6%), while the mid-sized corporate grew by 5.8% yoy. Within corporate deposits only, the currency structure at year-end 2016 was the following, BGN (51.4%), EUR (41.8%), USD (6.3%). As of the end of December 2016, UCB's corporate deposit market share expanded on an annual basis by 20 bp to 27.4%.

Loan growth sustained

CIB&PB loan volume increased by 4.9% yoy reaching BGN 7.91 billion as of December 31, 2016. Investment loans led the way with a 16.2% yoy expansion (with their share of total loans now at around 55% vs. 50% one year ago), while on the weak side, working capital loans declined by 7.3% yoy. Leasing and Factoring volumes increased by 6.8% and 1.1%, respectively, while Private banking loans were down by 12.8% yoy. The front-runners in terms of investment loan volumes were the large domestic (+20.7%), the mid-sized domestic (+17.8%) and the international (+16.6%) segments. Within corporate loans, the currency structure at year-end 2016 was the following: BGN (50.5%), EUR (45.7%) and USD (3.7%). At the end of December 2016, UCB's corporate loans market share was at 23.2%, up by 93 bp yoy.

Product/Coverage model

The CIB&PB Division applies service model consisting of both **client segment coverage and product factories**, which contributed to achieving high level of customer satisfaction. The segment coverage delivers a personalized relationship via a dedicated professional, who follows in depth the corporate client's business development, while the product owner provides a customized solution in a specific area. In 2016 the product factories remained focused on implementing innovative systems and digital solutions across all areas - The Trade Finance module as part of Bulbank Online; eFactoring, mPOS devices.

As of 2016, the corporate branch network consists of **10 branches** established in the major regions of the country and ensures a high-class operational service to corporate clients.

European Funds

After the successful implementation of several financial instruments such as the JEREMIE, UniCredit Bulbank set strong focus on the guarantee schemes in 2016 by signing **three new agreements for a total amount of EUR115 mln**. These agreements aim to improve access to financing for over 1,500 Bulgarian companies, including start-ups, SMEs and Mid-Caps, benefitting from lower interest rates and collateral requirements compared to standard levels. With these products, UniCredit Bulbank provided companies with opportunities to increase their local competitiveness, invest in innovation, and to realize their export potential in international markets.

The Bank introduced specialized **digital tools for the management of all guarantee schemes** as well as the first **online calculator for self-evaluation** under Operational Program "Innovation and Competitiveness". It enables companies to easily calculate on their own what their score would be when applying under the Program. More **efficient application** procedures for certain EU funds products were implemented to exploiting possibilities for cross selling by providing "More than banking" tailor-made instruments. Both existing and potential customers may receive a **free-of-charge consultation on EU opportunities** for business enhancement

The **strategy for 2017 is set on offering special products and advisory services in the EU Funds** for companies (incl. large and international) and projects with high potential for development, which, in turn, is expected to lead to improved utilization of subsidized financing and broad client coverage.

Markets and Brokerage

In 2016 UniCredit Bulbank retained its leading position as first class liquidity provider for local and international banks and leading market maker for local currency denominated products.

The Bank retained its leading position on the government bonds market and for the fourth consecutive year was rewarded by Ministry of Finance in the primary dealership categories.

The Bank continued to exploit risk-reward strategies in its trading activities in market environment of excess liquidity, negative rates, decrease in yields and high volatility.

In 2016 UniCredit Bulbank was awarded as the Best Foreign Exchange Provider in Bulgaria thereby the Bank sustained its leadership position in the domain of foreign exchange on the local market with its wide range of products. The Corporate treasury sales (CTS) team, with its deep market expertise and special emphasis on offering the best-quality service, successfully continued its support for the diverse client.

The FX transactions growth is expected to continue in 2017, mainly supported by developments of export and import oriented industries.

UniCredit Bulbank retained its leading position in offering high level brokerage services for equity, fixed income, and exchange traded financial instruments and derivatives. Providing wide market coverage, the investment intermediation activity gives Institutional, Private banking and Retail Clients an opportunity to participate in the Bulgarian and the international capital markets, including developed markets; CEE and Emerging markets.

Financing

The Bank continued developing its particular expertise in providing M&A financing, structured finance solutions to real estate development companies and projects in various industries. Quality assistance was provided to clients for optimising the capital structure of projects both under the existing portfolio and new projects in pipeline in order to ensure sufficient liquidity and projects' financial robustness. In the beginning of 2016 the strategic decision of the Bank to leverage on the accumulated expertise in Real Estate Team in benefit of its general corporate customers was implemented. In 2016 Financing Department contributed with 15% to CIB&PB revenues, marking substantial increase vs previous year.

Project Finance strengthened its market position by demonstrating its expertise in structuring complex, tailor-made deals observing the risk appetite of the Bank and managing market risks associated with the local environment. The focus on diversifying the portfolio by gaining knowledge and know-how in selected industries with prospects for growth proved to be efficient, as evidenced by the successfully closed M&A transactions in IT Sector. The concentration of renewable energy is around 39% of the portfolio.

In 2016 the **Real Estate portfolio** was further stabilized and numerous good opportunities for new financings were captured on a market with growing expectations. The transactional volume was driven by existing clients and local investors with high quality residential and office developments. International investors have resumed their investment activity as well. New business was generated also by restructuring or disposal of distressed assets.

The strategy for 2017 is to continue growing in **selected export oriented industries** (manufacturing and electronics, agriculture, infrastructure, I&C) with new focus on IT and business outsourcing industries, to leverage on opportunities for realization of various infrastructure projects, to explore the potential for participation in innovative and profit driven projects under EU Operational Programs, apply Full Debt Repackaging and Corporate solutions (including syndicated transactions) for existing and new clients, acquisition financing.

Corporate Finance and Advisory

In 2016 there was lower volume of M&A deals in CEE, but with higher value due to some mega deals signed at the end of the year. Bulgaria retained flattish level of M&A activity compared to 2015. The Corporate Finance Advisory (CFA) unit reaffirmed its leading position among banks as a key provider of investment banking services in Bulgaria. CFA participated in some of the high profile transactions in both Capital Markets and M&A Advisory product lines.

In the Debt Capital Markets area UniCredit acted as a Joint Bookrunner on the EUR 1.144 bln Eurobond issue of the Republic of Bulgaria, the second successful placement in two consecutive years. In addition, the Equity Capital Markets and Debt Capital Markets teams executed some smaller local bond issues and re-packagings, the last in cooperation with UniCredit AG. In the M&A field, UniCredit Bulbank supported UniCredit Vienna on one of the landmark M&A transactions in Bulgaria for 2016.

CFA continues to focus on building internal and external visibility through a number of initiatives, including participation as a panelist in the "Deals & Investors" conference, promoting the Elite program, supporting internal HR training programs.

As part of the leading commercial bank in Bulgaria, CFA will continue in **2017 to leverage** on **existing client base**, while also **focusing on close intragroup cooperation** in order to bring opportunities and win new mandates in 2017.

Global Transaction Banking

Being a Bank of choice for both domestic and international clients UniCredit Bulbank confirmed its leading position in Cash Management, Trade Finance, Transactional Sales and Global Security Services segments of the transaction banking area. Following its strategy to offer innovative and value adding products and services the Bank introduced the first on the local market mPOS solution for card payments acquiring and further enhanced and successfully implemented within its client base the Trade Finance module of Bulbank Online platform allowing management of trade finance transactions in a convenient digital environment. The high quality of services and profound expertise of employees was again recognized by both our clients and reputable international financial sources. In 2016 UniCredit Bulbank was acknowledged as **Best Cash Manager** in Bulgaria by the Euromoney Cash Management Survey; **Best Trade Finance Provider** in Bulgaria by the Euromoney Trade Finance Survey; **Best Trade Finance Bank in Bulgaria** by Global Finance Magazine and **Best sub-custodian Bank** in Bulgaria by Global Finance Magazine

In 2017 the Bank will continue investing in its team of professionals and product portfolio to further **enhance the value offering to its customers**, supporting both their daily business needs, as well as their strategic goals execution in a fast moving challenging environment.

Private Banking

Private banking (PB) department aims to build **long-term relations with customers**, ensure customer satisfaction and to have sustainable revenues. The PB team diversified and enlarged product offering and put strong focus on products in **cooperation with partners**, especially in the area of life insurances and mutual funds. Considering the external environment of low interest rates, the main target of PB was to transform Deposits TFA to **other profit generating assets**, naturally in compliance with the customer's risk profile on individual basis.

The PB department reported annual **revenues of BGN 18.0 mln, 23% increase yoy**. Half of revenues were generated by fees and commissions from investment products and transactional business, while the rest was almost equally split: FX, structured term deposits and loans.

The **loan portfolio** consisted of mortgage loans (52%), universal mortgage (14%), overdraft facilities (24%), credit cards (5%), and consumer loans (3%). **Total financial assets increased by 17% yoy** with average deposit volumes 13.5% higher yoy, assets under management (mutual funds and life insurance) +28% yoy, assets under custody +60% yoy.

Commercial actions were focused on life insurance UNIT linked

Corporate, Investment and Private Banking (continued)

products with 173% growth in volumes yoy and 147% growth in revenues yoy. AUM and AUC volumes grew with 51% yoy while revenues were 81% higher yoy.

The **Fund-of-Fund solution** was implemented in 2016 as well as four tranches of **Life insurance UNIT Linked products**. The main goal was to differentiate the PB product offer on the domestic market and gain advantage by increasing the value proposition to the clients. The products' parameters were re-designed several times during the year in order to better respond to the changing market conditions and customer preferences. There is strong focus on client acquisition in combination with need based service model and increase the share of wallet for existing clients.

The strategic focus for 2017 will cover two key goals – **to provide best service and solutions for our customers**, based on their needs and in order to achieve it, PB second goal is to further **develop the existing products** offered to clients by introducing: Need based client focus: New investment solutions, such as investment certificates and new life insurance products; Diversification of TFA via insurance products, structured products, Pioneer mutual funds, tailor-made investment proposals as well as Digitalization and Cluster analysis.

Outlook for 2017

CIB&PB will concentrate on **efficiency and client relationship**. The division starts the year as a strongly established market leader with high level of customer satisfaction and strong ambition to attract foreign investors. During the next year, CIB&PB aim to expand value creation of the corporate portfolio, strengthen cross selling and increase penetration on most attractive sub-segments.

In order to sustain its market leadership, in 2017 CIB&PB will harness opportunities from **digitalization trends, introduce innovative products and services on the market, and proactively manage asset quality**. The main focus remains the establishment of **long-lasting relationships with customers** managing sound businesses. Further priority is to increase successful absorption of subsidized EU funding by providing **EU Funds** related expertise and special products to companies and projects with growth potential..

UniCredit Bulbank Activity Review (continued)

Retail Banking

General Overview

UniCredit Bulbank's strategic focus remained sustainable business growth through improving customer satisfaction and strengthening its position of preferred client's partner in Retail Banking.

The growth in **Retail revenues** in 2016 was more than 5% yoy. The main revenue growth driver remained lending despite the overall low and negative interest rate environment pressing margins down. Net interest income grew by 3.7% yoy. The consolidation of UniCredit Consumer Financing, gave strong competitive advantage, possibilities for new customer acquisition, simplified and fast processes as well as focused and effective risk managements. In addition, the growth of the transactional business of our customers with the Bank was the main contributor for the increase in non-interest income by 8.2%.

During the year, the Bank performed several adjustments of deposit pricing in line with market trends. The good reputation and confidence in the Bank sustainability resulted in the increase of **customer deposits** from individuals and households with 11.8% compared to 6.3% of the banking system. Thus, market share in retail deposits increased by 79 bp to 15.9%. Besides the growth in volumes, the UniCredit Bulbank also indicated growth in the number of clients with deposit accounts, in line with the overall trend of increase in individual customers of the bank (+4% y/y).

In line with the strategy for sustainable business growth, consolidated **retail lending** outperformed the market almost twice, reaching 15.5% market share in loans for individuals and households. Number of retail clients with loans increased by 6%. Consumer lending continues to be the main growth driver leveraging on the product specialization of the fully consolidated specialized subsidiary for consumer financing. The consumer lending portfolio increased by 7.6%, compared to 1.6% growth of the market, thus reaching +72bp increase of the market share to 13.0%. The good service and expertise in mortgage lending ensured UniCredit Bulbank stable market share of 18.9% (+57 bp yoy) and moderate portfolio growth, better than the market.

During 2016 the Bank remained focused on the acquisition, development and retention of **small business clients** as well as simplification of the micro lending process. The number of small business customers increased by 9% yoy and such with new loan volumes grew by 6% yoy.

Full implementation of the **new service model** throughout the network supported an increase of productivity from one side and higher levels of consultancy on the other. Retail Banking continued to leverage on optimal coverage of economic potential by the branch network with the increasing support and importance of direct channels, thus covering the growth in business more efficiently without extra staff or physical branches.

Main Activities, Initiatives and Achievements

In 2016 the **new service model, focused on fast standardized service approach with simplified products and processes** was successfully fully implemented in the branch network. In 2016 UCB further extended the focus on the service level quality, piloting a Customer Experience Governance project for standardized and positive experience in the branch network. The Governance model is part of the overall approach for customer experience improvement by observing customers' behaviour and expectations. The main Customer Experience goals were strongly connected with the business priorities and defined to influence the overall perception of the Bank as transparent and responsive partner.

In 2016 UCB designed a complete **mortgage customer journey map** including simplified need-based mortgage offer, communication strategy to retain existing mortgage customers and a mortgage kit – a guide in the bumpy road of buying new home, from the idea to the key.

The Bank continued the further development and upgrade of the **dedicated program for students "Academic League"** – a competitive product without analogue on the market, offering the lowest interest rate, faster application and approval process, at maximum amount of BGN 50 thousand. UCB participated in several NGOs' initiatives which aimed to increase financial education of young people. It is part of the strategic goal of increasing UniCredit brand awareness among young people as potential bank customers in the future and to support young generations in improving the level of financial literacy.

In the small business segment, **developing micro lending** and covering the need for loans guaranteed under schemes of external institutions, continued to be on focus. The Bank supported micro enterprises by providing quick access to financing for fulfilling investment projects under "Innovation and Competitiveness" and "Rural Development" programs 2014 - 2020.

In 2016 fully fledged **Startups program** was deployed with the partnership of a local accelerator. It covered all activities from mentoring/advising, through business development and investment.

The **focus on investment products' sales** and penetration increase continued to be strong. During the year, the Bank launched several initiatives, such as the **First Investment Day**. The first investment e-newsletter was sent to selected clients in order to inform them about capital market trends and current results of their investments. Following the continuous trend of decrease in deposits' interest rates UCB was focused on providing offers for diversification of clients' assets along with strategy to enhance the financial literacy of the society.

The **simplification and digitalization** of main front and back office processes were in centre throughout the year. As a result the Bank succeeded to improve several main processes ensuring higher level of efficiency and customer satisfaction.

An **application for managing package programs** related to small companies was launched and thus customer's service time was significantly reduced, which boosted customer satisfaction and led to simplification and optimization of the daily activities. In addition, a

Retail Banking (continued)

business calculator for package programs was introduced at the end of 2016 as the first step in elaborating the possibilities of direct sales channels in the small business segment.

A new end-to-end digital **overdraft selling process through Bulbank Online** for individual customers was implemented, fully paperless and providing pre-approved limits or fast approval process in case the customer applies by himself.

In 2016 the Bank remained focused strongly on **compliance and client protection** legal requirements, thus ensuring the customer centric image of the business. Maintaining high quality of the customer information will ensure both the security requirements and confidence that our customers have about the stability of the Bank.

In 2016 UniCredit Bulbank continued to offer the **"Corners" initiative** for retail and corporate customers. Over 200 business clients have participated in this unique for the Bulgarian banking market initiative and exhibited their products and/or services for the past year. Also the publication of the **newsletters for business customers** continued being released, presenting topics about innovations in various economic sectors and useful analysis to improve the knowledge of our customers.

Cards business overview

In 2016 the card business of UniCredit Bulbank proved its market leadership with impeccably implemented projects and **strong results**. The achieved growth well encompassed all indicators in 2016 compared to 2015. Both number of transactions (~37 mln) and gross volume of transaction with cards issued by UCB have increased with more than 18%. The purchases with UCB cards at POS terminals reached a significant 31% increase in the number of transactions and 27% in expenditure volume. Compared to that the annual increase of cash-withdraws was 11% in transactions and 17% in volume.

The previous year marked another significant jump in the **sales and usage of credit cards**. UCB realized 25% more sales compared to 2015. Moreover, the cardholders turned more often to the payment instrument, realizing 16% more transactional activity.

UniCredit Bulbank was clearly the **market leader in acquiring**. The Bank has been focused for quite a few years to enable clients a quick, easy and secure use of payment even in smaller cities, as well as smaller merchant outlets. Along with the growth in the POS terminal network UCB constantly strived to enrol even more merchant in the established partnership platform - **"PLUS" Program.** The Program ambitious vision is to realize synergies between issuing and acquiring by providing all individual cardholders with the ability to receive points for their everyday purchases along with offering the merchants a fully automated, flexible and convenient tool for campaign management. Since its start Program "PLUS" has gathered 500 partner-merchants with over 750 outlets in more than 70 cities within the country. An interactive dedicated microsite was implemented into the new corporate website of the Bank, as well as a mobile application that allowed the customers to find quickly the closest outlets in the PLUS network.

UniCredit Bulbank excels in **contactless readiness in both cards and terminals**, being one of the major market drivers for the expansion of the payment standard. At the end of the period 85% of the POS terminals were contactless and 68% of the card portfolio of UniCredit Bulbank was contactless enabled. For yet another year e-commerce had very high growth rate. UniCredit Bulbank gauged a record growth of 27% yoy in the number of purchases made and 25% yoy in the realized volume of purchases.

Considering the products and innovation strategy, UniCredit Bulbank proved again its leadership in customer care, excellent servicing and continuous innovation.

Following the footsteps of the successful start in 2015, the Bank further extended the network of **unattended terminals**, realizing highly innovative idea in partnership with some customers.

In 2016 UCB also launched the **mobile POS (mPOS) terminals** - the first terminals able to couple with smart devices, as well as cash registers without any software changes within the merchant systems.

Channels

2016 was another dynamic year in the alternative channels area. The **positive growth trend in commercial results** continued. In 2016 the number of sales realized through Call center, internet banking and web site was more than double and reached 8% of total sales.

The strong focus on the digitalization and **digital strategy of the Bank** remained in 2016. Some of the main achievements were related to the introduction of utility payments in mobile banking, new direct selling processes in channels, further integration of channels, Your Financial Advisor redesign and others. The program for channels development is relying on the agile principles and following phase approach allowing the Bank to deliver increased number of finalized projects and tasks.

Mobile banking users increased exponentially and in the end of 2016 grew by 61% yoy. **Internet banking users** reached above half a million at the year end. Different initiatives and actions were done to increase the number of active digital customers. As a result active internet banking customers grew by 30% yoy.

Customer Contact Center activity grew with more than 13% annually in terms of number of interactions and more than 60% in terms of number of sales. This turned the Customer Contact Center into the direct channel with major commercial contribution. New processes for targeting clients was implemented – inbound calls pro-active offering and event based real time offering at outbound.

In 2016 newly generated loan volumes by **Banks' partners** (real estate agencies, construction companies, financial consultants, etc.) increased by 19% yoy. Additional sales initiatives were put in place aiming to bolster Bank's top position with regard to mortgage loan clients.

UniCredit Bulbank Activity Review (continued)

Retail Banking (continued)

Transaction migration continued to be on focus following market trends and customer preferences. The transaction migration index increased in 2016 with 3.4% yoy.

The total number of **self-service zones** at the end 2016 is 32 and the Bank continued to follow the strategy for migration of the deposit cash operations by increasing the share of deposit ATMs in its network to 77 installations at the busiest locations.

Outlook for 2017

In 2017 **Retail Division will continue to follow customers** throughout their development, supporting their specific needs in each stage of their lifecycle. We will focus even stronger on **Customer Experience** goals with close monitoring of their consistent implementation and measuring the effect of the actions with clients' instant feedback. We are investing in building the best customer experience following and driving major market trends of transformation in retail business and giving the opportunity to our customers to reach their bank in fully integrated and consistent way from where they want, when they want and via the channel, they prefer.

Some of the major goals for the next year will be to increase **investment products penetration**, customer acquisition and retention, strengthening portfolio management and loan expansion. The Bank will further invest in growing market knowledge and financial literacy and offer to customers diversification opportunities for their savings.

Simplification and digitalization of main processes will continue to stay in focus aiming to achieve better efficiency and customer satisfaction improvement.

The Bank will continue to strictly **follow the compliance rules** and accelerate the focus on regulatory changes and requirements assuring smooth and timely implementation and easy to deal processes from customer perspective.

Asset and Liability Management

Asset and Liability Management

In 2016, UniCredit Bulbank continued maintaining diversified **mid-term and long-term wholesale funding sources**, however deleveraging its external funding exposure in a market environment characterized by excess liquidity.

On the part of the **purpose-tied financing**, funds under the existing EIB and CEB facilities were further allocated to final beneficiaries, supporting SMEs and Mid-Caps in improvement of their efficiency and productivity. No further utilization and allocation of supranational funding was planned for 2017, due to the abundant liquidity from primary sources.

The volume of **general-purpose interbank funding was reduced**, with the intra-group funding keeping its dominant share only for local subsidiaries. The aim – successfully achieved – was to decrease overall cost of funding for the bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. calculations of BASEL-3 ratios) and capital adequacy requirements. No increase of intra-group funding was planned for 2017 as the Bank is able to take advantage of gradually increasing opportunities for a sound lending growth on its own, without deviating from the prudent liquidity management policy pursued so far. Since UniCredit Bulbank Group consolidates local subsidiaries (Leasing, Consumer Financing, Factoring etc.), the consolidated 2017 Funding Plan covers their liquidity needs too.

Customer deposits remained the main funding source for the Bank, growing considerably and steadily throughout 2016 and contributing to a further increase of the customer deposits market share and decrease of the loan/deposit ratio compared to 2015, continuing the trend from the previous years.

Given the liquidity position of the Bank, no bonds were issued in 2016 or planned for 2017.

Over the course of the year 2016, UniCredit Bulbank continued to pursue an active but sensible investment policy in accordance with the approved internal limits and rules and with a view of maintaining a sound short-term and structural liquidity position of the Bank. **The investment portfolio** was being structured with the aim to invest a part of the surplus liquidity, earning sufficient return on a low-risk basis. The bond portfolio also served as liquidity cushion, being partially pledged as collateral for funds attracted from state budget entities and banking institutions. Moreover, the bonds in the investment portfolio are treated as high-quality liquid assets for the purpose of Liquidity Coverage Ratio calculation. The Bank gradually increased the volume of its investment portfolio from BGN 700 mln to BGN 1 110 mln in face value terms. In line with the preliminarily approved investment policy, the only bonds acquired in 2016 were issued by the Bulgarian government. Thus, the **100% share of Bulgarian government bonds** (domestic and global) **in the investment portfolio** was kept unchanged during 2016. The average rating of the investment portfolio was "BB+" (as per S&P) and the average modified duration – 7.76 years.

Human Resources

In 2016 HR department followed its focus on **human capital development** in terms of leadership, talents acquisition and employees engagement. At the same time, targeted actions were put in place in support of Bulgarian educational sector manifesting the Bank as a great place for work for the employees of tomorrow.

As of December 2016, the **number of employees** (FTEs) of the Bank remained almost unchanged – 3 560 compared to 3 565 at the end of 2015. In 2016 about 420 new people were hired. The **HR costs** remained under control, keeping the conservative approach, but also being at level that ensures competitive remuneration in comparison with the market and alignment with the positive commercial performance. The staff voluntary turnover showed an increase to 9.5% in 2016 (6.4% in 2015), but remained below the average for the market that is in correlation with the increased dynamic on the labor market and decreasing unemployment. Thanks to the detailed monitoring as well as the dedicated initiatives this trend didn't influence negatively the business sustainability.

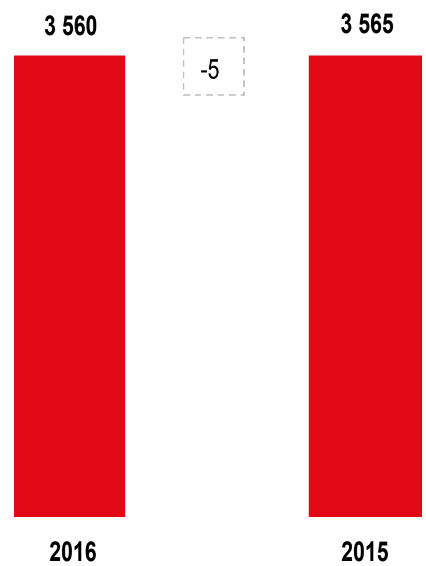
The Bank continued to be considered a good place to work and **stable and reliable Employer**, supported by the strong brand of UniCredit. It continues its presence in the career events, events of students' organizations and in the social media. A couple of new employer branding initiatives were launched during the year: "Business MasterClass" – an initiative to spread banking knowledge among students and boost the interest for career in banking business through series of events lead by Bank's managers and experts and scholarships for best students from economic universities.

Another big initiative was the **Internship program** which was one of the key priorities. The program enrolled 338 participants, out of which 117 have been hired for permanent jobs. This represents almost 30% of all new appointments and makes the program one of the key sources for recruiting new employees. The internship program together with the "Buisness MasterClass" are also an expression of the socially responsible approach of the Bank towards the society, as it gives students opportunities to obtain practical experience thus increasing the quality of education.

The **compensation policy** was in line with the Group approach and with the European and local legislative requirements. Market trends have been closely monitored through participation in salary survey, analyzing the results and taking the needed actions in order to provide sustainable and competitive remuneration to employees, ensuring correlation with the Bank's performance. Dedicated initiatives for retaining key managerial and expert employees were in place.

In 2016 HR Department made consecutive steps towards creation of **cross learning and sharing experience culture**, empowering positive attitude and focusing on cross-functional development initiatives as to maximize people potential. Specially designed internal development programs were devoted to foster both the professional and personal growth of our employees. A vivid example is the "UnBound Pro" Program – a program for experienced professionals providing them a cross-functional/business exposure through working on a project outside their area of expertise. Another development initiative is "LIVE Motives", designed to enhance the personal growth of employees and to support their abilities to manage successfully the dynamics in both professional and personal life. Other actions, facilitating the professional excellence and practical learning, were "Investment consultation" training for Retail Network, "Business originators " for CIB&PB, "Meet to learn" for GBS, "Walk in my shoes" for Risk and CIB structures, etc.

Number of Bank Staff (FTEs)



The **leadership development** was another key pillar for sustainable people and business development represented through initiatives supporting the key people in the organization and ensuring the continuity of the crucial processes. The efficiency of these initiatives is proved through the rate of internal promotions to managerial positions, which is above 90% for 2016.

In 2017 HR Department will continue to act as a trusted consultant for sustainable leadership growth, to empower the positive attitude and culture and to strengthen the open communication with our colleagues and local communities. **Employer branding initiatives** are going to be conceptually stronger positioned through a tailored strategy for supporting education. New HR projects will be launched in order to ensure even easier and comfortable access to the employees to performance management process, training information and resources.

Global Banking Services

Global Banking Services Division in its role of providing services to other structures in the Bank put major priority and effort in 2016 into supporting the business initiatives that create new customer experience; simplifying and streamlining processes; striving to operational excellence; enhancing the performance culture and increasing the available capacity in response to higher business volumes.

GBS and its experts are acting as **contributing and supporting partner of the business divisions** aiming at business goals achievement and providing the ultimate in clients services.

Information and Communication Technologies

The mid-term priorities of ICT are dedicated to the areas of Digital processes; "Phygital" bank (integrating physical with digital objects); Information Driven bank; Business Continuity Assurance (Resilience); ICT Security as well as Data governance and Operating model.

The above mentioned transformations are based on **accelerated applications' architecture modification** towards service-oriented architecture (SOA), well-developed integration and presentation layers delivering unified user experience through different channels (internet, mobile, ATM). New Advance analytics and self-service business intelligence tools were introduced to cover deep customer behavior analysis (advanced campaign management, predictive analysis of customers' preferences by applying BIG DATA technics). **IT infrastructure** continues to be evolved to **cloud** (private, hybrid) with enhanced high availability and disaster recovery capabilities. The security of IT environment is continuously enhanced in order to enable full digitalization of the Bank.

In 2016 the Bank has invested in renewal of **communication infrastructure** to assure long-term capacity and stability for growing volumes and increasing online transactions. Major infrastructure projects have been completed and brought life without service interruption or impact on users, among them Core LAN switches replacement, head office connection redesign, Stealtwatch upgrade, data warehouse hardware replacement. Implemented infrastructure changes contributed to optimized performance of locally hosted applications, stronger network reliability and security, improved disaster recovery capabilities, reduced operational, configuration and management complexity, 30% decreased time of DWH loading.

Despite significant technological and business related changes the KPI targets for the critical services were kept on a very high level – **99.96% availability**, which clearly shows that the Bank was operating in stable and predictable production environment.

In 2017 ICT will have following priorities: further evolution of the digital platform base through service-oriented architecture (SOA); modernization of Core System and Back office systems; unified presentation layer; multichannel development on the Omni channel concept.

Organization

In the area of project portfolio management 66 projects and programs were ongoing. The project portfolio complexity increased significantly versus previous years, but thanks to strong focus on top tier initiatives and proper prioritization of the others, the Bank managed to administrate it successfully and the main KPI's remained within the targets.

The strategic program **CEE2020 Plus** added new priorities and initiatives in the area of commercial business analytics and digitalization. On the operational side the main achievements were the successful finalization of core banking system gap analysis and **ICT technological and ICT Security programs.**

Increased number of **regulatory initiatives** were ongoing - local AQR, IFRS, CRS, AnaCredit, Mifid/Mifir, Mortgage loan act, Cards regulations, Register for bank accounts. Despite the high number of resources allocated to these regulatory, group strategic and operational activities the Bank managed to the assure also the **proper focus in all other areas** in order to support proper business development, ambitious bank targets and strategy. This was supported with efficient process design and analysis and ad hoc sizing and functional analysis.

Following the new trends in the project management GBS implemented successfully some local and group projects under **agile methodology** and prepared further onboarding and training strategy for the whole Bank to be executed in 2017.

In the area of process management the **Lean Six Sigma (LSS)** portfolio governance was improved by having regular Process Steering Committee sessions. LSS development continued and the main highlight was a common development initiative designed by Organization department and HR, which targets the experienced Bank employee's development in the area of process analysis and implementation.

Real Estate and Logistics

In 2016, in line with Retail banking strategic priorities, **11 branches were redesigned** according to the Branch of the Future (BOF) concept, **2 Self Service Zones** were introduced in new locations and **25 modernizations** according to the new service model were performed. Another 19 locations where redesigned to fit functionally the new Retail business model.

The year was marked by the successful completion of **Head Office consolidation project**, relocating head office structures to the new building hosting also the local legal entities part of UniCredit Group. Following the understanding that engaged people are a key asset, UniCredit Bulbank brought into operations in 2016 a new wellness facilities for the employees.

Several steps towards using **energy efficient and environment friendly technologies** were made, such as changing old appliances, using LED lights in all head office buildings and introducing electric cars in to the fleet operated and used by Bank.

Global Banking Services (continued)

2017 will be focused on **completion of complex projects** including Sofia, Sveta Nedelya branch renovation; planning and preparation of reconstruction of facade of Sveta Nedelya building; new learning center in Sofia, Sveta Nedelya building as well as several major projects retail network.

Operations

Focusing on growth in a sustainable way, Operations provided right level of quality services, flexibility and riskless transactions to properly support of Bank's business development in 2016.

An essential achievement of Operations was related to the **operational excellence and quality of execution,** delivered in parallel with resources and operative risk optimization. Both resources efficiency and production capacity increase were assured in order to meet transactional volume growth: 10% more FC - international payments, 18% more POS, 8% more local cash, 20% more new cards. Operations coordinated internally full centralization of domestic payments and certification preparation, while in the area of loans restructuring and collateral administration effect on quality of assets was acknowledged.

Procurement

Procurement Department succeeded to cover in 2016 also the procurement activities for all UniCredit Group subsidiaries in Bulgaria. The Procurement Department achieved excellent results related not only to the ICT & Security technological programs (IBM, Cisco and Oracle) but also to the main business related projects (like FlexCube Gap analysis). In close collaboration with the Real Estate & Logistics Department were performed for the first time in i-Faber some of the building & construction related tenders thus achieving better quality at a competitive pricing.

The main focus of Procurement Department in 2017 will be towards the **key projects timely execution** - key business projects FlexCube upgrade and FEBO replacement.

Client centricity remains one of the main strategic pillars when it comes to the mission of UniCredit Group. Stakeholder and Service Intelligence Unit is focused on **creating and managing listening activities and objective measurement of the perception** of UCB, its products, services and image among various groups of stakeholders – external and internal customers, community members and employees. The customer experience and behaviour towards the banks is dramatically changing with shifting clients' expectations and priorities requiring Omni-channel service, impeccable on-time support and effortless client journeys.

External Customer Satisfaction

In **Retail banking**, more than 3 500 own customers and 2 750 competitors' customers were interviewed in 2016 in a survey striving for an in-depth understanding of the satisfaction, needs and desires of own customers as well as for the purpose of having reliable benchmarking to competitors.

After negative correction in 2015 (-4 pts vs. 2014) UCB's **customer satisfaction recovered with a +1 pt.** increase vs. 2015 while competitors' TRI*M index decreased -1 pt.

For a sixth consecutive year UCB continues its commitment for an extensive measurement of satisfaction **among customers (individual and small business) with a dedicated relationship manager**. Nearly 13 000 interviews with customers were done, measuring level of satisfaction with both the Bank and the relationship manager.

In 2016 UCB made some very important steps for a comprehensive approach for gathering **instant feedback** from customers shortly after their interaction with the Bank. More than 4 000 feedbacks were gathered allowing an in-depth analysis of the strengths and identification of points of attention.

In **Corporate segment**, after a slight decrease in 2015, UCB recovers to the level of 2014 (TRIM result of 85 pts.) **increasing the gap to competitors to +14pts**.

A total of 862 own and 473 competitors' corporate customers were interviewed in 2016 to measure the strengths and identify areas of improvement. Relationship manager, GTB products and Branch are considered to be the areas of excellence.

Private banking – UCB superiority in servicing premium segments is being proven by the extremely high and stable results for TRI*M index (satisfaction with the bank) of 96 pts. and Customer Advisory Index of 90 pts.

Internal Client Satisfaction

A survey about the interaction and cooperation among Bank structures was conducted for 8th consecutive year. Results based on more than 2 500 employees' feedback among all structures show slight yoy decrease (-3pts) but it is not statistically significant.

Customer Satisfaction Management

Mystery Shopping

In 2016, UniCredit Bulbank continued measuring the experience of prospects as well as checking the level of Service Standards delivered by the employees through the Mystery Shopping program.

Five waves of the projects were carried out in 2016 among two target groups – individual and small business prospects. The insight gathered by a total of 665 mystery shoppers' visits with a diverse set of scenarios (Overdraft, Mortgage Loan, Credit Card, Investment products, Working Capital loan) covering all branch network showed **very good results (more than 80%)** in almost all scenarios.

For a sixth consecutive year an online portal is supported, allowing managers to constantly monitor the performance of their branch in terms of Mystery Shopping and take actions if required.

Reputation Management

In 2016 UniCredit Bulbank continued to measure its own and peers' reputation by following comprehensive approach to verify stakeholders' perception at all stages of the relationship with the Bank through Advocacy Pyramid methodology.

The **overall Reputation of the Bank is strong and stable** showing an increasing positive gap vs. peers in terms of prospects' advocacy. For customers, UCB's advocacy is above peers among individual and SB segments.

The Bank ranks first in terms of spontaneous awareness among small business and corporate segments and second among individuals.

In 2016, the corporate citizenship program of the Bank continued in the areas of education, business innovations for positive customer impact and social entrepreneurship. The Bank supported numerous of NGOs, institutions, organizations, universities, schools and individuals.

Focus on education, innovation and digitalization

UniCredit Bulbank has partnered with numerous schools and universities for projects, fostering cultural exchange and empowering young talents. The Bank also invests efforts to integrate new technologies for the client's daily needs.

UniCredit Bulbank sees it as its special mission to raise the general financial literacy in the country, and for this purpose in 2016 launched the national program "**Finance for Non-specialists**". This program represent lectures for nonfinancial and provides practical advice on how we may spend, save and invest money wisely. The lectures are spread like blog posts at corporate blog of UniCredit Bulbank and they are broadcast to national media.

Business Master Class is another initiative and represents series of lectures presented by top managers and experts from the Bank who share their practice with students from economic universities and give them advices for their career development.

Valuable innovative initiatives like the **TEDxAUBG** organized by the students of the American University in Blagoevgrad – again won the partnership of the Bank.

Among other **projects in the field of innovation and digitalization** was the participation in the annual IT Manager of the Year competition. In 2016 UniCredit Bulbank became main sponsor of the second edition of Innovation Explorer forum in Sofia a main sponsor for an Annual Awards Ceremony of Bulgarian Association for Information technologies. The Bank had numerous partnerships like DigitalK, Financial Innovation conference, Innovations in Bulgarian agriculture conference, CEED Conference – networking and learning gathering of entrepreneurs, Startup Factory, Move.bg Foundation, etc.

Focus on business and social entrepreneurship

UniCredit Bulbank was a valued partner in many of the high profile initiatives and conferences of the **business chambers** in Bulgaria like Confindustria Bulgaria, the Bulgarian Chamber of Commerce and Industry's EU Club meetings, business forums of the American Chamber of Commerce in Bulgaria, the German – Bulgarian Chamber, Austrian Business Circle, etc.

The Bank was also active in social and **charity events**, gathering the business, political and diplomatic elite of the country. Traditionally UniCredit Bulbank was main partner of the charitable Vienna Ball in Sofia. The funds collected from the Vienna Ball in 2016 were distributed to: Association "Children with hematologic diseases" and Social and youth center "Concordia" in Sofia. The Midsummer Celebration of the Nordic Chamber of Commerce and the 4th July celebration, organized by AmCham were also among the supported projects.

Corporate Social Responsibility and Sustainable Development

Promoting **diversity and empowerment of women** UniCredit Bulbank provided trainings within the annual Leadership Academy of the Council of Women in Business in Bulgaria and sponsored Global Forum for Women Leaders – international event under the auspices of the President of Bulgaria and the Secretary General of UNESCO.

UniCredit Foundation participated in finding and funding the best program for **social entrepreneurship for non-profit organizations in Bulgaria**. The annual competition is initiated by the Bulgarian Center for Not-for-profit Law (BCNL) and aims to gather and distinguish the best business cases prepared by foundations and associations.

The tradition of combined support of healthy lifestyle, sport, and social entrepreneurship was continued also in the last year with the fifth edition of the 1000 km Balkan Charity Challenge.

Focus on art, culture and UniCredit Studio

The Bank organized numerous exhibitions during the year in its **gallery for contemporary art UniCredit Studio.** The gallery hosted events like “Maybe it is them” – reproduction of a world famous art selection; “Living with a dollar a day – the lives and faces of the world’s poor” – compelling photographs by Pulitzer Prize-winning photojournalist, Renée C. Byer; “The walls are talking” – photo exhibition, part of Month of Photography 2016; “Transformations in Sofia” –pictures from the end of XIX and first half of XX century; “Next year in the same time”– part of Photofactory Festival 2016; “The World” – pictures, which are made from Bank’s employees.

In a flagship partnership with the Spanish Embassy in Sofia, UniCredit Bulbank was main supporter also of the **“Spanish cinema festival”.**

Among the projects, continued also from previous years were the sponsorship of the Stoyan Kambarev Foundation “Flight over art” award for young artists, the Month of Photography 2016 and the third “Photo Factory Festival”.

Focus on volunteering initiatives

In 2016 the traditional **Christmas and Easter Charity Bazaars** were organized by the Bank employees in several venues. The proceeds from those events go to charity to organizations, proposed by the employees. In addition the national volunteering network developed numerous projects around the country, involving colleagues and partners.

UniCredit Consumer Financing

In an environment of recovering Bulgarian economy, slowly growing consumer lending market and strong competition, UniCredit Consumer Financing (UCFin) completed another dynamic and successful year.

For the year ended December 31, 2016 **UCFin reported net profit in the amount of BGN 62.3 mln, representing a growth of 34% yoy**. The revenues reached BGN 112.1 mln (+38% yoy) with net interest income (NII) being the usual main contributor with a share of 88%. The three major channels (Banking, POS and CVM) kept their steady performance with NII coming from the Banking channel preserving its predominant position (75% from total NII for 2016). The operating costs of UCFin for 2016 amounted to BGN 17.5 mln (+1.7% yoy). Cost growth was entirely volume driven and was significantly lower than the revenues growth which was a clear indicator for the vigorous cost management system adopted by the Company. Again for another consecutive year UCFin carried on with its prudential risk management policy and considering the fast growing portfolio of the company allocated supplementary risk reserves. Having that into account, the overall impairment losses charged for the year amounted to BGN 25.4 mln (+98% yoy).

The performance of UCFin was also facilitated by the **high quality of the loan portfolio** due to careful underwriting activities and outstanding collection performance. As of December 2016 performing loans portfolio was stable representing 99% of total outstanding loans. During the year the outstanding portfolio increased by 25% supported by an overall increase in new volumes sales by 13%. The growth of new sales in **POS channel** (+9% yoy) was strong enough to position the Company as number one in that segment. POS financing was established as major customer acquisition engine selected for best practice sharing on UniCredit CEE Group level.

In 2016 UCFin continued **joint commercial activities with the Bank**, focused on acquisition of new clients and cross-selling. The latter resulted in increase of consumer loans produced through Banking channel with more than 11% yoy. During the year Company continued Customer value management (CVM) commercial activities on banking clients as well as on POS customers. Both resulted in steady CVM performance (growth 48% of newly extended volumes yoy) with record high sales reported in August and November.

In 2017 the growth of the economy is expected to continue and the competition among the banking and non-banking players to remain fierce. In such an environment **UCFin will focus its efforts on keeping the leading market position and bringing sustainable profits** by leveraging on its strength, being innovative and by re-enforcing the links with UniCredit Bulbank. POS business will remain acquisition engine for new customers for the Group. In parallel, UCFin will keep on acting as product factory for the Bank, bringing the state-of-the-art risk management for underwriting, collection as well as after-sales processes.

Major Subsidiaries and Associates

UniCredit Leasing

In 2016 the **consolidated net profit of UniCredit Leasing's (UCL) amounted to BGN 6.7 mln**, representing an **increase of 83% yoy**. Total Revenues are growing yoy by 6%, up to BGN 28.8 mln. Staff expenses amounted to BGN 5.7 mln, 1% less yoy. Administrative expenses declined by 2% yoy to BGN 3.1 mln. The level of loan loss provisions decreased by 10% yoy to BGN 12.3 mln. As at the end of 2016, the net investment in finance lease amounted to BGN 818 mln, growing by 11% yoy.

As far as the **Risk Management** area is concerned, a continuously positive trend of asset quality improvement is on track as proved by the Asset Quality Review which was also performed by BNB over the leasing portfolio as well. Favored by the strong recovery actions, gross defaulted loans show 6.6% yoy reduction, reaching total volume of BGN 142 mln in December 2016. Gross performing loans increased by 9.7% yoy in 2016, reaching BGN 768 mln compared to BGN 700 mln a year earlier.

The volume of signed new leasing contracts increased by 4% - from BGN 363 mln to BGN 377 mln, where the number of new leasing contracts signed reached 3 407 in 2016.

UniCredit Leasing kept its leading market position and retained a share of 26%. This was enhanced mainly through the excellent cooperation with UniCredit Bulbank and the strong Vendor channel. In terms of assets and industries, the **main drivers for the good performance** were positioned in the following areas:

- **Manufacturing sector**: UCL significantly increased its market share to 27%, thanks to active co-operation with the Bank in providing "package deals" (leasing of necessary equipment combined with working capital financing, real estate financing and other banking services) as well as introduction of an EU funds financing product for industrial projects under Competitiveness Program.
- The positive development of the **construction sector** and the launched infrastructure projects facilitated new leasing opportunities with the market leader.
- **Transportation sector**: traditionally strong positioning, with market coverage remaining at about 35%. The cooperation with the one of the largest car dealers in Bulgaria remained with a penetration level of 34% and financed value of about BGN 17 mln. In the passenger cars sector, UCL, together with UCB continued the successful "Car Corner" Initiative with famous brands.
- **Agricultural sector**: remained stable thanks to cooperation with the largest vendors. Additional boost in that segment was by the EU Funds product for customers, eligible under the EU grant programs.
- **Fleet management services**: In 2016, UniCredit Leasing expanded its product portfolio by the establishment of a new specialized company with the aim to provide full range of fleet management services.

In 2016, the net income of **UniCredit Insurance Broker (UCIB)** increased by 24.2%, thanks to both growth in leasing company and growth in bank-channeled business (46% growth). The number of the concluded insurance policies increased by 60% compared to 2015. The non-collateral insurances increased by almost three times. UCIB has maintained its market leadership position of CASCO insurance.

UniCredit Factoring

In 2016 UniCredit Factoring EAD (UCF) continued the sustainable positive trend of development, increasing the utilization by 11% compared to previous year. The challenging market environment in 2016 was marked by a strong competition, progressive downtrend in margins and drop in commodity prices in several industrial sectors with significant share in factoring portfolio. Nevertheless, as of year-end the Company succeeded to maintain the business volumes at the levels of 2015 through new customers' acquisition, which resulted in **BGN 1 174 mln of factoring turnover, BGN 6.1 mln revenues and BGN 3.7 mln profit before tax.**

In terms of **products and services**, there was growth in the volumes of domestic non-recourse factoring (30%), as well as growth in higher-value added products – such as export factoring (15%). The company successfully closed several buyer-based factoring solutions. The already established good practice of factoring transactions with suppliers of Municipalities and Public institutions continued in 2016. The Company continued to confirm its market position in traditional factoring services economic sectors, such as transportation and storage, trade, heavy and light industries, but penetrated also in unsaturated sectors such as consultancy, IT and communications and agriculture. In terms of foreign markets, the attractive leading EU economies and the neighbor market opportunities provided environment for good business generation.

After the successful launch of the first on the market **full electronic portal for factoring services** eFactoring.bg, the Company introduced the solution's enhancement in May with features allowing all factoring daily operations to become digital. Only half a year later 50% of the clients started to use the application and transferred their daily activities online. The volumes assigned through the web portal had been growing constantly each month, reaching 25% of the whole company turnover in December, 2016.

In addition, UniCredit Factoring continued its efforts to simplify the internal processes through digitalization, leveraging on existing expertise, competences and synergy with the Bank. The growing need of flexible customer solutions was a driving force of **further product development** in 2016 and improvement of sophisticated solutions such as enhanced export transactions, invoice discounting, etc.

The strong commercial focus at penetrating the still undeveloped domestic market, increasing customer satisfaction through digitalization and the enhancement of the internal sales channel were key drivers for the good performance in 2016. The tendency

Major Subsidiaries and Associates (continued)

of increasing clients' needs of customized business solutions was a good prerequisite for **further flexibility, customization and product diversification**. The Company will continue to leverage on speed and transparency in provided services for further penetrating the market and preserving its leadership position.

UniCredit Fleet Management

UniCredit Fleet Management EOOD is a non-financial company specialized in providing transport and car fleet management services to companies within UniCredit Group in Bulgaria as well as to external clients. As of December 2016 the Company operated total 184 motor vehicles with headcount of 10 people employed. For the year ended the Company reported net profit in the amount of BGN 25 thousand (BGN 133 thousand previous year), which represented 82% decrease yoy. The main driver of that decrease was cost driven as following decision of the sole owner in 2016 the Company had employed additional personnel to develop and offer to the market fleet management services to external (non-related) clients. **The new business had just started by the 2016 year-end with expectations to rapidly expand in 2017.**

Governance Declaration

Corporate Governance Declaration by UniCredit Bulbank AD

UniCredit Bulbank AD (the Bank) declares that it adheres to corporate governance good practices as a basis of modern business activity. Corporate governance is a system of balanced relations between the Bank, represented by its management bodies and all relevant stakeholders — shareholders, employees, clients, business partners, creditors, potential and future investors and society as a whole.

In its activity UniCredit Bulbank AD refers to corporate governance principles approved for all companies within UniCredit Group. These principles underlie all Group rules and procedures applicable for UniCredit Bulbank AD, inasmuch as they are not contrary to the effective Bulgarian legislation.

The main documents regulating the corporate governance of UniCredit Group are available on UniCredit Group's website: https://www.unicreditgroup.eu/en/governance.html

Among them (but not only) are:

- The Integrity Charter;
- Code of Conduct of UniCredit Group;
- Group Managerial Golden Rules;
- Corporate Governance Code;
- Human Rights Commitment.

UniCredit Bulbank AD declares continued commitment to applying rules and policies, which are creating the necessary conditions and enabling shareholders to exercise fully their rights.

UniCredit Bulbank AD guarantees equal treatment of all shareholders, including minority and foreign ones, as well as protection of their rights.

The Bank applies a corporate information policy and provides the necessary information in accordance with the respective legal requirements of the Republic of Bulgaria in order to meet the needs of the shareholders and stakeholders so that they can receive full, up-to-date and reliable information about the activity of the Bank.

Management

According to the Statute of UniCredit Bulbank AD, approved by the General Meeting of the Shareholders, the main management bodies of the Bank are: the General Meeting of the Shareholders, the Supervisory Board and the Management Board.

General Meeting of the Shareholders

The General Meeting of the Shareholders includes the shareholders entitled to vote who attend in person or through a lawful representative or through an explicitly authorized representative, who complies with the respective statutory requirements and whose attendance is registered with the Attendance Registration and Quorum Counting Commission.

(i) The General Meeting of the Shareholders:

- Amends and supplements the Statute;
- Increases and decreases the capital;
- Resolves on transformation of the Bank through merger by way of incorporation and merger by way of acquisition, de-merger by way of separation and de-merger by way of dissolution of the Bank;
- Appoints and dismisses the members of the Supervisory Board and determines their remuneration;
- Appoints and dismisses specialized audit companies which are registered auditors pursuant to the Independent Financial Audit Act to audit and certify the annual financial statements of the Bank as well as the supervisory reports, identified by BNB. The Bank coordinates with BNB in advance the choice of registered auditors;
- Approves the annual financial statement certified by the auditors, resolves on the distribution of the profit after tax, resolves on making contributions to the Reserves Fund from the net profit or from other sources, resolves on the payment of dividends;
- Appoints liquidators upon dissolution of the Bank, except in the case of insolvency or compulsory liquidation;
- Exempts from liability the members of the Supervisory Board and of the Management Board;
- Resolves on the issuing of bonds, including bonds convertible into shares;
- Appoints and dismisses the management of the Internal Audit;
- Appoints and dismisses the members of the Audit Committee and determines their number, term of office and remuneration.
- Appoints and dismisses the Chairman of the Audit Committee;
- Resolves on other matters within its competence entrusted to it by law and these Statues.

Supervisory Board

The Supervisory Board is empowered to exercise preliminary, current and subsequent control over the Bank's compliance with applicable laws, the Statute and the decisions of the General Meeting of the shareholders in the interest of the Bank's clients and shareholders.

The Supervisory Board shall not take part in the ordinary management of the Bank.

The Supervisory Board consists of 3 (three) to 7 (seven) members appointed by the General Meeting of the Shareholders for a term of up to 3 (three) years. The exact number of the members of the Supervisory Board, their term of office and remuneration shall be determined by a decision of the General Meeting of the Shareholders.

A member of the Supervisory Board shall be a person who meets the statutory requirements for occupying the position, including reliability and suitability. The appointment of a member of the Supervisory Board is subject to the prior approval of the BNB.

Governance Declaration (continued)

Management Board

The Management Board shall manage the activities of the Bank by exercising its rights and obligations in accordance with the law, the Statute of the Bank, these Rules and the other internal rules of the Bank.

The Management Board is a collective management and representation body of the Bank exercising its powers under the control of the Supervisory Board.

The Management Board of the Bank shall consist of 3 to 7 (three to seven) members appointed by the Supervisory Board for a term of up to 3 (three) years. The exact number of the members of the Management Board, their term of office and remuneration shall be determined by a decision of the Supervisory Board.

A member of the Management Board shall be a person who meets the statutory requirements for occupying the position, including reliability and suitability. The appointment of a member of the Management Board is subject to the prior approval of the BNB. No member of the Management Board can be at the same time a member of the Supervisory Board or an employee of Internal Audit Department.

Every management body of UniCredit Bulbank has its own rules of procedures which describe the functions, rights and duties of the respective body and its members in detail. While performing their duties both the Supervisory and Management Board shall be governed by the law, regulatory framework of the company and UniCredit Group as well as the good practices of integrity and competence.

The Annual Report on the activity if the Bank for 2016 provides detailed information about the organizational structure of the Bank and the members of the management bodies.

Specialized bodies

Specialized committees have been set up to support the activity of the management bodies of the Bank. Permanent committees are the forums of the Bank to prepare, discuss and take decisions. The participants of the forums listed below are members of the management. Committees do not have a specific term of office since membership is not related to position.

Supervisory Board Committees

(i) Audit Committee

Pursuant to the Independent Financial Audit Act an Audit Committee shall be set up at all banks to monitor the independence of the internal financial audit. Audit Committee members are independent and are not employees of the Bank or its subsidiaries. The major functions of the Audit Committee are as follows: monitor and control the financial reporting processes of the Bank and the independent financial audit, the effectiveness of the internal control system and mechanisms as well as risk management systems; evaluate the results of the work performed by the registered auditors and examine the status of relations with them; examine the adequacy and compliance with the applicable accounting principles used in the preparation of financial statements.

(ii) Nomination and Compensation Committee

The major function of the Nomination and Compensation Committee is to nominate, evaluate and recommend candidates to be appointed as members of the Management Board. The committee's functions are in line with the provisions of Ordinance No 20 and Ordinance No 4 of BNB.

(iii) Risk Committee

The Risk Committee is an independent permanent advisory body. Its major function is to assist and advise management and supervisory bodies on risk appetite and strategy of the Bank without assuming responsibility for their management and control.

Management Board Committees

(i) Asset-Liability Committee (ALCO)

An Asset-Liability Committee (ALCO) has been set up to manage market risk and structural liquidity. Market risk management at UniCredit Bulbank comprises the activity related to all commercial and investment banking transactions as well as asset and liability management. Risk positions shall be analyzed by an independent market risk unit and compared to the risk limits approved by the Management Board and ALCO.

(ii) Credit Committee and Credit Council

The Credit Committee and the Credit Council are collective bodies responsible for making decisions regarding the underwriting of credit exposures. The consideration of new credit products as well as the internal rules for the lending activity of the Bank are within the competence of the Credit Committee. Competence rules and limits of the powers of the Credit Committee and Credit Council have been established. The Credit Council has more limited powers than the Credit Committee.

(iii) Provisioning and Restructuring Committee

The credit risk of the Bank is monitored with priority by the Provisioning and Restructuring Committee (PRC). It is a specialized internal body responsible for evaluation, classification, and impairment of the risk exposures. The process of credit risk evaluation is in accordance with the Group standards and with the requirements of the Bulgarian National Bank for regulatory purposes.

(iv) Cost Committee

The Cost Committee resolves on and exercises control over operating and investment costs by the structural units of the Bank and all its subsidiaries.

Governance Declaration (continued)

(v) Project Portfolio Committee

The main purposes of the Project Portfolio Committee are prioritization, organization and approval all strategic initiatives of the Bank. This is the highest decision-making body in relation to all existing projects and programs for UniCredit Bulbank AD and its subsidiaries.

(vi) Operational and Reputational Risk Committee

Operational and Reputational Risk Committee is an expert committee that does not make decisions. It functions as a permanent work group to which current problems and events related to operational risk are reported. It serves as a platform for discussing unresolved problems with the purpose of finding solutions for risk minimization.

(vii) Quality Assurance Committee

The Quality Assurance Committee is the competent body in the field of customer satisfaction. Its purpose is to consult the management of the Bank and to offer solutions with regard to identified problem areas and possible corrective measures for customer service.

(viii) Disciplinary Committee

The Disciplinary Committee is the body that examines and analyses the collected evidence, ascertaining a breach of discipline / material liability of the defaulting employee and fault.

(ix) Credit Monitoring Commission

The Credit Monitoring Commission is an internal collective body of the Bank set up to make decisions in the process of monitoring loans of corporate clients, business clients and individuals in accordance with the regulatory requirements, internal bank regulations and respective resolutions of the Management Board and/or the Supervisory Board of the Bank. The Commission examines the quality of the credit portfolio of the Bank and regularly discusses the volume, structure and dynamics of the Watch List.

(x) UniCredit Bulbank's Internal Control Business Committee (ICBC)

The Committee supports the management of the Bank in the process of assessing the Internal Control System adequacy through regular analyses of the critical topics in this field, monitoring and prioritization of the corrective actions to ensure the functioning of internal control mechanisms in line with customers' needs and the regulatory framework.

(xi) Process Steering Committee

The role of the committee is to ensure effective management of process initiatives through prior assessment, prioritization, approval and establishing standards for monitoring and escalation.

(xii) Local Investment Committee to Private Banking Department

The Local Investment Committee is an internal collective authority of the bank set up to make decisions related to strategic allocation of the various classes of assets and to model portfolios on the basis of the Global Investment Strategy (GIS) of UniCredit Group corresponding to risk clients groups. The decisions of the Local Investment Committee assist the RM Private Banking Clients in optimizing offers.

(xiii) Business Continuity Management Committee

The Committee organizes the preparation, maintenance, monitoring and validation of the business continuity process and submits it for approval to the Management Board.

(xiv) Cyber Security Incident Response Team (CSIRT) Committee

The main purposes of this committee are cyberattacks prevention, mitigation of the Bank's vulnerability to cyberattacks and minimization of recovery time following cyberattacks.

LAYERS OF THE INTERNAL CONTROL SYSTEM

Governance Declaration (continued)

Internal Control Mechanisms

The internal control system is a set of rules, procedures and organizational structures whose main purpose is:

- to ensure the application of the corporate strategy;
- to ensure the efficiency of processes;
- to ensure the proper keeping of corporate values;
- to ensure reliability and completeness of accounting data and managerial information;
- to ensure compliance of operations with the internal and external regulatory framework.

(i) Risk Management

In its usual activity UniCredit Bulbank AD is exposed to various kinds of risks — market, liquid, credit, operational and reputational risk, as individual risks are managed and controlled by specialized bank units. The applicable policies completely meet the requirements of group risk management standards as well as the requirements of the Bulgarian bank legislation.

Details about the risk management of the Bank are provided in the annual financial statements and activity reports of the Bank.

(ii) Compliance

Compliance function is integrated in the internal control system to prevent and manage the risk of regulatory non-conformities, breaches and conflicts of interests. The end purpose is to preserve the reputation of the Bank, the confidence of the clients and contribute to its sustainable performance by introducing strategic guidelines (policies and practices) and monitoring techniques with the purpose of preventive assessment.

(iii) Internal Audit

In accordance with the currently effective organizational structure of the Bank, Internal Audit Department is a unit functionally detached from the other structural units of the bank. It directly reports to the Supervisory Board (SB) of the Bank, where a linking unit between them is the Audit Committee having in its membership two members of the SB and one independent member. The Head of Internal Audit Department is appointed by the General Meeting of the Shareholders. The principles, organization and functions laid down in the Rules and Regulations of Internal Audit Department of the Bank are aligned with the provisions of Ordinance No 10 of BNB on the Internal Control in Banks.

In accordance with the rules and procedures of the Bank, the Management Board is not granted any administrative and financial instruments to influence the activity and findings of internal auditors. However, the management may request extraordinary inspections to be conducted in those areas of activity of the Bank that at its discretion show indications for an increased risk.

Information on proposals for acquisitions/mergers in 2016

As at the end of 2016 no proposals to UniCredit Bulbank AD were made for acquisition from/ merger to/with other companies.

This Corporate Governance Declaration is prepared in compliance with art. 40 of the Accounting Act and shall be an integral part of the Annual Report on the activity of UniCredit Bulbank AD for 2016 on an individual and consolidated basis.

For UniCredit Bulbank AD:

Levon Hampartzoumian
Chief Executive Officer

Enrico Minniti
General Manager

Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer's real needs and aimed at creating value for both individuals and businesses.

Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bulbank AD

Report on the Audit of the separate financial statements

Opinion

We have audited the accompanying separate financial statements of UniCredit Bulbank AD ("the Bank"), which comprise the separate statement of financial position as at December 31, 2016, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the separate financial statements and Auditor's Report Thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the separate financial statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with Independent Financial Audit Act and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on November 29, 2016. These procedures include tests over the form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 4, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7 of the Public Offering of Securities Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

Independet Auditors' Report (continued)

Opinion under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed during our audit and as a result of the knowledge and understanding of the Bank and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process as element of the content of the corporate governance statement and the information under Article 10 , paragraph 1, letter "c", "d", "e", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Statutory Manager
Registered Auditor

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Sofia
February 27, 2017

Income Statement

In thousands of BGN

	Notes	2016	2015
Interest income		512 824	560 756
Interest expense		(66 142)	(91 435)
Net interest income	7	**446 682**	**469 321**
Dividend income		1 515	968
Fee and commission income		222 162	218 497
Fee and commission expense		(21 589)	(20 629)
Net fee and commission income	8	**200 573**	**197 868**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	81 246	61 442
Net gains on other financial assets designated at fair value through profit or loss	10	-	10 072
Net income from investments	11	30 686	6 483
Other operating expenses, net	12	(46 265)	(71 651)
TOTAL OPERATING INCOME		**714 437**	**674 503**
Net income related to property, plant and equipment	13	2 285	451
Personnel expenses	14	(113 964)	(114 321)
General and administrative expenses	15	(89 869)	(85 323)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets hold for sale	16	(42 481)	(43 898)
Provisions for risk and charges	17	(6 491)	(5 279)
Net impairment loss on financial assets	18	(139 249)	(103 112)
PROFIT BEFORE INCOME TAX		**324 668**	**323 021**
Income tax expense	19	(33 230)	(33 014)
PROFIT FOR THE YEAR		**291 438**	**290 007**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor
27/02/2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

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

Statement of Comprehensive Income

In thousands of BGN

	Notes	2016	2015
Profit for the year		**291 438**	**290 007**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial losses		(745)	(323)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		75	32
		(670)	**(291)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		71 622	54 814
Cash flow hedge		(9 082)	9 516
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		(6 254)	(6 433)
		56 286	**57 897**
Total other comprehensive income net of tax for the year		**55 616**	**57 606**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**347 054**	**347 613**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2017

Levon Hampartzoumian
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Deloitte Audit OOD

Sylvia Peneva
Registered auditor
27/02/2017

ОДИТОРСКО ДРУЖЕСТВО
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Statement of Financial Position

In thousands of BGN

	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and balances with Central Bank	20	4 547 510	4 585 396
Non-derivative financial assets held for trading	21	23 256	10 147
Derivatives held for trading	22	108 905	126 271
Derivatives held for hedging	23	2 452	13 455
Loans and advances to banks	25	1 320 905	1 225 373
Loans and advances to customers	26	9 070 237	8 769 392
Available for sale investments	27	3 146 706	2 282 226
Investments in subsidiaries and associates	28	55 004	55 004
Property, plant, equipment and investment properties	29	193 921	165 523
Intangible assets	30	24 842	23 155
Deferred tax assets	32	7 493	3 159
Non-current assets held for sale	33	2 015	-
Other assets	34	122 586	109 216
TOTAL ASSETS		**18 625 832**	**17 368 317**
LIABILITIES			
Financial liabilities held for trading	35	74 305	100 154
Derivatives used for hedging	23	64 453	35 400
Deposits from banks	36	728 882	1 090 445
Deposits from customers	37	14 893 732	13 485 196
Provisions	38	56 242	51 245
Current tax liabilities	31	8 807	7 977
Other liabilities	39	89 569	90 109
TOTAL LIABILITIES		**15 915 990**	**14 860 526**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		99 182	43 566
Retained earnings		2 033 445	1 888 441
Profit for the year		291 438	290 007
TOTAL EQUITY	40	**2 709 842**	**2 507 791**
TOTAL LIABILITIES AND EQUITY		**18 625 832**	**17 368 317**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2017

Levon Hampartzoumian
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Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

27/02/2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2015	**285 777**	**342 378**	**1 626 616**	**24 098**	**(36 658)**	**(1 480)**	**2 240 731**
Profit for the year			**290 007**	-	-	-	**290 007**
Actuarial losses	-	-	-	-	-	(323)	(323)
Change of revaluation reserve on available for sale investments	-	-	-	54 814	-	-	54 814
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 516	-	9 516
Income tax related to components of other comprehensive income	-	-	-	(5 481)	(952)	32	(6 401)
Total other comprehensive income for the year net of tax	-	-	-	**49 333**	**8 564**	**(291)**	**57 606**
Total comprehensive income for the year net of tax	-	-	**290 007**	**49 333**	**8 564**	**(291)**	**347 613**
Dividends paid	-	-	(80 553)	-	-	-	(80 553)
Balance as of December 31, 2015	**285 777**	**342 378**	**1 836 070**	**73 431**	**(28 094)**	**(1 771)**	**2 507 791**
Profit for the year	-	-	**291 438**	-	-	-	**291 438**
Actuarial losses	-	-	-	-	-	**(745)**	(745)
Change of revaluation reserve on available for sale investments	-	-	-	71 622	-	-	71 622
Change of revaluation reserve on cash flow hedges	-	-	-	-	(9 082)	-	(9 082)
Income tax related to components of other comprehensive income	-	-	-	(7 162)	908	75	(6 179)
Total other comprehensive income for the year net of tax	-	-	-	**64 460**	**(8 174)**	**(670)**	**55 616**
Total comprehensive income for the year net of tax	-	-	**291 438**	**64 460**	**(8 174)**	**(670)**	**347 054**
Dividends paid	-	-	(145 003)	-	-	-	(145 003)
Balance as of December 31, 2016	**285 777**	**342 378**	**1 982 505**	**137 891**	**(36 268)**	**(2 441)**	**2 709 842**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2017

Levon Hampartzoumian
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27/02/2017

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

Statement of Cash Flows

In thousands of BGN

	Notes	2016	2015
Net profit		**291 438**	**290 007**
Current and deferred tax, recognised in income statement		33 230	33 014
Adjustments for non-cash items			
Depreciation and amortisation	16	31 753	30 311
Impairment of financial assets	18	164 670	120 564
Impairment of property, plant, equipment, investment properties and other assets	12, 16	13 916	22 096
Provisions, net	38	7 076	5 279
Unrealised fair value losses (gains) through profit or loss, net		3 430	12 650
Unrealised fair value (gains) on FX revaluation		31 240	92 499
Net income from sale of property, plant and equipment		(2 294)	(419)
Net interest income		(446 682)	(469 321)
Dividend income		(1 515)	(968)
Increase in other accruals		49 759	45 109
Cash flows from profits before changes in operating assets and liabilities		**176 021**	**180 821**
Operating activities			
Change in operating assets			
(Increase) in loans and advances to banks		(45 611)	(188 015)
Decrease/(Increase) in loans and advances to customers		(510 639)	830 001
(Increase) in available for sale investments		(778 846)	(718 792)
Decrease/(Increase) in financial instruments held for trading and hedging derivatives		9 730	(10 748)
Decrease in financial instruments at fair value through profit or loss		-	59 279
(Increase) in non-current assets held for sale		(2 015)	-
(Increase) in other assets		(26 352)	(63 173)
Change in operating liabilities			
(Decrease) in deposits from banks		(367 339)	(430 179)
Increase in deposits from customers		1 380 111	2 593 474
Provisions utilization		(2 465)	(3 410)
(Decrease)/Increase in other liabilities		(29 286)	33 919
Interest received		492 563	557 611
Interest paid		(87 692)	(103 153)
Dividends received on available for sale investments		1 515	968
Taxes paid		(34 696)	(35 335)
Net cash flow from operating activities		**194 997**	**2 703 268**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2016	2015
Cash flow from investing activities			
Cash payments to acquire tangible assets		(28 788)	(20 395)
Cash receipts from sale of tangible assets		3 808	1 183
Cash payments to acquire intangible assets		(10 677)	(8 011)
Cash receipts from redemption of held to maturity investments		-	136 187
Net cash flow from investing activities		**(35 657)**	**108 964**
Cash flow from financial activities			
Dividends paid		(145 003)	(80 553)
Subordinated loans paid		-	(70 596)
Net cash flows from financial activities		**(145 003)**	**(151 149)**
Effect of exchange rate changes on cash and cash equivalents		**180**	**7 855**
Net increase in cash and cash equivalents		**14 517**	**2 668 938**
Cash and cash equivalents at the beginning of period	44	**4 734 635**	**2 065 697**
Cash and cash equivalents at the end of period	44	**4 749 152**	**4 734 635**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

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27/02/2017

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Notes to the Separate Financial Statements

1. Reporting entity

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

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address city of Sofia, 7 "Sveta Nedelya" sq. and UIC 831919536 as per the Trade Register. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2016 Bank operates through its network comprising of 170 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These separate financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

These separate financial statements are approved by the Management Board of UniCredit Bulbank AD on February 08, 2017. They should be read in conjunction with the consolidated financial statements which will be approved by the Management Board of the Bank as well in February, 2017.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policies

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

CHANGE IN ACCOUNTING POLICY

In 2016 the Bank has changed its accounting policy with regards to presentation of costs related to annual contributions for Deposit Guarantee Fund and Recovery and Resolution Fund. Detailed explanations and summary of the effects are as follows:

For the periods until December 31, 2015 the Bank has treated costs related to annual contributions for Deposit Guarantee Fund and Recovery and Resolution Fund as core activity related and presented them within General and administrative expenses. In 2016 Bulgarian National Bank issued specific instruction on presentation of these costs in the regulatory financial statements as part of other operating expenses, so the Bank decided to change their presentation in its IFRS financial statements from General and administrative expenses to Other operating expenses for the year ended December 31, 2016. For comparison purposes the Bank did similar reclassification for the year ended December 31, 2015 thus reclassifying costs amounting to BGN 65 946 thousand from General and administrative expenses to Other operating expenses. The policy change represents reclassification and does not impact neither net profit of the Bank nor net assets.

The actual restatement amounts impacting the separate income statement are as follows:

In thousands of BGN

SEPARATE INCOME STATEMENT	REPORTED 31.12.2015	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON CARDS PAYMENT FEES	RESTATED AMOUNT 31.12.2015
Other operating income(expenses), net	(5 705)	(65 946)	(71 651)
General and administrative expenses	(151 269)	65 946	(85 323)

(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 (including derivative deals) 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.

The Bank concludes interest rate swaps deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit SpA, UniCredit Bank Austria AG and UniCredit Bank AG). The whole realized and unrealized gains/losses on interest rate swaps related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading and hedging derivatives.

(d) Foreign currency transactions

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

As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

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

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

(f) Dividend income

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

(g) Lease payments made

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

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

(h) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity depends on IAS 39 category. 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, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

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

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

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

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

d) Loans and advances to banks and customers

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

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

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control. In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

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

Following the above criteria, in 2016 the Bank has assessed that it has control in all the investees, where it holds directly or indirectly more than 50% of the voting rights.

Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities. The Bank has assessed that it has significant influence over entities where it holds directly or indirectly 20% and more of the voting rights.

In the separate financial statements the Bank has adopted the policy of carrying all investments in subsidiaries and associates at cost.

h) Deposits from banks and customers

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

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

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

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

(i) Impairment

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

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

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

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

Where debt instrument measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the instrument was previously recognized in other comprehensive income, the increase in fair value of the instrument recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss. For equity instruments, no reversal of impairment is recognized in profit or loss. Any increase in fair value after impairment is recognized in other comprehensive income.

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

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

(j) Derivatives used for hedging

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

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

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting.

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

FAIR VALUE HEDGE

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

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. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognised in profit and loss.

CASH FLOW HEDGE

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

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

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

(k) Property, plant, equipment and investment property

All items of property, plant and equipment are carried at cost less accumulated depreciation or impairment losses.

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

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **34**).

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, 2016 and December 31, 2015 intangible assets include primarily investments in software and related licenses.

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

(m) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale. (see also Note **33**)

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, 2016 and December 31, 2015 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(o) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

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

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

As of December 31, 2016 and December 31, 2015 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(p) Share capital and reserves

(i) Share capital

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

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

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

In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit SpA was performed thus leading to change of the Bank's main shareholder to UniCredit SpA.

No changes in the amount of the share capital were performed in 2016 and 2015.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on available for sale investments, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2016 and December 31, 2015 the reserves includes also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(q) Taxation

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2016 and December 31, 2015 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

(r) Segment reporting

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

(s) Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and

clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

(t) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The new accounting standard IFRS 9 "Financial Instruments" (IFRS 9), mandatorily effective for annual periods beginning on or after 1 January 2018, that will replace IAS 39 "Financial Instruments: Recognition and Measurement" includes a revised model for classification and measurement of financial assets, an impairment model for credit allowances based on expected losses and a reformed approach to general hedge accounting.

The new classification and measurement approach for financial assets in IFRS 9 will be based upon the contractual cash flow characteristics of the financial asset and, for financial assets whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding ("SPPI assets"), the entity's business model for managing them. Depending on the entity's business model, SPPI assets may be classified as "held to collect" contractual cash flows (measured at amortized costs and subject to the expected loss impairment), assets "held to collect and sell" (measured at fair value through other comprehensive income and subject to the expected loss impairment) or held for trading (measured at fair value through profit or loss).

The new impairment model approach has been designed by the IASB in order to produce earlier recognition of credit losses than IAS 39, which is instead based on the existence of evidences of impairment, as requested by the G20 following the financial crisis of 2007 - 2008.

IFRS 9 requires to base the measurement of credit impairment allowance on ECL (expected credit loss) using a three stage impairment approach. The measurement of ECL depends on financial instrument's credit risk and whether the financial instrument have had significant increase in credit risk since initial recognition, as follows:

(a) "12-month ECL" (Stage 1), which applies to all items (from initial recognition) as long as there is no significant increase in credit risk; and

(b) "Lifetime ECL" (Stages 2 and 3), which applies when a significant increase in credit risk has occurred, whether assessed on an individual or collective basis.

Assets allocated for IFRS 9 in Stage 1 and 2 are classified as performing under IAS 39 and the amount of their credit loss allowance under IAS 39 is measured using the "incurred but not reported approach" ("IBNR"), while the Bank is currently at finalization of Stage 2 parameters for lifetime ECL calculations.

For assets allocated in Stage 3, which are nonperforming under IAS 39, no major conceptual differences are expected, as triggers for impairment recognition and non-performing loan classification used under IAS 39 will continue to be applied.

Considering the differences in concepts described above for performing assets, the ECL approach is expected to increase the credit loss allowances on transition to IFRS 9 compared to the existing IAS 39 approach.

UniCredit Group has launched a dedicated project to implement IFRS 9, involving all banking subsidiaries. The project actively involves: Group Risk Management, Strategy and Finance, the main Business functions, Organization and Information Technology departments.

During 2017 the Bank would apply a parallel run for both IFRS 9 and IAS 39, which is ensured through significant changes in the underwriting process, as well as in impairment model. Based on the IFRS 9 project, the following phases are conducted:

- Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream with regard to Business model and characteristics of contractual cash flows;
- Gap analysis between the current status and IFRS 9 requirements in the impairment stream;
- Design and implementation of SPPI concept for contractual screening of debt instruments;
- SPPI screening performance - as of the end of 2016 the Bank is in a process of finalization of SPPI contractual screening of all existing loans and receivables. Based on the review, potential assets requiring fair value measurement due to SPPI failure are negligible;
- Design of new underwriting process – SPPI Test is embedded in the process pre-approval of the loan deal;
- Design and implementation of new product approval process;
- Design of new impairment model and calculation of relevant parameters, incl. lifetime PD;

- Series of educations for acquainting employees with the IFRS 9 SPPI Criterion are held, since in 2017 the implementation of new requirements for classification would be met in parallel;
- Fair Value Engine development – in process of Group implementation. For the parallel run in 2017 the calculations established for IFRS 13 would be used.

The main impacts on the Bank and UniCredit Group in general are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for performing loans. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

Under current capital approach, any deficit between regulatory expected loss ("EL") and IAS 39 accounting allowance is deducted from CT1 capital, while any excess is added back to Tier 2 capital. In the absence of any amendment to Basel regulatory rules, the new ECL approach is expected to affect negatively regulatory capital as of 1 January 2018. However to date it is unclear how regulators will treat the interaction of the accounting impairment allowance and the Basel concept of expected loss: current Basel framework was designed to deal with IAS 39 accounting allowances based on incurred loss, while IFRS 9 will trigger expected loss to impact accounting equity. Accordingly, final implications on regulatory capital are still uncertain to date.

(u) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

At the same time, hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU, remains unregulated.

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational Risk Committee. Starting from Q3 2015 UniCredit Bulbank AD applies the new Advanced Measurement Approach (new AMA) for its capital calculation of operational risk.

(b) Market risks

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

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

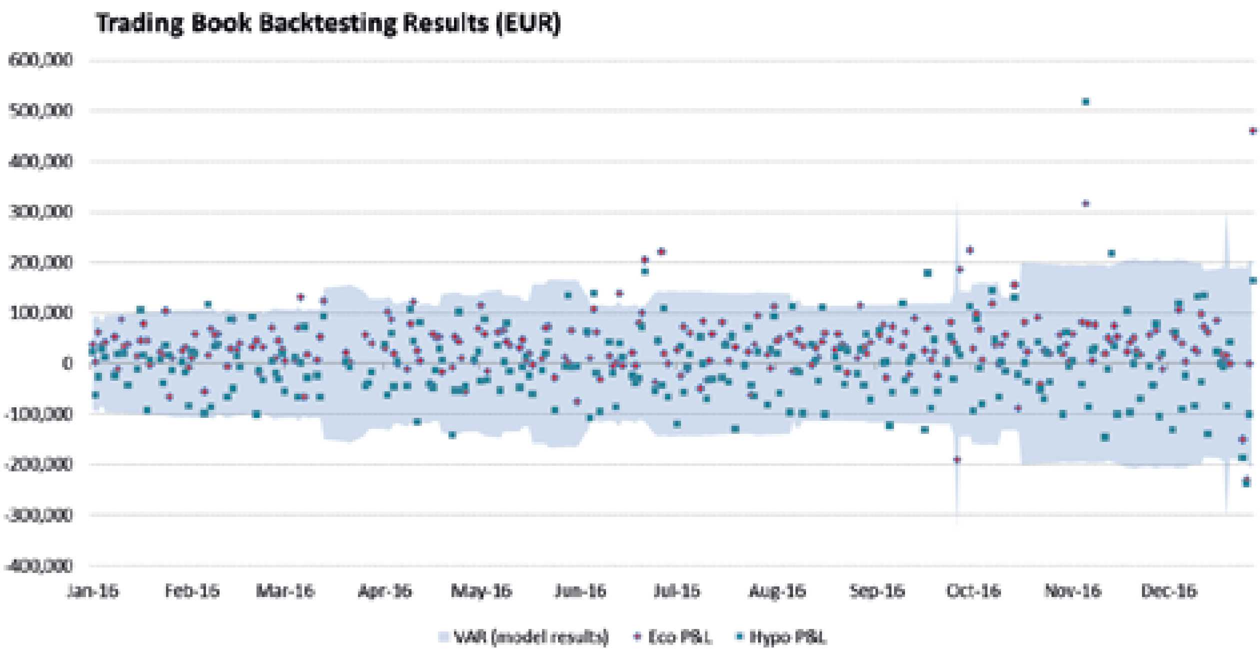
UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level applied to cumulative results for a specific period, the stressed VaR (SVaR), the incremental default risk charge (IRC) and granular sensitivities.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. 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 market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined in 2016 and integrated in the presentation of performance results of Markets and Brokerage, including Corporate Treasury Sales, on quarterly basis.

During 2016, VaR (1 day holding period, confidence interval of 99 %) of UniCredit Bulbank AD moved in a range between EUR 9.47 million and EUR 17.18 million, averaging EUR 14.90 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 2016 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.65	3.02	1.88	2.04
Credit spread	9.20	16.95	14.47	15.39
Exchange rate risk	0.09	0.28	0.11	0.13
Vega risk	-	-	-	-
VaR overall[1]	**9.47**	**17.18**	**14.90**	**15.63**

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 2016 confirm the reliability of used internal model with only 1 negative excess (Eco P&L).



[1] Including diversification effects between risk factors.

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

The sensitivities' tables below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2016 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	3 250	22 106	(19 814)	(55 255)	17 955	**(31 758)**
BGN	(877)	(7 767)	(41 806)	(180 349)	(580)	**(231 379)**
USD	(465)	552	160	(324)	-	**(77)**
CHF	121	192	(119)	(46)	-	**148**
GBP	(445)	(476)	44	-	-	**(877)**
Other	(13)	(92)	-	-	-	**(105)**
Total ABS	**5 171**	**31 185**	**61 943**	**235 974**	**18 535**	**264 344**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2016 totalled EUR 920 030. Treasury instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively insignificant.

SP BASIS POINT SHIFT

SP BASIS POINT SHIFT ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(274)	(14 397)	(27 235)	(783 194)	(91 423)	(916 523)
Regional governments	-	(19)	-	(1 523)	-	(1 542)
Corporates	-	-	-	(1 965)	-	(1 965)
Total ABS	**274**	**14 416**	**27 235**	**786 682**	**91 423**	**920 030**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2016 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

As of December 31, 2016 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	4 536 225	11 285	**4 547 510**
Non-derivative financial assets held for trading	37	23 219	**23 256**
Derivatives held for trading	90 515	18 390	**108 905**
Derivatives held for hedging	2 452	-	**2 452**
Loans and advances to banks	1 176 128	144 777	**1 320 905**
Loans and advances to customers	8 782 485	287 752	**9 070 237**
Available for sale investments	3 141 171	5 535	**3 146 706**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	193 921	-	**193 921**
Intangible assets	24 842	-	**24 842**
Deferred tax assets	7 493	-	**7 493**
Non current assets and disposal groups classified as held for sale	2 015	-	**2 015**
Other assets	122 527	59	**122 586**
TOTAL ASSETS	**18 134 815**	**491 017**	18 625 832
LIABILITIES			
Financial liabilities held for trading	59 791	14 514	**74 305**
Derivatives used for hedging	64 453	-	**64 453**
Deposits from banks	517 673	211 209	**728 882**
Deposits from customers	13 362 053	1 531 679	**14 893 732**
Provisions	49 997	6 245	**56 242**
Current tax liabilities	8 807	-	**8 807**
Other liabilities	87 049	2 520	**89 569**
TOTAL LIABILITIES	**14 149 823**	**1 766 167**	15 915 990
EQUITY	**2 709 842**	**-**	2 709 842
Net off-balance sheet spot and forward position	**(1 280 816)**	**1 298 802**	17 986
Net position	**(5 666)**	**23 652**	17 986

As of December 31, 2015 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	4 570 614	14 782	**4 585 396**
Non-derivative financial assets held for trading	10 147	-	**10 147**
Derivatives held for trading	101 173	25 098	**126 271**
Derivatives held for hedging	13 455	-	**13 455**
Loans and advances to banks	1 188 159	37 214	**1 225 373**
Loans and advances to customers	8 468 235	301 157	**8 769 392**
Available for sale investments	2 282 226	-	**2 282 226**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	165 523	-	**165 523**
Intangible assets	23 155	-	**23 155**
Deferred tax assets	3 159	-	**3 159**
Other assets	109 156	60	**109 216**
TOTAL ASSETS	**16 990 006**	**378 311**	**17 368 317**
LIABILITIES			
Financial liabilities held for trading	75 597	24 557	**100 154**
Derivatives used for hedging	35 400	-	**35 400**
Deposits from banks	874 112	216 333	**1 090 445**
Deposits from customers	11 921 654	1 563 542	**13 485 196**
Provisions	28 876	22 369	**51 245**
Current tax liabilities	7 977	-	**7 977**
Other liabilities	87 874	2 235	**90 109**
TOTAL LIABILITIES	**13 031 490**	**1 829 036**	**14 860 526**
EQUITY	**2 507 791**	**-**	**2 507 791**
Net off-balance sheet spot and forward position	**(1 456 038)**	**1 462 114**	**6 076**
Net position	**(5 313)**	**11 389**	**6 076**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over 40 days horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2016, meaning that assuming extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	37	23 219	**23 256**
Loans and advances to banks	593 809	727 096	**1 320 905**
Loans and advances to customers	3 139 314	5 930 923	**9 070 237**
Available for sale investments	330 630	2 816 076	**3 146 706**
Other assets	49 447	73 139	**122 586**
TOTAL FINANCIAL ASSETS	**4 113 237**	**9 570 453**	**13 683 690**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2015	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	10 147	-	**10 147**
Loans and advances to banks	502 384	722 989	**1 225 373**
Loans and advances to customers	3 038 481	5 730 911	**8 769 392**
Available for sale investments	148 450	2 133 776	**2 282 226**
Other assets	49 263	59 953	**109 216**
TOTAL FINANCIAL ASSETS	**3 748 725**	**8 647 629**	**12 396 354**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e.g. foreign exchange and interest rate derivatives, equity / bond-related instruments, credit derivatives and commodity derivatives.

Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.

Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

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

The analysis based on client credit quality and rating (where available) as of December 31, 2016 and December 31, 2015 is as shown in the next table:

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds		
Rated BB+	37	10 147
Loan		
Rated BBB	23 219	-
Derivates (net)		
Banks and financial institution counterparties	**(77 036)**	**(22 048)**
Corporate counterparties	49 635	26 220
Total trading assets and liabilities	**(4 145)**	**14 319**

Government bonds presented as of December 31, 2016 and December 31, 2015 include only bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

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

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

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

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

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

During 2017 the Bank is going to have parallel reporting regarding loan loss provision according to IFRS 9, which will be in force beginning from 1st January 2018. According to new methodology under the standard, the scope of the assessment should be extended and to include off-balance sheet items of credit instruments measured at amortized cost. Further change is the movement from IBNR concept to expected loss concept for the performing loans, which is divided in two views – 12-month and lifetime expected loss, based on the stage of the transaction. In order to meet all criteria of the new standard local modelling team developed IFRS9 compliant PD models and related transfer logic and the Bank expects loss given default (LGD) and exposure at default (EAD) models to be ready as of Q2 2017.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2016 and December 31, 2015.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2016	2015	2016	2015	2016	2015
Biggest credit risk exposure to customers' group	313 422	313 422	313 422	313 020	13.3%	14.3%
Credit risk exposure to top five biggest customers' groups	1 108 347	1 003 810	829 623	821 108	35.2%	37.6%

The table below analyses the breakdown of impairment allowances as of December 31, 2016 and December 31, 2015 on loans and advances to customers:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Impaired	**1 209 004**	**1 345 821**	**809 316**	**881 329**	**399 688**	**464 492**
individually assessed	473 420	681 140	243 559	372 889	229 861	308 251
portfolio assessed	735 584	664 681	565 757	508 440	169 827	156 241
Collectively impaired	**7 645 559**	**7 197 358**	**43 677**	**47 079**	**7 601 882**	**7 150 279**
Past due but not impaired	**181 325**	**189 295**	**-**	**-**	**181 325**	**189 295**
individually assessed	143 822	144 124	-	-	143 822	144 124
portfolio assessed	37 503	45 171	-	-	37 503	45 171
Past due comprises of:						
up to 90 days	74 472	67 422	-	-	74 472	67 422
from 91 to 180 days	3 063	30 408	-	-	3 063	30 408
over 181 days	103 790	91 465	-	-	103 790	91 465
	181 325	189 295	-	-	181 325	189 295
Neither past due nor impaired	**887 342**	**965 326**	**-**	**-**	**887 342**	**965 326**
Total	**9 923 230**	**9 697 800**	**852 993**	**928 408**	**9 070 237**	**8 769 392**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2016	31.12.2015
Impaired defaulted exposures		
Cash collateral	1 224	2 005
Property	1 034 136	1 136 890
Other collateral	562 366	501 361
Collectively impaired performing exposures (IBNR)		
Cash collateral	58 222	67 165
Property	8 731 975	8 481 725
Debt securities	430	-
Other collateral	8 025 836	7 041 042
Past due but not impaired defaulted exposures		
Cash collateral	868	1 642
Property	453 579	492 642
Other collateral	114 272	198 011
Neither past due nor impaired performing exposures		
Cash collateral	74 408	61 448
Property	1 548 703	1 583 650
Debt securities	10 300	10 847
Other collateral	61 751	70 551
Total	**20 678 070**	**19 648 979**

Other collaterals include mostly pledges on non-real estate long-term assets, going concerns and inventories.

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2016 and December 31, 2015.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Concentration by sectors						
Sovereign	339 082	315 605	-	-	3 129 166	2 253 848
Manufacturing	2 311 833	1 969 390	-	-	-	-
Commerce	1 949 629	2 179 715	-	-	-	-
Construction and real estate	1 536 218	1 528 474	-	-	67	67
Agriculture and forestry	456 810	426 445	-	-	-	-
Transport and communication	321 596	229 109	-	-	655	655
Tourism	253 122	155 673	-	-	-	-
Services	500 266	507 809	-	-	-	-
Financial services	127 058	192 643	1 320 905	1 225 373	71 822	82 660
Retail (individuals)						
Housing loans	1 656 185	1 604 843	-	-	-	-
Consumer loans	350 560	457 418	-	-	-	-
Other	120 871	130 676	-	-	-	-
	9 923 230	**9 697 800**	**1 320 905**	**1 225 373**	**3 201 710**	**2 337 230**
Impairment allowances	(852 993)	(928 408)	-	-	-	-
Total	**9 070 237**	**8 769 392**	**1 320 905**	**1 225 373**	**3 201 710**	**2 337 230**
Concentration by geographic location						
Europe	9 859 361	9 616 832	1 316 874	1 212 245	3 196 175	2 337 230
North America	21 535	39 966	3 623	12 399	-	-
Asia	3 078	2 908	156	606	-	-
Africa	46	130	-	-	-	-
South America	29	12	-	-	5 535	-
Australia	39 181	37 952	252	123	-	-
	9 923 230	**9 697 800**	**1 320 905**	**1 225 373**	**3 201 710**	**2 337 230**
Impairment allowances	(852 993)	(928 408)	-	-	-	-
Total	**9 070 237**	**8 769 392**	**1 320 905**	**1 225 373**	**3 201 710**	**2 337 230**

(e) Operational Risk

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

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

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

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. Under the Reputational risk process, special attention is paid to the management and monitoring of the Bank's exposure towards economic sectors and transactions, such as Defence/Weapons, Nuclear energy etc.

The main activities of the Operational and Reputational Risk Unit in 2016 were focused on the further development of the Operational Risk management, with emphasis on preventative and mitigation actions to reduce future losses. In particular a new activity, Operational Risk Assessment for ICT Risk, was performed in UniCredit Bulbank AD. This is a bottom up approach for the identification and assessment of ICT risks and mitigating controls that facilitates the understanding and management of ICT risks. A significant part of the resources of the Operational and Reputational Risk Unit were also devoted towards the implementation and monitoring of the 2016 Bank's Operational Risk Strategies (Operational risk strategies deploy their effect in a multiyear perspective) and include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk, etc. As part of the definition of the Operational Risk Strategies 2017, the Business Syndication activity was performed for the first time in 2016. This activity is performed by the Operational and Reputational Risk unit in order to collect information related to business strategies in a forward looking perspective. The aim is to measure the operational risk arising from Strategies implementation using also risk indicators. Additionally, the Operational and Reputational Risk team was also deeply involved in the Gap Analysis Project for the upgrade of the core bank system.

As of 01.10.2016 all UniCredit CEE legal entities (including UniCredit Bulbank) became directly subordinated to UniCredit Holding and not to UC Bank Austria Sub-holding. In this regard, several Group documents were introduced regulating the implementation of the organizational changes in UC Group in the current processes of the Bank.

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

(f) Basel III disclosure

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

For 2015 and during the first half of 2016 the Bank applied Foundation Internal Rating Based (F-IRB) Approach for calculation of credit risk capital requirements for corporate clients and credit institutions and Advances Measurement Approach (AMA) for the calculation of capital requirements for operational risk. For all the remaining exposures, Bank applies Standardised Approach (STA). Starting from July 2016, UniCredit Bulbank reports regulatory capital for credit risk under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remains at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach.

Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2016 are 10%, 11.5% and 13.5%, respectively.

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

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2016 is presented in the table below:

NAME		EIF JEREMIE
Type of securitisation:		First Loss Portfolio Guarantee
Originator:		UniCredit Bulbank
Issuer:		European Investment Fund
Target transaction :		Capital Relief and risk transfer
Type of asset:		Highly diversified and granular pool of newly granted SME loans
Quality of Assets as of December 31, 2016		Performing loans
Agreed maximum portfolio volume:		EUR 50 000 thousand
Nominal Value of reference portfolio :		BGN 72 776 thousand
Issued guarantees by third parties:		First loss cash coverage by EIF
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2016	BGN 31 600 thousand	BGN 26 621 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2016 and December 31, 2015 are as follows:

In thousands of BGN

	31.12.2016	31.12.2015
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 343 258	2 153 895
Tier 1 capital	2 343 258	2 153 895
Tier 2 capital	14 326	24 237
Total regulatory own funds	**2 357 584**	**2 178 132**
Risk Weighted Assets (RWA)		
RWA for credit risk	7 677 613	7 932 252
RWA for market risk	40 026	10 801
RWA for operational risk	807 800	830 638
RWA for credit valuation adjustments	2 563	51 775
Total Risk Weighted Assets (RWA)	**8 528 002**	**8 825 466**
CET 1 ratio	**27.48%**	**24.41%**
Tier 1 ratio	**27.48%**	**24.41%**
Total capital adequacy ratio	**27.65%**	**24.68%**
Minimum CET 1 capital requirements (4.5%)	**383 760**	**397 146**
Minimum Tier 1 capital requirements (6%)	**511 680**	**529 528**
Minimum total capital requirements (8%)	**682 240**	**706 037**
Additional capital requirements for conservation buffer (2.5%)	213 200	220 637
Additional capital requirements for systemic risk buffer (3%)	255 840	264 764
Combined buffers additional capital requirements (5.5%)	**469 040**	**485 401**
Adjusted minimum CET 1 capital requirements after buffers (10%)	**852 800**	**882 547**
Adjusted minimum Tier 1 capital requirements, including buffers (11.5%)	**980 720**	**1 014 929**
Adjusted minimum total capital requirements after buffers (13.5%)	**1 151 280**	**1 191 438**
Free equity, after buffers	**1 206 304**	**705 653**

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

As of December 31, 2016 and December 31, 2015 the same requirements remained valid.

5. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

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

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

OTC DERIVATIVES

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2016 and 2015 see also Note **9**).

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2016, whenever risk-free FV deviates by more than 2% (2% in 2015) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2016 and December 31, 2015.

DEPOSITS FROM BANKS AND CUSTOMERS

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2016 and December 31, 2015 all demand deposits are mapped to Level 3 fair value hierarchy.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non derivative financial assets held for trading	-	-	23 256	10 147	-	-	23 256	**10 147**
Derivatives held for trading	-	-	107 896	125 694	1 009	577	**108 905**	**126 271**
Derivatives held for hedging	-	-	2 452	13 455	-	-	**2 452**	**13 455**
Available for sale Investments	2 143 081	1 188 240	985 978	1 061 872	17 647	32 114	**3 146 706**	**2 282 226**
Loans and advances to banks	-	-	1 253 849	273 905	72 573	903 706	**1 326 422**	**1 177 611**
Loans and advances to customers	-	-	1 608 118	1 526 487	8 201 449	8 033 725	**9 809 567**	**9 560 212**
	2 143 081	**1 188 240**	**3 981 549**	**3 011 560**	**8 292 678**	**8 970 122**	**14 417 308**	**13 169 922**
Financial liabilities held for trading	-	-	74 305	100 154	-	-	**74 305**	**100 154**
Derivatives used for hedging	-	-	64 453	35 400	-	-	**64 453**	**35 400**
Deposits from banks	-	-	253 922	576 613	454 971	486 789	**708 893**	**1 063 402**
Deposits from customers	-	-	5 752 257	6 173 759	9 137 395	7 312 394	**14 889 652**	**13 486 153**
	-	**-**	**6 144 937**	**6 885 926**	**9 592 366**	**7 799 183**	**15 737 303**	**14 685 109**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2016 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2016)	**577**	**32 114**
Increases	**861**	**5 575**
Purchase	-	5 110
Profit recognized in equity	-	465
Transfer from other levels	861	-
Decreases	**(429)**	**(20 042)**
Sales	-	(16 460)
Redemption	-	(3 534)
Loses recognized in income statement	(168)	-
Transfer to other levels	(75)	-
Other decreases	(186)	(48)
Closing balance (December 31, 2016)	**1 009**	**17 647**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2016 and December 31, 2015.

In thousands of BGN

DECEMBER 2016	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	4 547 510	**4 547 510**	**4 547 510**
Non-derivative financial assets held for trading	37	23 219	-	-	-	**23 256**	**23 256**
Derivatives held for trading	108 905	-	-	-	-	**108 905**	**108 905**
Derivatives held for hedging	-	-	-	2 452	-	**2 452**	**2 452**
Loans and advances to banks	-	1 320 905	-	-	-	**1 320 905**	**1 326 422**
Loans and advances to customers	-	9 070 237	-	-	-	**9 070 237**	**9 809 567**
Available for sale Investments	-	-	3 146 706	-	-	**3 146 706**	**3 146 706**
TOTAL ASSETS	**108 942**	**10 414 361**	**3 146 706**	**2 452**	**4 547 510**	**18 219 971**	**18 964 818**
LIABILITIES							
Financial liabilities held for trading	74 305	-	-	-	-	**74 305**	**74 305**
Derivatives used for hedging	-	-	-	64 453	-	**64 453**	**64 453**
Deposits from banks	-	-	-	-	728 882	**728 882**	**708 893**
Deposits from customers	-	-	-	-	14 893 732	**14 893 732**	**14 889 652**
TOTAL LIABILITIES	**74 305**	**-**	**-**	**64 453**	**15 622 614**	**15 761 372**	**15 737 303**

In thousands of BGN

DECEMBER 2015	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	4 585 396	**4 585 396**	**4 585 396**
Non-derivative financial assets held for trading	10 147	-	-	-	-	**10 147**	**10 147**
Derivatives held for trading	126 271	-	-	-	-	**126 271**	**126 271**
Derivatives held for heding	-	-	-	13 455	-	**13 455**	**13 455**
Loans and advances to banks	-	1 225 373	-	-	-	**1 225 373**	**1 177 611**
Loans and advances to customers	-	8 769 392	-	-	-	**8 769 392**	**9 560 212**
Available for sale Investments	-	-	2 282 226	-	-	**2 282 226**	**2 282 226**
TOTAL ASSETS	**136 418**	**9 994 765**	**2 282 226**	**13 455**	**4 585 396**	**17 012 260**	**17 755 318**
LIABILITIES							
Financial liabilities held for trading	100 154	-	-	-	-	**100 154**	**100 154**
Derivatives used for hedging	-	-	-	35 400	-	**35 400**	**35 400**
Deposits from banks	-	-	-	-	1 090 445	**1 090 445**	**1 063 402**
Deposits from customers	-	-	-	-	13 485 196	**13 485 196**	**13 486 153**
TOTAL LIABILITIES	**100 154**	**-**	**-**	**35 400**	**14 575 641**	**14 711 195**	**14 685 109**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2016 and December 31, 2015 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **30**).

(c) Impairment of financial instruments

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

Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. As of December 31, 2016 and December 31, 2015 the average applied loss confirmation period is 6 months.

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

(d) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2016	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	237 271	254 314	(44 903)	**446 682**
Dividend income	-	-	1 515	**1 515**
Net fee and commission income	124 643	75 974	(44)	**200 573**
Net gains from financial assets and liabilities held for trading and hedging derivatives	20 974	48 509	11 763	**81 246**
Net income from investments	-	6 518	24 168	**30 686**
Other operating expenses, net	(17 758)	(26 423)	(2 084)	**(46 265)**
TOTAL OPERATING INCOME	**365 130**	**358 892**	**(9 585)**	**714 437**
Personnel expenses	(48 607)	(16 707)	(48 650)	**(113 964)**
General and administrative expenses	(57 259)	(10 036)	(22 574)	**(89 869)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 331)	(4 701)	(20 449)	**(42 481)**
Total direct expenses	**(123 197)**	**(31 444)**	**(91 673)**	**(246 314)**
Allocation of indirect and overhead expenses	(47 351)	(27 958)	75 309	**-**
TOTAL OPERATING EXPENSES	**(170 548)**	**(59 402)**	**(16 364)**	**(246 314)**
Provisions for risk and charges	-	-	(6 491)	**(6 491)**
Net impairment loss on financial assets	(16 800)	(142 718)	20 269	**(139 249)**
Net income related to property, plant and equipment	-	-	2 285	**2 285**
PROFIT BEFORE INCOME TAX	**177 782**	**156 772**	**(9 886)**	**324 668**
Income tax expense	(17 778)	(15 677)	225	**(33 230)**
PROFIT FOR THE YEAR	**160 004**	**141 095**	**(9 661)**	**291 438**
ASSETS	**2 731 643**	**8 541 607**	**7 352 582**	**18 625 832**
LIABILITIES	**7 870 900**	**7 233 245**	**811 845**	**15 915 990**

In thousands of BGN

DECEMBER 2015	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	249 199	266 292	(46 170)	**469 321**
Dividend income	-	-	968	**968**
Net fee and commission income	123 000	72 331	2 537	**197 868**
Net gains from financial assets and liabilities held for trading	19 392	40 645	1 405	**61 442**
Net gains from other financial assets designated at fair value through profit or loss	-	10 072	-	**10 072**
Net income from investments	-	1 852	4 631	**6 483**
Other operating expenses, net	(23 730)	(19 166)	(28 755)	**(71 651)**
TOTAL OPERATING INCOME	**367 861**	**372 026**	**(65 384)**	**674 503**
Personnel expenses	(48 409)	(16 350)	(49 562)	**(114 321)**
General and administrative expenses	(55 109)	(10 122)	(20 092)	**(85 323)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16 391)	(4 354)	(23 153)	**(43 898)**
Total direct expenses	**(119 909)**	**(30 826)**	**(92 807)**	**(243 542)**
Allocation of indirect and overhead expenses	(47 264)	(27 058)	74 322	**-**
TOTAL OPERATING EXPENSES	**(167 173)**	**(57 884)**	**(18 485)**	**(243 542)**
Provisions for risk and charges	-	-	(5 279)	**(5 279)**
Net impairment loss on financial assets	(27 229)	(70 067)	(5 816)	**(103 112)**
Net income related to property, plant and equipment	-	-	451	**451**
PROFIT BEFORE INCOME TAX	**173 459**	**244 075**	**(94 513)**	**323 021**
Income tax expense	(17 346)	(24 407)	**8 739**	**(33 014)**
PROFIT FOR THE YEAR	**156 113**	**219 668**	**(85 774)**	**290 007**
ASSETS	**2 758 732**	**7 925 202**	**6 684 383**	**17 368 317**
LIABILITIES	**6 938 747**	**6 620 561**	**1 301 218**	**14 860 526**

7. Net interest income

In thousands of BGN

	2016	2015
Interest income		
Non-derivative financial assets held for trading	154	297
Derivatives held for trading	-	42
Financial assets designated at fair value through profit or loss	-	1 379
Loans and advances to banks	12 394	14 818
Loans and advances to customers	435 054	499 266
Available for sale investments	65 222	44 632
Held to maturity investments	-	322
	512 824	**560 756**
Interest expense		
Derivatives held for trading	(20)	(47)
Derivatives used for hedging	(17 053)	(9 018)
Deposits from banks	(14 642)	(10 762)
Deposits from customers	(34 427)	(71 419)
Subordinated debt	-	(189)
	(66 142)	**(91 435)**
Net interest income	**446 682**	**469 321**

For the financial years ended December 31, 2016 and December 31, 2015 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 23 551 thousand and BGN 25 814 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2016	2015
Fee and commission income		
Collection and payment services	118 338	118 508
Lending business	17 042	16 535
Account services	17 654	9 464
Management, brokerage and securities trading	7 495	7 707
Documentary business	18 409	17 451
Package accounts	19 077	17 662
Other	24 147	31 170
	222 162	**218 497**
Fee and commission expense		
Collection and payment services	(18 194)	(16 992)
Management, brokerage and securities trading	(1 334)	(1 475)
Lending business	(120)	(213)
Other	(1 941)	(1 949)
	(21 589)	**(20 629)**
Net fee and commission income	**200 573**	**197 868**

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

In thousands of BGN

	2016	2015
FX trading income, net	68 791	55 610
Net income from debt instruments	783	732
Net income from equity instruments	-	(1)
Net income from derivative instruments	10 889	5 306
Net income from other trading instruments	1 431	-
Net income from hedging trading instruments	(648)	(205)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**81 246**	**61 442**

The total CVA (net of DVA) for the years ended December 31, 2016 and December 31, 2015, included in position net income from derivative instruments is in the amount of BGN (2 847) thousand and BGN (778) thousand, respectively.

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

Bank designates as financial assets at fair value through profit or loss only debt securities, which fair values, can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2016 and December 31, 2015 are BGN 0 thousand and BGN 10 072 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2016	2015
Realised gains on disposal of unimpaired available for sale investments	6 518	6 483
Income from equity investments	24 166	-
Realised gains on disposal of unimpaired loans and advances	2	-
Net income from investments	**30 686**	**6 483**

Realized gains on disposal of unimpaired loans and advances include the net profit out of sale of performing exposures. The realised gains (losses) on sale of impaired (defaulted) exposures are included under Net impairment loss on financial assets (see also note **18).**

Income from equity investments as of December 31, 2016 consists of one-off gain from VISA ownership shift.

12. Other operating expenses, net

In thousands of BGN

	2016	2015
Other operating income		
Income from non-financial services	901	934
Rental income	833	631
Other income	5 887	2 395
	7 621	**3 960**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(48 399)	(65 946)
Impairment of foreclosed properties	(3 188)	(8 509)
Other operating expenses	(2 299)	(1 156)
	(53 886)	**(75 611)**
Other operating income, net	**(46 265)**	**(71 651)**

In 2016 and 2015 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of long-term assets. For the years ended December 31, 2016 and December 31, 2015 the gains are in the amount of BGN 2 285 thousand and BGN 451 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2016	2015
Wages and salaries	(94 347)	(94 581)
Social security charges	(12 885)	(12 029)
Pension and similar expenses	(585)	(563)
Temporary staff expenses	(1 391)	(1 512)
Share-based payments	(1 767)	(1 834)
Other	(2 989)	(3 802)
Total personnel expenses	**(113 964)**	**(114 321)**

As of December 31, 2016 the total number of employees, expressed in full time employee equivalent is 3 560 (December 31, 2015: 3 565)

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

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2015	2016 COST (GAINS)	SETTLED IN 2016	ECONOMIC VALUE AT DECEMBER 31, 2016
Deferred Short Term Incentive (ordinary shares)	3 803	1 683	(1 358)	4 128
ESOP and shares for Talents	331	84	(148)	267
Total Options and Shares	**4 134**	**1 767**	**(1 506)**	**4 395**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **38**.

15. General and administrative expenses

In thousands of BGN

	2016	2015
Advertising, marketing and communication	(9 297)	(9 602)
Credit information and searches	(1 927)	(1 921)
Information, communication and technology expenses	(33 120)	(30 875)
Consulting, audit and other professionals services	(3 005)	(2 048)
Real estate expenses	(11 869)	(11 291)
Rents	(12 794)	(11 997)
Travel expenses and car rentals	(2 965)	(3 218)
Insurance	(1 082)	(1 143)
Supply and miscellaneous services rendered by third parties	(11 580)	(11 191)
Other costs	(2 230)	(2 037)
Total general and administrative expenses	**(89 869)**	**(85 323)**

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

In thousands of BGN

	2016	2015
Depreciation charge	(31 753)	(30 311)
Impairment	(10 728)	(13 587)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(42 481)**	**(43 898)**

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, 2016 and December 31, 2015 the impairment of long-term assets, is in the amount of BGN 10 728 thousand and BGN 13 587 thousand, respectively.

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **38**).

In thousands of BGN

	2016	2015
Additions of provisions		
Provisions on letters of guarantee	(20 950)	-
Legal cases provisions	(1 574)	(9 679)
Other provisions	(200)	(398)
Provisions on constructive obligations	-	(1 173)
	(22 724)	**(11 250)**
Reversal of provisions		
Provisions on letters of guarantee	-	5 675
Legal cases provisions	16 233	296
	16 233	**5 971**
Net provisions charge	**(6 491)**	**(5 279)**

18. Net Impairment loss on financial assets

In thousands of BGN

	2016	2015
Balance 1 January		
Loans and advances to customers	**928 408**	**906 857**
Increase		
Loans and advances to customers	263 222	216 830
Decrease		
Loans and advances to customers	(98 552)	(96 266)
Recoveries from loans previously written-off	(25 421)	(17 452)
	(123 973)	**(113 718)**
Net impairment losses	139 249	103 112
FX revaluation effect on imparment allowances	1 178	2 809
Other movements	(26 475)	-
Written-off		
Loans and advances to customers	(214 788)	(101 822)
Balance December 31		
Loans and advances to customers	**852 993**	**928 408**

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 2016.

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

In thousands of BGN

	2016	2015
Current tax	(43 502)	(43 312)
Deferred tax income (expense) related to origination and reversal of temporary differences	10 513	10 662
Underprovided prior year income tax	(241)	(364)
Income tax expense	**(33 230)**	**(33 014)**

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

	2016	2015
Accounting profit before tax	324 668	323 021
Corporate tax at applicable tax rate (10% for 2016 and 2015)	(32 467)	(32 302)
Tax effect of non-taxable revenue	152	290
Tax effect of non-tax deductible expenses	(762)	(782)
Overprovided (underprovided) prior year income tax	(153)	(220)
Income tax expense	**(33 230)**	**(33 014)**
Effective tax rate	**10.24%**	**10.22%**

20. Cash and balances with Central bank

In thousands of BGN

	31.12.2016	31.12.2015
Cash in hand and in ATM	201 762	195 641
Cash in transit	71 936	69 151
Current account with Central Bank	4 273 812	4 320 604
Total cash and balance with Central Bank	**4 547 510**	**4 585 396**

21. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds	37	10 147
Trading loans	23 219	-
Total non-derivative financial assets held for trading	**23 256**	**10 147**

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

Trading loans consist of prepaid forward transaction with customer.

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

The reclassification was performed retrospectively, as allowed by the amendments in IAS 39, with effective date July 1st, 2008. Maturity of the government bonds, with regards to which reclassification was performed, expired in January 2015, so as of December 31, 2015 and December 31, 2016 there is no held to maturity category.

22. Derivatives held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Interest rate swaps	56 610	66 404
Equity options	8 771	13 509
FX forward contracts	22 856	18 506
Other options	1	2
FX swaps	8 404	7 726
Commodity swaps	9 401	9 535
Commodity options	2 862	10 589
Total trading derivatives	**108 905**	**126 271**

Derivatives consist of trading instruments that have positive market value as of December 31, 2016 and December 31, 2015. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (j)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the 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). Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

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

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

In 2015 corporate bonds designated at fair value through profit or loss have been repurchased by the issuer, and municipality bonds held in the same category matured. As a result the Bank has no investments in securities designated at fair value through profit and loss as of December 31, 2016.

25. Loans and advances to banks

In thousands of BGN

	31.12.2016	31.12.2015
Loans and advances to banks	1 266 211	1 130 667
Current accounts with banks	54 694	94 706
Total loans and advances to banks	**1 320 905**	**1 225 373**

As December 31, 2015 loans and advances to banks include also receivables under repurchase agreements. For more details on the outstanding amounts of such agreements as well as the market value of collaterals see Note **42**. As of December 31, 2016 there are no receivables under repurchase agreements with banks.

26. Loans and advances to customers

In thousands of BGN

	31.12.2016	31.12.2015
Receivables under repurchase agreement	-	69 196
Companies	7 456 532	7 120 062
Individuals		
Housing loans	1 656 185	1 604 843
Consumer loans	350 560	457 418
Other loans	120 871	130 676
Central and local governments	339 082	315 605
	9 923 230	9 697 800
Less impairment allowances	(852 993)	(928 408)
Total loans and advances to customers	**9 070 237**	**8 769 392**

Receivables under repurchase agreement disclosed as of December 31, 2015 represent short-term funding provided to a local financial institution, collateralized with Bulgarian government bonds. In addition certain loans granted to corporate clients and central government are pledged on funding received (deposits from banks and customers). For more information on pledged assets see Note **42**.

As of December 31, 2016 there are no receivables under repurchase agreements with customers.

27. Available for sale investments

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds	3 128 715	2 249 854
Municipality bonds	451	3 994
Equities	17 540	28 378
Total available for sale investments	**3 146 706**	**2 282 226**

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

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

As of December 31, 2016 and December 31, 2015 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, 2016 and December 31, 2015 available for sale investments in the amount of BGN 310 629 thousand and BGN 264 878 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 **42**).

28. Investments in subsidiaries and associates

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2016	SHARE IN CAPITAL DECEMBER 2015	CARRYING VALUE IN THOUSANDS OF BGN DEC 2016	CARRYING VALUE IN THOUSANDS OF BGN DEC 2015
Factoring EAD	Factoring activities	100%	100%	3 000	3 000
UniCredit Fleet Management EOOD	Transport services	100%	100%	655	655
UniCredit Consumer Financing EAD	Consumer lending and other similar activities in line with theapplicable law and regulations	100%	100%	39 238	39 238
UniCredit Leasing EAD	Leasing activities	100%	100%	9 611	9 611
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	20%	20%	2 500	2 500
Total				**55 004**	**55 004**

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

In August 2016 former Hypovereins Immobilien EOOD was renamed to UniCredit Fleet Management EOOD.

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost. In addition the Bank also prepares consolidated financial statements where all entities in which the Bank has control are fully consolidated and those where the Bank exercises significant influence, are consolidated under equity method.

29. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2015	**5 628**	**150 958**	**8 130**	**70 004**	**47 027**	**48 171**	**329 918**
Additions	-	7 018	1 684	11 706	7 951	34 895	**63 254**
Transfers	(25)	(165)	-	-	-	341	**151**
Write offs	-	(683)	(286)	(1 567)	(2 196)	-	**(4 732)**
Disposals	(12)	(169)	(4)	(4 504)	(848)	(2 297)	**(7 834)**
As of December 31, 2016	**5 591**	**156 959**	**9 524**	**75 639**	**51 934**	**81 110**	**380 757**
Depreciation							
As of December 31, 2015	**-**	**69 440**	**4 393**	**54 604**	**34 459**	**1 499**	**164 395**
Depreciation charge	-	6 930	1 242	6 453	6 169	1 969	**22 763**
Impairment	-	-	-	-	-	10 728	**10 728**
Write offs	-	(683)	(286)	(1 567)	(2 193)	-	**(4 729)**
On disposals	-	(68)	(4)	(4 504)	(812)	(933)	**(6 321)**
Transfers	-	(65)	-	-	-	65	**-**
As of December 31, 2016	**-**	**75 554**	**5 345**	**54 986**	**37 623**	**13 328**	**186 836**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 179**	**20 653**	**14 311**	**67 782**	**193 921**
Net book value as of December 31, 2015	**5 628**	**81 518**	**3 737**	**15 400**	**12 568**	**46 672**	**165 523**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2014	**5 628**	**148 894**	**6 334**	**74 313**	**46 992**	**61 658**	**343 819**
Additions	-	4 486	2 068	6 994	6 784	267	**20 599**
Transfers	-	(1 137)	-	-	-	2 434	**1 297**
Write offs	-	(1 254)	(272)	(10 355)	(6 691)	(15 449)	**(34 021)**
Disposals	-	(31)	-	(948)	(58)	(739)	**(1 776)**
As of December 31, 2015	**5 628**	**150 958**	**8 130**	**70 004**	**47 027**	**48 171**	**329 918**
Depreciation							
As of December 31, 2014	**-**	**64 271**	**3 755**	**59 540**	**35 012**	**1 081**	**163 659**
Depreciation charge	-	6 854	910	6 364	6 185	1 931	**22 244**
Impairment	-	-	-	-	-	13 587	**13 587**
Write offs	-	(1 254)	(272)	(10 355)	(6 691)	(15 449)	**(34 021)**
On disposals	-	(31)	-	(945)	(47)	(51)	**(1 074)**
Transfers	-	(400)	-	-	-	400	**-**
As of December 31, 2015	-	**69 440**	**4 393**	**54 604**	**34 459**	**1499**	**164 395**
Net book value as of December 31, 2014	**5 628**	**81 518**	**3 737**	**15 400**	**12 568**	**46 672**	**165 523**
Net book value as of December 31, 2013	**5 628**	**84 623**	**2 579**	**14 773**	**11 980**	**60 577**	**180 160**

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

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

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2016 and December 31, 2015 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2016 and December 31, 2015 amount to BGN 10 729 thousand and BGN 13 587 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2016 and December 31, 2015. The fair values of investment properties as of December 31, 2016 and December 31, 2015 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015
Investment properties				
Land	10 860	6 902	11 068	7 024
Buildings	56 922	39 770	58 313	40 967
Total investment properties	**67 782**	**46 672**	**69 381**	**47 991**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2015	**92 562**
Additions	10 677
Write offs	(15 714)
As of December 31,2016	**87 525**
Depreciation	
As of December 31, 2015	69 407
Depreciation charge	8 990
Write offs	(15 714)
As of December 31,2016	**62 683**
Net book value as of December 31, 2016	**24 842**
Net book value as of December 31, 2015	**23 155**

In thousands of BGN

Cost	
As of December 31, 2014	**85 145**
Additions	8 011
Write offs	(594)
As of December 31,2015	**92 562**
Depreciation	
As of December 31, 2014	**61 934**
Depreciation charge	8 067
Write offs	(594)
As of December 31,2015	**69 407**
Net book value as of December 31, 2015	**23 155**
Net book value as of December 31, 2014	**23 211**

31. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2016 there are no current tax assets, reported by the Bank, and those reported as of December 31, 2015 represent overprovided current tax for 2015, while current tax liabilities represent net payable current tax position for the years 2016 and 2015 respectively.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 is as outlined below:

In thousands of BGN

	31.12.2016	31.12.2015
Property, plant, equipment, investment properties and intangible assets	2 812	4 103
Available for sale investments	872	872
Provisions	(4 913)	(3 293)
Actuarial gains (losses)	(271)	(196)
Other liabilities/Other assets	(5 993)	(4 645)
Net tax (assets) liabilities	**(7 493)**	**(3 159)**

The movements of deferred tax assets and liabilities on net basis throughout 2016 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2015	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2016
Property, plant, equipment, investment properties and intangible assets	4 103	(1 291)	-	2 812
Available for sale investments	872	(7 162)	7 162	872
Provisions	(3 293)	(1 620)	-	(4 913)
Actuarial gains (losses)	(196)	-	(75)	(271)
Cash flow hedge	-	908	(908)	-
Other liabilities	(4 645)	(1 348)	-	(5 993)
Net tax (assets) liabilities	**(3 159)**	**(10 513)**	**6 179**	**(7 493)**

33. Non-current assets held for sale

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

As of December 31, 2016 and December 31, 2015 Bank has not classified any properties as non-current assets held for sale.

As of the end of 2016, the Bank has signed an agreement for sale of a loan portfolio at gross amount of EUR 93 000 thousand (including balance sheet exposures, as well as written-off the balance sheet exposures). The deal is part of the Group plan aiming at strengthening the loan portfolio quality. Following the above, as of December 31, 2016 the Bank has reclassified the balance sheet loan exposures subject to sale in compliance with the requirements of IFRS 5. Loans evaluation and measurement is following the requirements of IAS 39 and as of December 31, 2016 the carrying value of the balance sheet exposures is equal to the cession price allocated to that portion of the portfolio for sale - BGN 2 015 thousand.

34. Other assets

In thousands of BGN

	31.12.2016	31.12.2015
Receivables and prepayments	41 021	41 608
Receivables from the State Budget	1	1
Materials, spare parts and consumables	841	998
Other assets	7 584	6 656
Foreclosed properties	73 139	59 953
Total other assets	**122 586**	**109 216**

35. Financial liabilities held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Interest rate swaps	34 665	42 974
FX forward contracts	11 420	16 562
Equity options	9 093	14 275
Other options	1	2
FX swaps	6 818	5 805
Commodity swaps	9 438	9 692
Commodity options	2 870	10 844
Total trading liabilities	**74 305**	**100 154**

36. Deposits from banks

In thousands of BGN

	31.12.2016	31.12.2015
Current accounts and overnight deposits		
Local banks	213 994	174 142
Foreign banks	89 350	167 350
	303 344	**341 492**
Deposits		
Local banks	47 934	70 376
Foreign banks	354 528	660 284
	402 462	**730 660**
Other	**23 076**	**18 293**
Total deposits from banks	**728 882**	**1 090 445**

37. Deposits from customers

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, 2016 and December 31, 2015 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.

In thousands of BGN

	31.12.2016	31.12.2015
Current accounts		
Individuals	1 764 509	1 323 689
Corporate	5 467 936	4 409 704
Budget and State companies	274 625	215 183
	7 507 070	**5 948 576**
Term deposits		
Individuals	4 151 020	4 150 997
Corporate	1 508 686	2 006 526
Budget and State companies	96 615	58 061
	5 756 321	**6 215 584**
Saving accounts	**1 597 716**	**1 245 577**
Transfers in execution process	**32 625**	**75 459**
Total deposits from customers	**14 893 732**	**13 485 196**

38. Provisions

The movement in provisions for the years ended December 31, 2016 and December 31, 2015 is as follows:

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2014	**20 447**	**16 993**	**5 815**	**721**	**537**	**44 513**
Allocations	-	9 679	563	1 173	398	**11 813**
Releases	(5 675)	(296)	-	-	-	**(5 971)**
Additions due to FX revaluation	11 632	4 179	-	-	-	**15 811**
Releases due to FX revaluation	(9 963)	(3 579)	-	-	-	**(13 542)**
Actuarial gains/losses recognized in OCI	-	-	324	-	-	**324**
Utilization	-	(645)	(292)	(321)	(445)	**(1 703)**
Balance as of December 31, 2015	**16 441**	**26 331**	**6 410**	**1 573**	**490**	**51 245**
Allocations	20 950	1 574	585	-	200	**23 309**
Releases	-	(16 233)	-	-	-	**(16 233)**
Additions due to FX revaluation	2 335	2 914	-	-	-	**5 249**
Releases due to FX revaluation	(2 886)	(2 723)	-	-	-	**(5 609)**
Actuarial gains/losses recognized in OCI	-	-	745	-	-	**745**
Other movements	(15 498)	15 498				
Utilization		(585)	(384)	(1 271)	(224)	**(2 464)**
Balance as of December31, 2016	**21 342**	**26 776**	**7 356**	**302**	**466**	**56 242**

(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, 2016 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 21 342 thousand (BGN 16 441 thousand as of December 31, 2015).

(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, 2016 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 26 776 thousand has been recognized (BGN 26 331 as of December 31, 2015).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2016 Defined benefit obligation are as follows:

- Discount rate – 1,94%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63 years and 10 months, women 60 years and 10 months for 2016 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2016 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, 2015	**6 410**
Current service costs for 2016	430
Interest cost for 2016	155
Actuarial losses recognized in OCI in 2016	745
Benefits paid	(384)
Recognized defined benefit obligation as of December 31, 2016	**7 356**
Interest rate beginning of the year	2.60%
Interest rate end of the year	1.94%
Future increase of salaries	5.00%
Expected 2017 service costs	475
Expected 2017 interest costs	132
Expected 2017 benefit payments	1 229

Current service cost and interest cost are presented under Personnel expenses (See note **14**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2016	**2015**
Sensitivity - Discount rate +/- %	0.25%	0.25%
DBO Discount rate -	7 542	6 565
DBO Discount rate +	7 179	6 261
Sensitivity - Salary increase rate +/- %	0.25%	0.25%
DBO Salary increase rate -	7 184	6 264
DBO Salary increase rate +	7 536	6 561

(d) Provisions on constructive obligation

In the course of regular business, the Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria. The respective amounts as of December 31, 2016 and December 31, 2015 are as follows:

In thousands of BGN

	31.12.2016	**31.12.2015**
Provisions in accordance with Instruction I-171 of BNB and Ministry of Internal Affairs	-	98
Provisions related to passportization of buildings	302	302
Provisions related to AQR	-	1 173
Total provisions on constructive obligation	**302**	**1 573**

As of December 31, 2015 Bank has recorded provisions on constructive obligations in accordance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises and safe-deposits boxes. As of December 31, 2016 available prior provisions were fully utilized.

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2016 and December 31, 2015 represent unutilized provision amounts as of the reporting dates.

As per the stipulations of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (par.9 of the Transitional and Final Provisions), in 2016 Bulgarian National Bank (BNB) conducted a system-wide independent asset quality analysis of the banking system - Asset Quality Review (AQR) and Stress test for all the banks operating In Bulgaria. As required by the same Law, each bank hired a highly qualified external consultant company that performed the credit file review and other additional procedures following the methodology and prescriptions of BNB. All the costs associated with the review were borne by the respective bank. As of December 31, 2015 the Bank has recorded provisions related to this constructive obligation, which were utilized accordingly in 2016.

(e) Other provision

Other provisions in the amount of BGN 466 thousand (BGN 490 thousand in 2015) relates to coverage of claims related to credit cards business as well as other claims.

39. Other liabilities

In thousands of BGN

	31.12.2016	31.12.2015
State budget	5 136	3 969
Liabilities to personnel	31 604	32 424
Liabilities for unused paid leave	5 288	5 203
Dividends	546	474
Incentive plan liabilities	4 395	4 134
Other liabilities	42 600	43 905
Total other liabilities	**89 569**	**90 109**

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

Liability to personnel includes accrued but not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2016 and 2015 in accordance with the defined target settings and adopted incentive programs.

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

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

40. Equity

(a) Share capital

As of December 31, 2016 and December 31, 2015 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

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

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position the Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 "Employee Benefits".

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2016 and December 31, 2015 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN (18 061) thousand and BGN (2 492) thousand, respectively, net of tax. For 2016 major part of the amount (BGN (14 811)) are due to one off effect from derecognition of Visa Europe equity participation.

41. Contingent liabilities

In thousands of BGN

	31.12.2016	31.12.2015
Letters of credit and letters of guarantee	1 763 146	1 507 431
Credit commitments	1 873 083	1 597 935
Total contingent liabilities	**3 636 229**	**3 105 366**

(a) Letters of credit and letters of guarantee

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

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2016 and December 31, 2015 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 **38**).

(b) Litigation

As of December 31, 2016 and December 31, 2015 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these financial statements as of December 31, 2016 are in the amount of BGN 26 776 thousand (BGN 26 331 thousand in 2015), (see also Note **38**).

(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, 2016 and December 31, 2015 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

42. Assets pledged as collateral

In thousands of BGN

	31.12.2016	31.12.2015
Securities pledged for budget holders' account service	-	972
Securities pledged on other deals	310 629	263 906
Loans pledged for budget holders' account service	254 257	254 885
Loans pledged on other deals	17 843	11 555
	582 729	**531 318**
Pledged assets include:		
Available for sale assets	310 629	264 878
Loans and advances	272 100	266 440
	582 729	**531 318**

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

Information on the collaterals received on open reverse repo deals as of December 31, 2016 and December 31, 2015 is as follows:

In thousands of BGN

	31.12.2016		31.12.2015	
	CARRYING AMOUNT	COLLATERAL VALUE	CARRYING AMOUNT	COLLATERAL VALUE
Receivables under repurchase agreements with banks	-	-	50 988	49 457
Receivables under repurchase agreements withcustomers	-	-	69 196	72 231
Total	**-**	**-**	**120 184**	**121 688**

43. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 - UniCredit Bank Austria AG and its ultimate parent - UniCredit S.p.A (jointly referred as "parent companies"). In addition the Bank has relatedness with its subsidiaries and associates (see also Note 28) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2016 and December 31, 2015 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2016	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Derivatives held for trading	-	-	-	31 402	**31 402**
Derivatives held for hedging	-	-	-	2 452	**2 452**
Current accounts and deposits placed	1 186 925	-	-	36 785	**1 223 710**
Extended loans	-	14 975	-	9 189	**24 164**
Other assets	973	12 604	-	3 737	**17 314**
Financial liabilities held for trading	611	-	-	45 872	**46 483**
Derivatives used for hedging	46 231	-	-	18 222	**64 453**
Current accounts and deposits taken	17 752	85 816	-	75 307	**178 875**
Other liabilities	5 692	28	-	2 329	**8 049**
Guarantees received by the Group	**55 057**			**65 958**	**121 015**

In thousands of BGN

AS OF DECEMBER 31, 2015	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Derivatives held for trading	-	-	-	45 834	**45 834**
Derivatives held for hedging	-	-	-	13 455	**13 455**
Current accounts and deposits placed	1 104 698	-	-	6 779	**1 111 477**
Extended loans	-	17 501	-	5 328	**22 829**
Other assets	2 865	11 971	-	3 182	**18 018**
Financial liabilities held for trading	2 623	-	-	43 515	**46 138**
Derivatives used for hedging	32 913	-	-	2 487	**35 400**
Current accounts and deposits taken	379 808	216 572	501	24 674	**621 555**
Other liabilities	6 275	32	-	3 486	**9 793**
Guarantees received by the Group	**41 276**	**-**	**-**	**40 799**	**82 075**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2016	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	12 050	440	-	192	**12 682**
Interest expenses	(8 945)	(771)	-	(11 004)	**(20 720)**
Dividend income	-	-	178	-	**178**
Fee and commissions income	242	12 964	-	2 310	**15 516**
Fee and commissions expenses	(45)	-	-	(52)	**(97)**
Net gains (losses) on financial assets and liabilities held for trading	2 331	-	-	21 182	**23 513**
Other operating income	-	4 385	-	(143)	**4 242**
Administrative and personnel expenses	(1 804)	(1 669)	(1 056)	(9 211)	**(13 740)**
Total	**3 829**	**15 349**	**(878)**	**3 274**	**21 574**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2015	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	14 514	653	-	126	15 293
Interest expenses	(14 271)	(1 352)	(8)	(3 589)	(19 220)
Dividend income	-	-	180	-	180
Fee and commissions income	652	12 103	-	1 884	14 639
Fee and commissions expenses	(50)	-	-	(11)	(61)
Net gains (losses) on financial assets and liabilities held for trading	(1 161)	-	-	69 080	67 919
Other operating income	25	634	-	12	671
Administrative and personnel expenses	**(1 784)**	**(1 742)**	**(1 038)**	**(7 545)**	**(12 109)**
Total	**(2 075)**	**10 296**	**(866)**	**59 957**	**67 312**

As of December 31, 2016 the loans extended to key management personnel amount to BGN 372 thousand (BGN 395 thousand in 2015). For the year ended December 31, 2016 the compensation paid to key management personnel amounts to BGN 4 420 thousand (BGN 3 740 thousand in 2015).

44. Cash and cash equivalents

In thousands of BGN

	31.12.2016	31.12.2015
Cash in hand and in ATM	201 762	195 641
Cash in transit	71 936	69 151
Current account with the Central Bank	4 273 812	4 320 604
Current accounts with banks	54 694	94 706
Receivables under repurchase agreements	-	50 988
Placements with banks with original maturity less than 3 months	146 948	3 545
Total and cash equivalents	**4 749 152**	**4 734 635**

45. Leasing

Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars. Summary of non-cancellable minimum lease payments as of December 31, 2016 and December 31, 2015 are presented in the tables below.

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2016	31.12.2015
Up to one year	5 738	5 827
Between one and five years	8 214	9 528
Beyond five years	4 829	6 037
Total	**18 781**	**21 392**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2016	31.12.2015
Up to one year	227	235
Total	**227**	**235**

46. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2016 and December 31, 2015 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitate mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these separate financial statements or other mandatory reports are as follows:

In thousands of BGN

	2016	2015	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	714 437	674 503	Separate Income Statement and details in Notes 7,8,9,10,11 and 12
Profit before income tax	324 668	323 021	Separate Income Statement
Income tax expense	(33 230)	(33 014)	Separate Income Statement and details in Notes 19
Return on average assets (%)	1.6%	1.8%	2016 Annual Report on Activity
Full time equivalent number of personnel as of December 31	3 560	3 565	Note 14

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

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

Consolidated Financial Statements

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bulbank AD

Report on the Audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of UniCredit Bulbank AD ("the Bank") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the consolidated financial statements and Auditor's Report Thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

Independet Auditors' Report (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Independent Financial Audit Act and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on November 29, 2016. These procedures include tests over the form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 4, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7 of the Public Offering of Securities Act.

- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.

Opinion under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed during our audit and as a result of the knowledge and understanding of the Group and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Group's internal control and risk management systems in relation to the financial reporting process as element of the content of the corporate governance statement and the information under Article 10 , paragraph 1, letter "c", "d", "e", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Deloitte Audit

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Sylvia Peneva
Statutory Manager
Registered Auditor

Sofia
February 27, 2017

Income Statement

In thousands of BGN

	Notes	2016	2015
Interest income		671 664	695 556
Interest expense		(89 313)	(116 165)
Net interest income	7	**582 351**	**579 391**
Dividend income		**1 337**	**788**
Fee and commission income		232 160	219 728
Fee and commission expense		(21 953)	(20 976)
Net fee and commission income	8	**210 207**	**198 752**
Net gains on financial assets and liabilities held for trading	9	81 249	61 439
Net gains on other financial assets designated at fair value through profit or loss	10	-	10 072
Net income from investments	11	30 902	6 680
Other operating expenses, net	12	(48 380)	(72 313)
TOTAL OPERATING INCOME		**857 686**	**784 809**
Net income related to property, plant and equipment	13	2 462	451
Personnel expenses	14	(131 593)	(131 676)
General and administrative expenses	15	(98 775)	(94 367)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(44 196)	(45 246)
Provisions for risk and charges	17	14 359	(11 116)
Net impairment loss on financial assets	18	(197 776)	(124 289)
PROFIT BEFORE INCOME TAX		**402 167**	**378 566**
Income tax expense	19	(40 822)	(38 375)
PROFIT FOR THE YEAR		**361 345**	**340 191**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Sylvia Peneva
Registered auditor
27/02/2017

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

Statement of Comprehensive Income

In thousands of BGN

	Notes	2016	2015
Profit for the year		**361 345**	**340 191**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial losses		(745)	(325)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		75	32
		(670)	**(293)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Available for sale investments		71 622	54 814
Cash flow hedge		(9 082)	9 516
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		(6 254)	(6 433)
		56 286	**57 897**
Total other comprehensive income net of tax for the year		**55 616**	**57 604**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**416 961**	**397 795**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor
27/02/2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

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

Statement of Financial Position

In thousands of BGN

	Notes	31.12.2016	31.12.2015
ASSETS			
Cash and balances with Central Bank	20	4 547 512	4 585 398
Non-derivative financial assets held for trading	21	23 256	10 147
Derivatives held for trading	22	108 905	126 271
Derivatives held for hedging	23	2 452	13 455
Loans and advances to banks	25	1 323 278	1 226 482
Loans and advances to customers	26	10 872 981	10 322 202
Available for sale investments	27	3 146 706	2 282 226
Investments in associates	28	2 769	2 732
Property, plant, equipment and investment properties	29	198 359	169 396
Intangible assets	30	27 502	25 405
Current tax assets	31	-	33
Deferred tax assets	32	11 124	6 526
Non-current assets held for sale	33	2 015	-
Other assets	34	119 842	108 372
TOTAL ASSETS		**20 386 681**	**18 878 645**
LIABILITIES			
Financial liabilities held for trading	35	74 305	100 154
Derivatives used for hedging	23	64 453	35 400
Deposits from banks	36	2 315 468	2 610 251
Deposits from customers	37	14 838 200	13 295 739
Provisions	38	36 967	53 162
Current tax liabilities	31	9 271	8 576
Deferred tax liabilities	32	77	84
Other liabilities	39	106 192	105 489
TOTAL LIABILITIES		**17 444 933**	**16 208 855**
EQUITY			
Share capital		285 777	285 777
Revaluation reserves		99 171	43 555
Retained earnings		2 195 455	2 000 267
Profit for the year		361 345	340 191
TOTAL EQUITY	40	**2 941 748**	**2 669 790**
TOTAL LIABILITIES AND EQUITY		**20 386 681**	**18 878 645**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

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Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor

27/02/2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. №033
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The accompanying notes 1 to 46 are an integral part of these consolidated financial statements

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Available for sale investments reserve	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of January 1, 2015	**285 777**	**342 378**	**1 738 442**	**24 098**	**(36 658)**	**(1 489)**	**2 352 548**
Profit for the year	-	-	340 191	-	-	-	**340 191**
Actuarial losses	-	-	-	-	-	(325)	**(325)**
Change of revaluation reserve on available for sale investments	-	-	-	54 814	-	-	**54 814**
Change of revaluation reserve on cash flow hedges	-	-	-	-	9 516	-	**9 516**
Income tax related to components of other comprehensive income	-	-	-	(5 481)	(952)	32	**(6 401)**
Total other comprehensive income for the period net of tax	-	-	-	**49 333**	**8 564**	**(293)**	**57 604**
Total comprehensive income for the period net of tax	-	-	**340 191**	**49 333**	**8 564**	**(293)**	**397 795**
Dividends paid	-	-	(80 553)	-	-	-	**(80 553)**
Balance as of December 31, 2015	**285 777**	**342 378**	**1 998 080**	**73 431**	**(28 094)**	**(1 782)**	**2 669 790**
Profit for the year	-	-	361 345	-	-	-	**361 345**
Actuarial losses	-	-	-	-	-	(745)	**(745)**
Change of revaluation reserve on available for sale investments	-	-	-	71 622	-	-	**71 622**
Change of revaluation reserve on cash flow hedges	-	-	-	-	(9 082)	-	**(9 082)**
Income tax related to components of other comprehensive income	-	-	-	(7 162)	908	75	**(6 179)**
Total other comprehensive income for the period net of tax	-	-	-	**64 460**	**(8 174)**	**(670)**	**55 616**
Total comprehensive income for the period net of tax	-	-	**361 345**	**64 460**	**(8 174)**	**(670)**	**416 961**
Dividends paid	-	-	(145 003)	-	-	-	**(145 003)**
Balance as of December 31, 2016	**285 777**	**342 378**	**2 214 422**	**137 891**	**(36 268)**	**(2 452)**	**2 941 748**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
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Emilia Palibachiyska
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Deloitte Audit OOD

Sylvia Peneva
Registered auditor
27/02/2017

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

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

Statement of Cash Flows

In thousands of BGN

	Notes	2016	2015
Net profit		**361 345**	**340 191**
Current and deferred tax, recognised in income statement		40 822	38 375
Adjustments for non-cash items			
Depreciation and amortisation	16	33 468	31 659
Impairment of financial assets	18	222 637	141 333
Impairment of property, plant, equipment, investment properties and other assets	12,16	13 916	22 096
Provisions, net	38	(13 774)	(11 116)
Unrealised fair value (gains) through profit or loss, net		3 430	12 650
Unrealised fair value losses on FX revaluation		31 240	92 499
Net income from associates under equity method		(216)	(197)
Net income from sale of property, plant and equipment		(2 471)	(451)
Net interest income		(582 351)	(579 391)
Dividend income		(1 337)	(788)
Increase in other accruals		49 759	2 272
Cash flows from profits before changes in operating assets and liabilities		**156 468**	**89 132**
Operating activities			
Change in operating assets			
Decrease (increase) in loans and advances to banks		22 319	(258 320)
Decrease (increase) in loans and advances to customers		(887 568)	501 539
(Increase) in available for sale investments		(778 846)	(718 792)
Decrease (increase)in financial instruments held for trading and hedging derivatives		9 730	(10 748)
Decrease in financial instruments at fair value through profit or loss		-	59 279
(Increase) in non-current assets held for sale		(2 015)	-
(Increase) in other assets		(31 059)	(41 339)
Change in operating liabilities:			
(Decrease) in deposits from banks		(300 559)	(42 708)
Increase in deposits from customers		1 514 036	2 519 809
Provisions utilization		(2 807)	17 473
Increase in other liabilities		(29 253)	60 599
Interest received		661 569	692 411
Interest paid		(101 028)	(127 883)
Dividends received		1 337	968
Taxes paid		(34 696)	(35 335)
Net cash flow from operating activities		**197 628**	**2 706 085**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2016	2015
Cash flow from investing activities			
Cash payments to acquire tangible assets		(30 438)	(22 374)
Cash receipts from sale of tangible assets		3 996	1 272
Cash payments to acquire intangible assets		(11 846)	(8 938)
Cash receipts from redemption of held to maturity investments		-	136 187
Net cash flow from investing activities		**(38 288)**	**106 147**
Cash flow from financial activities			
Dividends paid		(145 003)	(80 553)
Subordinated loans paid		-	(70 596)
Net cash flows from financial activities		**(145 003)**	**(151 149)**
Effect of exchange rate changes on cash and cash equivalents		**180**	**7 855**
Net increase in cash and cash equivalents		**14 517**	**2 668 938**
Cash and cash equivalents at the beginning of period	44	**4 734 637**	**2 065 699**
Cash and cash equivalents at the end of period	44	**4 749 154**	**4 734 637**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

Levon Hampartzoumian
Chairman of the Management Board and Chief Executive Officer

Enrico Minniti
Deputy Chairman of the Management Board and General Manager

Emilia Palibachiyska
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Sylvia Peneva
Registered auditor
27/02/2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

Notes to Consolidated Financial Statements

1. Reporting entity

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

These consolidated financial statements comprise of UniCredit Bulbank AD and its subsidiaries and associates (hereafter together referred as UniCredit Bulbank AD or the Bank).

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address city of Sofia, 7 “Sveta Nedelya” sq. and UIC 831919536 as per the Trade Register. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2016 Bank operates through its network comprising of 179 branches and offices.

2. Basis of preparation

(a) Statement of compliance

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

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act. Whenever deemed necessary for comparison reasons, certain positions in prior year financial statements have been reclassified.

These consolidated financial statements are approved by the Management Board of UniCredit Bulbank AD on February 23, 2017.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policies

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

CHANGE IN ACCOUNTING POLICY

In 2016 the Bank has changed its accounting policy with regards to presentation of costs related to annual contributions for Deposit Guarantee Fund and Recovery and Resolution Fund. Detailed explanations and summary of the effects are as follows:

For the periods until December 31, 2015 the Bank has treated costs related to annual contributions for Deposit Guarantee Fund and Recovery and Resolution Fund as core activity related and presented them within General and administrative expenses. In 2016 Bulgarian National Bank issued specific instruction on presentation of these costs in the regulatory financial statements as part of other operating expenses, so the Bank decided to change their presentation in its IFRS financial statements from General and administrative expenses to Other operating expenses for the year ended December 31, 2016. For comparison purposes the Bank did similar reclassification for the year ended December 31, 2015 thus reclassifying costs amounting to BGN 65 946 thousand from General and administrative expenses to Other operating expenses. The policy change represents reclassification and does not impact neither net profit of the Bank nor net assets.

The actual restatement amounts impacting consolidated income statement are as follows:

In thousands of BGN

CONSOLIDATED INCOME STATEMENT	REPORTED 31.12.2015	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON DEPOSIT GUARANTEE FUND AND RR FUND ANNUAL CONTRIBUTIONS	RESTATED AMOUNT 31.12.2015
Other operating income(expenses), net	(6 367)	(65 946)	(72 313)
General and administrative expenses	(160 313)	65 946	(94 367)

(a) Basis of consolidation

These financial statements are prepared on consolidated basis whereas all entities where UniCredit Bulbank AD exercises control are consolidated applying full consolidation method and all participations in entities where UniCredit Bulbank AD exercises significant influence are consolidated applying equity method.

In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

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

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

1. Control existence assessment over all directly and indirectly owned equity participations;

2. Control existence assessment over entities where the Bank has no direct or indirect equity participation.

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

For the purposes of the second area of assessment, the Bank primarily focused on so called "troubled loans" analysis. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted and forborne loans and advances to corporate customers with material outstanding amount as of the reporting dates (for practical reasons materiality threshold of EUR 1 million was applied). As a result of performing the above mentioned assessment, the Bank concluded that in no cases the definition of control is met, therefore no consolidation procedures on such customers have been applied as of December 31, 2016 and December 31, 2015.

All the entities where the Bank exercises control are consolidated under full consolidation method and all entities where the Bank exercises significant influence are consolidated under equity method. As of December 31, 2016 and December 31, 2015 there are no significant restrictions on the ability of all consolidated subsidiaries and associates to transfer cash or to repay loans to the parent company.

The consolidation scope as of December 31, 2016 has changed to the one applied as of December 31, 2015 and it covers the following entities:

COMPANY	PARTICIPATION IN EQUITY	DIRECT/INDIRECT PARTICIPATION	CONSOLIDATION METHOD
UniCredit Factoring EAD	100.00%	Direct	Full consolidation
UniCredit Fleet Management EOOD	100.00%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100.00%	Direct	Full consolidation
UniCredit Leasing EAD	100.00%	Direct	Full consolidation
UniCredit Insurance Broker EOOD	100.00%	Indirect	Full consolidation
Cash Service Company AD	20.00%	Direct	Equity method

Changes affected the scope of consolidation are, as follows:

On 14 April 2015, HVB Leasing EOOD, which was the sole owner of HVB Auto Leasing EOOD and BA Creditanstalt Bulus EOOD, merged into UniCredit Leasing EAD. On 4 September 2015, UniCredit Auto Leasing EOOD, Bulbank Leasing EAD and HVB Auto Leasing EOOD merged into UniCredit Leasing EAD.

As of December 31, 2015 UniCredit Leasing EAD remains sole owner of two subsidiaries, namely BA Creditanstalt Bulus EOOD (100%) and UniCredit Insurance Broker EOOD (100%), respectively the Bank indirectly owns same legal entities.

As of December 31, 2016 BA Creditanstalt Bulus EOOD does not exists due to its merger into UniCredit Leasing EAD, so that the only indirect ownership if the Bank remains UniCredit Insurance Broker EOOD.

In August 2016 former Hypovereins Immobilien EOOD was renamed to UniCredit Fleet Management EOOD.

(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 (including derivative deals) 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. The Bank concludes interest rate swaps deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit SpA, UniCredit Bank Austria AG and UniCredit Bank AG). The whole realized and unrealized gains/losses on interest rate swaps related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains on financial assets and liabilities held for trading and hedging derivatives.

(e) Foreign currency transactions

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

As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the profit or loss.

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

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

(g) Dividend income

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

(h) Lease payments made

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

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

(i) Financial instruments

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity depends on IAS 39 category. 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, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

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

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

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

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

d) Loans and advances to banks and customers

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

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

e) Available for sale investments

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

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

f) Held to maturity investments

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

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

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

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

g) Investments in subsidiaries and associates

Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities. The Bank has assessed that it has significant influence over entities where it holds directly or indirectly 20% and more of the voting rights.

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

h) Deposits from banks and customers

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

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

(iii) Reclassification

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

(iv) Derecognition

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

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

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

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement principles

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

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

(vii) Offsetting

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

(viii) Repurchase agreements

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

(j) Impairment

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

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

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

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

Where debt instrument measured to fair value directly through other comprehensive income is impaired, and an increase in the fair value of the instrument was previously recognized in other comprehensive income, the increase in fair value of the instrument recognized in other comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in profit or loss. For equity instruments, no reversal of impairment is recognized in profit or loss. Any increase in fair value after impairment is recognized in other comprehensive income.

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

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

(k) Derivatives used for hedging

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

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

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting.

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

FAIR VALUE HEDGE

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

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. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognised in profit and loss.

CASH FLOW HEDGE

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

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

(l) Property, plant, equipment and investment property

All items of property, plant and equipment are carried at cost less accumulated depreciation or impairment losses.

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

Properties that are intended to be sold in the ordinary course of business, however exceeding 12 months and which are neither intended to be used in the banking business nor kept as investment properties, are classified as current assets and accounted for as inventories under the provisions of IAS 2 – Inventories (see also Note **34**).

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, 2016 and December 31, 2015 intangible assets include primarily investments in software and related licenses.

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

(n) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale. (see also Note **33**)

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, 2016 and December 31, 2015 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

(p) Employees' benefits

(i) Short-term employee's benefits

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

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

(ii) Defined benefit obligation

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

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

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

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

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

As of December 31, 2016 and December 31, 2015 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

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

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

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

In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit SpA was performed thus leading to change of the Bank's main shareholder to UniCredit SpA.

No changes in the amount of the share capital were performed in 2016 and 2015.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on available for sale investments, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2016 and December 31, 2015 the reserves includes also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2016 and December 31, 2015 balances of deferred tax are presented net in the Statement of financial position on single entity level within the consolidation scope and then consolidated in the Statement of financial position. All respective netting requirements set out in IAS 12 are fully met on single entity level.

(s) Segment reporting

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

(t) Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Banks's financial statements.

(u) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The new accounting standard IFRS 9 "Financial Instruments" (IFRS 9), mandatorily effective for annual periods beginning on or after 1 January 2018, that will replace IAS 39 "Financial Instruments: Recognition and Measurement" includes a revised model for classification and measurement of financial assets, an impairment model for credit allowances based on expected losses and a reformed approach to general hedge accounting.

The new classification and measurement approach for financial assets in IFRS 9 will be based upon the contractual cash flow characteristics of the financial asset and, for financial assets whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding ("SPPI assets"), the entity's business model for managing them. Depending on the entity's business model, SPPI assets may be classified as "held to collect" contractual cash flows (measured at amortized costs and subject to the expected loss impairment), assets "held to collect and sell" (measured at fair value through other comprehensive income and subject to the expected loss impairment) or held for trading (measured at fair value through profit or loss).

The new impairment model approach has been designed by the IASB in order to produce earlier recognition of credit losses than IAS 39, which is instead based on the existence of evidences of impairment, as requested by the G20 following the financial crisis of 2007 - 2008.

IFRS 9 requires to base the measurement of credit impairment allowance on ECL (expected credit loss) using a three stage impairment approach. The measurement of ECL depends on financial instrument's credit risk and whether the financial instrument have had significant increase in credit risk since initial recognition, as follows:

(a) "12-month ECL" (Stage 1), which applies to all items (from initial recognition) as long as there is no significant increase in credit risk; and

(b) "Lifetime ECL" (Stages 2 and 3), which applies when a significant increase in credit risk has occurred, whether assessed on an individual or collective basis.

Assets allocated for IFRS 9 in Stage 1 and 2 are classified as performing under IAS 39 and the amount of their credit loss allowance under IAS 39 is measured using the "incurred but not reported approach" ("IBNR"), while the Bank is currently at finalization of Stage 2 parameters for lifetime ECL calculations.

For assets allocated in Stage 3, which are nonperforming under IAS 39, no major conceptual differences are expected, as triggers for impairment recognition and non-performing loan classification used under IAS 39 will continue to be applied.

Considering the differences in concepts described above for performing assets, the ECL approach is expected to increase the credit loss allowances on transition to IFRS 9 compared to the existing IAS 39 approach.

UniCredit Group has launched a dedicated project to implement IFRS 9, involving all banking subsidiaries. The project actively involves: Group Risk Management, Strategy and Finance, the main Business functions, Organization and Information Technology departments.

During 2017 the Bank would apply a parallel run for both IFRS 9 and IAS 39, which is ensured through significant changes in the underwriting process, as well as in impairment model. Based on the IFRS 9 project, the following phases are conducted:

- Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream with regard to Business model and characteristics of contractual cash flows;
- Gap analysis between the current status and IFRS 9 requirements in the impairment stream;
- Design and implementation of SPPI concept for contractual screening of debt instruments;
- SPPI screening performance - as of the end of 2016 the Bank is in a process of finalization of SPPI contractual screening of all existing loans and receivables. Based on the review, potential assets requiring fair value measurement due to SPPI failure are negligible;
- Design of new underwriting process – SPPI Test is embedded in the process pre-approval of the loan deal;
- Design and implementation of new product approval process;
- Design of new impairment model and calculation of relevant parameters, incl. lifetime PD;
- Series of educations for acquainting employees with the IFRS 9 SPPI Criterion are held, since in 2017 the implementation of new requirements for classification would be met in parallel;
- Fair Value Engine development – in process of Group implementation. For the parallel run in 2017 the calculations established for IFRS 13 would be used.

The main impacts on the Bank and UniCredit Group in general are expected to come from the implementation of the new impairment model, which will result in higher credit loss allowances for performing loans. Adjustments to carrying values of financial instruments due to IFRS 9 transition will impact book value of equity as of 1 January 2018.

Under current capital approach, any deficit between regulatory expected loss ("EL") and IAS 39 accounting allowance is deducted from CT1 capital, while any excess is added back to Tier 2 capital. In the absence of any amendment to Basel regulatory rules, the new ECL approach is expected to affect negatively regulatory capital as of 1 January 2018. However to date it is unclear how regulators will treat the interaction of the accounting impairment allowance and the Basel concept of expected loss: current Basel framework was designed to deal with IAS 39 accounting allowances based on incurred loss, while IFRS 9 will trigger expected loss to impact accounting equity. Accordingly, final implications on regulatory capital are still uncertain to date.

(v) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

At the same time, hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU, remains unregulated.

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

4. Financial risk management

(a) General framework

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

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

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

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

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

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 both on individual and consolidated levels.

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

(b) Market risks

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

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

UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level applied to cumulative results for a specific period, the stressed VaR (SVaR), the incremental default risk charge (IRC) and granular sensitivities.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 500-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. 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 market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined in 2016 and integrated in the presentation of performance results of Markets and Brokerage, including Corporate Treasury Sales, on quarterly basis.

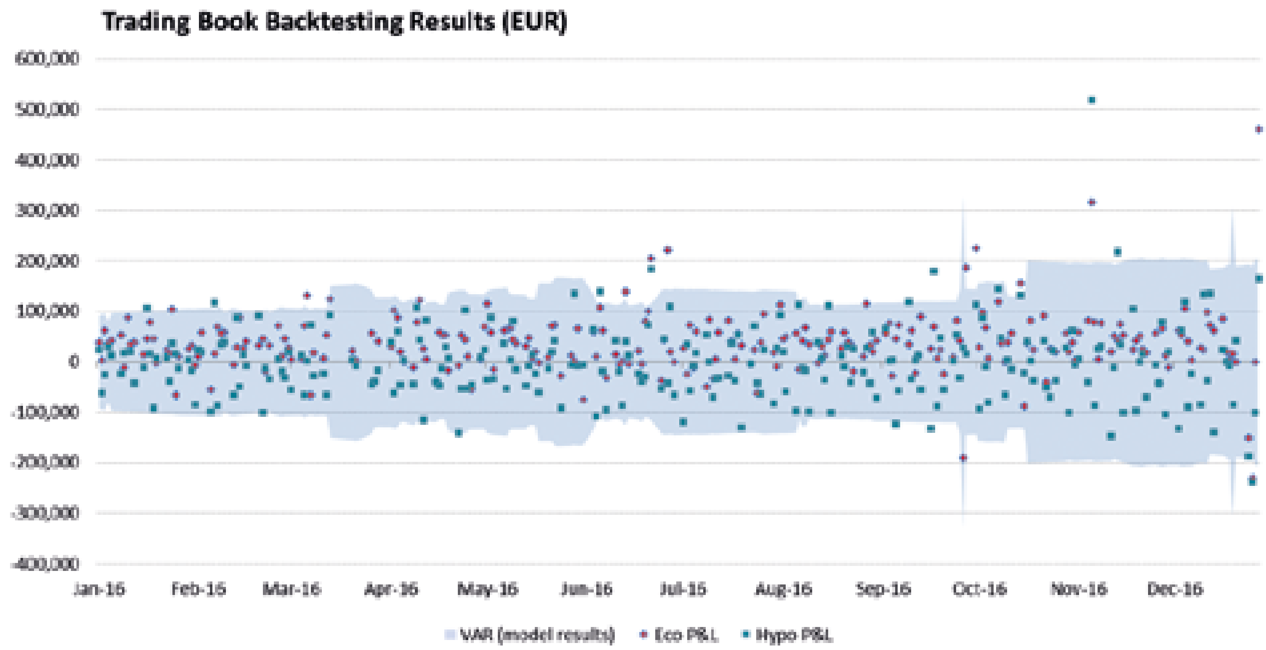
During 2016, VaR (1 day holding period, confidence interval of 99 %) of UniCredit Bulbank AD and its subsidiaries moved in a range between EUR 9.44 million and EUR 17.19 million, averaging EUR 14.94 million, with credit spreads and interest rates being main drivers of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2016 on consolidated basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.57	3.19	2.10	2.04
Credit spread	9.20	16.95	14.47	15.39
Exchange rate risk	0.09	0.28	0.11	0.13
Vega risk	0.00	0.00	0.00	0.00
VaR overall[1]	**9.44**	**17.19**	**14.94**	**15.63**

[1] Including diversification effects between risk factors.

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

Back-testing results for 2016 confirm the reliability of used internal model with only 1 negative excess (Eco P&L).



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

The sensitivities' tables below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2016 (change in value due to 1 basis point shift, amounts in EUR):

IR Basis point shift (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	3 728	21 303	(22 734)	(57 339)	17 955	(37 087)
BGN	(26)	(6 936)	(49 964)	(193 723)	(586)	(251 235)
USD	(465)	552	160	(324)	-	(77)
CHF	121	195	(119)	(46)	-	151
GBP	(445)	(476)	44	-	-	(877)
Other	(13)	(92)	-	-	-	(105)
Total ABS	**4 798**	**29 554**	**73 021**	**251 432**	**18 541**	**289 532**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD and subsidiaries as of December 31, 2016 totalled EUR 920 030. Treasury instruments continue to account for the largest part of the credit spread positions while the current exposure to financials and corporates is relatively insignificant.

SP BASIS POINT SHIFT ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(274)	(14 397)	(27 235)	(783 194)	(91 423)	(916 523)
Regional governments	-	(19)	-	(1 523)	-	(1 542)
Corporates	-	-	-	(1 965)	-	(1 965)
Total ABS	**274**	**14 416**	**27 235**	**786 682**	**91 423**	**920 030**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2016 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

As of December 31, 2016 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	4 536 227	11 285	**4 547 512**
Non-derivative financial assets held for trading	37	23 219	**23 256**
Derivatives held for trading	90 515	18 390	**108 905**
Derivatives held for hedging	2 452	-	**2 452**
Loans and advances to banks	1 178 501	144 777	**1 323 278**
Loans and advances to customers	10 584 220	288 741	**10 872 961**
Available for sale investments	3 141 171	5 535	**3 146 706**
Investments in associates	2 769	-	**2 769**
Property, plant, equipment and investment properties	198 359	-	**198 359**
Intangible assets	27 502	-	**27 502**
Deferred tax assets	11 124	-	**11 124**
Other assets	119 781	61	**119 842**
Non current assets held for sale	2 015	-	**2 015**
TOTAL ASSETS	**19 894 673**	**492 008**	**20 386 681**
LIABILITIES			
Financial liabilities held for trading	59 791	14 514	**74 305**
Derivatives used for hedging	64 453	-	**64 453**
Deposits from banks	2 104 259	211 209	**2 315 468**
Deposits from customers	13 306 521	1 531 679	**14 838 200**
Provisions	30 722	6 245	**36 967**
Current tax liabilities	9 271	-	**9 271**
Deferred tax liabilities	**77**	**-**	**77**
Other liabilities	**103 670**	**2 522**	**106 192**
TOTAL LIABILITIES	**15 678 764**	**1 766 169**	**17 444 933**
EQUITY	**2 941 748**	**-**	**2 941 748**
Net off-balance sheet spot and forward position	**(1 280 816)**	**1 298 802**	**17 986**
Net position	**(6 655)**	**24 641**	**17 986**

As of December 31, 2015 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	4 570 616	14 782	**4 585 398**
Non-derivative financial assets held for trading	10 147	-	**10 147**
Derivatives held for trading	101 173	25 098	**126 271**
Derivatives held for hedging	13 455	-	**13 455**
Loans and advances to banks	1 189 268	37 214	**1 226 482**
Loans and advances to customers	10 021 050	301 152	**10 322 202**
Available for sale investments	2 282 226	-	**2 282 226**
Investments in associates	2 732	-	**2 732**
Property, plant, equipment and investment properties	169 396	-	**169 396**
Intangible assets	25 405	-	**25 405**
Current tax assets	33	-	**33**
Deferred tax assets	6 526	-	**6 526**
Other assets	108 312	60	**108 372**
TOTAL ASSETS	**18 500 339**	**378 306**	**18 878 645**
LIABILITIES			
Financial liabilities held for trading	75 597	24 557	**100 154**
Derivatives used for hedging	35 400	-	**35 400**
Deposits from banks	2 393 918	216 333	**2 610 251**
Deposits from customers	11 732 197	1 563 542	**13 295 739**
Provisions	30 793	22 369	**53 162**
Current tax liabilities	8 576	-	**8 576**
Deferred tax liabilities	84	-	**84**
Other liabilities	103 254	2 235	**105 489**
TOTAL LIABILITIES	**14 379 819**	**1 829 036**	**16 208 855**
EQUITY	**2 669 790**	**-**	**2 669 790**
Net off-balance sheet spot and forward position	**(1 456 038)**	**1 462 114**	**6 076**
Net position	**(5 308)**	**11 384**	**6 076**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over 40 days horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2016, meaning that assuming extreme stress conditions the Bank is expected to cope with liquidity shock using own resources.

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

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	37	23 219	**23 256**
Loans and advances to banks	596 182	727 096	**1 323 278**
Loans and advances to customers	3 785 669	7 087 292	**10 872 961**
Available for sale investments	330 630	2 816 076	**3 146 706**
Other assets	56 100	63 742	**119 842**
TOTAL FINANCIAL ASSETS	**4 768 618**	**10 717 425**	**15 486 043**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2015	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	10 147	-	**10 147**
Loans and advances to banks	503 493	722 989	**1 226 482**
Loans and advances to customers	3 613 833	6 708 369	**10 322 202**
Available for sale investments	148 450	2 133 776	**2 282 226**
Other assets	48 389	59 983	**108 372**
TOTAL FINANCIAL ASSETS	**4 324 312**	**9 625 117**	**13 949 429**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2016	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	**2 315 468**	**(2 339 239)**	(409 983)	(181 012)	(629 481)	(1 118 763)
Deposits from customers	**14 838 200**	**(14 843 520)**	(10 489 800)	(1 433 738)	(2 253 510)	(666 472)
Unutilized credit lines	**-**	**(1 827 737)**	(27 416)	-	(338 131)	(1 462 190)
Total non-derivative instruments	**17 153 668**	**(19 010 496)**	**(10 927 199)**	**(1 614 750)**	**(3 221 122)**	**(3 247 425)**
Trading derivatives, net	**34 600**					
Outflow		**(2 936 531)**	(1 736 508)	(483 308)	(468 632)	(248 083)
Inflow		**2 978 982**	1 743 265	487 276	477 301	271 140
Derivatives used for hedging, net	**(62 001)**					
Outflow		**(147 310)**	(233)	(10 441)	(8 410)	(128 226)
Inflow		**86 383**	-	11	3	86 369
Total derivatives	**(27 401)**	**(18 476)**	**6 524**	**(6 462)**	**262**	**(18 800)**
Total financial liabilities	**17 126 267**	**(19 028 972)**	**(10 920 675)**	**(1 621 212)**	**(3 220 860)**	**(3 266 225)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2015	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	**2 610 251**	**(2 684 890)**	(447 103)	(175 172)	(513 376)	(1 549 239)
Deposits from customers	**13 295 739**	**(13 314 175)**	(9 038 254)	(1 477 972)	(2 240 857)	(557 092)
Unutilized credit lines	**-**	**(1 662 149)**	(24 932)	-	(307 498)	(1 329 719)
Total non-derivative instruments	**15 905 990**	**(17 661 214)**	**(9 510 289)**	**(1 653 144)**	**(3 061 731)**	**(3 436 050)**
Trading derivatives, net	**26 117**					
Outflow		**(3 505 905)**	(2 028 474)	(580 642)	(640 540)	(256 249)
Inflow		**3 536 711**	2 033 863	581 239	646 810	274 799
Derivatives used for hedging, net	**(21 945)**					
Outflow		**(104 087)**	(51 484)	(254)	(41 110)	(11 239)
Inflow		**83 448**	69 752	-	13 581	115
Total derivatives	**4 172**	**10 167**	**23 657**	**343**	**(21 259)**	**7 426**
Total financial liabilities	**15 910 162**	**(17 651 047)**	**(9 486 632)**	**(1 652 801)**	**(3 082 990)**	**(3 428 624)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

For the purposes of portfolio management and risk limitation in the derivatives and security financing business with banks and customers, UniCredit Bulbank uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterpart. Calculations are based on market volatilities, correlations between specific risk factors, future cash flows and stress considerations, taking into account netting and collateral agreements, if applicable. Subject to simulations are all major types of transactions, e. g. foreign exchange and interest rate derivatives, equity / bond-related instruments, credit derivatives and commodity derivatives.

Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis.

Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

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

The analysis based on client credit quality and rating (where available) as of December 31, 2016 and December 31, 2015 is as shown in the next table:

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds		
Rated BB+	37	10 147
Loan		
Rated BBB	23 219	-
Derivatives (net)		
Banks and financial institution counterparties	(77 036)	(22 048)
Corporate counterparties	49 635	26 220
Total trading assets and liabilities	**(4 145)**	**14 319**

Government bonds presented as of December 31, 2016 and December 31, 2015 include only bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

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

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

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

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

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

During 2017 the Bank is going to have parallel reporting regarding loan loss provision according to IFRS 9, which will be in force beginning from 1st January 2018. According to new methodology under the standard, the scope of the assessment should be extended and to include off-balance sheet items of credit instruments measured at amortized cost. Further change is the movement from IBNR concept to expected loss concept for the performing loans, which is divided in two views – 12-month and lifetime expected loss, based on the stage of the transaction. In order to meet all criteria of the new standard local modelling team developed IFRS9 compliant PD models and related transfer logic and the Bank expects loss given default (LGD) and exposure at default (EAD) models to be ready as of Q2 2017.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2016 and December 31, 2015.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Biggest credit risk exposure to customers' group	313 422	313 422	313 422	313 020	12.5%	13.7%
Credit risk exposure to top five biggest customers' groups	1 123 069	1 026 721	831 608	841 782	33.1%	36.9%

The table below analyses the breakdown of impairment allowances as of December 31, 2016 and December 31, 2015 on loans and advances to customers:

In thousands of BGN

	CARRYING AMOUNT BEFORE IMPAIRMENT		IMPAIRMENT ALLOWANCE		CARRYING AMOUNT	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Impaired	**1 334 157**	**1 504 992**	**921 697**	**997 475**	**412 460**	**507 517**
individually assessed	*586 287*	*734 375*	*352 531*	*405 959*	*233 756*	*328 416*
portfolio based	*747 870*	*770 617*	*569 166*	*591 516*	*178 704*	*179 101*
Collectively impaired	**9 479 874**	**8 742 695**	**87 091**	**73 840**	**9 392 783**	**8 668 855**
Past due but not impaired	211 951	192 634	-	-	211 951	192 634
individually assessed	*174 448*	*147 265*	-	-	*174 448*	*147 265*
portfolio based	*37 503*	*45 369*	-	-	*37 503*	*45 369*
Past due comprises of:						
up to 90 days	*105 098*	*69 849*	-	-	*105 098*	*69 849*
from 91 to 180 days	*3 063*	*30 408*	-	-	*3 063*	*30 408*
over 181 days	*103 790*	*92 377*	-	-	*103 790*	*92 377*
	211 951	**192 634**	**-**	**-**	**211 951**	**192 634**
Neither past due nor impaired	**855 767**	**953 196**	**-**	**-**	**855 767**	**953 196**
Total	**11 881 749**	**11 393 517**	**1 008 788**	**1 071 315**	**10 872 961**	**10 322 202**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2016	31.12.2015
Impaired defaulted exposures		
Cash collateral	1 224	2 005
Property	1 034 136	1 136 890
Other collateral	586 592	650 354
Collectively impaired performing exposures (IBNR)		
Cash collateral	58 222	67 165
Property	8 731 975	8 481 725
Debt securities	430	-
Other collateral	8 789 189	7 738 776
Past due but not impaired defaulted exposures		
Cash collateral	868	1 642
Property	453 579	492 642
Other collateral	144 898	201 350
Neither past due nor impaired performing exposures		
Cash collateral	74 408	61 448
Property	1 548 703	1 583 650
Debt securities	10 300	10 847
Other collateral	61 751	70 557
Total	**21 496 275**	**20 499 051**

Other collaterals include mostly pledges on non-real estate long-term assets, going concerns and inventories.

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2016 and December 31, 2015.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Concentration by sectors						
Sovereign	339 082	334 584	-	-	3 129 166	2 253 848
Manufacturing	2 541 657	2 175 774	-	-	-	-
Commerce	2 193 232	2 427 585	-	-	-	-
Construction and real estate	1 652 010	1 621 401	-	-	67	67
Agriculture and forestry	543 243	511 224	-	-	-	-
Transport and communication	523 083	435 893	-	-	-	-
Tourism	263 066	162 473	-	-	-	-
Services	564 682	559 310	-	-	-	-
Financial services	118 839	186 404	1 323 278	1 226 482	20 242	31 043
Retail (individuals)					-	
Housing loans	1 656 185	1 604 843	-	-	-	-
Consumer loans	1 365 799	1 243 350				
Other loans	120 871	130 676	-	-	-	-
	11 881 749	**11 393 517**	**1 323 278**	**1 226 482**	**3 149 475**	**2 284 958**
Impairment allowances	(1 008 788)	(1 071 315)	-	-	-	-
Total	**10 872 961**	**10 322 202**	**1 323 278**	**1 226 482**	**3 149 475**	**2 284 958**
Concentration by geographic location						
Europe	11 817 827	11 312 522	1 319 247	1 213 354	3 143 940	2 284 958
North America	21 535	39 966	3 623	12 399	-	-
Asia	3 131	2 935	156	606	-	-
Africa	46	130	-	-	-	-
South America	29	12	-	-	5 535	-
Australia	39 181	37 952	252	123	-	-
	11 881 749	**11 393 517**	**1 323 278**	**1 226 482**	**3 149 475**	**2 284 958**
Impairment allowances	(1 008 788)	(1 071 315)	-	-	-	-
Total	**10 872 961**	**10 322 202**	**1 323 278**	**1 226 482**	**3 149 475**	**2 284 958**

(e) Operational Risk

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

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

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

Reputational Risk function is within the scope of the responsibility of the Operational and Reputational Risk Unit. Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational Risk exposure have been adopted in full compliance with the UniCredit Group guidelines. Under the Reputational risk process, special attention is paid to the management and monitoring of the Bank's exposure towards economic sectors and transactions, such as Defence/Weapons, Nuclear energy etc.

The main activities of the Operational and Reputational Risk Unit in 2016 were focused on the further development of the Operational Risk management, with emphasis on preventative and mitigation actions to reduce future losses. In particular a new activity, Operational Risk Assessment for ICT Risk, was performed in UniCredit Bulbank AD. This is a bottom up approach for the identification and assessment of ICT risks and mitigating controls that facilitates the understanding and management of ICT risks. A significant part of the resources of the Operational and Reputational Risk Unit were also devoted towards the implementation and monitoring of the 2016 Bank's Operational Risk Strategies (Operational risk strategies deploy their effect in a multiyear perspective) and include different approaches to mitigate Cyber risk, Credit application fraud, Compliance risk, etc. As part of the definition of the Operational Risk Strategies 2017, the Business Syndication activity was performed for the first time in 2016. This activity is performed by the Operational and Reputational Risk unit in order to collect information related to business strategies in a forward looking perspective. The aim is to measure the operational risk arising from Strategies implementation using also risk indicators. Additionally, the Operational and Reputational Risk team was also deeply involved in the Gap Analysis Project for the upgrade of the core bank system.

As of 01.10.2016 all UniCredit CEE legal entities (including UniCredit Bulbank) became directly subordinated to UniCredit Holding and not to UC Bank Austria Sub-holding. In this regard, several Group documents were introduced regulating the implementation of the organizational changes in UC Group in the current processes of the Bank.

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

(f) Basel III disclosure

In 2015, Basel III (CRD IV) regulatory framework has been effectively introduced in Bulgaria and has become mandatory for all local institutions. Under the new regulation, Bank continues to allocate capital for covering three major types of risk, namely credit risk, market risk and operational risk.

For 2015 and during the first half of 2016 on stand-alone basis the Bank applied Foundation Internal Rating Based (F-IRB) Approach for calculation of credit risk capital requirements for corporate clients and credit institutions and Advances Measurement Approach (AMA) for the calculation of capital requirements for operational risk.
For all the remaining exposures (including those originating from consolidated subsidiaries), the Bank applies Standardised Approach (STA). Starting from July 2016, UniCredit Bulbank AD stand-alone reports regulatory capital for credit risk under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remains at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral

development banks and municipalities are treated under the Standardised Approach. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

The new regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% (or combined buffers additional capital requirement of 5.5%). All the buffers should be covered by highest quality capital positions, CET 1 eligible. Considering the combined buffers additional capital requirements, listed above, the minimum limits for Core Equity Tier 1 ratio, Tier 1 ratio and Total Capital Adequacy Ratio for Bulgaria as of December 31, 2016 are 10%, 11.5% and 13.5%, respectively.

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

SECURITIZATION

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2016 is presented in the table below:

NAME		EIF JEREMIE
Type of securitisation:		First Loss Portfolio Guarantee
Originator:		UniCredit Bulbank
Issuer:		European Investment Fund
Target transaction :		Capital Relief and risk transfer
Type of asset:		Highly diversified and granular pool of newly granted SME loans
Quality of Assets as of December 31, 2016		Performing loans
Agreed maximum portfolio volume:		EUR 50 000 thousand
Nominal Value of reference portfolio :		BGN 72 776 thousand
Issued guarantees by third parties:		First loss cash coverage by EIF
Amount and Condition of tranching:		
Type of tranche	Senior	Junior
Reference Position as of December 31, 2016	BGN 31 600 thousand	BGN 26 621 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2016 and December 31, 2015 are as follows:

In thousands of BGN

	31.12.2016	31.12.2015
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 499 855	2 260 504
Tier 1 capital	2 499 855	2 260 504
Tier 2 capital	14 575	23 457
Total regulatory own funds	**2 514 430**	**2 283 961**
Risk Weighted Assets (RWA)		
RWA for credit risk	8 999 160	9 116 296
RWA for market risk	40 026	10 801
RWA for operational risk	972 000	978 175
RWA for credit valuation adjustments	2 563	51 775
Total Risk Weighted Assets (RWA)	**10 013 749**	**10 157 047**
CET 1 ratio	**24.96%**	**22.26%**
Tier 1 ratio	**24.96%**	**22.26%**
Total capital adequacy ratio	**25.11%**	**22.49%**
Minimum CET 1 capital requirements (4.5%)	**450 619**	**457 067**
Minimum Tier 1 capital requirements (6%)	**600 825**	**609 423**
Minimum total capital requirements (8%)	**801 100**	**812 564**
Additional capital requirements for conservation buffer (2.5%)	250 344	253 926
Additional capital requirements for systemic risk buffer (3%)	300 412	304 711
Combined buffers additional capital requirements (5.5%)	**550 756**	**558 638**
Adjusted minimum CET 1 capital requirements after buffers (10%)	1 001 375	1 015 705
Adjusted minimum Tier 1 capital requirements, including buffers (11.5%)	1 151 581	1 168 060
Adjusted minimum total capital requirements after buffers (13.5%)	1 351 856	1 371 201
Free equity, after buffers	**1 162 574**	**912 760**

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

As of December 31, 2016 and December 31, 2015 the same requirements remained valid.

5. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

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

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

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2016 and 2015 see also Note **9**).

Loans and advances to banks and customers

The adopted fair value calculation is coherent with DCF methods for estimation of financial instruments subject to default risk using risk neutral default probabilities. For defaulted loans, as the allocation of impairment requires deeper analysis of the expected cash flows, in accordance with Group methodology, Management can reasonably assume that the fair value is equal to the carrying amount and all such instruments are mapped to Level 3 fair value hierarchy.

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7.

In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2016, whenever risk-free FV deviates by more than 2% (2% in 2015) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

DEPOSITS FROM BANKS AND CUSTOMERS

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2016 and December 31, 2015 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2016 and December 31, 2015

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015
Non-derivative financial assets held for trading	-	-	23 256	10 147	-	-	**23 256**	**10 147**
Derivatives held for trading	-	-	107 896	125 694	1 009	577	**108 905**	**126 271**
Derivatives used for hedging	-	-	2 452	13 455	-	-	**2 452**	**13 455**
Available for sale Investments	2 143 081	1 188 240	985 978	1 061 872	17 647	32 114	**3 146 706**	**2 282 226**
Loans and advances to banks	-	-	1 253 849	274 668	74 946	904 052	**1 328 795**	**1 178 720**
Loans and advances to customers	-	-	3 433 510	3 230 089	8 356 835	8 060 914	**11 790 345**	**11 291 003**
	2 143 081	**1 188 240**	**5 806 941**	**4 715 925**	**8 450 437**	**8 997 657**	**16 400 459**	**14 901 822**
Financial liabilities held for trading	-	-	74 305	100 154	-	-	**74 305**	**100 154**
Derivatives used for hedging	-	-	64 453	35 400	-	-	**64 453**	**35 400**
Deposits from banks	-	-	1 737 736	1 874 088	572 661	689 951	**2 310 397**	**2 564 039**
Deposits from customers	-	-	5 755 399	6 200 873	9 084 501	7 108 054	**14 839 900**	**13 308 927**
	-	**-**	**7 631 893**	**8 210 515**	**9 657 162**	**7 798 005**	**17 289 055**	**16 008 520**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2016 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	AVAILABLE FOR SALE INVESTMENTS
Opening balance (January 1, 2016)	**577**	**32 114**
Increases	**861**	**5 575**
Purchase	-	5 110
Profit recognized in equity	-	465
Transfer from other levels	861	-
Decreases	**(429)**	**(20 042)**
Sales	-	(16 460)
Redemption	-	(3 534)
Loses recognized in income statement	(168)	-
Transfers to other levels	(75)	-
Other decreases	(186)	(48)
Closing balance (December 31, 2016)	**1 009**	**17 647**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2016 and December 31, 2015.

In thousands of BGN

DECEMBER 2016	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	4 547 512	4 547 512	**4 547 512**	**4 585 398**
Non-derivative financial assets held for trading	37	23 219	-	-	-	**23 256**	**23 256**
Derivatives held for trading	108 905	-	-	-	-	**108 905**	**108 905**
Derivatives held for hedging	-	-	-	2 452	-	**2 452**	**2 452**
Loans and advances to banks	-	1 323 278	-	-	-	**1 323 278**	**1 328 795**
Loans and advances to customers	-	10 872 961	-	-	-	**10 872 961**	**11 790 345**
Available for sale Investments	-	-	3 146 706	-	-	**3 146 706**	**3 146 706**
TOTAL ASSETS	**108 942**	**12 219 458**	**3 146 706**	**2 452**	**4 547 512**	**20 025 070**	**20 947 971**
LIABILITIES							
Financial liabilities held for trading	74 305	-	-	-	-	**74 305**	**74 305**
Derivatives used for hedging	-	-	-	64 453	-	**64 453**	**64 453**
Deposits from banks	-	-	-	-	2 315 468	**2 315 468**	**2 310 397**
Deposits from customers	-	-	-	-	14 838 200	**14 838 200**	**14 839 900**
TOTAL LIABILITIES	**74 305**	**-**	**-**	**64 453**	**17 153 668**	**17 292 426**	**17 289 055**

In thousands of BGN

DECEMBER 2015	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	DERIVATIVES HELD FOR HEDGING	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	4 585 398	**4 585 398**	**4 585 398**
Non-derivative financial assets held for trading	10 147	-	-	-	-	**10 147**	**10 147**
Derivatives held for trading	126 271	-	-	-	-	**126 271**	**126 271**
Derivatives held for hedging	-	-	-	13 455	-	**13 455**	**13 455**
Loans and advances to banks	-	1 226 482	-	-	-	**1 226 482**	**1 178 720**
Loans and advances to customers	-	10 322 202	-	-	-	**10 322 202**	**11 291 003**
Available for sale Investments	-	-	2 282 226	-	-	**2 282 226**	**2 282 226**
TOTAL ASSETS	**136 418**	**11 548 684**	**2 282 226**	**13 455**	**4 585 398**	**18 566 181**	**19 487 220**
LIABILITIES							
Financial liabilities held for trading	100 154	-	-	-	-	**100 154**	**100 154**
Derivatives used for hedging	-	-	-	35 400	-	**35 400**	**35 400**
Deposits from banks	-	-	-	-	2 610 251	**2 610 251**	**2 564 039**
Deposits from customers	-	-	-	-	13 295 739	**13 295 739**	**13 308 927**
TOTAL LIABILITIES	**100 154**	**-**	**-**	**35 400**	**15 905 990**	**16 041 544**	**16 008 520**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2016 and December 31, 2015 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **29**).

(c) Impairment of financial instruments

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

Collectively assessed impairment losses cover credit losses inherent in portfolios of loans bearing similar economic characteristics when there is an objective evidence to suggest that they contain impaired loans. In such assessments, factors that are mostly considered include credit quality, portfolio size, concentration and economic factors. Practically collective impairment allowances are based on expected loss calculated for the respective portfolio, adjusted by average loss confirmation period in order to arrive at incurred loss as of the measurement date. As of December 31, 2016 and December 31, 2015 the average applied loss confirmation period is 6 months.

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

(d) Provisions

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

6. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2016	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	LEASING	TOTAL
Net interest income	344 275	257 334	(44 233)	24 975	**582 351**
Dividend income	-	-	1 337	-	**1 337**
Net fee and commission income	125 711	79 122	(729)	6 103	**210 207**
Net gains from financial assets and liabilities held for trading	20 973	48 511	11 764	1	**81 249**
Net income from investments	-	6 518	24 384	-	**30 902**
Other operating expenses, net	(17 893)	(26 442)	(1 736)	(2 289)	**(48 360)**
TOTAL OPERATING INCOME	**473 066**	**365 043**	**(9 213)**	**28 790**	**857 686**
Personnel expenses	(53 703)	(17 559)	(54 647)	(5 684)	**(131 593)**
General and administrative expenses	(60 608)	(10 292)	(24 789)	(3 086)	**(98 775)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 669)	(4 763)	(21 383)	(381)	**(44 196)**
Total direct expenses	**(131 980)**	**(32 614)**	**(100 819)**	**(9 151)**	**(274 564)**
Allocation of indirect and overhead expenses	(54 743)	(29 437)	84 180	-	**-**
TOTAL OPERATING EXPENSES	**(186 723)**	**(62 051)**	**(16 639)**	**(9 151)**	**(274 564)**
Provisions for risk and charges	(3)	-	14 459	(97)	**14 359**
Net impairment loss on financial assets	(42 188)	(142 605)	(682)	(12 301)	**(197 776)**
Net income related to property, plant and equipment	-	-	2 396	66	**2 462**
PROFIT BEFORE INCOME TAX	**244 152**	**160 387**	**(9 679)**	**7 307**	**402 167**
Income tax expense	(24 416)	(16 039)	195	(562)	**(40 822)**
PROFIT FOR THE YEAR	**219 736**	**144 348**	**(9 484)**	**6 745**	**361 345**
ASSETS	**3 644 866**	**8 651 705**	**7 233 678**	**856 432**	**20 386 681**
LIABILITIES	**7 870 900**	**7 239 430**	**1 511 794**	**822 809**	**17 444 933**

In thousands of BGN

DECEMBER 2015	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	LEASING	TOTAL
Net interest income	331 949	269 800	(45 571)	23 213	**579 391**
Dividend income	-	-	788	-	**788**
Net fee and commission income	116 113	75 863	1 759	5 017	**198 752**
Net gains from financial assets and liabilities held for trading	19 392	40 646	1 405	(4)	**61 439**
Net gains from other financial assets designated at fair value through profit or loss	-	10 072	-	-	**10 072**
Net income from investments	-	1 852	4 828	-	**6 680**
Other operating expenses, net	(23 732)	(19 165)	(28 397)	(1 019)	**(72 313)**
TOTAL OPERATING INCOME	**443 722**	**379 068**	**(65 188)**	**27 207**	**784 809**
Personnel expenses	(53 354)	(17 054)	(55 542)	(5 726)	**(131 676)**
General and administrative expenses	(58 409)	(10 326)	(22 471)	(3 161)	**(94 367)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(16 658)	(4 403)	(23 925)	(260)	**(45 246)**
Total direct expenses	**(128 421)**	**(31 783)**	**(101 938)**	**(9 147)**	**(271 289)**
Allocation of indirect and overhead expenses	(54 585)	(28 425)	83 010	-	**-**
TOTAL OPERATING EXPENSES	**(183 006)**	**(60 208)**	**(18 928)**	**(9 147)**	**(271 289)**
Provisions for risk and charges	-	-	(10 954)	(162)	**(11 116)**
Net impairment loss on financial assets	(40 075)	(70 395)	(141)	(13 678)	**(124 289)**
Net income related to property, plant and equipment	-	-	540	(89)	**451**
PROFIT BEFORE INCOME TAX	**220 641**	**248 465**	**(94 671)**	**4 131**	**378 566**
Income tax expense	(22 064)	(24 847)	8 974	(438)	**(38 375)**
PROFIT FOR THE YEAR	**198 577**	**223 618**	**(85 697)**	**3 693**	**340 191**
ASSETS	**3 488 055**	**8 031 825**	**6 531 445**	**827 320**	**18 878 645**
LIABILITIES	**6 938 747**	**6 627 914**	**1 841 753**	**800 441**	**16 208 855**

7. Net interest income

In thousands of BGN

	2016	2015
Interest income		
Financial assets held for trading	154	297
Derivatives held for trading	-	42
Financial assets designated at fair value through profit or loss	-	1 379
Loans and advances to banks	12 115	14 819
Loans and advances to customers	594 173	634 065
Available for sale investments	65 222	44 632
Held to maturity investments	-	322
	671 664	**695 556**
Interest expense		
Derivatives held for trading	(20)	(47)
Derivatives used for hedging	(17 053)	(9 018)
Deposits from banks	(18 315)	(36 354)
Deposits from customers	(53 925)	(70 557)
Subordinated debt	-	(189)
	(89 313)	**(116 165)**
Net interest income	**582 351**	**579 391**

For the financial years ended December 31, 2016 and December 31, 2015 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 28 083 thousand and BGN 30 840 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2016	2015
Fee and commission income		
Collection and payment services	117 809	118 071
Lending business	20 527	20 485
Account services	17 654	9 464
Management, brokerage and securities trading	9 360	1 148
Documentary business	18 409	17 451
Package accounts	19 077	17 662
Other	29 324	35 447
	232 160	**219 728**
Fee and commission expense		
Collection and payment services	(18 558)	(17 385)
Management, brokerage and securities trading	(1 334)	(1 475)
Lending business	(120)	(213)
Other	(1 941)	(1 903)
	(21 953)	**(20 976)**
Net fee and commission income	**210 207**	**198 752**

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

In thousands of BGN

	2016	2015
FX trading income, net	68 794	55 607
Net income from debt instruments	783	732
Net income from equity instruments	-	(1)
Net income from derivative instruments	10 889	5 306
Net income from other trading instruments	1 431	-
Net income from hedging derivative instruments	(648)	(205)
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	**81 249**	**61 439**

The total CVA (net of DVA) for the years ended December 31, 2016 and December 31, 2015, included in position net income from derivative instruments is in the amount of BGN (2 847) thousand and BGN (778) thousand, respectively.

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

Bank designates as financial assets at fair value through profit or loss only debt securities, which fair values, can be reliably measured. Net income recorded on financial instruments designated at fair value through profit or loss includes realized gains and losses on such instruments as well as unrealized ones due to fair value change. The amounts for the years ended December 31, 2016 and December 31, 2015 are BGN 0 thousand BGN 10 072 thousand, respectively.

11. Net income from investments

In thousands of BGN

	2016	2015
Realised gains on disposal of available for sale investments	6 518	6 483
Income from equity investments	24 166	-
Realised gains on disposal of unimpaired loans and advances	2	-
Effect of equity method consolidation on associates	216	197
Net income from investments	**30 902**	**6 680**

Realized gains on disposal of unimpaired loans and advances include the net profit out of sale of performing exposures. The realised gains (losses) on sale of impaired (defaulted) exposures are included under Net impairment loss on financial assets (see also note **18**).

Income from equity investments as of December 31, 2016 consists of one-off gain from VISA ownership shift.

12. Other operating expenses, net

In thousands of BGN

	2016	2015
Other operating income		
Income from non-financial services	2 454	1 488
Rental income	833	631
Other income	6 071	2 688
	9 358	**4 807**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(48 399)	(65 946)
Impairment of foreclosed properties	(3 188)	(8 509)
Other operating expenses	(6 131)	(2 665)
	(57 718)	**(77 120)**
Other operating income (expenses), net	**(48 360)**	**(72 313)**

In 2016 and 2015 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of long-term assets. For the years ended December 31, 2016 and December 31, 2015 the gains are in the amount of BGN 2 462 thousand and BGN 451 thousand respectively.

14. Personnel expenses

In thousands of BGN

	2016	2015
Wages and salaries	(108 511)	(108 696)
Social security charges	(14 763)	(13 899)
Pension and similar expenses	(585)	(563)
Temporary staff expenses	(2 220)	(1 831)
Share-based payments	(1 880)	(2 122)
Other	(3 634)	(4 565)
Total personnel expenses	**(131 593)**	**(131 676)**

As of December 31, 2016 the total number of employees, expressed in full time employee equivalent is 4 149 (December 31, 2015: 4 161)

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

Share Ownership Plan (ESOP), where the advantages are that by buying UniCredit S.p.A ordinary shares employees can receive free ordinary shares, measured on the basis of the shares purchased by each participant during the "Enrolment period". The granting of free ordinary shares is subordinated to vesting conditions.

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

In thousands of BGN

	ECONOMIC VALUE AT DECEMBER 31, 2015	2016 COST (GAINS)	SETTLED IN 2016	ECONOMIC VALUE AT DECEMBER 31, 2016
Deferred Short Term Incentive (ordinary shares)	4 486	1 847	(1 586)	4 747
ESOP and shares for Talents	396	90	(179)	307
Total Options and Shares	**4 882**	**1 937**	**(1 765)**	**5 054**

Pension and similar expenses comprise of current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see note **38**.

15. General and administrative expenses

In thousands of BGN

	2016	2015
Advertising, marketing and communication	(11 440)	(11 652)
Credit information and searches	(3 156)	(3 257)
Information, communication and technology expenses	(34 410)	(32 434)
Consulting, audit and other professionals services	(3 358)	(2 481)
Real estate expenses	(12 111)	(11 546)
Rents	(14 042)	(13 165)
Travel expenses and car rentals	(2 251)	(2 652)
Insurance	(1 505)	(1 532)
Supply and miscellaneous services rendered by third parties	(11 580)	(11 191)
Other costs	(4 922)	(4 457)
Total general and administrative expenses	**(98 775)**	**(94 367)**

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

In thousands of BGN

	2016	2 015
Depreciation charge	(33 468)	(31 659)
Impairment	(10 728)	(13 587)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(44 196)**	**(45 246)**

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, 2016 and December 31, 2015 the impairment of long-term assets, is in the amount of BGN 10 728 thousand and BGN 13 587 thousand, respectively.

17. Provisions for risk and charges

Provisions are allocated whenever based on Management best estimates Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **38**).

In thousands of BGN

	2016	2015
Additions of provisions		
Legal cases provisions	(2 021)	(11 647)
Other provisions	(200)	(498)
Provisions on constructive obligations	-	(1 173)
	(2 221)	**(13 318)**
Reversal of provisions		
Legal cases provisions	16 579	2 202
Other provisions	1	-
	16 580	**2 202**
Net provisions charge	**14 359**	**(11 116)**

18. Net Impairment loss on financial assets

In thousands of BGN

	2016	2015
Balance January 1		
Loans and advances to customers	**1 071 315**	**1 061 796**
Increase		
Loans and advances to customers	333 856	257 254
Decrease		
Loans and advances to customers	(111 219)	(115 921)
Recoveries from loans previously written-off	(24 861)	(17 044)
	(136 080)	**(132 965)**
Net impairment losses	197 776	124 289
FX revaluation effect on imparment allowances	1 178	2 809
Other movements	(26 475)	961
Written-off		
Loans and advances to customers	(259 865)	(135 584)
Balance December 31		
Loans and advances to customers	**1 008 790**	**1 071 315**

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 2016.

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

In thousands of BGN

	2016	2015
Current tax	(51 365)	(49 374)
Deferred tax income (expense) related to origination and reversal of temporary differences	10 784	11 363
Underprovided prior year income tax	(241)	(364)
Income tax expense	**(40 822)**	**(38 375)**

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

	2016	2015
Accounting profit before tax	402 167	378 566
Corporate tax at applicable tax rate (10% for 2016 and 2015)	(40 217)	(37 857)
Tax effect of non taxable revenue	563	855
Tax effect of non tax deductible expenses	(986)	(1 153)
Underprovided prior year income tax	(182)	(220)
Income tax expense	**(40 822)**	**(38 375)**
Effective tax rate	**10.15%**	**10.14%**

20. Cash and balances with Central bank

In thousands of BGN

	31.12.2016	31.12.2015
Cash in hand and in ATM	201 764	195 643
Cash in transit	71 936	69 151
Current account with Central Bank	4 273 812	4 320 604
Total cash and balance with Central Bank	**4 547 512**	**4 585 398**

21. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds	37	10 147
Trading loans	23 219	-
Total non-derivative financial assets held for trading	**23 256**	**10 147**

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

Trading loans consist of prepaid forward transaction with customer.

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

The reclassification was performed retrospectively, as allowed by the amendments in IAS 39, with effective date July 1st, 2008. Maturity of the government bonds, with regards to which reclassification was performed, expired in January 2015, so as of December 31, 2015 and December 31, 2016 there is no held to maturity category.

22. Derivatives held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Interest rate swaps	56 610	66 404
Equity options	8 771	13 509
FX forward contracts	22 856	18 506
Other options	1	2
FX swaps	8 404	7 726
Commodity swaps	9 401	9 535
Commodity options	2 862	10 589
Total trading derivatives	**108 905**	**126 271**

Derivatives consist of trading instruments that have positive market value as of December 31, 2016 and December 31, 2015. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

23. Derivatives used for hedging

As described in Note **3 (k)** in 2009 Bank has adopted hedge accounting methodology aiming at managing the residual interest rate risk in banking book.

Until 2014 the 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).

Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as available for sale financial assets.

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

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

In 2015 corporate bonds designated at fair value through profit or loss have been repurchased by the issuer, and municipality bonds held in the same category matured. As a result the Bank has no investments in securities designated at fair value through profit and loss as of December 31, 2016 and December 31, 2015.

25. Loans and advances to banks

In thousands of BGN

	31.12.2016	31.12.2015
Loans and advances to banks	1 268 584	1 131 776
Current accounts with banks	54 694	94 706
Total loans and advances to banks	**1 323 278**	**1 226 482**

As December 31, 2015 loans and advances to banks include also receivables under repurchase agreements. For more details on the outstanding amounts of such agreements as well as the market value of collaterals see Note **42**. As of December 31, 2016 there are no receivables under repurchase agreements with banks.

26. Loans and advances to customers

In thousands of BGN

	31.12.2016	31.12.2015
Receivables under repurchase agreement	-	69 196
Companies	7 550 320	7 191 480
Individuals		
Housing loans	1 656 185	1 604 843
Consumer loans	1 307 336	1 212 947
Other loans	120 871	130 676
Central and local governments	339 082	334 303
Finance leases	907 955	850 072
	11 881 749	**11 393 517**
Less impairment allowances	(1 008 788)	(1 071 315)
Total loans and advances to customers	**10 872 961**	**10 322 202**

Receivables under repurchase agreement disclosed as of December 31, 2015 represent short-term funding provided to a local financial institution, collateralized with Bulgarian government bonds. In addition certain loans granted to corporate clients and central government are pledged on funding received (deposits from banks and customers). For more information on pledged assets see Note **42**.

As of December 31, 2016 there are no receivables under repurchase agreements with customers.

27. Available for sale investments

In thousands of BGN

	31.12.2016	31.12.2015
Government bonds	3 128 715	2 249 854
Municipality bonds	451	3 994
Equities	17 540	28 378
Total available for sale investments	**3 146 706**	**2 282 226**

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

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

As of December 31, 2016 and December 31, 2015 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, 2016 and December 31, 2015 available for sale investments in the amount of BGN 310 629 thousand and BGN 264 878 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 **42**).

28. Investments in associates

As of December 31, 2016 and December 31, 2015 there is only one associated company, where the Bank exercises significant influence by holding 20% of the share capital of that company. This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2016 and December 31, 2015 are as follows:

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2016
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with bank notes and coins to the banks	20.0%	2 769
		Total	**2 769**

In thousands of BGN

	2016	2015
Cash Service Company AD		
Total assets	14 478	14 340
Total liabilities	647	686
Revenue	7 246	7 352
Net profit for the year	1 075	987

29. Property, plant, equipment and investment properties

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2015	**5 628**	**150 958**	**9 681**	**72 336**	**54 610**	**48 171**	**341 384**
Additions	-	7 018	1 793	11 869	9 331	34 895	**64 906**
Transfers	(25)	(165)	141	12	(154)	341	**150**
Write offs	-	(683)	(869)	(2 339)	(2 515)	-	**(6 406)**
Disposals	(12)	(169)	(4)	(4 504)	(1 510)	(2 297)	**(8 496)**
As of December 31, 2016	**5 591**	**156 959**	**10 742**	**77 374**	**59 762**	**81 110**	**391 538**
Depreciation							
As of December 31, 2015	**-**	**69 440**	**5 859**	**56 623**	**38 567**	**1 499**	**171 988**
Depreciation charge	-	6 930	1 338	6 593	6 925	1 969	**23 755**
Impairment	-	-	-	-	-	10 728	**10 728**
Write offs	-	(683)	(871)	(2 338)	(2 509)	-	**(6 401)**
On disposals	-	(68)	(4)	(4 504)	(1 382)	(933)	**(6 891)**
Transfers	-	(65)	-	-	-	65	**-**
As of December 31, 2016	**-**	**75 554**	**6 322**	**56 374**	**41 601**	**13 328**	**193 179**
Net book value as of December 31, 2016	**5 591**	**81 405**	**4 420**	**21 000**	**18 161**	**67 782**	**198 359**
Net book value as of December 31, 2015	**5 628**	**81 518**	**3 822**	**15 713**	**16 043**	**46 672**	**169 396**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	INVESTMENT PROPERTY	TOTAL
Cost							
As of December 31, 2014	**5 628**	**148 894**	**7 558**	**76 660**	**53 595**	**61 658**	**353 993**
Additions	-	4 486	2 075	7 112	8 638	267	**22 578**
Transfers	-	(1 137)	337	(57)	(274)	2 434	**1 303**
Write offs	-	(1 254)	(289)	(10 431)	(6 752)	(15 449)	**(34 175)**
Disposals	-	(31)	-	(948)	(597)	(739)	**(2 315)**
As of December 31, 2015	**5 628**	**150 958**	**9 681**	**72 336**	**54 610**	**48 171**	**341 384**
Depreciation							
As of December 31, 2014	**-**	**64 271**	**4 859**	**61 506**	**39 059**	**1 081**	**170 776**
Depreciation charge	-	6 854	952	6 544	6 894	1 931	**23 175**
Impairment	-	-	-	-	-	13 587	**13 587**
Write offs	-	(1 254)	(289)	(10 431)	(6 752)	(15 449)	**(34 175)**
On disposals	-	(31)	-	(945)	(542)	(51)	**(1 569)**
Transfers	-	(400)	337	(51)	(92)	400	**194**
As of December 31, 2015	**-**	**69 440**	**5 859**	**56 623**	**38 567**	**1 499**	**171 988**
Net book value as of December 31, 2015	**5 628**	**81 518**	**3 822**	**15 713**	**16 043**	**46 672**	**169 396**
Net book value as of December 31, 2014	**5 628**	**84 623**	**2 699**	**15 154**	**14 536**	**60 577**	**183 217**

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

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

For investment properties Bank assesses that fair value of the assets closely approximates their recoverable amount (costs to sell are ignored as immaterial). As of December 31, 2016 and December 31, 2015 all investment properties have undergone external independent fair valuation and when the latter resulted in lower value than the carrying amount, impairment loss has been recognized (total impairment on investment properties recognized for the years ended December 31, 2016 and December 31, 2015 amount to BGN 10 728 thousand and BGN 13 587 thousand, respectively). The following table illustrates the fair value of investment properties as of December 31, 2016 and December 31, 2015. The fair values of investment properties as of December 31, 2016 and December 31, 2015 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015
Investment properties				
Land	10 860	6 902	11 068	7 024
Buildings	56 922	39 770	58 313	40 967
Total investment properties	**67 782**	**46 672**	**69 381**	**47 991**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2015	**96 583**
Additions	11 810
Write offs	(15 863)
As of December 31,2016	**92 530**
Depreciation	
As of December 31, 2015	71 178
Depreciation charge	**9 713**
Write offs	(15 863)
As of December 31,2016	65 028
Net book value as of December 31, 2016	**27 502**
Net book value as of December 31, 2015	**25 405**

In thousands of BGN

Cost	
As of December 31, 2014	**87 785**
Additions	8 938
Transfers	462
Write offs	(602)
As of December 31,2015	**96 583**
Depreciation	
As of December 31, 2014	**62 949**
Depreciation charge	8 484
Transfers	345
Write offs	(600)
As of December 31,2015	**71 178**
Net book value as of December 31, 2015	**25 405**
Net book value as of December 31, 2014	**24 836**

31. Current tax

The current tax assets comprise of Bank's net receivable tax position with regard to corporate income tax for the respective years increased by overpaid prior years' tax that is not yet recovered by tax authorities. According to the statutory requirements, Bank pays during the year advance instalments for corporate income tax on the basis of forecasted tax profit for the current year. Should by the year-end advance instalments exceed the overall annual current tax liability, the overpaid amount cannot be automatically off-set with next year current tax liabilities, but have to be explicitly recovered by tax administration.

Based on that, as of December 31, 2016 there are no current tax assets, reported by the Bank, and those reported as of December 31, 2015 represent overprovided current tax for 2015, while current tax liabilities represent net payable current tax position for the years 2016 and 2015 respectively.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 is as outlined below:

In thousands of BGN

	31.12.2016	31.12.2015
Property, plant, equipment, investment property and intangible assets	2 917	4 234
Available for sale investments	872	872
Provisions	(5 460)	(3 863)
Actuarial gains (losses)	(271)	(196)
Other liabilities	(8 332)	(6 668)
Tax losses carried forward	(773)	(821)
Net tax (assets) liabilities	**(11 047)**	**(6 442)**

The movements of deferred tax assets and liabilities on net basis throughout 2016 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2015	RECOGNISED IN P&L	RECOGNISED IN EQUITY	BALANCE 31.12.2016
Property, plant, equipment, investment property and intangible assets	4 234	(1 317)	-	2 917
Available for sale investments	872	(7 162)	7 162	872
Provisions	(3 863)	(1 597)	-	(5 460)
Actuarial gains (losses)	(196)	-	(75)	(271)
Cash flow hedge	-	908	(908)	-
Other liabilities	(6 668)	(1 664)	-	(8 332)
Tax losses carried forward	(821)	48	-	(773)
Net tax (assets) liabilities	**(6 442)**	**(10 784)**	**6 179**	**(11 047)**

33. Non-current assets held for sale

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

As of December 31, 2016 and December 31, 2015 Bank has not classified any properties as non-current assets held for sale.

As of the end of 2016, the Bank has signed an agreement for sale of loan portfolio at gross amount of TEUR 93 000 (including balance sheet exposures, as well as written-off the balance sheet exposures). The deal is part of the Group plan aiming at strengthening the loan portfolio quality. Following the above, as of December 31, 2016 the Bank has reclassified the balance sheet loan exposures subject to sale in compliance with the requirements of IFRS 5. Loans evaluation and measurement is following the requirements of IAS 39 and as of December 31, 2016 their carrying value is equal to the cession price - TBGN 2 015.

34. Other assets

In thousands of BGN

	31.12.2016	31.12.2015
Receivables and prepayments	33 763	31 621
Receivables from the State Budget	18	240
Materials, spare parts and consumables	4 234	7 358
Other assets	8 688	9 200
Foreclosed properties	73 139	59 953
Total other assets	**119 842**	**108 372**

35. Financial liabilities held for trading

In thousands of BGN

	31.12.2016	31.12.2015
Interest rate swaps	34 665	42 974
FX forward contracts	11 420	16 562
Equity options	9 093	14 275
Other options	1	2
FX swaps	6 818	5 805
Commodity swaps	9 438	9 692
Commodity options	2 870	10 844
Total trading liabilities	**74 305**	**100 154**

36. Deposits from banks

In thousands of BGN

	31.12.2016	31.12.2015
Current accounts and overnight deposits		
Local banks	213 994	174 142
Foreign banks	89 350	167 350
	303 344	**341 492**
Deposits		
Local banks	47 934	70 376
Foreign banks	1 941 114	2 180 090
	1 989 048	**2 250 466**
Other	**23 076**	**18 293**
Total deposits from banks	**2 315 468**	**2 610 251**

37. Deposits from customers

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, 2016 and December 31, 2015 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.

In thousands of BGN

	31.12.2016	31.12.2015
Current accounts		
Individuals	1 764 509	1 323 689
Corporate	5 410 233	4 204 287
Budget and State companies	274 625	215 183
	7 449 367	**5 743 159**
Term deposits		
Individuals	4 151 020	4 150 997
Corporate	1 486 759	2 002 731
Budget and State companies	96 615	58 061
	5 734 394	**6 211 789**
Saving accounts	**1 597 716**	**1 245 577**
Transfers in execution process	**32 625**	**75 459**
Other	**24 098**	**19 755**
Total deposits from customers	**14 838 200**	**13 295 739**

38. Provisions

The movement in provisions for the years ended December 31, 2016 and December 31, 2015 is as follows:

In thousands of BGN

	LETTERS OF GUARANTEE	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2014	**14 772**	**20 090**	**5 815**	**721**	**542**	**41 940**
Allocations	-	11 647	562	1 173	498	**13 880**
Releases	-	(2 202)	-	-	-	**(2 202)**
Additions due to FX revaluation	11 632	4 179	-	-	-	**15 811**
Releases due to FX revaluation	(9 963)	(3 579)	-	-	-	**(13 542)**
Actuarial gains/losses recognized in OCI	-	-	325	-	-	**325**
Utilization	-	(1 988)	(292)	(321)	(449)	**(3 050)**
Balance as of December 31, 2015	**16 441**	**28 147**	**6 410**	**1 573**	**591**	**53 162**
Allocations	-	2 021	585	-	200	**2 806**
Releases	-	(16 579)	-	-	(1)	**(16 580)**
Additions due to FX revaluation	2 335	2 914	-	-	-	**5 249**
Releases due to FX revaluation	(2 886)	(2 723)	-	-	-	**(5 609)**
Actuarial gains/losses recognized in OCI	-	-	745	-	-	**745**
Other movements	(15 498)	15 498	-	-	-	
Utilization	-	(884)	(384)	(1 271)	(267)	**(2 806)**
Balance as of December 31, 2016	**392**	**28 394**	**7 356**	**302**	**523**	**36 967**

(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, 2016 Bank assessed its entire portfolio of issued letters of guarantee and quantified provisions in the amount of BGN 392 thousand (BGN 16 441 thousand as of December 31, 2015).

(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, 2016 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 28 394 thousand has been recognized (BGN 28 147 as of December 31, 2015).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the bank's liability in accordance with Collective Labour Agreement as of the reporting date. Actuarial gains/losses adjust the value of the defined benefit liability with corresponding item recognized in the Statement of comprehensive income.

Major assumptions underlying in 2016 Defined benefit obligation are as follows:

- Discount rate – 1,94%;
- Salary increase – 5% p.a.;
- Retirement age: Men 63 years and 10 months, women 60 years and 10 months for 2016 and increase by 2 months each year thereafter until the age of 65 years for men and for women is reached.

The movement of the defined benefit obligation for the year ended December 31, 2016 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, 2015	**6 410**
Current service costs for 2016	430
Interest cost for 2016	155
Actuarial losses recognized in OCI in 2016	745
Benefits paid	(384)
Recognized defined benefit obligation as of December 31, 2016	**7 356**
Interest rate beginning of the year	2.60%
Interest rate end of the year	1.94%
Future increase of salaries	5.00%
Expected 2017 service costs	475
Expected 2017 interest costs	132
Expected 2017 benefit payments	1 229

Current service cost and interest cost are presented under Personnel expenses (See note **14**).

The major factors impacting the present value of the defined benefit obligation are those of discount rate and future salary increase rate. Sensitivity analysis of those two is as follows:

In thousands of BGN

	2016	2015
Sensitivity - Discount rate +/- %	0.25%	0.25%
DBO Discount rate -	7 542	6 565
DBO Discount rate +	7 179	6 261
Sensitivity - Salary increase rate +/- %	0.25%	0.25%
DBO Salary increase rate -	7 184	6 264
DBO Salary increase rate +	7 536	6 561

(d) Provisions on constructive obligation

In the course of regular business, the Bank has to follow certain rules as defined by specific Banking legislation prevailing in Bulgaria. The respective amounts as of December 31, 2016 and December 31, 2015 are as follows:

In thousands of BGN

	31.12.2016	31.12.2015
Provisions in accordance with Instruction I-171 of BNB and Ministry of Internal Affairs	-	98
Provisions related to passportization of buildings	302	302
Provisions related to AQR	-	1 173
Total provisions on constructive obligation	**302**	**1 573**

As of December 31, 2015 Bank has recorded provisions on constructive obligations in accordance with Instructions I-171 of BNB and Ministry of Internal Affairs, related to security standards of the premises and safe-deposits boxes. As of December 31, 2016 available prior provisions were fully utilized.

In accordance with the requirements set out in Law on Territory Planning, Energy Efficiency Act and some other related regulations the Bank had to perform until the end of 2015, energy efficiency assessment and technical passportization of all owned buildings with Gross Floor Area above 500 sq. m. In 2015 law amendments moved the deadline for the above mentioned assessment to December 31, 2016. The balances as of December 31, 2016 and December 31, 2015 represent unutilized provision amounts as of the reporting dates.

As per the stipulations of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (par.9 of the Transitional and Final Provisions), in 2016 Bulgarian National Bank (BNB) conducted a system-wide independent asset quality analysis of the banking system - Asset Quality Review (AQR) and Stress test for all the banks operating In Bulgaria. As required by the same Law, each bank hired a highly qualified external consultant company that performed the credit file review and other additional procedures following the methodology and prescriptions of BNB. All the costs associated with the review were borne by the respective bank. As of December 31, 2015 the Bank has recorded provisions related to this constructive obligation, which were utilized accordingly in 2016.

(e) Other provision

Other provisions in the amount of BGN 523 thousand (BGN 591 thousand in 2015) relates to coverage of claims related to credit cards business as well as other claims.

39. Other liabilities

In thousands of BGN

	31.12.2016	31.12.2015
Liabilities to the State budget	6 299	4 906
Liabilities to personnel	34 943	34 845
Liabilities for unused paid leave	5 558	5 850
Dividends	546	474
Incentive plan liabilities	5 255	5 368
Other liabilities	53 591	54 046
Total other liabilities	**106 192**	**105 489**

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 2016 and 2015 in accordance with the defined target settings and adopted incentive programs.

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

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

40. Equity

(a) Share capital

As of December 31, 2016 and December 31, 2015 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

(b) Statutory reserves

Statutory reserves represent allocated profits after taxation into

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

(c) Retained earnings

Under Retained earnings the Bank shows the excess of all reserves, formed out of net profit in prior years and transformation of revaluation reserves over statutory reserves amount. In this position Bank also shows the difference between the purchase price paid for newly acquired subsidiaries in business combinations under common control and their book value as recorded in the separate financial statements of the transferor as of the date of transfer.

(d) Revaluation and other reserves

Revaluation reserves include those related to fair value changes on available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 “Employee Benefits”.

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2016 and December 31, 2015 only reserves related to available for sale investments have been recycled to profit or loss following their derecognition. The amounts are BGN (18 061) thousand and BGN (2 492) thousand, respectively, net of tax. For 2016 major part of the amount (BGN (14 811)) are due to one-off effect from derecognition of Visa Europe equity participation.

41. Contingent liabilities

In thousands of BGN

	31.12.2016	31.12.2015
Letters of credit and letters of guarantee	1 730 317	1 507 218
Credit commitments	1 827 737	1 662 149
Total contingent liabilities	**3 558 054**	**3 169 367**

(a) Letters of credit and letters of guarantee

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

The contractual amounts of financial guarantees and letters of credit are set out in the above table. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted. These commitments and contingent liabilities are reported off-balance sheet and only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments expire without being advanced in whole or in part.

As of December 31, 2016 and December 31, 2015 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 **38**).

(b) Litigation

As of December 31, 2016 and December 31, 2015 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these financial statements as of December 31, 2016 are in the amount of BGN 28 394 thousand (BGN 28 147 thousand in 2015), (see also Note **38)**.

(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, 2016 and December 31, 2015 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

42. Assets pledged as collateral

In thousands of BGN

	31.12.2016	31.12.2015
Securities pledged for budget holders' account service	-	972
Securities pledged on other deals	310 629	263 906
Loans pledged for budget holders' account service	254 257	254 885
Loans pledged on other deals	17 843	11 555
	582 729	**531 318**
Pledged assets include:		
Available for sale assets	310 629	264 878
Loans and advances	272 100	266 440
	582 729	**531 318**

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

Information on the collaterals received on open reverse repo deals as of December 31, 2016 and December 31, 2015 is as follows:

In thousands of BGN

	31.12.2016		31.12.2015	
	CARRYING AMOUNT	COLLATERAL VALUE	CARRYING AMOUNT	COLLATERAL VALUE
Receivables under repurchase agreements with banks	-	-	50 988	49 457
Receivables under repurchase agreements with customers	-	-	69 196	72 231
Total	**-**	**-**	**120 184**	**121 688**

43. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 UniCredit Bank Austria AG and its ultimate parent UniCredit S.p.A (jointly referred as "parent companies"). In addition the Bank has relatedness with its subsidiaries and associates (see also Note 28) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2016 and December 31, 2015 and Income statement items for the years ended thereafter are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2016	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	-	-	31 402	**31 402**
Financial assets held for hedging	-	-	2 452	**2 452**
Current accounts and deposits placed	1 186 925	-	38 723	**1 225 648**
Extended loans	-	-	13 190	**13 190**
Other assets	1 062	-	4 057	**5 119**
Current accounts and deposits taken	452 079	-	1 108 555	**1 560 634**
Derivatives held for trading	611	-	45 872	**46 483**
Derivatives used for hedging	46 231	-	18 222	**64 453**
Other liabilities	6 592	-	2 336	**8 928**
Guarantees received by the Group	**55 057**	**-**	**65 958**	**121 015**

In thousands of BGN

AS OF DECEMBER 31, 2015	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Financial assets held for trading	-	-	45 834	**45 834**
Financial assets held for hedging	-	-	13 455	**13 455**
Current accounts and deposits placed	1 104 698	-	6 779	**1 111 477**
Extended loans	-	-	13 163	**13 163**
Other assets	2 865	-	3 182	**6 047**
Current accounts and deposits taken	1 682 082	501	26 334	**1 708 917**
Derivatives held for trading	2 623	-	43 515	**46 138**
Derivatives used for hedging	32 913	-	2 487	**35 400**
Other liabilities	6 275	-	3 486	**9 761**
Guarantees received by the Group	**41 276**	**-**	**40 799**	**82 075**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2016	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	12 050	-	205	**12 255**
Interest expenses	(9 360)	-	(33 519)	**(42 879)**
Dividend income	-	178	-	**178**
Fee and commissions income	242	-	2 417	**2 659**
Fee and commissions expenses	(45)	-	(271)	**(316)**
Net gains (losses) on financial assets and liabilities held for trading	2 331	-	21 182	**23 513**
Other operating income	64	-	621	**685**
Administrative and personnel expenses	(2 092)	(1 056)	(10 933)	**(14 081)**
Total	**3 190**	**(878)**	**(20 298)**	**(17 986)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2015	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	14 514	-	140	**14 654**
Interest expenses	(14 271)	(8)	(3 601)	**(17 880)**
Dividend income	-	(180)	-	**(180)**
Fee and commissions income	652	-	1 891	**2 543**
Fee and commissions expenses	(50)	-	(12)	**(62)**
Net gains (losses) on financial assets and liabilities held for trading	(1 162)	-	69 081	**67 919**
Other operating income	25	-	12	**37**
Administrative and personnel expenses	(1 784)	(1 038)	(8 546)	**(11 368)**
Total	**(2 076)**	**(1 226)**	**58 965**	**55 663**

As of December 31, 2016 the loans extended to key management personnel amount to BGN 1 713 thousand (BGN 1 932 thousand in 2015). For the year ended December 31, 2016 the compensation paid to key management personnel amounts to BGN 6 332 thousand (BGN 5 135 thousand in 2015).

44. Cash and cash equivalents

In thousands of BGN

	31.12.2016	31.12.2015
Cash in hand and in ATM	201 764	195 643
Cash in transit	71 936	69 151
Current account with the Central Bank	4 273 812	4 320 604
Current accounts with banks	54 694	94 706
Receivables under repurchase agreements	-	50 988
Placements with banks with original maturity less than 3 months	146 948	3 545
Total cash and cash equivalents	**4 749 154**	**4 734 637**

45. Leasing

The Bank is counterparty in numerous operating and finance lease agreements. After first consolidation of UniCredit Leasing EAD and HVB Leasing EOOD in December 2013, the finance lease agreements prevail, being those leasing companies' core activity.

In 2014 Bank has reassessed certain operating lease agreements originated in leasing subsidiaries, whereas the latter included an option at the discretion of the lessor to sell the leased assets. As the Management decides that all options available will always be exercised, all related operating lease agreements have been reclassified to finance ones. As a result of the reclassification, there are no more operation lease agreements covered within the core business activity of the leasing subsidiaries. Reported outstanding non-cancellable payments on operation lease agreements relate only to auxiliary Bank's stand-alone activity.

Summary of the amount of non-cancellable minimum lease payments where Bank acts both as a lessor and as a lessee are presented in the tables below:

(a) Financial lease contracts, where the Bank is a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to one year	310 509	457 067	277 349	149 863
Between one and five years	424 007	455 962	432 314	525 530
Beyond five years	83 689	64 734	85 324	59 836
Total	**818 205**	**977 763**	**794 987**	**735 229**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2016	31.12.2015
Up to one year	5 738	5 827
Between one and five years	8 214	9 528
Beyond five years	4 829	6 037
Total	**18 781**	**21 392**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2016	31.12.2015
Up to one year	227	235
Total	**227**	**235**

46. Other regulatory disclosures

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, Banks are required to make certain quantitative and qualitative disclosures related to major financials and other indicators separately for the business originating from Republic of Bulgaria and from other countries, where Bank has active subsidiaries and/or branches.

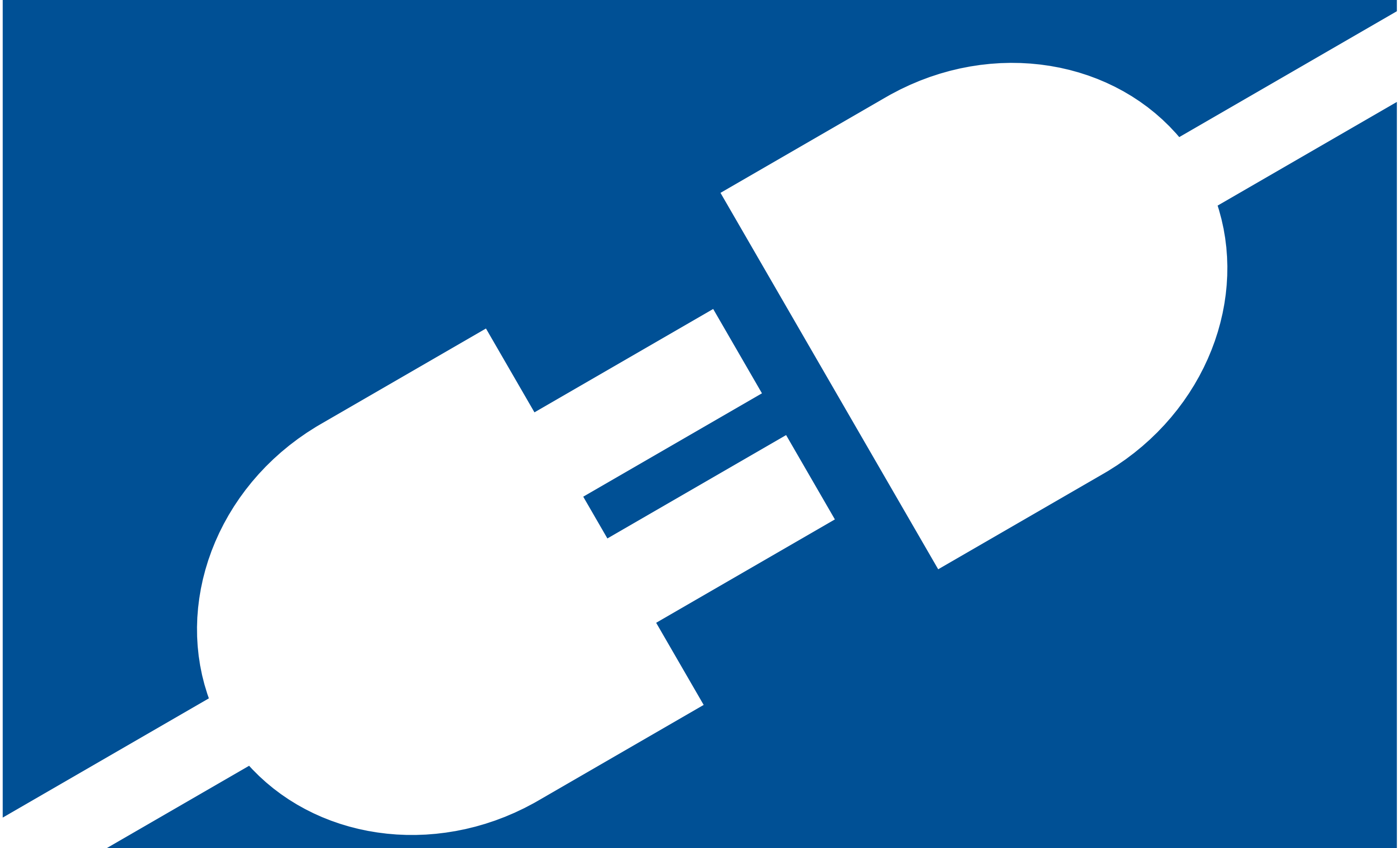
UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2016 and December 31, 2015 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitate mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these separate financial statements or other mandatory reports are as follows:

In thousands of BGN

	2016	2015	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	857 686	784 809	Consolidated Income Statement and details in Notes 7,8,9,10,11 and 12
Profit before income tax	402 167	378 566	Consolidated Income Statement
Income tax expense	(40 822)	(38 375)	Consolidated Income Statement and details in Notes 19
Return on average assets (%)	1.8%	2.0%	2016 Annual Report on Activity
Full time equivalent number of personnel as of December 31	4 149	4 161	Note 14

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

Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be "One Bank, One UniCredit". We are a true pan-European bank and we work seamlessly across the Group.

Risk Management

In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

Bank Network

Aitos
27, Stancionna str. 0558/26 164; 22 115

Asenovgrad
8, Radi Ovcharov str. 0331/62 655

Balchik
34A Cherno more str 0579/71 120
3, Ivan Vazov str. 0579/74 061

Bansko
3, Pirin str. 0749/88 125

Berkovitsa
1, Yordan Radichkov sq. 0953/88 484
100, Nikolaevska str. 0953/88 686

Blagoevgrad
1, Macedonia sq. 073/867 028
5, St. Dimitur Solunski str. 073/834 074
17, Zelenopolsko shose str. 02/9 264 785
22, Ivan Shishman str. 073/828 634
57, Vasil Levski blvd 073/885 065
18, St. Kiril and Metodius blvd. 073/828 718

Bojuriste
85, Evropa blvd, Bojuriste 02/993 88 45

Botevgrad
24 Saransk sq. 0723/66 872

Burgas
22, Alexandrovska str. 056/877 262
68-70 Hristo Botev 056/806 811
Lukoil Neftohim 056/898 036
Burgas Airport 056/872 532
Burgas Port 056/840 277
94 block of Slaveikov District 056/581 218
30, Todor Aleksandrov blvd 056/589 913
22, Alexandrovska str. 056/877 262
4-6, P. Yavorov str. 056/874 133
Slaveikov district, block 46 056/896 681
Burgas, Meden rudnik, A, building 1 056/871 942
103, Stefan Stambolov blvd 056/689 830

Chepelare
1, Han Asparuh str. 03051/20 35

Chirpan
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 058/655 732
54, Okolovrusten put Dobrotica 058/600 650

Dulovo
21, Vasil Levski str. 0855/22 356

Dupnitza
3, Ivan Vazov str. 0701/59 914

Elena
1, Chr. Momchilov str. 06151/61 13

Elin Pelin
5, Nezavisimost square 0725/68 827

Etropole
22, M. Gavrailova str. 0720/67 222

Gabrovo
13, Radecki str. 066/814 206
8, dr. Jekov str. 0418/62 224

General Toshevo
5, Treti Mart str. 05731/21 37

Godech
2, Svoboda square 0729/22 322

Gorna Malina
Municipality G. Malina 07152/222

Gorna Orjahovitsa
1A, M. Todorv str. 0618/681 12
2, Partriarch Evtimii str. 0618/618 22

Gotse Delchev
11, Byalo More 0751/696 20

Harmanli
1, Vazrajdane sq. 0373/800 61

Haskovo
4, Han Kubrat str. 038/602 742
Haskovo Tehnopolis 032/905 891

Ihtiman
8, Polk. B. Drangov str. 0724/82 091

Karlovo
2, Vodopad str. 0335/90 525

Karnobat
14, Bulgaria blvd Karnobat 0559/28 821

Kavarna
37, Dobrotica str. 0570/81 110

Bank Network (continued)

Kazanlak

4 Rozova Dolina str.	0431/68 135
16, Paisii Hilendarski str.	0431/63 486

Knezha

5, Nikola Petkov str.	09132/67 50

Kostenets

2, Belmeken str	07142/22 52

Kostinbrod

7, Ohrid str	0721/68 125

Kozlodui

Kozlodui Nuclear Plant	0973/73 677
1 str. Kiril I Metodii	0973/80 004

Kurdjali

4, Belomorski blvd.	0361/61 077
51, Bulgaria blvd	0361/ 670 20

Kyustendil

39, Democracy str.	078/559 613
5, Gueshevo shosse str.	078/541 234

Levski

40, Al. Stambolijski str.	0650/83 167

Lom

14, Dunavska str.	0971/68 762

Lovech

10 Akad Ishirkov str.	068/689 943
2, Stephan Karadja str.	068 /668 330

Malko Tarnovo

2, Malkoturnovska Komuna str.	05952/31 49

Mezdra

8, Georgi Dimitrov str.	0910/92 078

Montana

72, Treti Mart blvd	096/391 957
216 Treti Mart blvd.	096/300 393
51 Treti Mart blvd.	096/383 168

Nessebar

38, Han Krum str	0554/21 920
10, Zedelvais	0554/44 081

Nova Zagora

49 Vasil Levski str.	0457/61260
60, M. Balkanski str.	0457/62 203

Novi Pazar

4, Rakovski str.	0537/25 852

Panagiurishte

1, G. Benkovski str.	0357/63 260

Parvomai

2 B, Hristo Botev str.	0336/62 053

Pavlikeni

20, Svoboda sq.	6010/51 180

Pazardjik

6, Bulgaria blvd	034/405 131
RDVR Pazard	034/440 993
Pazardjik KAT	034/441 290
3, Han Krum str.	034/444 886
13, Stefan Stambolov blvd.	034/445 380
5, Esperanto str.	034/405 718

Pernik

14, K. Pernishki sq.	076/688 980
21, St Kiril and Methodius blvd.	076/605 387
2, Chereshovo topche str.	076/688 716

Peshtera

16, Dimitar Gorov str.	0350/64 16

Petrich

48, Rokfeler str.	0745/69 528

Pirdop

Todor Vlaikov square, block 2	07181/82 15

Pleven

121 Vasil Levski str.	064/890 730
4, Georgi Kochev blvd.	064/831 065
1, Kosta Hadjipakev str.	064/880 232
13 Danail Popov str; block Volga	064/892 163
11, Metro str.	02/926 47 87

Plovdiv

4, Ivan Vazov blvd	032/601 620
8, Vasil Levski str.	032/905 860
1, Kostievska str.	032/905 840
41, Saedinenie str., Trakia	
51, Raiko Daskalov str.	032/656 044
133 Sankt Peterburg blvd.	032/680 250
82, Hristo Botev blvd	032/632 600
13, Kniaz Alexander Ist str.	032/905 816
135, Sankt Peterburg blvd.	032/905 895
15 A, Vasil Aprilov blvd.	032/905 837
66, Pestersko Shosse str.	032/905 841
24, Tsar Assen Str.	032/905 844
31, Ivan Vazov str.	032/905 933
32A Kuklensko shosse blvd	032/673 602, ext 103,107
1, Asenovgradsko Shosse str.	032/623 746
8, Karlovsko shosse str.	032/946 335

Bank Network (continued)

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.	084/660 763
66,Aprilsko vastanie blvd. Razgrad	084/609 802
1, Momina Cheshma sq.	084/612 118

Razlog

1, Eksarh Iosif str.	0747/898 09

Russe

5, Sveta Troica square	082/818 258
Hristo Botev blvd.	082/241 492
75, Alexnadrovska str	082/825 776
60, Treti Mart blvd	082/611 068

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

Shabla

4, Petko Balgaranov str.	05743/50 11

Shumen

8, Slavianski blvd.	054/858 126
5, Simeon Veliki blvd.	054/830 056

Silistra

3, Dobrudzhai str.	086/878 342
33, 7mi septemvri blvd.	086/833 199

Slanchev Briag

Slanchev briag Complex	0554/280 23

Sliven

11 Hadji Dimitar blvd	044/613 127
19 General Stolipin str.	044/610 231
6 Stephan Karadja str.	044/630 035
23 Rakovski str.	044/610 861

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, Briuksel blvd	02/980 96 01
84, Veslec str.	02/810 59 21
18, Parva Bulgarska Armiya blvd	02/931 18 46
SFA 459, Botevgradsko shosse blvd	02/892 21 99
Mladost; 265 Okolovrusten put	02/877 04 73
2, Buzludja str.	02/895 10 19
2, Lomsko shosse	02/890 49 52
13, 202 str.	02/833 41 74
90, Al. Stambolijski blvd	02/810 26 22
14, Gueshevo str.	02/812 39 48; 812 39 49
100 Cherni Vruh blvd	02/969 00 25
90, Vitosha blvd	02/952 23 33
105, Gotse Delchev blvd	02/818 27 22
1, P.U. Todorov block 1	02/818 67 20
69, Bulgaria blvd	02/926 49 53
199A, Okolovrasten pat, Malinova dolina	02/965 81 98
8, Vitosha blvd	02/810 29 26
Hotel Trivia, Botunec	02/994 54 42
444 A, Slivnica blvd	02/827 91 72
2, Sofroniy Vrachanski, str.	02/937 70 71
Iliyanci	02/892 05 12
Nishava str. Block 12	02/818 87 60
Liulin 4, block 417	02/814 52 72
Tsaritsa Ioanna blvd.	02/825 89 46
182, Europa blvd.	02/926 47 84
22, Zlaten rog, str.	02/926 48 50
41, Tzar Boris III blvd	02/895 40 28; 895 40 27
134, Tzar Boris III blvd	02/926 48 47
38, Liubliana str.	02/926 48 67
1, Kukush str.	02 /802 42 11
1, Skopie blvd	02/803 35 82
127, Slivnica blvd	02/802 19 83
56, Georgi Sofiiski str.	02/815 49 71
1 Ivan Vazov str.	02/92 69 651
12, Al. Batenberg str.	02/93 57 841
3, Tsar Kaloyan str	02/890 23 37
8, Aksakov, str.	02/923 34 85
1, Madrid blvd	02/948 09 71
88, Yanko Sakuzov blvd.	02/861 30 63

Bank Network (continued)

2, Ivan Asen IInd str	02/942 30 24
65, Shipchenski prohod str.	02/817 29 24
52, Kosta Lulchev str.	02/971 34 95
133, Tsarigradsko Shosse - 7th km	02/817 80 29
Tsarigradsko Shosse - 7th-11th km	02/926 47 83
147, Tsarigradsko Shosse blvd	02/976 78 64
18, Dondukov str.	02/921 89 53
58, Alabin Str	02/939 78 17
9, Julio Kiuri str.	02/817 37 29
28, Hristo Smirnenski blvd	02/963 09 88
22 Serdika str.	02/926 48 73
140, Rakovski str.	02/815 70 24
40, Vasil Levski str.	02/950 46 50
9A Boris Stefanov str.	02/819 28 72
Simeonovo, 14A Momina salza str.	02/890 23 13
62, G.M. Dimitrov str.	02/816 90 71
32, Zlatuvruh str.	02/819 07 11
9, Shipchenski prohod blvd	02/892 45 61
16, Alexander Malinov blvd, 1st floor, MLADOST	02/817 49 21
Business park Sofia, 2nd building	02/817 3322; 23
1, Yanko Sakazov blvd	02/814 50 25

Sozopol

2, Parvi May Str.	0550/263 20

Stamboliiski

2, Osmi Mart str.	0339/624 87

Stara Zagora

126 Simeon Veliki blvd	042/696 326
Nikola Petkov str.	042/260 106
126 Simeon Veliki blvd	042/696 376
62, Tzar Simeon Veliki blvd	042/692 112
115, Tsar Simeon Veliki blvd.	042/615 129
Rudnik Troyanovo Sever	0417/824 02
157, Tzar Simeon str.	042/610 783
30, Hristian Voivoda str.	042/622 936

Sungurlare

15, Hristo Smirnenski str.	05571/52 50

Svilengrad

60, Bulgaria blvd	0379/707 28
4, Assen Iliew str.	0379/730 33
Customs Kap. Andreevo	0379/710 44

Svishtov

16, Tzar Osvoboditel 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.	052/662 128
39 Maria Luiza str.	052/663 137; 136; 135
2, Gabrovo str.	052/689 803
2, Patleina str.	052/663 335
13, Treti Mart str.	05131/24 07
36-38 Vladislav Varnenchik str.	052/687 949
43, Kniaz Boris str.	052/664 026
112, Osmi Primorski polk	052/785 711
20, Drujba str.	052/663 691
61, Pirin str.	052/661 346
117, Republika blvd.	052/739 501
Vladislavovo, Zapadna obikolna str.	052/689 820

Veliko Tarnovo

13. Vasil Levskli Str	062/611 087
13. Vasil Levskli Str	062/611 037
4 Magistralna str.	062/611 088
78, Balgaria blvd.	062/611 018

Velingrad

99, Suedinenie sq.	0359/570 22

Vidin

3 Tzar Simeon Veliki str.	094/690 214
66 A, Tzar Simeon Veliki str.	094/600 683
Panoniya blvd.	094/602 032

Vratsa

2nd July blvd.	092/621 312
10, Lukashov str.	092/668 852
8, Lukashov str.	092/668 234

Yakoruda

40, Kiril and Metodius str.	07442/23-88

Yambol

3, Gorg Papazov str.	046/685 122
173-175 Graf Ignatiev blvd.	046/641 153

Zlatitsa

1, Sofiisko shosse blovd	0728/660 38

Bank Network (continued)

Corporate offices

Sofia

3 Tsar Kaloyan Str.	02/890 23 46, 02/890 23 19
1 Ivan Vazov Str.	02/926 95 01; 926 93 87
7 Sveta Nedelya Sq.	02/923 27 88; 923 26 88

Varna

28 Slivnitsa Str.	052/678 013; 678 020

Stara Zagora

126 Tzar Simeon Veliki Blvd.	042/696 246; 696 268

Burgas

22 Alexandrovska Str.	056/877 218; 877 236

Russe

5 Sveta Troitsa Str.	082/818 265; 818 226

Veliko Tarnovo

13 Vassil Levski Str.	062/611 017; 611 056

Pleven

11 Tzar Simeon Str.	064/890 335; 890 332

Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.

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Gold Standard®

Climate Security & Sustainable Development