Unlocking...

A better bank
A better world
A better future

2022
Annual Reports and Accounts

Empowering
Communities to Progress.

UniCredit Bulbank

Contents

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A better bank
A better world
A better future

Financial Highlights & Milestones

Discover our Financial Highlights & Milestones here

FINANCIAL HIGHLIGHTS (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures	YEAR 2022	YEAR 2021 RESTATED	CHANGE
Net interest income	424 532	360 200	17.9%
Net fee and commission income	271 673	237 739	14.3%
Income from dividend, net gains from trading income, hedging derivatives and investment securities	223 167	162 702	37.2%
Other operating income/expenses, net	(20 286)	(14 714)	37.9%
Operating income	899 086	745 927	20.5%
Operating expenses	(319 018)	(296 635)	7.5%
Gross operating profit	580 068	449 292	29.1%
Net impairment loss on financial assets	(87 912)	(107 570)	(18.3%)
Provisions for risk and charges	(1 980)	(2 816)	(29.7%)
Net income from PPE	15 240	2 488	512.5%
Profit before tax	505 416	341 394	48.0%
Net profit	465 885	313 826	48.5%
Volume Figures			
Total assets (eop)	28 889 110	24 948 376	15.8%
Net customer loans (eop)[1]	17 267 825	13 519 451	27.7%
Customer deposits (eop)[2]	23 214 919	19 795 330	17.3%
Shareholders' equity (eop)	3 251 993	3 357 699	(3.1%)
RWA (eop)	12 215 978	11 151 529	9.5%
Key Performance Indicators (%)			
Return on average assets (ROA)	1.7	1.3	0.5pp
Return on average equity (ROE)	14.1	9.8	4.3pp
Cost/Income ratio	35.5	39.8	(4.3pp)
Net profit margin	51.8	42.1	9.7pp
Capital/Asset ratio (eop)	11.3	13.5	(2.2pp)
Total capital adequacy ratio (eop)	23.29	27.45	(4.2pp)
Tier 1 capital ratio (eop)	22.89	27.05	(4.2pp)
CET 1 capital ratio (eop)	22.89	27.05	(4.2pp)
Risk weighted assets/Total assets ratio (eop)	42.3	44.7	(2.4pp)
Non-performing exposures/Gross loans	3.1	4.0	(0.8pp)
Net Loan/Deposit ratio	74.4	68.3	6.1pp
Resources (number) – (eop)			
Employees	3 443	3 565	(122)
Branches	133	147	(14)

[1] Loans and advances to customers, debt securities and pledged debt securities at amortised cost

[2] Deposits from customers and other financial liabilities at amortized cost

FINANCIAL HIGHLIGHTS (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures	YEAR 2022	YEAR 2021 RESTATED	CHANGE
Net interest income	584 328	519 082	12,6%
Net fee and commission income	281 304	255 472	10,1%
Income from dividend, net gains from trading income, hedging derivatives and investment securities	111 448	98 603	13,0%
Other operating income/expenses, net	3 550	5 226	-32,1%
Operating income	980 630	878 383	11,6%
Operating expenses	- 372 416	- 346 776	7,4%
Gross operating profit	608 214	531 607	14,4%
Net impairment loss on financial assets	- 112 465	- 120 863	-6,9%
Provisions for risk and charges	243	- 3 087	-107,9%
Net income from PPE	15 196	2 858	431,7%
Profit before tax	511 188	410 515	24,5%
Net profit	460 431	370 032	24,4%
Volume Figures			
Total assets (eop)	29 302 000	25 429 222	15,2%
Net customer loans (eop)[1]	17 608 322	13 946 002	26,3%
Customer deposits (eop)[2]	23 222 863	19 800 871	17,3%
Shareholders' equity (eop)	3 576 606	3 711 783	-3,6%
RWA (eop)	12 236 447	11 262 227	8,7%
Key Performance Indicators (%)			
Return on average assets (ROA)	1,7	1,5	0,2pp
Return on average equity (ROE)	12,6	10,4	2,2pp
Cost/Income ratio	38,0	39,5	-1,5pp
Net profit margin	47,0	42,1	4,8pp
Capital/Asset ratio (eop)	12,2	14,6	-2,4pp
Total capital adequacy ratio (eop)	25,82	29,71	-3,9pp
Tier 1 capital ratio (eop)	25,43	29,31	-3,9pp
CET 1 capital ratio (eop)	25,43	29,31	-3,9pp
Risk weighted assets/Total assets ratio (eop)	41,8	44,3	-2,5pp
Non-performing exposures/Gross loans	3,7	4,8	-1,1pp
Net Loan/Deposit ratio	75,8	70,4	5,4pp
Resources (number) – (eop)			
Employees	3 985	4 108	-123
Branches	142	156	-14

[1] Loans and advances to customers, debt securities and pledged debt securities at amortised cost, finance leases

[2] Deposits from customers and other financial liabilities at amortized cost

Chairperson's message

"In a complex environment for both businesses and households, in 2022 UniCredit Bulbank once again reinforced its fundamental role of supporting and empowering our clients and communities to progress, grow and innovate."

TZVETANKA MINTCHEVA
CHAIRPERSON OF THE MANAGEMENT BOARD
AND CEO OF UNICREDIT BULBANK

Dear shareholders, partners, clients and colleagues,

In the following pages, please consider what **UniCredit Bulbank, being part of UniCredit, the bank of Europe's future,** achieved in 2022. The bank's financial results can only be described as **extraordinary** but what is more important is that these results are backed by over a million satisfied customers, hundreds of executed investment plans, thousands of supported small businesses… And this gives us a reason to say that we are truly unlocking the potential of Bulgarian economy.

We recognize 2022 as a pivotal year! We have managed to achieve a **record net profit** as **the most efficient bank** on the market. Moreover, **UniCredit Bulbank increased** its **Market Shares** in Total Assets, Total Loans and Total Deposits **for the first time in the history** of the bank, and both Corporate and Retail Loans registered **increasing Market Shares in four consecutive quarters,** achieving **the highest ever new volume production**.

In a complex environment for both businesses and households (ongoing war in Ukraine, geopolitical tensions and a global slowdown of growth), in 2022 **UniCredit Bulbank** once again reinforced its fundamental role of **supporting and empowering our clients** and communities to progress, grow and innovate.

Throughout 2022, we continued to **transform** in order to deliver the goal to be **the bank of the future**, building a better bank that can act as a benchmark for our industry.

As part of the strategic plan, **UniCredit Unlocked**, in 2022 we saw the impact of our transformation, evidenced by our **strong financial performance**, delivering **results above** all the goals we initially set out. UniCredit Unlocked will ensure that we are not standing still, waiting to be swept up in change. Instead, we are driving it.

Following the group strategy and principles, we have reduced the complexity of our organisational structure and strengthened our model for governance to drive business **effectively**.

UniCredit Bulbank and ESG

Everything we do is underpinned by a **commitment to ESG** principles.

ESG is not just a set of factors or considerations. It's how we do business and the foundation of every action we undertake. Environmental, social, and governance objectives are intrinsic to our approach and fully embedded in our decision-making process.

Driven by our mission to empower communities to progress, at **Unicredit Bulbank** we place the focus on ESG not just as a regulation, but as our obligation to facilitate growth, innovation and development in the right and sustainable way over time. We want not just to support the green transition, but to be a leading part of it. Being part of the UniCredit Group, with an unparalleled positioning in Europe, we have the opportunity **to play an extremely important role in the transition of Bulgaria and the entire continent to a more sustainable future.**

The Bank's management creates the necessary conditions for the **continuous training** of our colleagues in this direction, and in this regard, there are numerous initiatives. Some of these initiatives are with **external partners** such as the **Faculty of Economics of Sofia University**, with whom **we have created the first ESG academy** of its kind in the country, and a specialized master's program in which several of our employees also take part. The success of these initiatives brought us a prestigious acknowledgement by PwC – Corporate Education Programme.

Bulgarian Economy

The Bulgarian economy proved **more resilient** to the challenging environment of war in Europe and **double-digit inflation in Bulgaria** (levels not seen since the financial crisis in 1996-1997). Real **GDP** growth slowed to an estimated **3.3%** last year but a sharper contraction of growth and employment was avoided, mostly due to the decisive actions of the public authorities, with the coordination and solid financial support provided by the EU structural and cohesion funds.

Next year promises to be challenging. Deceleration of GDP growth and stubbornly high inflation are likely to put the economy's resilience to the test. We think that the **banking sector in Bulgaria is stable and well prepared** to deal with these challenges, as the capital position is very comfortable, while banks have tightened credit origination standards to adapt to the new operational environment of higher costs.

UniCredit Bulbank will continue to grow and strengthen its client franchise, transform its service model and optimise productivity, with disciplined risk management and control, as well as rigorous capital and balance sheet management.

Market Positioning

Serving more than one million customers through a branch network of 133 units, in 2022 **UniCredit Bulbank** successfully managed to preserve its **leadership position on the Bulgarian Banking Market,** closing the year with a Net Profit of BGN 465.9 m (growth of 48.5% y/y) and with increasing Market Shares in Total Assets, Total Loans and Total Deposits.

Unicredit Bulbank is growing fully organically and is the **most active bank on the Loans Market** for 2022 and is ranked **the most efficient bank in Bulgaria**, keeping the lowest C/I Ratio (excluding Dividend contribution) at 36.3% (FY22 perimeter Stand Alone incl. UCFin).

Despite the ongoing consolidation of the Banking System in Bulgaria, Unicredit Bulbank **continues to be the undisputable market leader in the Corporate segment where UniCredit Bulbank increased** the positive variance vs. the main peers. **In the Retail segment,** the Bank remained **one of the key players, achieving 12 consecutive months of increasing market share**.

From a commercial perspective, in 2022 **the Bank achieved the highest ever new volume production in both Corporate and Retail Loans**. Unicredit Bulbank (being **the most active player on the loans market in 2022**) managed to accumulate **double-digit growth** in both Corporate and Retail Loans, thus successfully **recovering pre-Covid levels of Market Shares** in both Corporate and Retail Loans.

With a **Net Profit of BGN 465.9 m**, the Bank accumulated more than 1/5 of the Banking System's 2022 Net Profit for another year in a row, **outperforming** the Market Average in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio, and kept significantly lower NPE ratio.

UCB's CET1 capital ratio remained much higher (22.9% as of Dec'22) than the minimum BNB requirement of 12.00% (including applicable capital buffers) and was further supported by a net profit of BGN 465.9 m.

The **strong market position** originates from the sustainable business strategy, outstanding reputation and customer-centric commercial approach. It involves a constant focus on creating a positive customer experience, as well as a focus on innovations in all areas. The digitalization of products and services, streamlining processes, and efficiency continues to be the top priority for the bank.

Financial Results

On the background of margins' compression, excess liquidity and the ongoing consolidation of the banking sector, UniCredit Bulbank successfully managed to protect its profitability, announcing a growth of 48.5% y/y in Net profit, thanks to the better performance in all revenue lines.

Focus on creating a positive customer experience, digitalization, diversifying the product and services offer, building lean processes along with its excellent reputation, helped **UniCredit Bulbank to mark another year of success.**

In 2022 **Operating income** increased by 20.5% over 2021, amounting to BGN 899.1 m., growing organically with main contributors' net interest income, fees and commissions.

The main contributor to operating income growth was **Net interest income** at BGN 424.5 m with an increase of 17.9% y/y, supported by growth in lending volumes, optimized excess liquidity volumes including increased bond's investments and higher income from placements with banks. **Net fees and commission income** (BGN 271.7 m) are up by 14.3 y/y, thanks to growth in all main categories: fees from transactional services (collections and payments services as well as account services), fees from financial services, as well as from brokerage services. The growth was triggered by increased economic activity in the country as well as by dedicated commercial actions of business divisions, especially in high-value-added financial services areas (trade finance, investment products, corporate finance advisory, etc.).

Operating expenses (BGN 319.0 m) increased by 7.5% y/y, coming from staff expenses, related to inflation salary adjustments; depreciation costs, related to various transformation and digitalization strategic projects.

In line with the trend in Operating income, **Gross operating profit** rose by 29.1% to BGN 580.0 m.

Net Impairment loss on financial assets (BGN 87.9 m) decreased by 18.3% y/y, thanks to the remarkable improvement in **asset quality** and adherence to a strict discipline approach. At the end of 2022 NPE ratio decreased to 3.1%, 90 bp better vs. a year ago (4.0%). NPE coverage ratio marked 82.2% (78.6% in 2021).

Synthetic Securitization – the **first in Bulgaria and the Region** – was finalized with the European Investment Bank Group in-line with the CB capital efficiency objectives and supporting SMEs with new loans at preferential rates. As a result, RWA mitigation in the amount of cca BGN 1 billion and improving CET1 ratio by cca 1.7p.p. has been achieved.

Digitalization

In 2022, the strategic orientation of UniCredit Bulbank remained focused on further strengthening the leadership position and **maximizing the commercial banking value** for all of its stakeholders. The main transformational pillars remain the focus on creating a positive customer experience, **focus on innovations** in all areas, and particularly **digitalization** of product services and processes. UniCredit Bulbank puts the customer at the center of all activities, delivering relevant solutions to their real needs. In a challenging economic context, with rapidly evolving client needs, digital transformation plays a critical role and responds to the growing demand for simplicity and speed.

Throughout 2022, the product factories remained focused on **innovation and digitalization**, targeting improved customer experience.

In 2022 **UniCredit Bulbank was the first on the market** to launch a **digital solution** for financial and industrial analysis and benchmarking. The solution is created using client feedback – companies representing different sizes, industries and origins participated in R&D interviews and UX tests to achieve the best development of the application. It is part of Bulbank Online – Menu Digital products.

We continue to be the **market leader in digitalization** with more than 640 k active digital users. Our **Mobile banking** app for Android is the First financial app in the country with **>1 m downloads** of the Bank Mobile app in Google Play. We have launched the instant **Blink payments** service in the Mobile app and Online banking, allowing clients to send and accept instant payments **24/7**.

The total amount of **payments** processed via **Bulbank Mobile** has **increased** by almost **60%** vs. the previous year. In 2022 more than 500 mortgage deals have been signed **electronically**.

A great achievement was the implementation of **remote digital onboarding for business clients**.

The new organizational model of the Bank, implemented in 2022, allows us to leverage various synergies, increasing our focus on **digital strategy execution**, **enhancing the product and service offers,** and ensuring operational stability, innovation, business growth and efficiency, while fully respecting the regulatory framework and consistently monitoring and managing the associated risks.

We maintain a strong focus on ensuring the highest standard of service, removing technological obsolescence as much as possible and keeping our infrastructure as best in class.

We continue to renovate our branch network, following our digital strategy.

For another year, the Bank was chosen by the jury of Global finance as the Best digital bank in Bulgaria.

In 2023 the main focus will continue to be the delivery of innovation.

We strive to continuously **enhance the cyber culture** for both our employees and customers. For this reason, in 2022, we have maintained a comprehensive security program in the area, preparing wide security awareness campaigns with guidelines and good practices.

Through the **boosting of automation, efficiency initiatives and productivity improvement,** mainly in loan booking, payments and distrains areas, we managed to optimize our activities and thus in 2022 reduced the overall capacity by ca. 6% of the entire Operations team.

Part of the Operations Optimization Program was the Delivery of key projects, such as **Instant Payments**, that not only deliver improved customer service, but also allow us to optimize our cost base; as well as timely activation & automation of **new guarantee schemes**, in order to be able to support our clients and the overall economy in the post-Covid crisis recovery.

Customer Satisfaction and Experience

More than 55 000 pieces of feedback were collected from **Retail** Customers during the year where the worldwide recognized **Net Promoter Score (NPS)** was most commonly measured.

In Retail, one of the main sources of information related to ensuring a fair benchmarking to competitors shows a **+4 pts increase y/y** (reaching 32 pts) and is **5 pts higher than Competitors' average.**

In **Corporate**, UniCredit Bulbank is at the **top position with NPS=31** and a positive gap to the Competitors' average of +14 pts.

UniCredit Bulbank - Employer of Choice

Thanks to the strong brand of UniCredit, and the good image of a stable and reliable organization, UniCredit Bulbank continued to be considered an employer of choice and an excellent place for career development. While supporting a good work-life balance, we want to create the conditions to allow our people to contribute, grow and learn. UniCredit people are our main competitive advantage and we strongly believe that our continuous investment in people development is making a difference. For another year in a row, the Bank was certified by Top Employers Institute as a Top employer in Bulgaria.

UniCredit Bulbank remains firmly grounded in UniCredit Group values and principles.

Our strategy was, and remains, clear – GROWTH, achieved in a sustainable way!

We enter 2023 as a robust institution and a market leader, well positioned for further growth, with an outstanding reputation, and capable of delivering value-added solutions to customers and society. We continue our journey with the strategic plan "UniCredit Unlocked", a long-term plan for our business, designed to deliver sustainable performance and profitable growth through the cycle for all our stakeholders: investors, employees, and clients.

Following the commitment to **empower communities to progress**, UniCredit Bulbank will continue to grow and strengthen its client franchise, transform its service model and optimise productivity, with disciplined risk management and controls, as well as rigorous capital and balance sheet management. ESG activities will remain in focus with key goals to further build on environmental and social client offers, to enrich the ESG Learning Journey, including our clients, to further enhance the activities in the Carbon Footprint Reduction program while maintaining full transparency on our activities through continuos communication and community building.

I would like to thank all of you – our shareholders for the strong support and commitment, and our clients for the trust. Also, I would like to express my gratitude to the management team and all of our employees for their hard work and dedication. Despite all the challenges that we meet, it's of utmost importance for all of us to keep the spirit of a leader on the market in the name of success. 2022 was the year when we laid the foundations for this success, and I do no doubt that 2023 will be the year we capitalise on them.

TZVETANKA MINTCHEVA
CHAIRPERSON OF THE MANAGEMENT BOARD AND CEO OF UNICREDIT BULBANK

SUPERVISORY BOARD AND MANAGEMENT BOARD[1]

Supervisory Board (SB)

Emilia Palibachiyska – appointed 08.12.2022	**Chairperson**
Pasquale Giamboi – appointed 08.12.2022	**Members**
Atanas Georgiev – appointed 08.12.2022	
Monika Rast	
Francesco Correale	
Francesca Giordana	

Alberto Devoto – *released as of 08.12.2022*
Heinz Meidlinger – *released as of 08.12.2022*
Dimitar Zhelev – *released as of 08.12.2022*

Management Board (MB)

Tzvetanka Mintcheva	**Chairperson and Chief Executive Officer**
Andrea Tognetti	**Executive Officer**
Borislav Bangeev	**Members**
Mario Collari	
Velko Djilizov	
Sandra Vojnovic	
Borislav Genov	

Septimiu Postelnicu – *released as of 03.11.2022*
Raluca–Mihaela Popescu-Goglea – *released as of 03.11.2022*

[1] As of December 31st, 2022

ART. 247, PAR. 2 FROM THE COMMERCIAL LAW (01.01.2022 - 31.12.2022)

Members of the Supervisory Board

Emilia Palibachiyska

- UniCredit Bank Hungary ZRT. – Chairperson of SB

Pasquale Giamboi

- UNICREDIT BANK A.D. BANJA LUKA – Chairman of SB
- UNICREDIT BANKA SLOVENIJA D.D. – Chairman of SB
- UNICREDIT BANK S.A. - Chairman of SB
- Felsina EOOD – sole owner

Atanas Georgiev

- D-1 MONITORING EOOD – sole owner and manager
- SITE INVEST EOOD – sole owner and manager
- PUBLIC SERVICES OOD – 33.3% ownership and manager
- ENERGIEN PAZAR OOD – 40% ownership and manager
- FACILITY MANAGEMENT CONSULTING OOD - Manager

Monika Rast

- Does not participate in the management of any other entities

Francesco Correale

- Does not participate in the management of any other entities

Francesca Giordana

- Does not participate in the management of any other entities

<u>SB members released during 2022</u>

Alberto Devoto

- Does not participate in the management of any other entities

Heinz Meidlinger

- MEIDLINGER INVESTMENT&CONSULTING GMBH – 99% ownership and managing partner
- WIENER PRIVATBANK SE, WIEN – Member of SB

Dimitar Zhelev

- Real Estates Development EAD – Chairman of BD (100% ownership of BULLS AD)
- BULLS AD - Chairman of BD, 51% ownership (49% owned by SHIPPING AND INSURANCE FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA AD – 67.81% ownership through BULLS AD
- DZH AD – Chairman of BD, 50% ownership, DZH AD has participation with 9.98 % in INDUSTRIAL HOLDING BULGARIA AD
- ALLIANZ BULGARIA HOLDING AD – Chairman of BD and Executive Director, 34% ownership directly and through BULLS AD
- ALLIANZ BANK BULGARIA AD – Chairman of SB
- ZAD Allianz Bulgaria – member of SB
- ZAD Allianz Bulgaria Life – member of SB
- Aegian Bulls Ltd (over 25% ownership through controlled companies)

Members of the Management Board

Tzvetanka Mintcheva

- UNICREDIT CONSUMER FINANCING EAD – Chairperson of SB
- BORICA AD – Member of BD
- UNICREDIT LEASING EAD – Chairperson of SB

Borislav Bangeev

- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD - Member of SB – since 03.11.2022

Sandra Vojnovic

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

Borislav Genov

- UNICREDIT CONSUMER FINANCING EAD – Member of SB

Mario Collari

- Does not participate in the management of any other entities

Andrea Tognetti

- Does not participate in the management of any other entities

Velko Djilizov

- Does not participate in the management of any other entities

<u>MB members released during 2022</u>

Septimiu Postelnicu

- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of SB – till 03.11.2022
- UNICREDIT LEASING EAD – Deputy Chairman of SB – till 03.11.2022

Raluca-Mihaela Popescu-Goglea

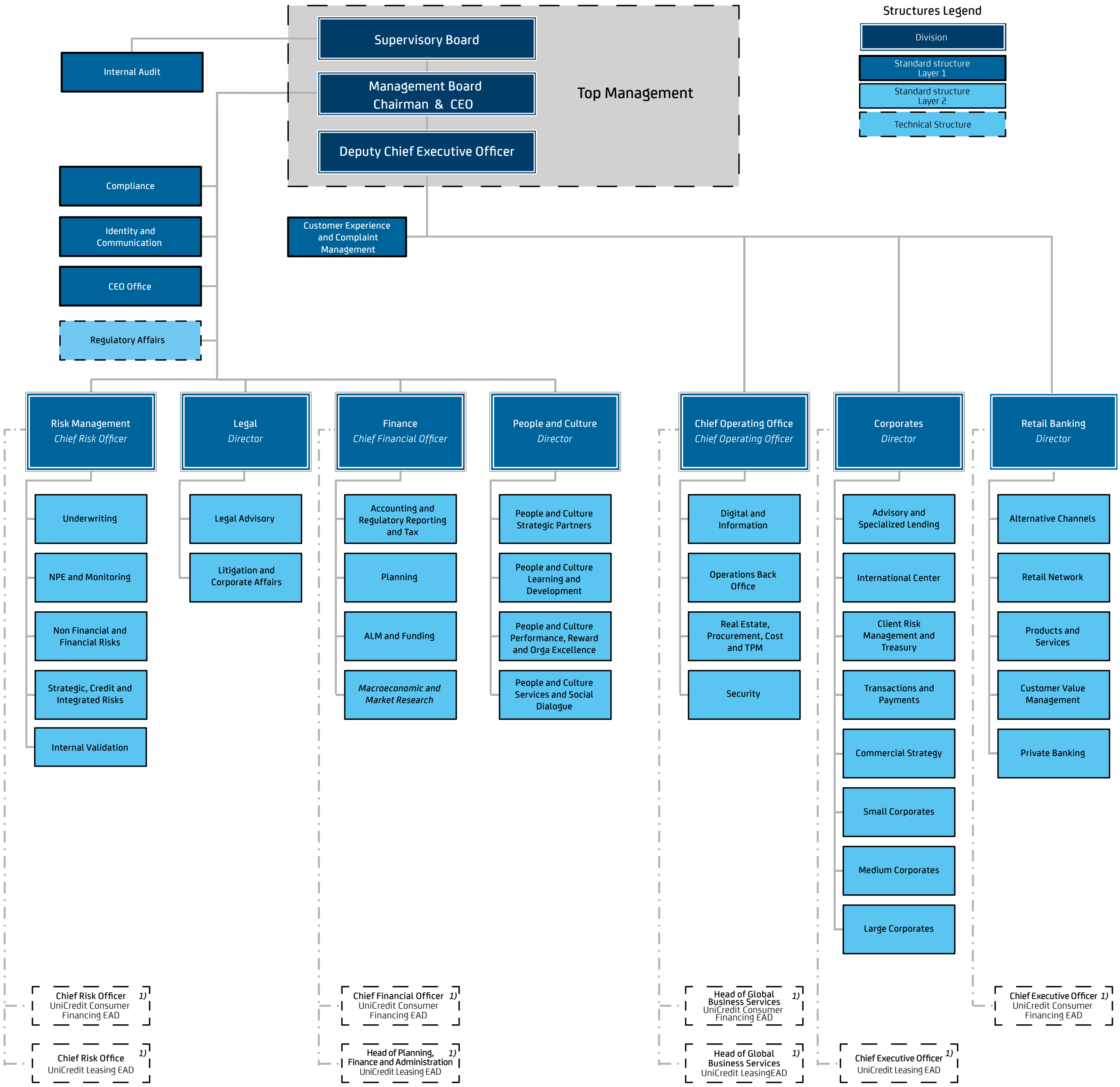
- UNICREDIT FACTORING EAD – Chairperson of BD – till 18.01.2022
- UNICREDIT LEASING EAD - Member of SB – till 03.11.2022

As of December 31, 2022 the loans extended to key management personnel amount to BGN 1 278 thousand (BGN 1 319 thousand in 2021). As of December 31, 2022 the compensation paid to key management personnel amounts to BGN 3 136 thousand (BGN 2 501 thousand in 2021).

In 2022 no shares and bonds were acquired, owned or transferred to MB and SB members of UniCredit Bulbank AD.

During 2022 no contracts under Art. 240b of the Commercial Law were concluded.

ORGANISATION CHART



1) Functionally reports to Head of relevant structure.

[2] As of December 31, 2022

CREDIT RATING

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

Long-term	BBB
Short-term	F2
Outlook	Stable

2022 AWARDS

- Top Employers Institute: Top employer in Bulgaria and Europe
- Global Finance: Best Bank in Bulgaria
- Global Finance: Best Trustee Bank in Bulgaria
- Global Finance: Best Digital Bank in Bulgaria
- EMEA Finance: Bank of the Year
- Bank of the Year Association: Bank of Year Award in terms of market share
- Awards of the German Economy in Bulgaria: Social Commitment
- B2B Media: Event of the Year: Partnership that matters – a joined event with the German-Bulgarian Chamber of Industry and Commerce
- B2B Media: The big prize at the annual awards
- Superbrands 2021-2022
- The annual awards of SOS Children's Villages Bulgaria: UniCredit Consumer Financing – Most Significant Corporate Partner
- The Banker: Best private banking in Bulgaria
- Council of Women in Business in Bulgaria Awards: Inspiring initiative to support parents, family and children
- PwC ESG Awards: Corporate Education Program
- PwC ESG Awards: Corporate Leader in Sustainable Development

Unlocking...

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A better world
A better future

People

Discover Milestones Stories here

Notes

The following conventional symbols have been used in the tables:
- a dash (-) indicates that the item/figure is non-existent;
- two stops (..) or “n.m.” when the figures do not reach the minimum considered significant or are not meaningful;
- “n.a.” indicates that the figure is not available.

Any discrepancy amoung data is solely due to the effect of rounding.

Contents

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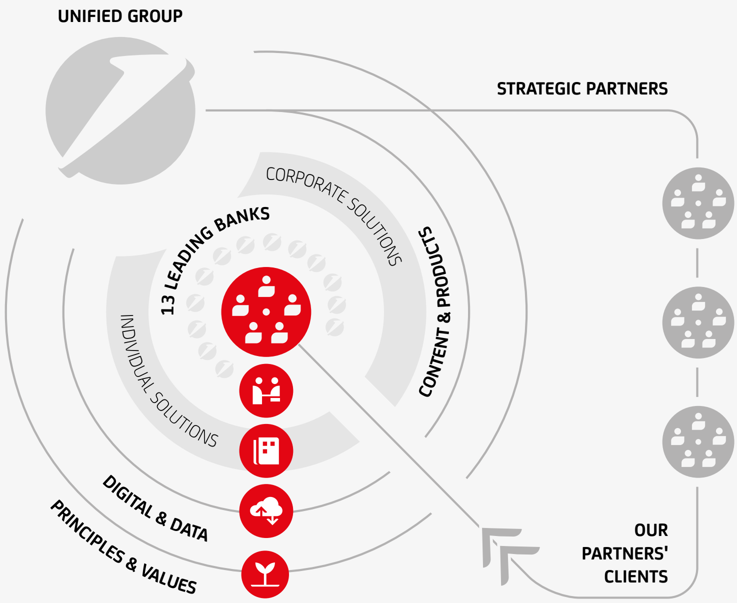
At a glance

UniCredit: who we are

UniCredit is a pan-European Commercial Bank with a unique offering serving 15 million clients across Italy, Germany, and Central and Eastern Europe.

Our Purpose is to **empower communities to progress.** We believe that by delivering the very best for all our stakeholders, we can unlock the potential that exists across Europe – both for our clients and our people, and for their wider communities.



4

COVERAGE REGIONS

15 MILLION

CUSTOMERS WORLDWIDE

What we do

UniCredit's ambition is to be the bank for Europe's future. This year, we continued to transform in order to deliver that ambition, **building a better bank** that can act as a benchmark for our industry.

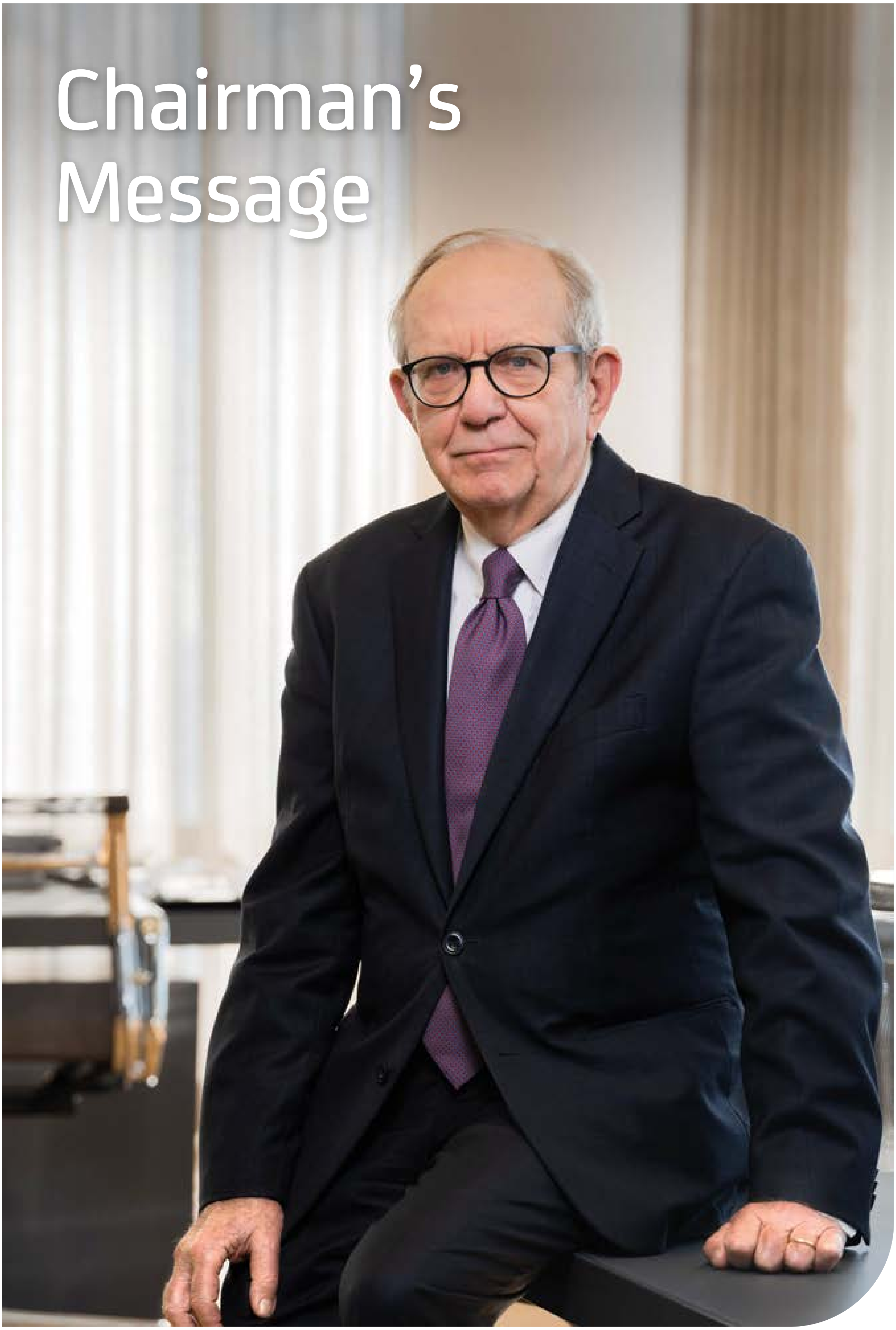
Our strategic plan, **UniCredit Unlocked**, is designed to ensure that we deliver for all our stakeholders: our clients; our people; and our shareholders. The plan is well underway and the foundations for sustainable, long-term success have been laid.

We are operating as one bank, leveraging our presence across Europe and the strength of our collective to offer the very best to all our stakeholders. Everything we do is underpinned by a commitment to ESG principles. We are determined to play a part in creating a sustainable future for our planet, and this ambition drives all our actions and decision making.

This year, we have seen the impact of our transformation, evidenced in our strong financial performance, delivering above all the goals we set out in UniCredit Unlocked. It is also evidenced in how we have delivered for our stakeholders and, ultimately, on our Purpose of empowering communities to progress.

Photo Andrea Cherchi

Chairman’s Message



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The world may be uncertain, but our vision for UniCredit has never been clearer. Against the backdrop of huge external transformation, our organisation has been transforming internally.

Dear Stakeholders,

It is a pleasure to write to you as the Chairman of the UniCredit Board. It is a privilege to be part of this bank, particularly at this significant moment in our journey.

Over the past 12 months, we've been forced to confront the interlocking challenges facing our world. The ongoing war in Ukraine, geopolitical tensions that have divided our continent and a global slowdown of growth.

It has been a year of economic uncertainty, with the banking sector facing arguably the biggest macroeconomic challenges of the modern era. However, in light of these external obstacles, the progress we've made at UniCredit, as detailed in this report, is all the more impressive.

The world may be uncertain, but our vision for UniCredit has never been clearer. Against the backdrop of huge external transformation, our organisation has been transforming internally. Our strategic plan, UniCredit Unlocked, will ensure that we are not standing still, waiting to be swept up in change. Instead, we are driving it.

This strategy, focused on leveraging the value and resources that already exist within the bank, amounted to a complete and comprehensive organisational transformation through 2022.

We have reduced the complexity of our organisational structure and strengthened our model for governance to drive the business effectively. We have also successfully supported our teams in the gradual return to work. This has enabled us to respond to global headwinds and deliver sustainable profit in a challenging year for banks worldwide. Our results speak for themselves.

Photo Andrea Cherchi

It is a pleasure to write to you as the Chairman of the UniCredit Board. It is a privilege to be part of this bank, particularly at this significant moment in our journey.

Over the past 12 months, we've been forced to confront the interlocking challenges facing our world. The ongoing war in Ukraine, geopolitical tensions that have divided our continent and a global slowdown of growth.

It has been a year of economic uncertainty, with the banking sector facing arguably the biggest macroeconomic challenges of the modern era. However, in light of these external obstacles, the progress we've made at UniCredit, as detailed in this report, is all the more impressive.

The world may be uncertain, but our vision for UniCredit has never been clearer. Against the backdrop of huge external transformation, our organisation has been transforming internally. Our strategic plan, UniCredit Unlocked, will ensure that we are not standing still, waiting to be swept up in change. Instead, we are driving it.

This strategy, focused on leveraging the value and resources that already exist within the bank, amounted to a complete and comprehensive organisational transformation through 2022.

We have reduced the complexity of our organisational structure and strengthened our model for governance to drive the business effectively. We have also successfully supported our teams in the gradual return to work. This has enabled us to respond to global headwinds and deliver sustainable profit in a challenging year for banks worldwide. Our results speak for themselves.

In times of economic turbulence, the support of financial institutions is even more essential for people, who deserve not only to survive in difficult times, but to thrive wherever possible. At UniCredit, we have been committed to helping communities recover from the pandemic and financing companies looking to seize the opportunities arising from the National Recovery and Resilience Plan. We remain deeply committed to our home market, Italy, and will continue to invest in the success of its businesses and communities.

These are just a few steps we have taken in our ambitious programme to unlock the full potential of this truly pan-European organisation. Our presence across the continent continues to be a great source of strength for us, enhancing our ability to serve each of our individual markets. We know that when Europe thrives, we thrive as a bank.

Europe itself is at a critical point in its history: there are many more benefits to come from greater integration and schemes such as NextGenerationEU should not be a one-off. For our part, we will continue to find new ways to collaborate with governments, stimulate the economy, and support struggling businesses.

Alongside our work to finance the Europe of tomorrow, we have also renewed the mission of our Foundation to focus on the younger generation, who will be the continent's future leaders.

2022 was a strong year for UniCredit and the Board wishes to congratulate the UniCredit leadership on its successes. As a result of this dedication and an unwavering commitment to our strategy, we can look to 2023 with confidence and push even further. When we do this, we succeed and importantly, our stakeholders succeed.

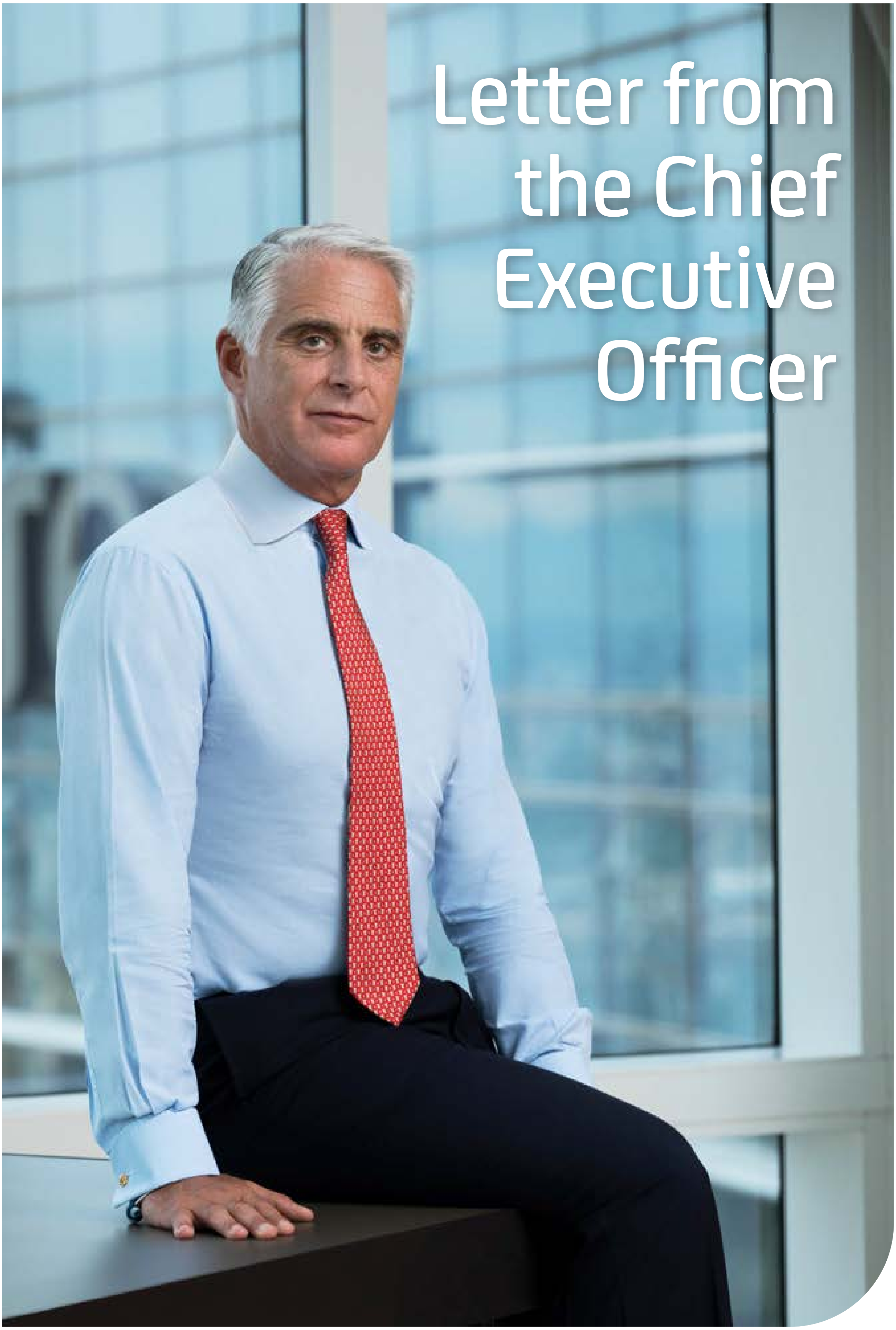
Thank you for trusting us as we continue on this journey, and thank you for your contribution to the success we are already seeing.

As a result, we are a better bank. A bank that delivers for our clients, communities and for Europe.

Yours sincerely,

Pietro Carlo Padoan
Chairman UniCredit S.p.A.

Letter from the Chief Executive Officer



“

I am determined that UniCredit is an institution which lives by the principles we have set for ourselves, as we have done throughout 2022. We have confronted challenges head-on and because of the proactive steps we have taken, we are primed to seize all opportunities as they arise.

Dear Stakeholders,

When we look back on UniCredit's journey, 2022 will be seen as a pivotal year. It was the year that we executed on the fundamental aspects of UniCredit Unlocked that have strengthened our bank further. It was the year we laid the foundations for future successes. And it was the year we transformed our bank.

The UniCredit of today is a different organisation from a year ago. This is not because of a change in any of our bank's fundamentals; it is because of the growth and value we have driven and created from within. The assets that gave us our innate strength and potential a year ago remain today: UniCredit continues to have an extensive talent pool, fantastic clients and a pan-European reach. But we are a different bank.

We are different because of what we have done with those ingredients. UniCredit Unlocked has changed the way we are utilising our bank's fundamental assets. Through 2022, we transformed our operating model, to one which empowers our people and gives our clients what they are asking for. One which unleashes the very best of what our bank has to offer, and one which focuses on growth rather than retrenchment.

Critically, in 2022 UniCredit Unlocked changed our organisation's culture and our mindset. We are now a forward-looking bank, one that is ambitious about the future and achieving sustainable growth. We are winning.

This mindset change is what is driving our ability to serve clients, deliver success for all our stakeholders, and become the bank for Europe's future. We have much more to do before we achieve that ultimate ambition, but we are now a bank that is operationally capable of delivering on such a bold ambition.

As the last year has shown more than ever, the world in which we live is a complicated and rapidly evolving one. The only thing that can be certain is uncertainty itself. As always, but especially in such an environment, we must return, unfailingly, to our principles and values.

I am determined that UniCredit is an institution which lives by the principles we have set for ourselves, as we have done throughout 2022. We have confronted challenges head-on and because of the proactive steps we have taken, we are primed to seize all opportunities as they arise.

This has led to some difficult decisions, but they are decisions guided by integrity and which we would return to again and again.

We are setting a new benchmark for the banking industry, with a focus on long-term value creation, sustainability, resilience and inclusion.

Strong foundations

At the start of the year, our ambition was deemed too steep by many. Our plan was too difficult. Yet despite all the challenges 2022 provided, it will be remembered as a year we beat all our targets - with a generous margin.

We have moved quickly, outperforming our plan and executing on our industrial transformation in record time, with a team that are motivated by a shared ambition and passion.

We have strengthened our two best-in-class product factories, which can be leveraged by each of our 13 banks. This is a proven model that is difficult for our competitors to replicate.

We have begun to optimise and update our legacy infrastructure, so that we can build a fully digital and data driven organisation which is fit for the future.

We have delivered on our ESG objectives, and remain steadfast in our commitment to reach 150bn new ESG volumes by 2024, 10bn of which will be social finance, and our plan to reach net zero on financed emissions by 2050 and on our own emissions by 2030. Our ESG commitments are a critical aspect of our ability to set a new benchmark for banking and become a bank for the future, and we are determined to do even more and go further in coming years.

All our actions on industrial transformation are directly connected to our financial performance and financial KPIs through which we manage the three levers of cost, net revenue and capital. Today we are a bank that grows profitably and sustainably, is efficient, generates outsized capital organically, and has a robust balance sheet and capital. We are achieving the best results in UniCredit's history. In Q4, we announced FY22 net profit[1] of 5.2bn and we are now in our eighth quarter of year-over-year growth.

1. Net Profit with UniCredit Unlocked methodology (means the stated net profit adjusted for AT1 and CASHES coupons and impacts from DTAs tax loss carry forward contribution)

COST

-2%

FY22/FY21
Targeted reduction

TARGETED, SUPERIOR OPERATIONAL EXCELLENCE

NET REVENUE

+13%

FY22/FY21
(Gross revenue up +14%)

HIGH-QUALITY NET REVENUE GROWTH

CAPITAL

+279bps

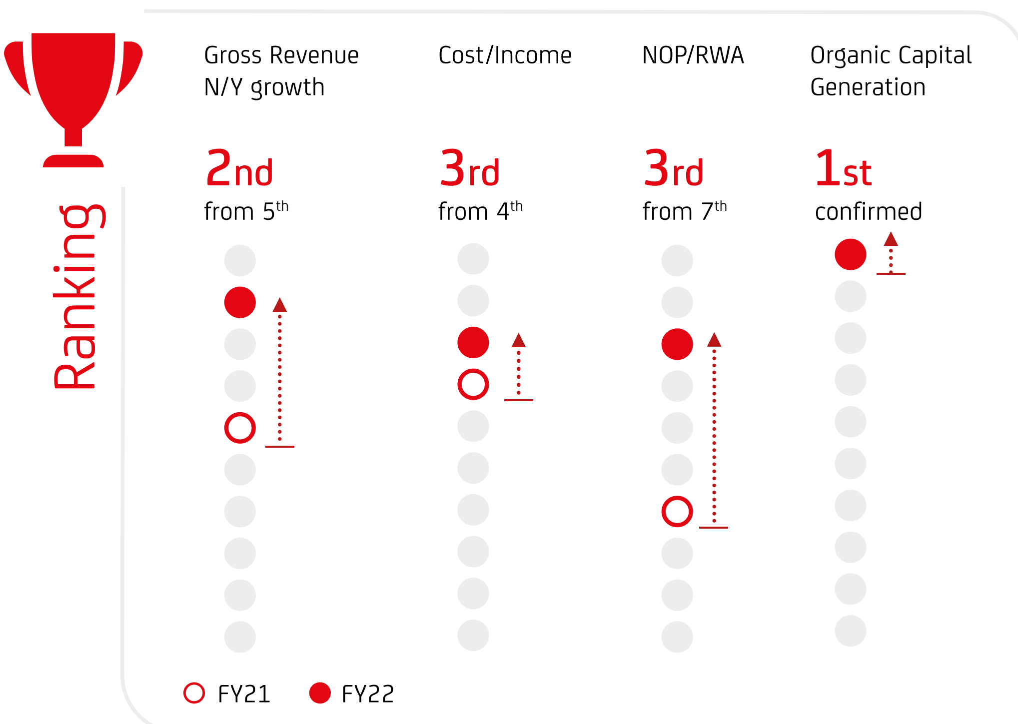
FY22 Organic Capital Generation (€8.9bn)

BEST-IN-CLASS CAPITAL EFFICIENCY

In comparison to our peers, we have top tier top-line growth, operating efficiency, and unrivalled organic capital generation. We have one of the highest CET1 ratios, one of the highest quality credit portfolio and coverage, and the highest forward-precautionary overlays.

MOVING AT AN ACCELERATED PACE VS. PEERS ACROSS ALL LEVERS[2]

NOP/RWA

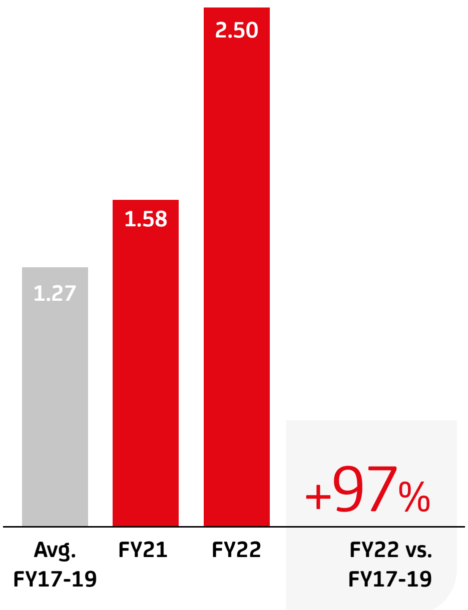


2. **Peers and UniCredit stated figures based on publicly available data**
Selected peers: BBVA, BNP Paribas, Commerzbank, Credit Agricole S.A., Deutsche Bank, ING, Intesa Sanpaolo, Santander, Société Générale

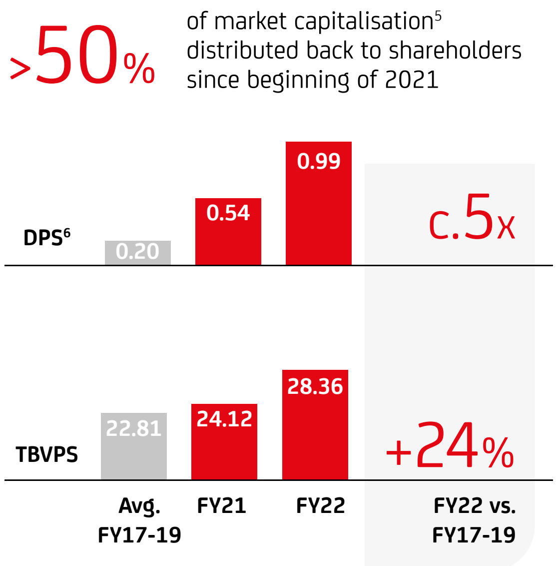
Our results throughout the year are evidence of industrial transformation and execution of strategy across all levers which gives us the ability to withstand shocks and to deliver sustainable and attractive shareholder distributions. Our results, and their quality, allow us to propose a total 2022 shareholder distribution of 5.25 billion euros, up 40% year on year, pending shareholder and supervisory approvals.

At the same time, we are delivering exceptional per-share value creation. Our net profit growth has been enhanced by share buy-backs, nearly doubling EPS versus our historical run-rate, with DPS five times higher, and tangible book value per share up nearly a quarter.

BOOSTING EPS[3,4]



EXCEPTIONAL SHAREHOLDER VALUE CREATION



Figures Group including Russia

3. Net Profit with UniCredit Unlocked methodology (for 2022 means the stated net profit adjusted for AT1 and CASHES coupons and impacts from DTAs tax loss carry forward contribution; for 2021 also adjusted for non-operating items); FY17-2019 Group excluding Turkey and Fineco Bank for comparison purposes.
4. EPS is calculated using Net Profit as per the definition above, divided by the average diluted shares in the period.
5. FY22 distribution subject to supervisory and shareholder approvals.
6. FY22 DPS best estimate, please refer to the FY22 results press release for additional details.

Face the future

It is difficult to predict what is to come in 2023, but the progress we have made this year gives me confidence in our ability not just to face the future, but to capture the opportunities that this environment will present. We have achieved a great deal, but there is so much more value still within our bank that needs to be released. In 2022 we transformed our bank, but I am confident that was just the beginning, and we will go on to achieve much more.

There is no doubt that great challenges lie ahead, for organisations individually, but also for Europe as a whole. If we are to unleash the full potential of Europe as an economic bloc, we must come together more fully than we have done to date. The benefits of greater integration will be exponential and enable us to compete on the world stage – in a way that we are not at the moment.

For us at UniCredit, when we face the challenges ahead, we will return to two things.

The first is our strong foundations, now liberated to thrive and release their potential, as well as the innate strength that comes with being a pan-European bank. Our presence and reach across the continent enables us to leverage the benefits that come with scale. We have seen throughout 2022 how our offering to clients is maximised exponentially when shared across our 13 banks.

The second is our desire to set a new blueprint for banking, one which is guided by principles and values, and determined to create success for all stakeholders for the long-term. This is what we will return to, time and again, when we are carving our path through a challenging time. I firmly believe that if we adhere to these, we will succeed. And more than that, we will win: for our clients, our communities, and our investors.

This is the bank that UniCredit is becoming: a better bank. In 2022, we took incredible steps towards that goal, and I know that much more is to come in 2023.

I extend my sincere thanks to you all for your support on this journey. I am grateful to the Board, our investors, the UniCredit team, as well as our clients and those communities that we serve for staying with us and supporting us as we move into the next phase of our growth, building on what we achieved in 2022.

It is the team's commitment that has enabled us to deliver what is not only an incredible organisational transformation, but a better way of operating as an industry for the whole of Europe.

2022 was the year we laid the foundations for this success, and I have no doubt 2023 will be the year we capitalise on them.

Thank you,

Andrea Orcel
Chief Executive Officer UniCredit S.p.A.

Our key 2022 milestones - while delivering record results

JANUARY

A Top Place to Work in Europe
UniCredit certified as a 2022 Top Employer in Europe

UniCredit & Allianz – a new collaboration is born
Allianz Partnership

Optimising our digital portfolio through leading data analysis technology
Germany launches the OneWealth platform

FEBRUARY

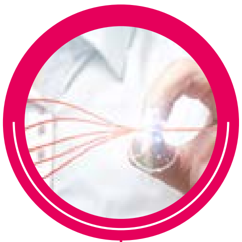
United behind a single ambition. Support for Ukraine
UniCredit supports Ukraine and its people across all geographies

MARCH

Putting our clients at the centre
CIB becomes Client Solutions

1Q

Proud of our Progress



APRIL

Simplify to help our clients succeed
Embedding simplification best practices as we build our bank for the future

MAY

Keeping our digital communities connected
UniCredit expands its social media footprint

Austria's first inaugural Green Covered Bond to support green projects

Delivering for our shareholders
Share Buyback Programme launch - Financial capital for ESG strategy

JUNE

A new training offering for all our people
The official launch of UniCredit University

Integrated Report Human Capital

The official launch of our Culture and Values
Culture Day

Integrated Report Human Capital

JUNE

3 Financial levers: Net Revenues, Cost and Capital

2Q

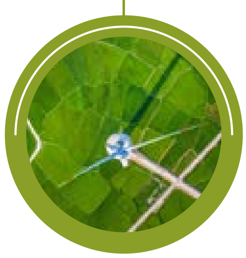
Excellent performance and strong positioning

JULY

A new offering for Digital-first corporate services
Investing in new online solutions

Our Sustainability commitment
First Sustainability Bond Allocation report

Integrated Report Financial Capital



Introducing our new Code of Conduct
2022 Code of Conduct

AUGUST

Leading solar energy financing in Hungary
Sustainable solar energy developments

SEPTEMBER

Investing in our future generations
Announcing a Partnership with Teach For All

Integrated Report Social and Relationship Capital

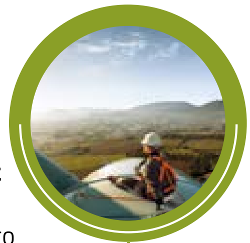
Empowering our employees with collaboration tools
A Group-wide Digital transformation through cloud technology

Our commitment to individuals and SMEs
UniCredit per l'Italia

Integrated Report Social and Relationship Capital

Reducing our carbon footprint: one ESG commitment at a time
UniCredit signs up to Sustainable STEEL Principles to promote greener steelmaking

Integrated Report ESG Strategy



A market leader in financing for renewables
UniCredit Serbia leads renewable project financing

3Q

Proof of a transformed UniCredit

OCTOBER

Prioritising gender equity across our bank
UniCredit obtains EDGE Certification

Integrated Report Human Capital

Another step in our journey to Net Zero
UniCredit is the first bank in Europe to obtain the ESG GRESB scoring on its corporate real estate portfolio

Integrated Report Natural Capital

Building an integrated, fast and Digital bank
Living Digital Days

Integrated Report Intellectual Capital

The beginning of a new era for UniCredit
Launching the onemarkets Fund

Empowering Bulgarian corporates and SMEs
First securitisation deal in Bulgaria

Culture Roadshow
Our Culture Manifesto in action

NOVEMBER

Next-generation Wi-Fi for all
Network efficiency across all our premises

Embedding DE&I in everything we do
Diversity, Equity & Inclusion Week

Integrated Report Human Capital

UniCredit Foundation

Unlocking the potential of Europe's next generation
UniCredit Foundation relaunch

Link to relaunch of the UniCredit Foundation

Data stands behind our improved customer service
Building a better data-driven bank

DECEMBER

UniCredit & Azimut – a new collaboration is born
Strengthening competence and driving scale and synergies

Creating an enhanced Digital experience for our retail clients
A new approach to doing business

UniCredit Unlocked one year anniversary: posting a record year, well ahead of UniCredit Unlocked

4Q

Transformed and positioned to win
Record 4Q22 and best Full Year results in a decade. Already delivering above UniCredit Unlocked

Financial Highlights & Milestones

FY22 confirmed UniCredit is already a transformed bank. UniCredit Unlocked the right strategy.

PEOPLE & ORGANISATION - THE RIGHT WAY TO WIN TOGETHER

- Building an ecosystem to deliver grow by removing silos and having 2 product factories
- Streamlining processes and empowering people within a clear framework
- Delayering the organisational structure to move closer to the client

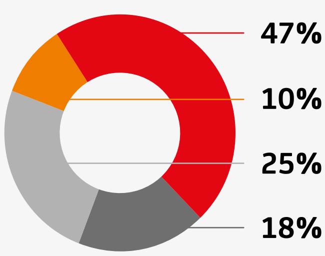
PRINCIPLES & VALUES

- Acting with clear Values and embedding our principles, Values and ESG in everything we do
- Support communities and clients in a just and fair transition
- Establish clear KPI's, i.e. NET ZERO set targets on first three priority sectors and accompanying our clients on their transition journey

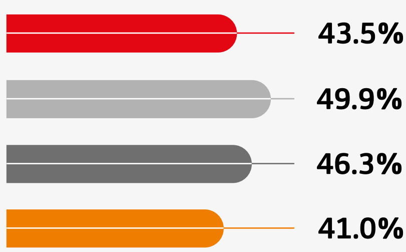
INVESTORS - ATTRACTIVE BANK DELIVERING 2022 BEST-IN-CLASS SUSTAINABLE RETURNS AND CAPITAL GENERATION

- +279 bps Organic capital generation
- RoTE above 10.7%
- Risk management - CoR at 41bps
- CET1r (stated) 16.0%

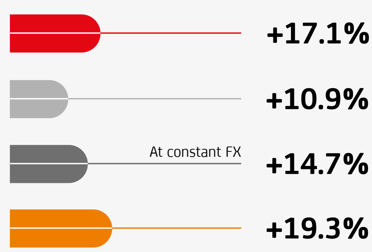
Net revenues per region



Cost - CIR (cost income ratio) per region



RoAC per region



● Italy ● Germany ● Central Europe ● Eastern Europe

Delivering for our shareholders
Share Buyback Programme launch - Financial capital for ESG strategy

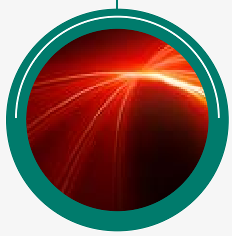
MAY

JUNE

3 Financial levers: Net Revenues, Cost and Capital

UniCredit Unlocked one year anniversary: posting a record year, well ahead of UniCredit Unlocked

DECEMBER



Our financial results. Transformed and positioned to win.

GROW

18.4bn net revenues. 13% Y/Y

STRENGTHEN

FY22 CET1r stated capital up to 16.0%

DISTRIBUTE

Proposed distribution for 2022 at 5.25bn[1], up 40%

OPTIMISE

Strong cost management with CIR at 47.0%

1. Pending Shareholder and supervisory approval

Delivering for our shareholders - Sustainable Distribution and Capital strength

During the year, we delivered on our commitment of a 2021 shareholder distribution of 3.75 bn.

Thanks to our strong financial performance in 2022 and the best year in over a decade, we have proposed a total capital distribution of 5.25bn[1], with a 1.91bn cash dividend and 3.34bn share buyback – a 40% growth in distribution. Together with 2021 this already translates to almost 60% of our at least total 16bn capital distribution ambition for 2021-2024.

The distribution is more than comfortably funded by our superior organic capital generation of 279 basis points, well ahead of the plan. Even pro forma for the distribution, our CET1 ratio will be 14.9%, 78 basis points higher versus prior year.

Throughout the year, UniCredit produced strong financial results while taking proactive actions during a macroeconomically challenging year to protect our ability to deliver sustainable and attractive distribution to our shareholders while maintaining best-in-class capital strength.

For 2023 we are assuming a mild recession as our base case with UniCredit being well-positioned and ready to navigate and continue delivering excellence and growth under any scenario.

1. Pending Shareholder and supervisory approval

3 Financial levers - Net Revenues, Cost and Capital

UniCredit Unlocked is a plan rooted in our solid foundation and is built upon capital efficiency.

Our financial ambitions are steered through 3 interconnecting levers – costs, net revenues and capital – being largely under our management control.

The optimisation of our 3 key financial levers will continue to result in profitable growth and organic capital generation.

COSTS – our cost base at year-end was 9.6 bn, translating to a 47.0% cost/income ratio. This was the result of our relentless focus on managing expenses, despite the unexpectedly high inflation we faced across our geographic footprint. This is partly thanks to early proactive measures taken. With our cost efficiency, we delivered positive operating leverage while funding investments supporting our digital transformation, hiring over 1,400 FTEs for strategic areas and while also supporting our people through inflation relief.

NET REVENUES – our net revenues stood at 18.4bn – increase of 13% Y/Y. This KPI ensures that our growth does not come at the expense of sound risk management and that we increase our focus on capital-light business/fee business, also by leveraging our simplified partnership model (insurance fee business).

CAPITAL – Our organic capital generation of 279 basis points is well above our guidance of an annual average of around 150 basis points, and delivered via a net profit of 5.2 bn and through proactive RWA management without impacting revenue growth. Over the course of FY22 we achieved a total of 19bn of RWA reduction via active portfolio management. Efficient capital allocation remains a priority focus to manage RWAs, enhancing return on capital and supporting organic capital generation.

UniCredit Unlocked - RoTE

UniCredit Unlocked outlined our vision to be the bank for Europe's future. It set a new benchmark for the banking sector and we are confident that this is the right strategy for all our stakeholders. We continue to focus on our transformation to unlock further value from an improved baseline.

Since we launched this plan in December 2021, the bank has already visibly transformed and is a structurally improved bank – we have the right strategy for sustainable growth, a clear path to a stronger RoTE and the ability to meet capital distribution ambitions.

Our best results in over a decade and the eight consecutive quarters of quality growth were achieved despite the challenging macro environment of 2022 and without compromising on our risk management. We have maintained our proactive approach in identifying and addressing emerging risks, e.g. our prudent and decisive response to de-risk our Russia exposure at minimum cost as well as our proactive overlays on sectors impacted by supply chain constraints and high energy prices.

We have a financial ambition of a RoTE of around 10% by FY2024. For FY22 we delivered a RoTE of 10.7% (12.3% RoTE at a 13% CET1 ratio), already above our UniCredit Unlocked target.

Throughout the year we managed to increase the profitability in all our regions to above 10% RoAC - each of them already operating above their cost of equity.

Watch the video

Our Strategy:
one year into UniCredit Unlocked

"

UniCredit is a transformed bank, with a clear vision and winning strategy: moving at an unprecedented pace, ready to face and take advantage of the future.

Andrea Orcel
Chief Executive Officer UniCredit S.p.A.

13 leading Banks with unrivalled distribution power and truly diverse talent

13 Banks[A] Embedded in the fabric of Europe, positioning:

#2 Italy

#3 Germany

#2 Central Europe [B]

#1 Eastern Europe [C]

4

COVERAGE REGIONS

15 MILLION

CUSTOMERS WORLDWIDE

Unlocking the full potential of the franchise

UNIQUE AND DIVERSE TALENT BASE[D]

International mindset

33% International presence in BoD

64% International presence in Group Executive Committee

Employee Networks on **5 diversity strands** and broader DE&I across Group countries

Gender balance

42% Female presence in BoD

43% Female presence in Group Executive Committee

36% Female presence in Leadership team

A. Refer to the Business Model chapter in the Integrated Report for further information.
B. Central Europe includes Austria, Czech Republic, Hungary, Slovakia and Slovenia.
C. Eastern Europe includes Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Russia and Serbia.
D. Figures related to Board refer to Board members in office as at February 7, 2023.

A year ago we set our Purpose of empowering communities to progress and set out our **UniCredit Unlocked strategic plan**. The goal of our strategy is to unlock the value inherent in UniCredit via an industrial transformation combined with three financial levers of net revenue growth, operational efficiency and capital efficiency.

Defining a clear vision and winning strategy

DELIVERING FOR ALL OUR STAKEHOLDERS IS AT THE BASIS OF OUR VISION: TO BE THE BANK FOR EUROPE'S FUTURE

VISION

The Bank for Europe's Future

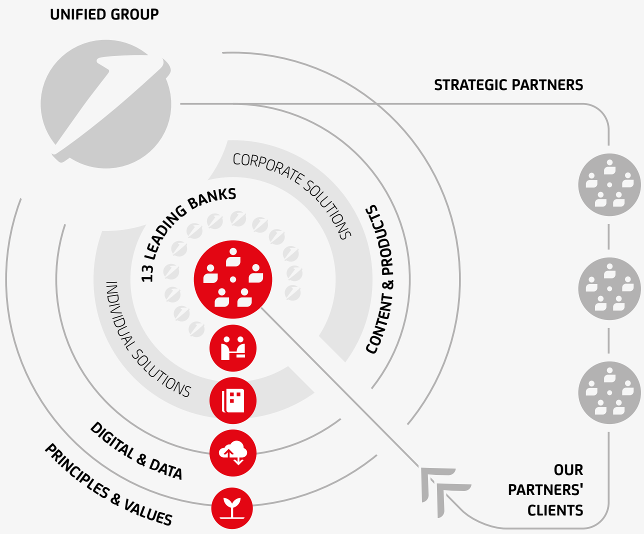
PEOPLE
Win.
The Right Way.
Together.

COMMUNITIES
Empowering Communities to Progress.

INVESTORS
Quality Growth.
Operational and Capital Excellence.
Best-in-class Sustainable Returns and Capital Generation.

We are deeply embedded in our **Communities**, helping them to deliver their full potential by acting as an engine of individual and collective growth. Our **Clients**, spread across the communities of Europe, are at the heart of our strategy - we exist to serve them.
A reliable partner in life is what our **People** are asking of us. They want an institution they can trust, an environment in which they can flourish as individuals and professionals and a business they feel proud to work for, providing them with the tools to deliver an exceptional service to clients.
We are delivering growing and sustainable returns for our **Investors** and achieving consistently excellent results against clear financial KPIs across our three levers - cost, net revenue and capital.

UNWAVERING COMMITMENT TO UNICREDIT UNLOCKED, THE RIGHT STRATEGY FOR US AND OUR ANSWER TO THE FUTURE OF BANKING



STRATEGY

UniCredit Unlocked

Our **strategy is based on our vision** and tailored to our strengths and **complemented** by an **ecosystem** built around five industrial levers.

CLIENTS

Our clients are our most important asset - 15 million of them, with 14 million retail and a distinctive strength in the value accretive affluent sector. Both for our clients and our best-in-class partners, we represent a gateway to Europe.

Our ambition: to increase the number of clients, and serve them cohesively, answering to their needs through best-in-class products and service.

PEOPLE AND ORGANISATION

Our Bank is built on the strong foundations of 13 local banks. The banks enjoy an unmatched heritage and untapped potential with a solid connection to clients and communities. We respect local banks and their unique identities while we unify them to release the power of this collective, turning UniCredit into something greater than the sum of its parts.

Our ambition: to have PROUD, MOTIVATED and EMPOWERED people that act as OWNERS, enabled to best serve our clients by the tools we provide.

CONTENT AND PRODUCTS

Our Banks can leverage two best-in-class product factories: Corporate and Individual Solutions. Our winning and distinguishing factors are pan-European coverage, a unique cross-border positioning allowing us to attract the best talent and partners and achieve scale.

Our ambition: We are reconfiguring the critical, high-value elements of the value chain in each of our core product areas, adding more external partners to our ecosystem to deliver solutions tailored around client needs.

DIGITAL AND DATA

We are optimising our digital and data infrastructure which has the strong potential of allowing for economies of scale. We are progressively internalising our technology and skillset and continuously strengthening our cyber security and defences.

Our ambition: to build a fully digital and data-driven organisation, with digital transformation as a key enabler of clients and people.

PRINCIPLES AND VALUES

We are striving to change our Culture by shifting the mentality of the organisation based on three core Values of Integrity, Ownership and Caring. Within a clear risk and control framework, we are empowering our people to unite behind a unique, common Purpose and vision.

Our ambition: Purpose, Culture and ESG commitments to unite and guide our people towards shared objectives and empowering communities to progress[1].

1. Our ESG Strategy is fully described in a dedicated paragraph of the Integrated Report.

Executing an ambitious industrial plan

Optimise today

Ahead of plan and outperforming peers, taking actions against opportunities and challenges.

LEVERAGING OUR SOLID FOUNDATIONS AND IMPLEMENTING AN INDUSTRIAL TRANSFORMATION: SELECTED HIGHLIGHTS

PEOPLE & ORGANISATION

Lean flexible disciplined group acting as one with clients at the centre

Simplifying the organisation

From 5 siloed business divisions to 4 coverage regions

Delayering the organisation

–28%
structures, moving closer to clients

Empowering people

–60%
number of managerial committees

Streamlining processes

65%
delegations with increased thresholds, empowering local decision-making within clear framework

CONTENT & PRODUCTS

Strategy with solutions tailored around client needs

Refocusing CIB

From siloed CIB to two factories focused on product development providing quality and range unmatched by local players to clients unreached by global players

Reinforcing factories

Hiring of key Managing Directors and Graduates in Corporate Solutions

Creating an ecosystem

Key milestones in creating an ecosystem of best-in-class partners and internalising high margin products value chain

Azimut + Allianz + onemarkets Fund + CNP + ZB Invest

DIGITAL & DATA

Internalised technology and skillset, gradually optimising

Resilient cyber-security

–35%
major security incidents, from an already low level (Y/Y)

Take back control

545
FY22 digital hires: mainly tech specialists

New way of working

18
initiatives running in Agile

Data-driven organisation

+20 p.p.
Group banking processes under unified data governance, improving data quality

PRINCIPLES & VALUES

United behind a single ambition and Purpose

Clear Values embedded in everything we do

Group Culture Day, Culture Roadshow, Culture Network & Learning, DE&I focus, People listening as concrete steps to make our new Culture a reality.

Lead by example

New lending towards high impact / disadvantaged areas

11.4bn
Green[2]

4.8bn
Social[2]

Establish clear KPIs

Net Zero: set targets on first three priority sectors and accompanying our clients on their transition journey

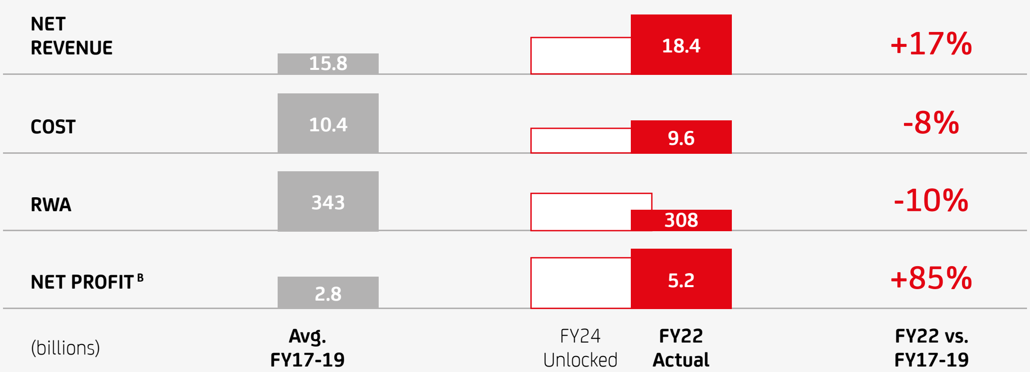
2. Including ESG-linked lending.

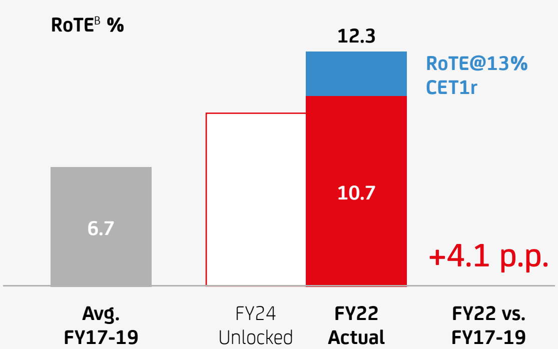
FINANCIAL PERFORMANCE

Our actions are directly connected to our financial KPIs through which we manage the three levers of cost, net revenue and capital.
Together, these levers drive RoTE and organic capital generation, giving us the ability to withstand shocks and to deliver sustainable and attractive shareholder distributions.

The laser-focused balance of quality top line growth and capital efficiency combined with operational efficiency drive the foundations of our planned distribution
It is a virtuous circle and a fundamentally different way of assessing financial performance - different from our peers and very different from the UniCredit of the past.

Consistent performance surpassing targets across all levers[A]





A. Figures Group including Russia; Avg. FY17-19 based on simple average of recasted figures of Group excluding Turkey and Fineco for comparison purposes; 2024 UniCredit Unlocked figures as presented in December 2021.
B. Net Profit and RoTE with UniCredit Unlocked methodology (stated net profit adjusted for AT1 and CASHES coupons and impacts from DTAs tax loss carry forward contribution.).

EACH REGION IS DELIVERING AHEAD OF THE PLAN AT ACCELERATED PACE

- **Italy:** strong performance despite continued investments and balance sheet strengthening
- **Germany:** continued momentum of a fully transformed, efficient and capital generating bank
- **CE:** profitable franchise with Austria industrially transforming
- **EE:** maintaining highest profitability and top notch cost efficiency, proving resiliency of the franchise

FY2022 vs FY2021[C]	GROUP	ITALY	GERMANY	CENTRAL EUROPE	EASTERN EUROPE	RUSSIA
NET REVENUE						
NET REVENUE	**18.4bn** +13%	**8.7bn** +18%	**4.7bn** +7%	**3.3bn** +22%	**1.8bn** +16%	**0.4bn** -66%
o/w Gross revenue	20.3bn +14%	9.0bn +7%	5.0bn +13%	3.5bn +16%	2.0bn +11%	1.3bn +86%
COST						
C/I RATIO	**47.0%** -7.5 p.p.	**43.5%** -3.8 p.p.	**49.9%** -10.0 p.p.	**46.3%** -8.7 p.p.	**41.0%** -1.6 p.p.	**22.5%** -18.3 p.p.
Cost Y/Y growth	-2.0 %	-1.3 %	-5.7 %	-2.9 %	+6.7%	+2.7%
CAPITAL						
ORGANIC CAPITAL GENERATION	**+279bps €8.9bn**	**+151bps**	**+52bps**	**+43bps**	**+23bps**	**+8bps**
RoAC/RoTE @13% CET1r (Group)						
FY2022	**12.3%**	**17.1%**	**10.9%**	**14.7%**	**19.3%**	
FY2021	8.6%	11.1%	7.7%	12.0%	16.5%	

C. For Central Europe, Eastern Europe and Russia, year on year comparison at constant fx.

Laying the foundations to win in an uncertain future

Build for tomorrow

Ready to accelerate into the future.

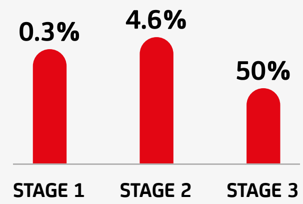
While delivering consistent results quarter after quarter, we have prudently built robust lines of defence in order to prepare for future and potential macroeconomic impacts:

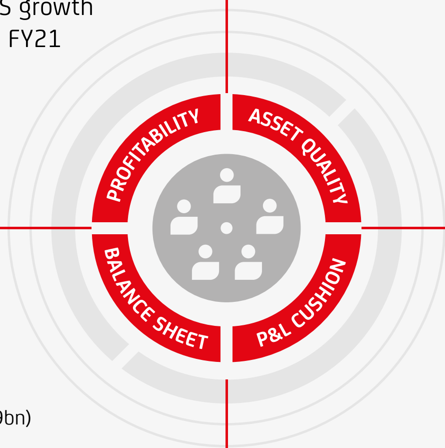
- portfolio is well-provisioned
- forward looking overlays, increased in 4Q, now at €1.8bn. Equals more than 1 year of cost risk (assumed at 30-35bps in UniCredit Unlocked)
- step change in pre-provision profitability reflecting quality and capital efficiency and operational efficiency
- unmatched capital position.

+32.3%
pre-provision profit FY22 vs. FY21

+58%
EPS growth vs. FY21

Coverage ratio FY22





+279bps
organical capital generation (€8.9bn)

FY22 CET1 post distribution and pro-forma regulatory buffer

5.8 **14.9%** "16.0% stated"

1.8bn
overlays in FY22 equivalent to over one year of cost of risk[D]

D. Assuming 30-35bps of annual cost of risk guidance under UniCredit Unlocked.

We continue preparing for an uncertain future with pre-emptive actions across all levers.

COST
- **Reduce central** costs and frontload non-necessary cost reduction
- **Maintain business investments** further boosting revenue growth.

RWA
- Continue focus on **capital efficiency** through securitisation, origination discipline and other managerial actions.

COST

CAPITAL

NET REVENUE

Net Interest Income
- Continue focusing on **high quality business** with vigilant approach on new business
- Benefit from a **robust portfolio** geared to **rising rates**.

Fees
- Continue focus on **transactional fees**
- **Boost payment** and **individual solution fees** via ad-hoc initiatives
- **Boost advisory fees** increasing penetration in the SMEs space.

Loan Loss Provisions
- Prudent **overlays** to be **deployed** or **released** in the coming two years
- **Reduce exposure to Russia**; focus on orderly de-risk shall continue.

Unlocking...
A better bank

A better world. A better future

In 2021, we began **UniCredit's transformation**, unlocking the potential of the bank and of all its stakeholders. In 2022, the transformation accelerated as we harnessed that potential to continue building **a better bank**. A bank where every action and every ambition has been **your story and our story**. Today UniCredit is **a better bank** thanks to our clients, our people and our communities as together and united we strive **for a better world and for a better future**.

People

Last year, we introduced UniCredit's new strategy, comprised of several key initiatives set in place to drive our transformation through one common theme – People.

We started off the 2022 year as a certified Top Place to Work in Europe by the Top Employers Institute.

This certification demonstrates that our plan is working and in 2023 and beyond, we will continue to shape our bank for the future and ensure that UniCredit is the top workplace for our people.

We have reinforced the importance of professional and personal development with the launch of UniCredit University - a project aimed at further enhancing our global training offering.

Building a better bank starts from within and it has been our mission to keep people at the heart of UniCredit's decision-making now and going forward.

With this goal in mind, we also hosted our first-ever Culture Day event back in June where we set out to relaunch our Culture, Purpose and Values. We embedded our new Values and behaviours in every action we took, from implementing our new DE&I inclusive guidelines and policies, to shedding light on invisible disabilities, and supporting our youth through education.

To follow UniCredit's People journey in 2022, click on the timeline below and find out more about our transformation throughout 2022 in order to fulfil our Purpose: to empower communities to progress.

Our People milestones

JANUARY

A Top Place to Work in Europe
UniCredit certified as a 2022 Top Employer in Europe

FEBRUARY

United behind a single ambition. Support for Ukraine
UniCredit supports Ukraine and its people across all geographies

JUNE

A new training offering for all our people
The official launch of UniCredit University

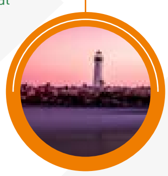
Integrated Report Human Capital

The official launch of our Culture and Values
Culture Day

Integrated Report Human Capital

JULY

Introducing our new Code of Conduct
2022 Code of Conduct



OCTOBER

EDGE
ASSESS
CERTIFIED

Prioritising gender equity across our bank
UniCredit obtains EDGE Certification

Integrated Report Human Capital

Culture Roadshow
Our Culture Manifesto in action

NOVEMBER

DE&I

Embedding DE&I in everything we do
Diversity, Equity & Inclusion Week

Integrated Report Human Capital

Unlocking the potential of Europe's next generation
UniCredit Foundation relaunch

Link to relaunch of the UniCredit Foundation

A top place to work in Europe

UniCredit certified as a 2022 Top Employer in Europe

Values: Integrity, Ownership

Our bank recognises that our people are our greatest asset. For the sixth year in a row, UniCredit was officially certified by the **Top Employer** Institute for its extraordinary commitment to the well-being of its employees and for providing an innovative, rewarding, and inclusive workplace.

Our people are the most important element of our business. They are the reason we are able to be successful, serve our clients and impact our communities. Creating an environment that supports and challenges them, ensures they unite behind a common ambition and thrive in all they do, is a critical priority for us.

Andrea Orcel
Group Chief Executive Officer
and Head of Italy

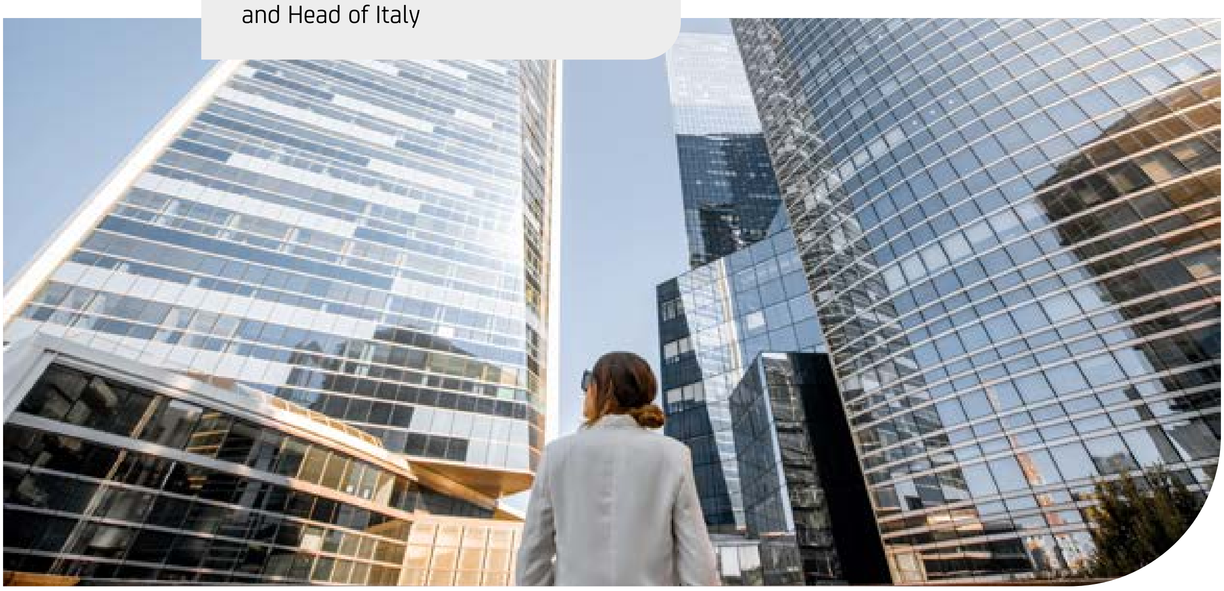
The Top Employer Certification was awarded across several UniCredit countries, including **Austria**, **Bulgaria**, **Germany**, **Hungary**, **Italy** and **Russia**. The Top Employers Institute programme recognises organisations based on the results of their HR Best Practices survey, which covers six domains consisting of twenty topics, including People Strategy, Work Environment, Talent Acquisition, Learning, Well-being, and Diversity & Inclusion.

This recognition was both a reflection of UniCredit and of how our people perceive our bank as a place to work. **Our people are the sole drivers of our business**. They are the reason we are able to be successful, serve our clients and impact our communities. As a bank, we know it is both our duty and our privilege to provide our employees with a best-in-class experience – one that builds a bank we can all be proud to work for.

In line with the new business strategy, the bank has invested heavily in the digital evolution of the organisation now and over the next three years – focusing on upskilling digital competencies, continuing to retain best-in-class digital talent and experts as well attracting new ones.

By creating an environment that supports and challenges its people while providing them with the tools and resources they need to be successful, we can ensure they are building fruitful and meaningful careers in our bank and beyond. We can and should always do more, but this award demonstrates that we are working from a strong foundation.

Watch the video



United behind a single ambition. Support for Ukraine

UniCredit supports Ukraine and its people across all geographies

Values: Integrity, Caring

Empowering our communities to progress goes far beyond the work we do inside our bank. In times of crisis, we understand that showing solidarity with those who need it most is the only way for us to truly fulfil our Purpose.

In early 2022, our people came together to support **Ukraine**: from funds raised, to opening homes to refugees and dedicating personal time to join the cause, we truly saw what it meant to be united by a single ambition.

During this time, **4,170 employees** from across our countries came together to donate their personal funds through an employee giving initiative. All donations were matched (doubled) by the UniCredit Foundation for a final total contribution of approximately

€846,000 benefitting the **Red Cross**, **Save the Children** and the **UN Refugee Agency (UNHCR)**.

At the same time, colleagues were able to send money transfers to Ukraine with UniCredit's support without paying any transaction fees. Even more, we introduced a streamlined bank account opening process for refugees with a special current account offer of "Gold status", with all fees waived for one full year. Separately, our **Group Security** team organised on-the-ground transfers from the borders of Poland, Romania and Slovakia to help Ukrainians find safety away from the major areas of conflict.

In different countries, we gave NGOs the opportunity to use empty spaces in our branches to collect and store goods which were sent to regions impacted by the conflict.

In **Italy**, we sponsored the opening of the #HelpUkraine Hub in partnership with non-profit organisation **AVSI**, which served as a central location for incoming refugees, providing resources and support services, as well as connecting the many Italians who wish to help with those in need.

Finally, in **UniCredit HypoVereinsbank**, several children's sports and cultural activities were prepared and we offered virtual exchanges and readings for children in Ukrainian and Russian languages. At the same time, the bank introduced a list of trusted charities and organisations on the UniCredit HypoVereinsbank website with a call to action for clients to provide quick and easy financial donations.

Here at UniCredit, when we unite our people behind one common goal, **we see the tangible impact of what it means to empower communities to progress**. The action we took to support these communities in crisis was demonstrative of this Purpose.

Discover more

846,000 EURO

FINAL TOTAL CONTRIBUTION BENEFITTING **RED CROSS**, **SAVE THE CHILDREN** AND **UNHCR**

A new training offering for all our people

The official launch of UniCredit University

Values: Ownership

The growth and progression of our colleagues is a fundamental driver of our bank's success – and it is essential that we continue to do our part in reconnecting our people's skills with the strategic objectives of the business.

The first step in empowering our communities begins with our people. Empowering our people by providing them with the tools they need to succeed is how we can ultimately deliver on our Purpose. And this begins with their professional development. With this goal in mind, our Group was proud to introduce **UniCredit University**, a project aimed at further enhancing our global training offering. By applying the industry's best methods and techniques, we have harnessed our collective knowledge and know-how to maintain our competitive advantage.

The kick-off of the initiative was officially launched in **Turin**, **Italy** served as the pilot for the programme and the first step in achieving our ambition to extend UniCredit University to all employees across the Group. The programme provided **first-hand access to specialised training** across all business functions. The new training delivery model included the return of face-to-face training and hybrid paths, accompanied by virtual classrooms

UniCredit University has allowed for a tailor-made approach to learning and professional development, delivering a fully-immersive employee experience focused on the upskilling and reskilling of role-based competencies – ultimately allowing our colleagues to unlock and embrace their fullest potential. Since the launch, several areas of our business have adopted the platform and tailored its offering to their people and their needs so that they can continue to enhance their business acumen and become subject matter experts in their field of work.

To build the bank for tomorrow, we must invest in our people today. This was an incredible milestone in our Group transformation journey. The introduction of UniCredit University has allowed us to deliver value for our clients, for one another, and execute on our goals.

Watch the video

Discover more about the Human Capital chapter in our Integrated Report

Through UniCredit University, we are continuing to invest in our people by further enhancing our educational offerings through a personalised approach to learning and professional development, applying the best methodologies and leveraging our collective know-how so we can continue to empower both our people, and our communities, to progress.

Andrea Orcel
Group Chief Executive Officer
and Head of Italy

The official launch of our Culture and Values

Culture Day

Values: Integrity, Ownership, Caring

UniCredit's success, and the success of us all, must be founded on a strong and highly engaged **Culture** – and this starts with our People. June 15 marked another milestone in our bank's Culture transformation journey, as we celebrated the first-ever Culture Day.

Colleagues across our bank took the next big step on our transformation journey and all our countries came together on this day to create an unforgettable moment for over 17,000 colleagues who participated in the event.

Each of us has the privilege of being the **agents of positive cultural change**, driving our mindset to **Win. The Right Way. Together**. The **Culture Day** virtual event gathered our inspiring leaders from across the business to deep dive into our **Values** of **Integrity**, **Ownership** and **Caring** – engaging in live discussions with colleagues from several UniCredit countries, including Austria, Bosnia & Herzegovina, Bulgaria, Croatia, Germany and Italy.

Andrea Orcel, Group Chief Executive Officer and Head of Italy, was joined by **Siobhan McDonagh**, Head of Group People & Culture, **Gianfranco Bisagni**, Head of Central Europe and **Joanna Carss**, Head of Group Stakeholder Engagement, in the dedicated event hosted by our Head of Group Culture, **Nikolina Zečić**.

From start to finish, the event provided our colleagues with a full understanding of UniCredit's **Purpose**: empowering communities to progress. Our Purpose is what we should always keep in mind when making decisions, taking actions, and communicating with colleagues, clients and people around us. The session was closed with an exciting announcement of our new Culture Manifesto and open Q&A for all participants.

While our bank unites its people behind one single Purpose, ambition and unique set of Values, we understand that each of our countries brings its own uniqueness and local culture that contributes to the diverse UniCredit we see today. With this in mind, our countries adopted the campaign at the Group level and truly made Culture Day their own – inviting all colleagues to be active contributors in this memorable milestone for our bank.

Discover more about the Human Capital chapter in our Integrated Report

Watch the video

Introducing our new Code of Conduct

2022 Code of Conduct

Values: Integrity, Ownership

Our bank has an ambition that goes beyond the basic role of providing financial support to our society. As we continued forward on our **Group transformation journey**, we were pleased to announce the official launch of our new **Code of Conduct** which was introduced and adopted across our bank. Our Code is a critical tool that contributes to the collective success of our business. It serves as a clear guide for all our actions and behaviours and each of us has been and will continue to be held accountable based on our adherence to this Code.

To act as the engine of social progress and be **the bank for Europe's future**, we are committed to building a **Culture** that puts our **Values** of **Integrity**, **Ownership** and **Caring** at the heart of our decision-making and everything we do. They embody what we stand for, determine how we act, and shape the decisions that we make every day.

Our Code of Conduct outlines how we bring our Culture to life in our everyday behaviours and how we treat all our stakeholders. Furthermore, it ensures our people's coherence with our new set of Values – guaranteeing the highest standard of professional conduct from all of our employees and external experts involved in any activity on behalf of our bank. It is what will set us apart from simply being a good company, instead positioning us as a great company.

Since the launch in **July 2022**, we embraced our new Code of Conduct and have actively encouraged all our people to adopt and apply these best practice behaviours – making it our mission to further cement it in the way we do business. By doing so, we have been able to ensure we stay on the path we are forging: a path to achieve our goals and **Win. The Right Way. Together**.

Read the interview with Serenella De Candia, Group Compliance Officer

Prioritising gender equity across our bank

UniCredit obtains EDGE Certification

Values: Integrity, Caring

At UniCredit, we have long recognised that an equitable and diverse workforce is vital to our business and creates a fairer and more inclusive working environment. In 2022, UniCredit obtained the **EDGE certification** for gender equity across three countries: **Austria**, **Germany**, and **Italy**, demonstrating **our commitment to fostering gender equity and inclusion in the workplace**.

EDGE is the leading global assessment and business certification for gender and intersectional equity. The certification process involves a rigorous third-party review of representation across the pipeline, pay equity, effectiveness of policies and practices, and inclusiveness of an organisation's culture. As an integral part of the assessment, statistical data is analysed, policies and practices are reviewed, and employees receive a comprehensive survey to assess perceptions of career development opportunities in the workplace.

The UniCredit banks in Austria, Germany and Italy are currently **the only EDGE-certified organisations in Europe in the banking industry**. In each of the five entities, both men and women perceive flexible working as allowing them to balance their professional and personal life. And all five have policies that explicitly mention: non-discriminatory recruitment and promotion practices that include gender; non-discrimination with regards to professional development, which also includes gender; plus, the value of diversity and inclusion. These policies showcase our strong commitment to **Diversity**, **Equity & Inclusion (DE&I)** as a driver of sustainable business success and a platform for future progress towards inclusion.

As part of its **EDGE action plan**, all UniCredit entities are committed to making progress towards achieving gender balance. Moving forward, all organisations are encouraged to focus on the representation of women at the middle, upper, and top management levels, as well as men's and women's perceptions about **equal opportunities** for promotion and equal pay for equivalent work.

Our bank intends to ensure equal access to career-critical assignments for all employees by setting up a mentoring programme for both males and females and measuring its effectiveness in terms of broad growth opportunities. This development path will help to strengthen women's presence in the leadership pipeline and build a more inclusive workplace where all talent can flourish and grow. For men, there is the opportunity to encourage more take-up of paternity leave, and all organisations can be more proactive in managing pay equity.

This further highlights our efforts in fostering a more diverse and sustainable professional place to work. UniCredit remains **strongly committed to championing gender diversity**, **equity**, and **inclusion** in the workplace, so our people can continue to deliver incredible results and thrive in an equitable and inclusive environment for all.

Discover more about the Human Capital chapter in our Integrated Report

By obtaining the EDGE Assess and Move certifications UniCredit has made a clear commitment to achieving gender equity. It also reinforces UniCredit's commitment to a broader ESG agenda as a crucial component of their business success.

Aniela Unguresan
Founder of EDGE Certified Foundation

This further highlights our efforts in fostering a more diverse and sustainable professional place to work. UniCredit remains strongly committed to championing gender diversity, equity, and inclusion in the workplace, so our people can continue to deliver incredible results and thrive in an equitable and inclusive environment.

Siobhan McDonagh
Head of Group People & Culture

Read the interview with Siobhan and Aniela

Culture Roadshow

Our Culture Manifesto in action

Values: Integrity, Ownership, Caring

Our Culture starts and ends with our people. It is what differentiates a good company, from a great company – a bank that supports its communities, from a bank that empowers its communities.

When we officially launched our **Values** of **Integrity**, **Ownership** and **Caring** in **June 2022**, we made the decision to return to our fundamental role within society: to act as the engine of social progress and to help Europe and its people to become stronger than ever.

To achieve this, we understood that it was our responsibility to act as one team working to a shared Culture. With this in mind, we launched a dedicated Culture Roadshow, representing a key moment dedicated to building employee awareness and setting the tone for the new UniCredit Culture across all our countries.

Driven by **Andrea Orcel**, Group Chief Executive Officer and Head of Italy, **Siobhan McDonagh**, Head of Group People and Culture, and **Nikolina Zečić**, Head of Group Culture, the Culture Roadshow gathered more than **2,000 colleagues** across **Croatia**, **Germany**, and **Austria**, engaging in different interactive sessions joined by several senior leaders in Germany, Central Europe and Eastern Europe.

The sessions opened with meaningful panel discussions aimed at deepening the understanding of how UniCredit puts our **Values** into action both inside and outside our bank. Most importantly, we discussed how each of our colleagues must embed these behaviours in everything we do. The events sparked fruitful discussions where participants exchanged real-life examples and stories from local testimonials. On some occasions, our corporate clients joined the Roadshow events to share cultural experiences with both UniCredit and within their own companies.

The Culture Roadshow demonstrated the great enthusiasm and passion of our people to pursue the transformation journey our bank has embarked on. While cultural change does not happen overnight, we remain **committed to driving this change together** and continuing the Culture Roadshow across all our markets as we move further into 2023 and beyond.

A strong Culture ensures a competitive advantage and is very difficult to copy. It delivers better financial performance, influences the customer experience, attracts and retains better talent, and increases productivity.

Nikolina Zečić
Head of Group Culture

Listen to the podcast

Embedding DE&I in everything we do

Diversity Equity & Inclusion Week

Values: Integrity, Caring

Each year, UniCredit celebrates **Diversity, Equity & Inclusion (DE&I) Week** across the Group. The week offers a time for celebration, connection, and reflection on all we have accomplished – reaffirming our commitment to DE&I progression. DE&I Week served as another **key milestone** in achieving the strong cultural foundation we aspire to build for our bank and its people.

The events took place on **November 7-11**, and saw each country participate in a series of engagement initiatives that were hosted at the Group level and adopted at the local level. Our key messages focused on the **#EmpoweringU** theme – empowering our people to be champions of DE&I and in turn, empowering the communities we operate in. Throughout the week, we engaged our people in conversations on eye-opening topics, raising awareness and encouraging our people to think outside the box. We also took time to recognise the DE&I tangible best practices across the Group that guide our behaviours and the way we do business.

At UniCredit, we believe that when Diversity, Equity and Inclusion work in harmony, **great things happen**: People feel respected and valued for their contributions, which directly impacts productivity, and people feel a sense of belonging, connection, and shared pride, which increases well-being. DE&I encourages our colleagues to be able to express their views and ideas which, in turn, fuels creativity and innovation. When people feel their potential is acknowledged it enables them to unlock their talent, improve their performance and increase levels of job satisfaction.

Contrary to previous years, in 2022 we diversified the DE&I Week experience by incorporating several new components including a virtual **kick-off event streamed in all Group languages**, local activations in all our countries, a thought-provoking communications campaign and DE&I Accountable Executive interviews focused on **five key topics** for each day (Gender in STEM, Disability, LGBTQIA+, Ethnic and Cultural Diversity, and Generations), internal sharing of DE&I resources and best practices, and much more.

All of this enables us to achieve sustainable business growth and better serve everyone from clients and communities to shareholders.

Discover more about the Human Capital chapter in our Integrated Report

Watch the videos

Unlocking the potential of Europe's next generation

UniCredit Foundation Relaunch

Values: Ownership, Caring

This year, the UniCredit Foundation relaunched its **Purpose** and commitment to **empowering Europe's youth by unlocking their potential through equal education opportunities**. We believe that only by investing in the next generation's education and progression, can we ensure growth and development across our society.

In line with **UniCredit's ambition – to be the bank for Europe's future** – our Foundation is focused on giving Europe's next generation the key to unlocking their innate potential and empowering them to become the changemakers of our society.

To do this, the UniCredit Foundation is working towards combating school drop-out rates, encouraging university attainment, promoting study and research, and enhancing employability. These all directly feed into the Foundation's new Purpose: to unlock the potential of Europe's next generation. The UniCredit Foundation **empowers our youth** by providing them with the tools and resources they need to become successful in their academic and professional careers.

This is why the Foundation relaunched its **Mission**: **offering equal educational opportunities to Europe's youth** – our future leaders of tomorrow. To pursue this ambitious new journey, the UniCredit Foundation reshaped its governing bodies, electing a new Board of Directors for the next three years, which will be chaired by **Andrea Orcel**, Group Chief Executive Officer and Head of Italy, and vice-chaired by **Professor Giorgio Barba Navaretti**. **Serenella De Candia** has maintained her role as a member of the Board, while six new members have joined: **Katharina Gehra**, **Szilvia Gyurkó**, **Roberto Kutić**, **Dorith Salvarani-Drill**, **Gerry Salole** and **Klaus Schwertner**.

The nine international members aim at ensuring there is equal representation both internally (UniCredit Group) and externally outside of the bank. Further, the careful selection of representatives maintains a strong presence of members from all four UniCredit regions, who represent diverse backgrounds, gender, expertise, and philanthropic experience.

At UniCredit, we believe that education is essential. It is our responsibility as an institution to identify, support and empower our youth – those individuals who will lay the foundation for Europe's progress and success in the years to come. It is our bank's Purpose to empower communities to progress, and it is our commitment to promoting social advancement, in line with our **ESG strategy** and UniCredit Group's strategic plan.

Discover more

Listen to the podcast

Our People stories

Country: Italy

Values: Integrity, Ownership, Caring

UniCredit University

Providing our people with the tools and resources they need to be successful is essential to building a strong and motivated workforce. With the pilot of the programme launched in May in Turin, **UniCredit University Italy** is a physical and digital ecosystem, with a head office and **20 regional training centres**. The University is focused on developing the skills and talents of every individual. Our people embark on a journey that guides them from the moment they join the company and helps them build strong connections with the business, territory and the closeness to our people.

20

REGIONAL TRAINING CENTRES

800,000

HOURS OF TRAINING

13,000

PARTICIPANTS

Among the guiding principles of UniCredit University Italy, the return to face-to-face training for the **sharing of knowledge and experiences**, a new personalised learning experience and a catalog developed on the evolutionary skills of the roles of the network, is central.

The training offer, tailored and simplified, is characterised by a hybrid training model that sees the alternation of digital training and live-presence and is structured across **4 main paths**: People, Business, Risk and Training by Role. Since its introduction, the learning platform has launched **36 new learning paths**, **13,000 participants**, for more than **800,000 training hours**, achieving an 8/10 average satisfaction index. All training 2022-2023 has been financed by **€6.2 million** of interprofessional funds.

Furthermore, to invest in internal experience and skills, contributing to the sustainability of the University, an internal faculty of business trainers has been launched. Each of them receives a dedicated training course, moreover, a certification will be issued by a prestigious accredited Business School. In 2022, **275 trainers** voluntarily joined the project, and 170 are expected for 2023.

Watch the video

Country: Italy

Values: Ownership, Caring

Welfare Reconnect

Taking care of colleagues and their families and improving their overall well-being, is a key objective of "**Welfare Reconnect**" – the Bank's programme launched to **reconnect with the essential needs of our people**, investing in their health, their future and their quality of life.

The enrichment of the previous Welfare offer includes services aimed at increasing purchasing power. This includes a utility bill reimbursement, fuel vouchers, degree redemption contribution, mortgage portability with subsidised terms for employees, interest-free instalments on purchases with Flexia card and a 50% discount on My Care Family policy. In addition, in December 2022, an **inflation bonus of €800** was credited to the Welfare Account, to guarantee an immediate recovery of purchasing power, through reimbursements of bills, shopping and fuel vouchers.

Moreover, Welfare Reconnect aims to reconcile professional and private spheres, offering flexibility and caring initiatives for individuals, families, and communities, including: **Spazio per Te**, a new counselling and psychological listening service, **Prevenzione per Te**, Uni.C.A., a check-up campaign and webinar on primary prevention, and study/work orientation paths to support employees' children in choosing their future. Lastly, the offer keeps people top of mind. It enhances new skills and fosters an environment to grow and create value focusing on education, such as the "Let's Make the Invisible Visible" programme to shed light on **invisible disabilities and Welfare Talks** to delve into issues employees are facing both personally and professionally.

Discover more

Country: Germany

Values: Integrity, Caring

An optimised and digitalised parental leave process

At UniCredit, our bank remains a partner to its people in both their personal and professional life. A well-designed **parental leave process** is indispensable for promoting young talent within the bank. The equal opportunities for parents increase and it contributes to a more balanced gender ratio at all management levels. Our Group knows that our people need to be supported in planning their career breaks, especially in occasions such as maternity leave and parental leave.

This was one of the many outcomes and improvements identified by the **Gender Diversity Programme** of **UniCredit HypoVereinsbank**, which was launched in 2021. As a result, in 2022 the entire parental leave process was further optimised and expanded with a focus on re-entry to the bank and further career development.

One of the key measures was the introduction of the new **Golden Rules** for the process. The Rules focused on part-time leadership, returning to an equivalent position or management positions being kept vacant for six months at the request of the employee, pausing talent programmes, as well as checklists for managers and employees.

Additionally, UniCredit HypoVereinsbank offered the possibility to advance one's career during parental leave, regardless of the current position, with the new "Stay Connected" digital portal. Employees have direct access to the internal job market and can send their applications from the same system accessible to active colleagues. The parenting portal also offers information about day care possibilities and other helpful topics focused on both family and professional life.

A number of colleagues already benefit from the optimisation of the process and were able to return to their management position after their break. This substantial improvement in the parental leave process has been one of the many activities to strengthen DE&I in the German market and **foster our position as one of the Top Employers in Germany**.

Country: Germany

Values: Ownership, Caring

Inclusion in action: the UniCredit HypoVereinsbank job portal

Since May 2021, **UniCredit HypoVereinsbank** has been using **Avature**, the new application management system that includes new job portals for the internal and external job market in addition to simplified processing of applications. This allows for improved positioning of the participating banks of the UniCredit Group amongst applicants as well as strengthening the employer brand.

The system uses the latest technologies and developments in the **employee and candidate journey**. Physical forms, for example, will be processed digitally in future and handled entirely sustainably (e.g., in a "paperless" way). In addition, we've been able to reduce media disruptions for all parties involved by simplifying and automating a large number of process steps. In line with the Group's policy, the career portal as well as the administration of applications by line managers is completely barrier-free according to WCAG2 guidelines.

Together with the cooperation partner **Pfennigparade**, the tool was tested for its user-friendliness for people with physical and mental disabilities. For example, the colour scheme has high-contrast, and all buttons and dropdown menus have clear labels that can also be read by screen readers. This makes it possible to **promote inclusion** during the recruiting process. In 2022, additional modules have been introduced that facilitate, for example, the onboarding of new employees and the finding and promotion of internal talent.

Country: Croatia

Values: Integrity

Zaba Kids Week

This year, **Croatia** hosted its first **Zaba Kids Week**. Children of our colleagues from Zagreb and the nearby area attended the **five-day educational and entertainment programme**, which included **75 children** of **63 Zagrebačka banka employees** during the first week of September, right before the official start of the new school year.

The main goal of the initiative was to support parents of children, ages 7 to 11 years old, an age group specifically chosen as this is considered a vulnerable stage of an adolescents' youth. Zaba Kids Week was designed through a combination of different physical activities and learning workshops. This included **workshops** about critical learning, cybersecurity, a "How to use Microsoft office" package for schoolwork, a "How to save money" workshop and finally, a "How to save the planet" workshop about sustainable living.

Further, the week promoted creating an environment where differences are embraced and respected – by mixing groups in various roleplay scenarios, teamwork activities where they learn inclusive listening, and much more.

With this initiative, Zagrebačka banka wanted to create an inclusive workplace where parents can thrive and are not apprehensive about balancing their personal and professional responsibilities. In this way, Zagrebačka banka is empowering parents in their parenting role all while exposing their children to new ideas, cultures, customs, ideas.

Country: Serbia

Values: Caring

IVET fertilisation – offering IVF benefits to our employees

Our bank cares about its people. This also means caring for them through all life obstacles and challenges that come their way both at a personal and professional level.

During 2022, for a certain number of our female employees, we offered a **reimbursement** of the costs for **one IVF attempt**.

To ensure as many employees as possible could have the opportunity to exercise the right to this benefit, the bank reimbursed the costs of this programme up to the value of

€5,000. Further, the benefit was redeemable both in our home country of Serbia and abroad.

The times in which we live and work may confront us with various challenges, but these challenges are easier to overcome with the support of family. Today, when an increasing number of young people are leaving **Serbia**, every step that empowers our people to build a family in the country is extremely important. We strive to follow and support our colleagues through **every stage of life** – and family and parenting are heavily supported by every member of our bank.

Country: Hungary

Values: Ownership, Caring

Relaunching the Up Academy for local talent

At **UniCredit Bank Hungary**, it is essential that we support our people along all steps of their career journey. We want to make sure that the people who will build and craft the future of this bank are well-equipped with the skills of the future and are exposed to an environment that will help them improve their professional skills and behaviours. This is why the local talent programme, **UP Academy**, was created.

During the **one-year programme**, our top talent was able to enjoy several development opportunities including trainings held by world-renowned professors, access to online development platforms, shadowing, consultation with psychologists, and a career discussion with the **People & Culture** team. At the end of the programme, our talents had the opportunity to work on projects out of their scope.

Together with their mentors, they worked on topics such as exploring the concept of data science and its use at the bank, preparing a peer analysis based on EBA data or investigating AML-related reports and possible simplifications. To give them visibility and networking opportunities, during the conclusion of the event, participants presented the results of their projects in front of the **Board** team. After the successful closing of the programme, our bank is preparing to launch the **new edition** of UP Academy as we move forward into the new year.

Country: Slovenia

Values: Caring, Ownership

Creating a better working environment for our people – Our renovated offices

Our people are our greatest asset. After two unprecedented years when conditions forced us to work from home to protect our health, we used this period for the complete renovation of our premises in our **Slovenian** offices. The **newly renovated offices** are now brighter, and each home base is dedicated to different facets of the organisation, with every single working place equipped ergonomically.

In addition to offering our colleagues a hybrid form of work, which was embraced by **more than 50%**, we strive to encourage our people to work from our new offices at least once a week – something they are now proudly participating in.

Apart from the physical well-being of our people, their mental well-being is equally important to us – this is why we continue to revolutionise the different forms of support for our people. Among those, we dedicate at least **one day per month** to lectures on health, self- care, nurturing relationships, and taking responsibility for those working in person in our offices.

Country: Czech Republic and Slovakia

Values: Caring, Ownership

A digitalised candidate experience through Chatbot

Chatbot represents some of the latest artificial intelligence deployed by UniCredit in recruitment programmes in **Czech Republic and Slovakia**. It's a smart recruitment chatbot that interviews candidates for the first round and provides valuable data both to the company and also to the candidates. Through Chatbot, we are able to ensure that our candidates still have a quality interview experience, while also **optimising the hiring process** when it comes to time to fill a position.

The **UniCredit Bot** can do more than any other chatbot on the Czech and Slovak market. It not only speaks to candidates but also analyses their data, tests them and sorts them according to their suitability for the position. Since the Bot was introduced, we have received fantastic feedback from candidates who have undergone the hiring process from start to finish, providing our potential employees-to-be with an overall **high-quality candidate experience**.

The chatbot brings wide opportunity and high potential for **digitalisation** in our bank and its people. For this reason, in the coming months, we will look to introduce it to other countries of the UniCredit Group as a best practice. Furthermore, we plan to expand the functionality of the chatbot for use beyond recruitment, using it for the growth and development of existing employees.

Country: Bosnia and Herzegovina (Banja Luka)

Values: Caring

Caring in action: the Secondary School of Economics

Employees across our bank participated as volunteers at the **Secondary School of Economics** in **Doboj** and educated the students about the banking business as a whole. The programme, known as financial incubator "**FinInk**", was organised by the **Innovation Center Banja Luka**, supported by UniCredit Bank a.d. Banja Luka was and always has been a great place for women in start-up businesses.

Recognising this and the importance of accelerating female careers in business, the bank provided volunteers to the support Innovation Centre Banja Luka educational event and its small business entrepreneurs. This is with the aim of supporting local women in small businesses and start-up entrepreneurs.

Strengthening the development of communities can only be achieved by providing support and opportunities to local people/women in businesses, especially small entrepreneurs who rarely have an opportunity to present themselves at events such as the financial incubator FinInk. As a result, we were pleased to be able to offer support to them, both with targeted lectures as well as with the presentation of an award to the winner of FinInk.

ESG

Navigating the sustainable transition is a key part of empowering our communities to progress. In 2022, UniCredit continued to support its clients and communities in the transition towards a fairer and more sustainable future.

In line with our Net Zero commitment, we became the first bank in Italy to sign a corporate power purchase agreement with a specialist green power producer for our core data centres, and the first bank in Europe to obtain the Global Real Estate Sustainability Benchmark scoring on its corporate portfolio.

We were also proudly recognised as the Best ESG Bank Italy 2022 by the World Economic Magazine and the Best Social Impact Bank Europe 2022 by Capital Finance International.

Furthermore, we continued to increase the scope of our social activities with a strong commitment to Youth and Education, launching a foundational partnership with Teach For All to elevate education for children across seven of our countries and strengthening our ESG culture with dedicated training programmes for all staff under the UniCredit ESG University.

In addition, we were the first company in Italy to sign up to the Finance for Biodiversity Pledge, further supporting our Net Zero journey and commitment, and our Group also became a member of the Ellen MacArthur Foundation's international charity network to support our approach to accelerating the circular economy transition across our countries.

To follow UniCredit's Sustainability journey in 2022, click on the timeline below and find out more about how we transformed through 2022 in order to fulfil our Purpose: to empower communities to progress.

Discover more about our ESG Strategy

Listen to the podcast

Our ESG milestones

MAY

Austria's first inaugural Green Covered Bond to support green projects

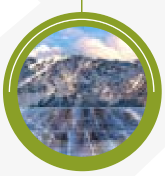
JULY

Our Sustainability commitment
First Sustainability Bond Allocation report

Integrated Report
Financial Capital

AUGUST

Leading solar energy financing in Hungary
Sustainable solar energy developments



SEPTEMBER

Investing in our future generations
Announcing a Partnership with Teach For All

Integrated Report
Social and Relationship Capital

Reducing our carbon footprint: one ESG commitment at a time
UniCredit signs up to Sustainable STEEL Principles to promote greener steelmaking

Integrated Report
ESG Strategy

A market leader in financing for renewables
UniCredit Serbia leads renewable project financing

OCTOBER

Another step in our journey to Net Zero
UniCredit is the first bank in Europe to obtain the ESG GRESB scoring on its corporate real estate portfolion

Integrated Report
Natural Capital

NOVEMBER

Unlocking the potential of Europe's next generation
UniCredit Foundation relaunch

Link to relaunch of the UniCredit Foundation

Austria's first inaugural Green Covered Bond to support green projects

Values: Ownership

At **UniCredit Bank Austria**, sustainability is part of our daily commitment, and we continue to further implement **environmental, social and governance (ESG)** aspects across our business in line with the Group ESG Strategy.

In May, UniCredit Bank Austria successfully placed its **first Green Covered Bond** on the capital market, reaching another milestone in its sustainability journey. UniCredit Bank Austria's Green Covered Bond had a total volume of **€500 million** and a maturity of 6 years, issued under UniCredit Group's S**ustainability Bond Framework**. Proceeds from this and future bonds will be used to support local eligible green projects.

The demand for UniCredit Bank Austria's Green Bond was high and the book-building process reached a total amount of **€1.3 billion** with the order book oversubscribed multiple times. The Green Bond has a triple A rating from Moody's and was issued to institutional investors. The investor base was composed of **54 investors**, with **39% in Germany**, **20% in Austria**, **12% in Benelux** and the remainder well diversified across other countries and regions.

The bond proceeds will be used for the financing or refinancing of green buildings registered in UniCredit Bank Austria's mortgage cover pool and which comply with the eligibility criteria specified in the Group Sustainability Bond Framework. UniCredit Bank Austria was mandated as **Sole Green Structurer** and ING, LBBW, Natixis, Raiffeisen Bank International and UniCredit were Joint Lead Managers.

The commitment to the energy transition and sustainable business practices is bringing about a fundamental change in society and influencing every single area of our lives.
As a bank, we have a central role to play in the transition to a low-carbon economy. Channelling the flow of funds into promising, climate-friendly industries, activities and initiatives is and will be the central joint challenge of the future.

Robert Zadrazil
CEO of UniCredit Bank Austria

UniCredit Bank Austria's Green Bond was a great success on the international capital market and it has been oversubscribed. We are very pleased about the high demand; this issue shows how much international investors are convinced by the sustainable journey the UniCredit Bank Austria is on and how high the continuing interest in sustainable financial products is.

Philipp Gamauf
CFO of UniCredit Bank Austria

Watch the video

Our Sustainability commitment

First Sustainability Bond Allocation report

Values: Integrity, Ownership

In June 2021, our bank successfully issued its inaugural **Senior Preferred Green Bond** for **€1 billion**. This was followed by the issuance of our first **Retail Social Bond** for **€155 million** in September 2021. Both issuances marked significant milestones in our sustainability journey, allowing the Bank to provide further support to renewable energy and green buildings in Italy while also advancing welfare and social support services in the country.

Both issuances took place under the **Group's Sustainability Bond Framework**, based on the principles and guidelines of the 2021 version of the Green and Social Bond Principles and the Sustainability Bond Guidelines of the **International Capital Market Association (ICMA)**, ensuring the transparent allocation and tracking of proceeds, the details of which were fully disclosed in our inaugural **Sustainability Bond Allocation report** published in July 2022.

Our Group remains committed not only to the green energy transition, but also to ensuring that this is a fair and just transition for all of society. Sustainability is central to how we do business: it underpins our corporate culture and ensures we are always acting in the best interests of all our stakeholders.

As detailed in the Sustainability Bond Allocation report, our full Green Bond proceeds have been dedicated to fund renewable energy, specifically **photovoltaic (€408 million)**, **wind (€293 million)** and **biomass (44 million)** energy sources, as well as green buildings, including the **Top 15% of Mortgages** (rated for energy performance) across **all regions (€228 million)** and **Real Estate (€27 million)** in Italy.

Meanwhile our **Social Bond** proceeds have been allocated to finance projects with a positive social impact. So far, the focus has been on **welfare and social support services (75.1% of allocations)**. Other projects supported include education and training, health and medical assistance and additional social services. The indirect impacts generated through the bond proceeds include a total of **1.52 million beneficiaries (149% of 2021 target)**; the delivery of **2.62 million training hours**, **482 training courses**, 1**93 professional internships**, **108 social integration activities**; and **the provision of 1,322 beds in elderly homes**, **1.21 million medical services** and **555 social houses** (mainly in social tourism).

We continue to build on the success of our inaugural Green and Social Bonds, working to create a more sustainable and equitable future for both businesses and individuals. For example, in 2022, we successfully issued Green Covered Bonds also in **Germany (two for €500 million each)**, in **Austria (one with a total volume of €500 million)** and in **Hungary (one for €60 million).**

Read the interview with Fiona Melrose, Head of Group Strategy & ESG

Discover more about the Human Capital chapter in our Integrated Report

Leading solar energy financing in Hungary

Sustainable solar energy developments

Values: Ownership

ESG plays a fundamental role in every decision we make and every action we take. We've seen a very tangible example of this in **Hungary**, which has **increased the share of solar-derived electricity** in its electricity production fivefold since 2018. Thanks to this substantial improvement in a very short period of time, **10.6%** of the country's annual electricity production comes from solar power, compared to **7.5% in Europe**, making Hungary a prime example for transformation towards sustainable energy production in Europe.

As one of the main financiers of sustainable solar energy developments in the country, UniCredit Bank Hungary has contributed to this impressive increase by financing the construction of many Hungarian solar projects totalling **€250 million** in structured loans.

A major contribution to our excellent lending position in the solar market came from our part in a significant solar park financing deal, which was the largest corporate green loan agreement of 2022 in Hungary, worth **HUF 28 billion**, to our client **SolServices Kft.** This deal was a milestone not only due to its size but the fact that the **100-megawatt solar plant** being built in **Szolnok** will be one of the largest in the country, making an important contribution to renewable electricity supply. It will be able to generate the equivalent of **40% of the electricity consumption** of the entire population of **Jász-Nagykun-Szolnok County** while saving tens of thousands of tons of CO_2 emissions.

Our key to success in this field was solving the problem of how to participate in the financing of solar panel procurement in a way that creates a closed financing chain from the investment loan to the collateral manager to the solar panel manufacturer. This complex transaction also won UniCredit the **Transaction of the Year award**. In addition, as a pioneer among local banks, UniCredit Bank Hungary has further introduced a specialist retail loan product for purchasing and installing solar panels with a favourable interest rate.

> We are fully committed to promoting sustainability, environmental awareness and ESG values.
>
> **Balázs Jávor**
> Head of Structured finance
>
> Discover more

Investing in our future generations

Announcing a Partnership with Teach For All

Values: Caring

There is no one single factor that will determine the future success of our continent more than the education and development of our young people. To do so, we understood the need to upskill and support teachers, equipping them with all the tools they need to be the best educators possible.

Last September, UniCredit and **Teach For All** were proud to join forces to advance education for children through the announcement of a foundational pan- European partnership reaching across **seven UniCredit core countries**: **Austria**, **Bulgaria**, **Germany**, **Italy**, **Romania**, **Slovakia**, and **Serbia**. This new alliance leveraged on a common approach, focused on innovation and inclusion to achieve results and to unlock the full potential of European youth.

The collaboration was a significant reinforcement of Teach For All's efforts, providing resources and support in training the teachers involved to further **empower local communities** to reimagine education systems in under-resourced areas, and helping to build more inclusive school environments that offer quality education for all children, year after year.

With the help of these dedicated educators, students gain the knowledge, skills, attitudes and values they need to navigate a changing society and the new world of work. Our Group understands that with the right mindset and skills, our youth will be better positioned to attain financial security and become informed, contributing citizens to our communities. By creating better opportunities for them to realise their full potential, this innovative programme is developing a **new generation of European leaders**.

UniCredit supported the Teach For All network with a donation of nearly **€2 million** to fund activities for the **2022-2023 school year**, as well as engaged employees as volunteers to drive change by contributing their time, knowledge and skills.

Our bank's commitment to empowering communities to progress goes beyond providing financial support. Our partnership with Teach For All has helped us to deliver on our commitment to **Social improvement**, in line with our **ESG strategy**. We will leverage UniCredit's presence across the continent to ensure we reach those communities where there is greatest need.

> Education plays a vital role in the economic and social wellbeing of any region. For Europe to meet the challenges of this century, there is an urgent need to work in partnership with schools, governments, and families to ensure that every child has the opportunity to fulfil their potential.
>
> **Wendy Kopp**
> CEO and Founder of Teach For All

Watch the video

Discover more about the Social and Relationship Capital chapter in our Integrated Report

Reducing our carbon footprint: one ESG commitment at a time

UniCredit signs up to Sustainable STEEL Principles to promote greener steelmaking

Values: Ownership

We remain strongly committed to supporting our clients in achieving their **ESG targets** as a core part of our efforts to drive a just and fair transition to a **low carbon and more inclusive world economy**.

Alongside five other top lenders, we announced our signing of the **Sustainable STEEL Principles**, a climate-aligned finance agreement for the steel sector.

Steel is a fundamental material in the manufacturing industry, used in a wide variety of goods. Due to the sector's reliance on coal, it is the largest source of industrial carbon emissions globally (7%). Designed by a working group comprised of UniCredit, Citi, ING, Société Générale and Standard Chartered, the Sustainable STEEL Principles have been drawn up to tackle this problem head on and **significantly reduce carbon emissions** from steel production.

This agreement amongst lenders, provided a framework for assessing and disclosing the degree to which the emissions associated with their steel loan portfolios are in line with 1.5°C climate targets – providing the necessary tools for client engagement and advocacy. Signatories represent a combined bank loan portfolio of approximately **$23 billion** in lending commitments to the steel sector, for a market share of over **11% of total private sector steel lending**, according to RMI research.

Moreover, for banks like ours with **net zero commitments**, the SSP provide ready-made implementation guidance to achieve these targets. With steel production representing the largest source of industrial carbon emissions globally, the Sustainable STEEL Principles are a key step in the journey towards Net Zero. As a founding signatory, we look forward to deepening our dialogue with clients and industry peers to promote a greener future.

ESG remains a key pillar of our Strategic Plan, **UniCredit Unlocked**, with ambitious targets for all areas of the business, including a total of **€150 billion** in new cumulative ESG volumes by 2024. Furthermore, we continue to work on reducing our own environmental footprint with a **commitment to reach net-zero** on the bank's own emissions by **2030** and on our financed emissions by **2050**.

Discover more

Discover more about the ESG Strategy chapter in our Integrated Report

A market leader in financing for renewables

UniCredit Serbia leads renewable project financing

Values: Ownership

ESG is everyone's responsibility – and this responsibility is recognised at the Group level, as well as in our local countries. **UniCredit Bank Serbia** has been active in structuring and arranging financing for renewables' projects since the adoption of the first local legal framework on this topic. In the Serbian market, UniCredit has participated in and arranged five wind farm financings – two of them alongside other financial institutions and the remainder under bilateral agreements. The two highly notable deals we were part of in 2022 further confirm our leadership position in renewables' financing in the country.

In September 2022, UniCredit Bank Serbia and **Elicio Ali VE**, a 100% subsidiary of **Elicio NV**, successfully completed the refinancing of the **42 MW Alibunar Wind Farm**, a facility which supplies electricity to just under **30,000 households**. The green energy produced by this project is expected to reduce CO_2 emissions in Serbia by almost **95,000 tons** per year.

The transaction underlines the continued strong cooperation between the two companies, as well as UniCredit's market-leading position in the structuring and financing of wind power projects in Serbia.

UniCredit Bank Serbia was the leading structuring bank and sole lender in the **€53 million refinancing**, whilst also acting as account bank and hedging bank for the restructured interest rate swap. Furthermore, our bank in Serbia successfully advised Masdar, Taaleri Energia and DEG on the refinancing of the **Čibuk wind farm** – demonstrating our leadership in Project Finance and Debt Advisory in CE&EE.

UniCredit Bank Serbia acted as Sole Debt Adviser, Sole Bookrunner, Mandated Lead Arranger, Hedging Bank, Account Bank and Security and Facility Agent for the Čibuk wind farm refinancing, successfully completed on 23 September 2022.

Vetroelektrane Balkana doo (Čibuk 1) is the largest wind project in Serbia with a production capacity of 158 MW. With 57 GE turbines, Čibuk 1 produces enough electricity to supply around **87,000 households** thus offsetting the equivalent of around **380,000 tons of CO_2 each year**.

Discover more

Another step in our journey to Net Zero

UniCredit is the first bank in Europe to obtain the ESG GRESB scoring on its corporate real estate portfolio

Values: Integrity, Ownership

UniCredit, in line with the Group's **ESG Strategy** and **Net Zero commitment**, is the first bank in Europe to obtain the **Global Real Estate Sustainability Benchmark (GRESB)** scoring on its corporate real estate portfolio. The total portfolio analysed against GRESB's sustainability criteria included properties owned by the Group across Central and Eastern Europe, with an approximate value of **€5 billion**.

ESG principles are at the core of all our real estate activities, and we continue to strive to evaluate, monitor and consistently improve the ESG performance of our assets and related management processes. In line with the Group's ESG Strategy, which is a key pillar of the **UniCredit Unlocked** business plan, the GRESB project represents a tangible example of our sustainability commitments, further reinforcing our leadership in the implementation of innovative ESG initiatives.

The **GRESB Real Estate Assessment** is a global ESG scoring and benchmarking mechanism for listed real estate companies, privately owned funds, developers, and investors in the real estate sector. In 2021, more than **1,500** property companies, REITs, funds, and developers took part in the Real Estate Assessment, which covers approximately **$5.7 trillion** in assets under management and **117,000** assets in **66** countries.

The initiative represented an important milestone in the Group's sustainable transition journey and showcases UniCredit as a frontrunner on ESG disclosure related to property management. As a specific objective, the GRESB scores will be consolidated over time through continued monitoring of the ESG performance of the Group's properties and the related management processes, and a constant benchmarking of these against the highest market standards.

Furthermore, the Bank continues to adopt energy and space efficiency measures to reduce its carbon footprint, which is a core priority of its ESG Strategy and Strategic Plan targets.

Listen to the podcast

Discover more about the Natural Capital chapter in our Integrated Report

> ESG principles are at the core of all our real estate activities, and we continue to strive to evaluate, monitor and consistently improve the ESG performance of our assets and related management processes. The GRESB project represents a tangible example of our sustainability commitments, further reinforcing our leadership in the implementation of innovative ESG initiatives.
>
> **Salvatore Greco**
> Head of Group Real Estate

Our ESG stories

Country: Italy

Values: Ownership

Banking Academy

In the first half of 2022, the **Banking Academy** reached **95,000 beneficiaries** involved in education courses across **1.6 million hours** of training. This mainly involved young people, women, the elderly, and third sector organisations. One of the first main pathways included the **Road To Social Change (RTSC)**, a training on ESG and sustainability topics for non-profit organisations and SMEs to promote an integrated approach to ESG culture.

Through the RTSC, we also helped train non-profits and SMEs on the new professional role of the social change manager.

In addition, the Banking Academy included the **Start Up Your Life** programme, which offers financial and entrepreneurial education targeting high school students to develop the skills required by the labour market. By 2021, we had trained around **43,000 students** across more than **500 Italian schools**. Furthermore, the programme "**Con ME al Centro**" was introduced to support women who want to start a new business with training, discussions with experts, support in building a business plan and networking with local stakeholders.

We also launched the **OfficinaDigitale**, as a digital education opportunity for seniors to assist them in using digital tools and facilitate social inclusion. The project is run with an innovative format based on classroom lectures as well as tutoring by university students.

Finally, in an effort to teach our youth about the value of personal savings, we offered **Save4you** lectures and videos on savings, investments, and behavioural economics and **Save4young**, the financial education project dedicated to university students, which reached **25,000 beneficiaries** in 1H 2022.

Discover more

95,000

BENEFICIARIES

1.6 MILLION

HOURS OF TRAINING

Country: Italy

Values: Caring

Combating food poverty: UniCredit Foundation donations

Since the beginning of the pandemic, the **UniCredit Foundation** has taken action to combat food poverty in Italy, by donating **€5.1 million** – or **3.8 million meals** - to NGOs in the two-year period of 2021-2022.

UniCredit's historical and deep-rooted presence in our country means our Bank is at the forefront of supporting the communities in which we operate, and this is even more true in difficult times. As a Bank, we have a social responsibility, and the UniCredit Foundation is an important vehicle through which we achieve positive social change.

The initiative was also made possible thanks to the contribution of **€500,000** from the **Carta Etica Fund**, financed by UniCredit's ethical credit cards which, at no extra cost to the customer, allow charitable contributions with each use. Thanks to the **€2.3 million donation** in 2022, with a particular focus on southern Italy, **53 national and local non-profit organisations** involved in supporting the recovery and redistribution of food surplus have been able to provide the equivalent of **1.8 million free meals** to those in need.

Discover more

€5.1 MILLION

DONATION IN 2021-2022

Country: Italy

Values: Ownership, Caring

The first bank to collect energy performance data in Italy

UniCredit and **RE Valuta**, a Tinexta Group company specialised in real estate appraisals, announced a cooperation agreement for collecting the energy performance data of the buildings used as collateral for mortgages granted by the bank. UniCredit was the first bank to undertake an operation of this scale in Italy.

Environmental, social and governance (ESG) is embedded in our corporate culture and decision making, and we continue to collaborate with various industry players to enrich and improve our ESG offering across sectors. The partnership signed with RE Valuta is **part of the** green and sustainable transition that UniCredit has been working towards in recent years, in line with our UniCredit Unlocked strategic plan and ESG strategy.

ESG objectives are changing the dynamics of the real estate industry and in the mortgage sector the focus is now on the energy performance of the buildings used as collateral, as required by the EBA in the LOMs. This is also important for responding to the climate stress test, for Pillar III reporting and for Green Bond issuance. RE Valuta established a partnership with **Immobiliare.it** for the development of advanced real estate analysis services and last year we launched our **ESG Data Remediation service** to retrieve ESG data on all collaterals of new mortgages and on properties already pledged as collateral for loans.

Discover more

Country: Germany

Values: Ownership

Supporting wind turbine company Nordex in the largest German Rights Issue of 2022

Our client **Nordex**; a European company headquartered in Germany, that designs, sells and manufactures wind turbines, successfully completed a Rights Issue with gross proceeds of around **€212 million**, making it the largest German Rights Issue of 2022. UniCredit acted as Joint Global Coordinator and Joint Bookrunner on the transaction. With significant support from anchor shareholder **Acciona** and a high take-up ratio of 96.3%, the transaction was a great success. UniCredit and Nordex have been partners for many years, jointly working on the energy transition in Europe.

The Nordex Group is an important driver of the global transition to renewable energy. Their focus is on making renewable energy as **affordable as possible** by continuously reducing the cost of energy (COE) from newly installed wind turbines and developing highly efficient wind turbine generators. Today, wind energy is already the most economical electricity source in many places and the Nordex Group's product portfolio continues to actively promote the expansion of such alternative energies.

With the **Rights Offer**, the company aims to strengthen its capital structure by increasing its equity ratio in the current volatile environment for the wind industry. Nordex believes the increased cash position will safeguard against risks from the short-term headwinds affecting the industry, and further improve its delivery to customers.

Discover more

Country: Germany

Values: Caring

UniCredit HypoVereinsbank grants social loan to GESOBAU for new affordable and intergenerational housing in Berlin Pankow

UniCredit HypoVereinsbank has granted a social loan to our client **GESOBAU** for the construction of a new square in **Berlin Pankow**, with the aim to make intergenerational living a tangible experience for the general population. On the Idunastraße/Neukirchstraße site, GESOBAU is building **425 flats** spread across a total of **14 buildings**, 50% of which are for tenants with a housing entitlement certificate. A total of 317 flats are barrier-free, including four wheelchair-accessible units. Furthermore, shared flats for senior citizens and residents in need of care as well as a day-care centre are being built.

Founded in 1900, GESOBAU AG is one of the six major municipal real estate service providers in Berlin. GESOBAU plans to increase its housing stock from the current 46,000 to approximately **52,000 flats** by 2026. In doing so, it is making an active contribution to meeting the growing demand for affordable housing in Berlin in the long term, as well as supporting the different housing needs of the population. Housing offers for special needs groups are fully integrated into the company's development plans. In addition, GESOBAU actively focuses on climate protection, implementing targeted measures on energy-efficient construction and energy modernisation in their projects while always taking social compatibility and economic efficiency into account.

Watch the video

Country: Romania

Values: Caring, Ownership

GoGreen Leasing solution

Romania plans to significantly reduce its traffic emissions by 2025 with the goal of having **no more than 250,000 vehicles older than 15 years** on its streets. According to the **European Automobile Manufacturers Association**, in 2021, Romania already saw an increase in electric cars of **over 120%** compared to 2020, which is above the European Union average. To further support this ambition, UniCredit launched the **GoGreen initiative** in 2022.

GoGreen is a new financing solution for the purchase of 100% electric or hybrid vehicles through leasing. It offers tailored benefits in terms of leasing structure and pricing, with an advance payment of only 5% of the purchase value and a variable interest rate composed of Euribor for three months plus a promotional margin starting from 2.99%. In this way, GoGreen helps make the purchase of an emissions-free or low-emissions car more affordable.

Through GoGreen, our Leasing team in Romania contributes to the efforts to renew the national car fleet while encouraging the purchase and use of vehicles with low environmental impact. The GoGreen financing period can vary from one to five years, and the residual value is 1%. In addition, customers can benefit, under the conditions provided by current local legislation, from the advantages available through the **RABLA 2022 Programs**. Furthermore, they are empowered to do their part in helping to protect our environment and decrease their carbon footprint, one car ride at a time.

Watch the video

Country: Serbia

Values: Caring, Integrity

20-year anniversary CSR initiative to support the preservation of biodiversity in Serbia

To mark the **20-year jubilee** of UniCredit Bank in Serbia, we launched the campaign: "**20 years together to start good things**", which raised **RSD 13 million**.

This was done by allocating RSD 2,000 from each cash loan and working capital loan greater than RSD 200,000 towards the sustainability efforts the campaign was looking to support. The funds have now been invested in local environmental conservation and protection projects. The importance of this project was also recognised by the local **Ministry of Environmental Protection**, with which our bank signed a Memorandum of Cooperation supporting this initiative.

The project includes support for the improvement of the preservation of flora and fauna, natural habitats of animal species, and the improvement of tourist capacity as well as the further promotion of protected areas. To date, we have supported **11 key locations**, namely national parks: Kopaonik, Đerdap, Fruška Gora and Tara; natural monuments: Sopotnica waterfalls, Lisine, Resavska cave, Zvezdarska forest, Byford forest; and special nature reserves: Carska bara, Karađorđevo.

The campaign not only gathered positive traction in the local media, but also saw strong interest from Serbia's citizens who quickly started using the various amenities of the picnic areas that were arranged and visiting the many natural monuments we've supported.

Country: Austria

Values: Caring, Integrity

Climate Week

Only together, we can save the planet. At **Climate Week 2022** in **Austria**, we took another tangible and important step in this direction, together with **Glacier**, raising awareness for climate protection.

In cooperation with Glacier, an international team of climate enthusiasts, product experts, and community builders, UniCredit Bank Austria's employees spent **five days** engaging in deep discussions to raise our awareness on climate protection. Glacier's goal is to inspire companies and their employees to set up climate protection initiatives and implement ESG in their businesses. During the Climate Week, both our employees and representatives from Glacier engaged in fruitful discussions about current climate conditions, what each of us can do to contribute to a more sustainable tomorrow, and much more.

To keep our people engaged throughout the week, in addition to the daily videos shared across UniCredit Bank Austria, targeted quizzes were promoted (with answers shown the next day) and key learning resources and easy to digest content pills were shared, allowing our people to learn more about climate issues and sustainability.

Climate action requires a transformation that can only be achieved together. In line with its commitment to sustainability, UniCredit Bank Austria is a proud founding partner of Glacier, and hosts and supports the Climate Week with more than **500 other participating companies** all over Austria.

Country: Bosnia and Herzegovina

Values: Caring

Breast Cancer Awareness: Think Pink in partnership with VISA and My Circle of Support

We strive to make a positive impact on our people's health, especially for those most vulnerable. Through a traditional initiative "**Think Pink**", also in 2022, we invited medical specialists and women who have fought with breast cancer to hold talks to raise awareness about the importance of **early breast cancer detection** and regular check-ups among our bank's employees.

Together with **VISA** and our sister Bank **UniCredit Bank d.d.**, we also collected funds to provide free mammography examinations for women across **Bosnia and Herzegovina**, psycho-social support, dedicated educational sessions and care packages for each woman in Bosnia and Herzegovina who has been through breast cancer surgery.

Furthermore, in **Banja Luka**, we offered more than 1,000 free mammography examinations through the initiative "**My Circle of Support**" in the past two years. Support and care for our communities is our duty, helping to create a more inclusive society and listening to the needs of vulnerable groups. We are proud that this initiative has directly supported 1,000 women through free check-ups, therefore also supporting their entire families, over the last two years.

We believe that we must continuously work to raise awareness of the importance of preventive examinations. That's why all of us together, today and tomorrow and every day, should educate and empower women on what is most important - caring for our health.

Watch the video

Clients

At UniCredit, we continue to evolve our business around our clients. Keeping our clients at the centre is what allows us to deliver competitive and effective value-added services to clients across the Group.

Under our UniCredit Unlocked strategic plan, Client Solutions leveraged two best-in-class product factories – Corporate and Individual Solutions – to deliver these key capabilities and combine that with a best-in-class service offering.

Whether it was steering Porsche to its €9.4 billion initial public offering, bringing fibre-to-the-home connections to over 34 million European households, or advising the Republic of Austria around its inaugural Green Bond Framework – we have played an integral role in some of Europe's most visible transactions. What's more, we have also been putting the client at the heart of our digital transformation. Take our Corporate Portal, for instance. A single-entry point for corporate clients, designedto enhance the digital experience through simplification and harmonisation. Now available across thirteen countries, we have increased client connectivity sixfold in the last five years.

Moreover, in a year characterised by extreme and sudden waves of market volatility, we were able to support our client base to the fullest extent – from large corporates to SMEs – in accessing the hedging solutions that best suit their needs. Without our digital tools and our client-first mindset, this simply would not have been possible.

To follow UniCredit's Client journey in 2022, click on the timeline below and find out more about how we transformed through 2022 in order to fulfil our Purpose: to empower communities to progress.

Our Client milestones

JANUARY

UniCredit & Allianz – a new collaboration is born
Allianz Partnership

MARCH

Putting our clients at the centre
CIB becomes Client Solutions

APRIL

Simplifying to help our clients succeed
Embedding simplification best practices as we build our bank for the future

SEPTEMBER

Our commitment to individuals and SMEs
UniCredit per l'Italia

Integrated Report Social and Relationship Capital

OCTOBER

The beginning of a new era for UniCredit
Launching the onemarkets Fund

Empowering Bulgarian corporates and SMEs
First securitisation deal in Bulgaria

DECEMBER

UniCredit & Azimut – a new collaboration is born
Strengthening competence and driving scale and synergies

Our Partnerships: UniCredit & Allianz – A new collaboration is born

Best-in-class product offerings, innovation and technological integration for the mutual benefit of our clients

Values: Integrity, Ownership

UniCredit and **Allianz** signed a multi-country Framework Agreement, setting the tone for enhanced collaboration which benefits clients of both companies. This agreement builds on the companies' long-standing and highly successful partnership, which first started in 1996. It has also paved the way for deeper cooperation between the two groups in the insure-banking business, namely in **Italy**, **Germany**, **Central and Eastern Europe**, where UniCredit proudly serves over **15 million clients** and Allianz Group serves over **30 million clients**.

Protection and Investment are two strongly linked areas that are crucial for our bank's strategy. At UniCredit, we protect our clients during the most important times in their lives. As their partner, we support them with the management of their assets, guiding them and providing tangible answers to their needs. This is the direction we moved in, both for Italy and other countries in our Group, when we recently **strengthened the partnership agreement** with Allianz. The agreement will help to generate even more value through an integrated approach, by leveraging the excellent service from Allianz and complementing this with UniCredit's offering.

This agreement, which marked a remarkable step forward in the execution of our strategic plan, was a testament to what can be created through a strong and effective partnership. It consolidated best-in-class product offerings, innovation, and technological integration for the mutual benefit of our respective clients, further underscoring our commitment to this sector. It is a blueprint for how we intend to streamline our joint ventures and maximise the benefits of all future partnerships.

We understand our clients and their needs. We are committed to meeting those needs. Now, through this new, strengthened partnership agreement, we can offer not only an integrated approach with Allianz, but **broader and better solutions** than ever before.

This agreement joins together best-in-class product offerings, innovation and technological integration for the mutual benefit of our respective clients, underscoring our commitment to this sector.
It is a blueprint for how we intend to streamline our joint ventures and maximise the benefits of all future partnerships.

Andrea Orcel

Group Chief Executive Officer and Head of Italy of UniCredit

We are delighted to continue and deepen our successful partnership with UniCredit. I look forward to securing the future of our joint customer base with world-class products and services.

Oliver Bäte

Chief Executive Officer of Allianz SE

Discover more

Putting our clients at the centre

CIB becomes Client Solutions

Values: Integrity, Caring

At UniCredit, we continue to build our business around clients. **Client Solutions** represents the strategic evolution of our very successful former corporate and investment banking business. As part of the new operating model launched under **UniCredit Unlocked**, we have opened up our product platform to all Group clients – bringing the scale of each of our different banks together in combination with targeted product expertise that we can deliver in the countries. We are no longer a collection of silos, we are interdependent. As a result, we feel much lighter, nimbler and stronger as an organisation.

Client Solutions is also the area in which we house all of the specialist products that the Group offers to its clients. It is an **evolution** of the way we worked before and one that is helping us to fully **unlock our potential**. We want to empower our bankers with both the right tools and best-in-class products to focus their attention, effort, and energy on delivering for clients. Our clients have unique needs and understanding them increases the quality of our strategic dialogue. Now more than ever, they need our guidance: we are ready and eager to support them.

Proximity to our clients and a profound knowledge of the markets in which we operate, are the pillars of our sustainable growth. We have harnessed the power of being both international and local at once; whilst we are more international than the local banks, our granularity within the countries we operate means that we continue to be more local than our international peers.

UniCredit Unlocked leverages two centralised product factories – **Corporate and Individual Solutions** – to deliver our best-in-class capabilities to all the Group's clients. **Corporate Solutions** comprises Client Risk Management, Advisory and Capital Markets, Specialised Lending, and Transactions and Payments, whilst **Individual Solutions** covers Funds, Portfolio Management, Brokerage and Assets under Custody, and Insurance.

Our bankers cannot deliver without having the right products, and our products cannot be delivered without our bankers. This is perfectly aligned matrix of Client Solutions puts the **client at the centre** of all that we do.

Our clients understand that if they come to UniCredit, we know what they need and what they want. It is because of this that they are willing to come and share this information and their problems and this allows us to overcome the challenges they have. The clue's in the name, 'Solutions'.

Richard Burton
Head of Client Solutions

Listen to the podcast

Simplifying to help our clients succeed

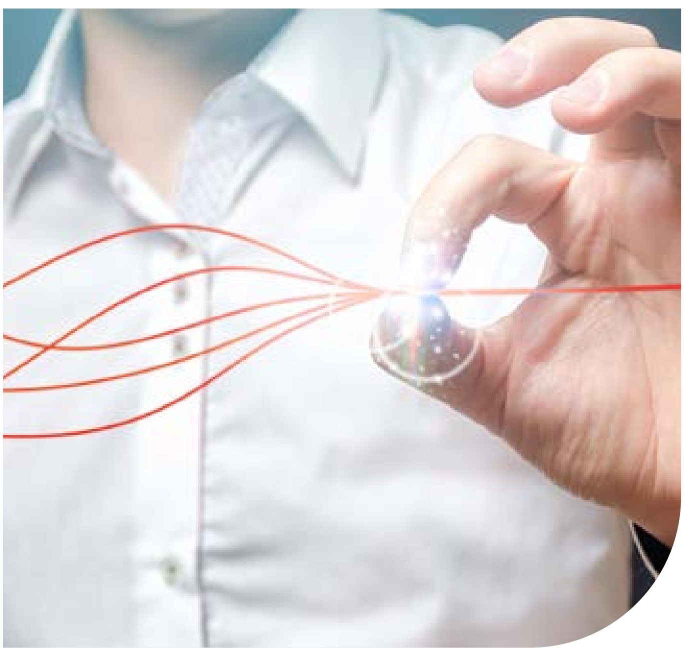
Embedding simplification best practices as we build our bank for the future

Values: Ownership

Simplifying our bank is one of our top priorities – not only to provide our people with an efficient way of working, but to ensure clients receive a seamless service and achieve their desired objectives.

In 2022, we redirected our focus to **simplification** and how it can be embraced at all levels of our Group. We reduced, for instance, our organisational layers by **28%** – with decision making levels decreased by a further **43%**. This at once streamlined the structure of our organisation and freed up our colleagues' time – allowing for more effective, client-centric decision-making.

Our people are fundamental in driving the **transformation process** across all areas of our business. They are our greatest source of inspiration, and we want to ensure both that their voice is listened to, and ideas are put into action.



For example, we managed to reduce the time for new cash loans and refinancing to only ten minutes – an initiative already bearing fruit across Italy, with further progressive releases in **Italy**, **Germany** and **Austria**. Moreover, we have increased automatic credit decisions to almost 90% in Italy, which allowed a significant reduction of income documentation required (from 70% to 20%).

In **Croatia**, we launched **Zaba Smart Invest** – an investment advisory tool for individual clients, based on an internally developed algorithm for personalised investment proposals. This shortened the time spent having advisory conversations by more than a half.

Across **Client Solutions,** we have sought to put decisions closer to the client, enhancing our connectivity with front end tools whilst minimising manual work its associated risks. Take our **Corporate Portal**, for example. A single-entry point for our corporate clients, designed to enhance the digital experience by leveraging on simplification and harmonisation. Now available across **thirteen countries**, we have increased client connectivity sixfold in the last five years. Intuitive processes like these have undoubtedly been beneficial for our clients.

Finally, we have drastically lowered the number of internal reports being produced, which has resulted in our colleagues having over **300,000** fewer unnecessary emails to deal with. But it doesn't stop there – we are fostering momentum and ownership to deliver true and lasting transformation across the bank by breaking our habits and streamlining our organisational structure.

Our simplification strategy is multi-dimensional and a business necessity, as well as a key contributor to our clients' successes and the communities that we serve. If we are to succeed as the bank for Europe's future, it is imperative that we all maintain a strong path on the journey of simplification together.

Discover more

Our commitment to individuals and SMEs

UniCredit per l'Italia

Values: Ownership, Caring

Our bank takes its commitment to empowering our communities seriously – as we live this commitment through tangible actions impacting the communities which we serve.

UniCredit sought to help Italy tackle the current macroeconomic crisis with **€5 billion of funds** to support companies, the suspension of instalment payments on loans to businesses and households and a postponement of charges for private clients worth a total of around €3 billion. The staggering increase in energy and raw material costs, and in the general level of prices of goods and services, has had negative consequences on the balance sheets of Italian companies and households.

In order to alleviate the impact on local communities and continue supporting the country's growth, our Bank set up the "**UniCredit per l'Italia**" plan, including €5 billion to support the liquidity needs of businesses in the face of rising energy costs, through the dedicated **CreditPiù facility**, with maturities from **3 to 36 months** and a grace period of **up to 6 months**.

It also included an instalment plan that offered the option to postpone payments for individual purchases or the expenditure for an entire month made using **Carta Flexia**. In addition, we launched a dedicated 12-month business mortgage moratorium – upon evaluation of the bank – for companies who have not already benefited from government guarantees.

Lastly, we implemented a flexibility module of mortgages for families and individuals, which our Bank offered more than **400,000 Italian household clients** who hold a mortgage, the opportunity to suspend the principal payment of the mortgage for 12 months, to reduce the monthly instalments by reviewing the repayment plan or to postpone the payment up to 3 instalments.

We estimated that the instalment, moratorium and flexibility measures for clients will have a total value of €3 billion. All Italian colleagues already benefit from the instalment plan for Flexia credit card holders, and now, they enjoy favourable conditions when they ask for a mortgage.

Providing our communities with **increased flexibility**, especially in times of struggle and need, is what our bank does best – and keeping our clients and their needs at the forefront is how we can continue to be their trusted partner.

Watch the video

Discover more about the Social and Relationship Capital chapter in our Integrated Report

As a bank, we have never failed to provide support to our Country during the most difficult of times. Given our social Purpose and commitment to our clients, we want to continue to concretely help families, communities and businesses to mitigate the financial impact of the current crisis, while also ensuring the liquidity needed to deal with the complexities of this economic situation.

Andrea Orcel
Group Chief Executive Officer and Head of Italy

UniCredit has always been close to the needs of our local communities, and it is important that we play our part in helping during this difficult time, characterised by a loss of household purchasing power and a risk of shrinking business investment.

Remo Taricani
Deputy Head of Italy

The beginning of a new era for UniCredit

Launching the onemarkets Fund

Values: Integrity, Ownership

2022 marked a new era for UniCredit with the launch of our **onemarkets Fund**, a newly established funds family which extended our range of investment solutions offered to network clients across the Group.

The platform represented a new approach to asset management business, built with a distributor's attitude that puts the needs of our clients at the very centre. At the same time, it remains fully in line with our financial ambitions to build sustainable revenue growth with recurrent fees, whilst being capital-light.

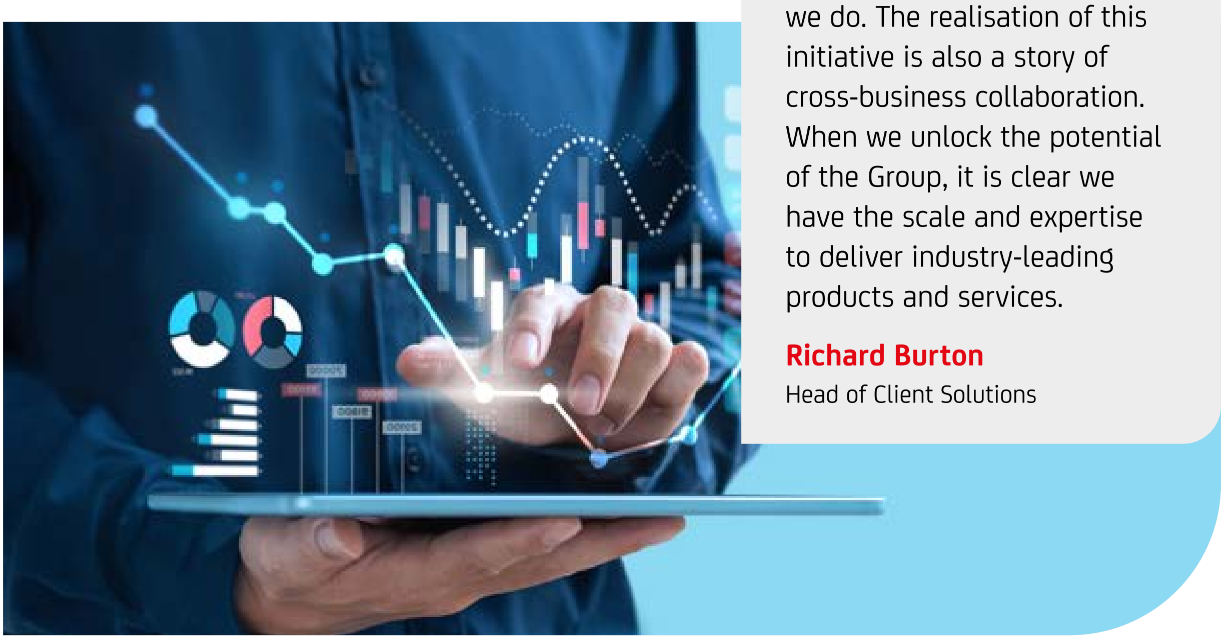
A virtual event provided the perfect occasion for retail, private banking, wealth management and corporate network colleagues from **Italy**, **Germany** and **Austria** to hear directly from the internal and external stakeholders involved in the design and implementation of this new fund platform, with Q&A and local commercial sessions providing a comprehensive overview of the product, its unique selling points and the key benefits for clients.

Through onemarkets Fund, we offer an exclusive selection of bespoke investment opportunities managed by a team of internal and external experts under a framework designed to ensure quality as well as risk-return profile. The selection and design of the funds was based on UniCredit's deep knowledge of its clients – with products developed in-house and via strategic partnerships with leading asset managers.

The first wave of funds was made up of **three multi-asset and four equity** (global and thematic) **bespoke funds**, structured with the involvement of Amundi, Blackrock, Fidelity, J.P. Morgan and PIMCO, with sales taking place across Italy, Germany and Austria.

Across all areas of the business, we put the needs of our **clients firmly at the centre** of everything we do. The launch of our onemarkets Fund represented the latest step in this direction as our bank broadened its range of investment solutions. The product offering will continue to be gradually enlarged, leveraging on UniCredit's '**open architecture**' approach. At the same time, the initiative is a concrete result of the bank's UniCredit Unlocked strategy and stated ambition to drive sustainable, capital-light revenues with a client-centric approach.

Watch the video



Across all areas of the business, we are putting the needs of our clients firmly at the centre of everything we do. The realisation of this initiative is also a story of cross-business collaboration. When we unlock the potential of the Group, it is clear we have the scale and expertise to deliver industry-leading products and services.

Richard Burton
Head of Client Solutions

Our Partnerships: UniCredit & Azimut – A new collaboration is born

The latest step in strengthening our competence and driving scale and synergies within our asset management business

Values: Ownership

Shortly after the launch of our **onemarkets Fund** products, we announced the signing of a letter of intent with leading Italian asset manager **Azimut Holding**, outlining the main princi- ples for the distribution of asset management products in Italy.

The partnership accelerated our strategy to drive greater value and scale from our existing asset management business for the benefit of clients – broadening our activities along the value chain as we look to rebuild core competencies.

At the same time, the agreement also enabled us to **expand our own ecosystem**, through the potential distribution of banking products to Azimut. Azimut will incorporate, and autonomously run, a management company in **Ireland** that will develop investment products for distribution in Italy through our powerful network on a non-exclusive basis.

Based on the implementation agreements to be signed by the parties, UniCredit will be entitled to exercise a call option on the newly established Irish management company fully owned by Azimut in five years' time, or earlier subject to specific circumstances, as is customary in this kind of transaction.

In the event of the call option being exercised, UniCredit would control its own high value factory together with onemarkets Fund products and other asset management entities already part of the Group, thereby re-building selective components of the asset management value chain.

As a bank, we are always seeking out ways to **generate added value** for our stakeholders. Whilst this partnership will allow us to offer our seven million Italian clients more solutions, it also underlines our enduring commitment to strengthening the asset management industry in the country.

Discover more

Empowering Bulgarian corporates and SMEs

First securitisation deal in Bulgaria

Values: Ownership, Caring

The **European Investment Bank Group (EIB)** and **UniCredit Bulbank Bulgaria** signed a Guarantee on the synthetic securitisation of **SME** and **Mid-Cap loans** originated by UniCredit Bulbank last year. The notional amount of the Guarantee is **€90 million** on a portfolio of **€1 billion**. The transaction represents a significant milestone as the first ever securitisation of any type carried out by our CE&EE division

The EIB Group's guarantee will allow UniCredit Bulbank to finance new eligible projects undertaken by Bulgarian small and medium size enterprises (SMEs). With further backing from the **Pan-European Guarantee Fund (EGF)**, this is expected to unlock new loans amounting to more than **€630 million** at more favourable conditions especially for SMEs suffering from the economic consequences of the aftermath of the COVID-19 pandemic and instability due to events in Ukraine.

This was the first EIB Group synthetic securitisation in Bulgaria and is expected to provide a very strong signaling effect for the Bulgarian banking market as a whole. Furthermore, it was the first securitisation with a UniCredit subsidiary in **Central and Eastern Europe**. The transaction shows the continued successful cooperation between UniCredit Bulbank and EIB, following similar agreements with both EIB and EIF in 2021 and before.

The size of the transaction, the economic KPIs met and the resulting benefit at both the Group and Bulbank level have remarked this transaction as an unprecedented success, supporting the Group's corporate and SME lending business in Bulgaria and beyond. The transaction was the outcome of great co-operation across many parts of the UniCredit Group, including Bulbank, ALM CE&EE, CE&EE CIB FIG, Group ALM & Funding, and the Securitisation & Asset-Backed Solutions team in a complex, and innovative project which was over one year in the making and will help to further set the scene for other securitisation efforts by the Group CE&EE team.

Discover more

Our Client stories

Country: Italy

Values: Caring, Integrity

The Social Hub (TSH) social and environmental financing in Rome and Florence

Our bank is committed to empowering our youth – recognising their role as the future leaders and changemakers of our future. This starts with providing them with the resources and tools they need to be successful. In 2022, UniCredit, in collaboration with **SACE**, supported **The Social Hub (formerly The Student Hotel) project** with a **€145 million social and environmental impact financing loan** for the development of two innovation and creativity hubs. These hubs will open in 2024 and aim to connect different communities of people across all walks of life in **Rome** and **Florence**.

The Social Hub (TSH) and UniCredit agreed to include impact financing terms in the form of a discount on the interest rate, which TSH has committed to reinvest by providing students from disadvantaged socio-economic backgrounds with scholarships in the form of rent reductions. The project will support the regeneration of the **San Lorenzo district** in Rome and the **Belfiore district** in Florence, revamping the areas for the local communities and expanding the availability of student housing in both cities.

The Social Hub is known for its commitment to building its premises in a responsible and impactful way to benefit both the local community and the environment. Backed by UniCredit's financial support, together with SACE, the San Lorenzo district in Rome and the Belfiore district in Florence will benefit from more student housing opportunities which will in turn support the wider positive development of these inner-city areas. The project also increases the availability of quality accommodation, supporting a sector that was harshly hit by the pandemic.

We have long recognised the importance of creating meaningful opportunities in the heart of our local communities. Through partnerships like those with The Social Hub, we are empowering these communities to **unlock their fullest potential**.

Discover more

Sal Marston Photography

Country: Germany

Values: Ownership

Real Estate Germany - Industry coverage with a unique target group approach

Being a bank with an international mindset, our business acumen increases as we build our local industry know-how across the different countries in which we operate. A perfect example of this is **UniCredit HypoVereinsbank** in **Germany** – one of the country's leading financing banks in the **Real Estate sector**. For many years, the bank has covered (commercial) real estate companies including national and international investors, project developers, building contractors and housing companies. Profound sector and industry knowledge, as well as a dense market network are just some of the tangible results we see from the work we do.

Our relationship approach is unique. As a universal (non-specialised) bank we are able to offer a variety of financial services along our entire value chain from mortgage loans and sustainable public funds to capital market products such as green bonds, as well as risk-minimising financial instruments. These tailor-made solutions make UniCredit the "**one-stop-shop**" as we not only have a comprehensive track record in (structured) real estate financing, but also offer significant added value for every mandated transaction across all capital market products on the German real estate market.

Landmark transactions demonstrate that our clients rely on our competencies in this market. For example, we successfully accompanied **Vonovia** in the issuance of a **€1 billion** multiple tranche Schuldschein and Namensschuldver-schreibung as Joint Arranger within a bookrunner group of 3 banks. Vonovia SE is Europe's leading private residential real estate company (it owns ~550,000 residential units across Germany, Austria and Sweden – Deutsche Wohnen included). This offering marked the biggest Schuldschein ever for a real estate corporate.

We will continue to rely on our industry knowledge and years-long relationships within our local markets, driven by our mindset to **Win. The Right Way. Together**.

Country: Germany

Values: Ownership

UniCredit supports Porsche in the largest IPO in Europe in more than a decade

With the ringing of the bell at the **Frankfurt Stock Exchange** last year, Porsche entered a new chapter of its storied history with increased autonomy and entrepreneurial flexibility.

The **Porsche IPO** marks the **largest non-government German IPO in history** and the **largest IPO in Europe in more than a decade**.

UniCredit played an important role in the **€9.4 billion** listing, supporting as a Joint Bookrunner and demonstrating the strength of its distribution power alongside **Kepler Cheuvreux** and our vast retail, private banking and wealth management networks in Germany, Austria and Italy.

UniCredit's strategic alliance with Kepler Cheuvreux generated significant additional demand, underlining our

extensive distribution power. Despite challenging markets, the extraordinary outcome of the transaction, which priced at the top of the range, is the perfect example of how we can **unlock value** across our bank's business lines and geographies.

Discover more

Country: Bulgaria

Values: Integrity, Ownership

Interior design company using the zero-waste method

Our clients remain at the centre of everything we do. With this in mind, we place a key focus on all facets of their business, from the **product offering** to **sustainability**. In 2022, **UniCredit Bulbank** announced a partnership with interior design company **Pachkov Ltd**. in an effort to further promote and embed sustainability in everything we do – starting with zero-waste initiatives. The key focus of the company is interior design, namely the production of furniture. Pachkov has long history in the furniture production and interior design business, being on the market for over 18 successful years.

As a company, Pachkov is a firm believer in sustainability. Given the scope of their work, they understand how essential it is for them to ensure they are embedding waste reduction efforts in the way they conduct business. Their mission is to use the best quality materials and complement that with craftsmanship. An innovative idea of the company is to recycle coffee capsules by placing collection containers capsules in front of some of the biggest retailers in Bulgaria.

In 2020, UniCredit Bulbank signed a 12+12+12-month revolving limit (**BGN 250,000**) in support of this thoughtful and earth-friendly initiative. And there's a science behind all of this. The coffee from recycled capsules will be used for fertilisation and compost soil for growing mushrooms. From there, the plastic is then processed into granules to then be used in production of furniture boards for their business – all while maintaining the quality of work the brand is known for. The capacity of the capsule processing machine is **5 million** annually. By embedding sustainability in their everyday practices, our bank can empower companies like Pachkov to do their work well, all while diminishing their carbon footprint one furniture piece at a time.

Discover more

Country: Croatia

Values: Caring

Zagrebačka banka's cooperation with social enterprises Hedona and Humana Nova

Unlocking our bank's potential is only successful if we can unlock the potential of those in our communities. In addition to meeting the quota for employment obligation, the legislator in Croatia proposed an alternative possibility of meeting the employment quota in 2022. **Zagrebačka banka** contracted an agreement with social enterprises **Hedona and Humana nova**, which employs **over 50%** of people in their workforce who qualify as **persons with disabilities**, as well as other individuals from various vulnerable groups.

In partnership with the People & Culture and Procurement teams, colleagues from **Zaba Social Impact Banking**, have realised the incredible benefits of working with Hedona and Humana. Zagrebačka banka is directly helping these individuals by procurement of their goods and services, further strengthening Zaba's Social Impact Banking efforts to the fullest extent. For example, the bank uses handmade chocolate and pralines by Hedona for initiative such as gifts for clients, employees, or gifts for special internal events.

Humana Nova also made limited edition cooking aprons made from recycled materials for Zaba's internal initiative "Be good, eat healthy".

Today, the bank has **30 employees**, of which 15 are persons with disabilities who work in different parts of the business. Through this kind of business relationship, the Bank directly encourages and empowers the employment of people with disabilities, and ensures their job security through meaningful experiences.

Watch the video

Country: Romania

Values: Integrity, Caring

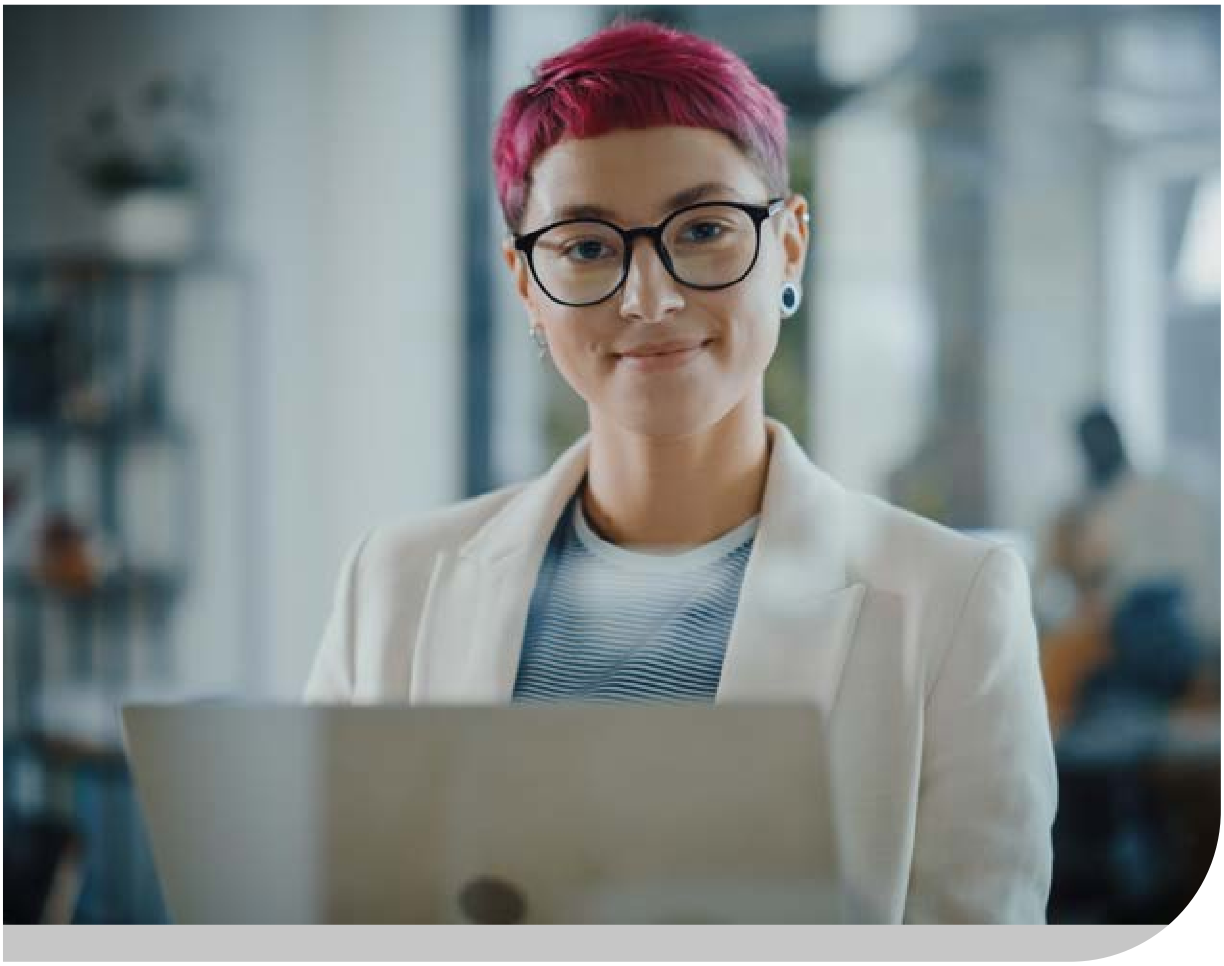
Supporting Female Entrepreneurship

Embedding **diversity, equity and inclusion** best practices across our Group is the only way we can set the tone for our bank for the future. UniCredit supported the development of the entrepreneurial environment among women, joining the multi-year national programme for the development of entrepreneurship among women in the sector of small and medium enterprises implemented by the **Ministry of Entrepreneurship and Tourism**.

The main objective of the **Romanian** initiative was to stimulate and support the establishment and development of private economic structures owned and managed by women, improving their economic performance, and achieving intelligent and inclusive economic growth. Based on digitisation, sustainable development, innovation, and training entrepreneurship, we can tackle problems related to maintaining the balance between family and professional obligations and prejudices still existing at a local level.

Through this programme, beneficiaries can obtain non-refundable financial aid from the state within the maximum limit of **RON 200,000**, an amount that represented a maximum of 95% of the value of eligible expenses related to the project. For eligible beneficiaries, UniCredit Bank facilitates the opening of separate current accounts for accessing the non-refundable aid and provided bridging loans of **up to 95%** of the value of the eligible expenses related to the project and investment loans for co-financing of **up to 15%** of the value necessary to ensure the individual contribution.

Empowering our communities starts with people, and providing people with fair and equitable opportunities is one of the key drivers in achieving our Purpose.



Country: Serbia

Values: Integrity, Caring

A dedicated credit line for vulnerable groups

Going beyond our duty as a financial institution only means we have a commitment to providing tools and resources to those who need it most. In 2022, **UniCredit Bank in Serbia** and the **European Investment Bank (EIB)** launched a dedicated credit line totaling **€30 million**, aimed at supporting the employment, professional training, and long-term retention of people from vulnerable social groups.

These funds have enabled UniCredit to on-lend to Serbian companies that are committed to improving the social impact of their businesses and creating long-term leadership and employment opportunities for women, youths and segments of the population that face higher entry barriers in the labour market. As a bank, it is essential that we look to supporting companies who **empower their people**, in-line with our bank's commitment to empowering our communities.

In addition to funding, Serbian companies will receive a performance-based financial reward if they meet specific targets. This is with the aim to foster leadership, employment and professional development opportunities for women, youths and groups who currently tackle these barriers head-on in the current market, such as people with disabilities, refugees and more. The financial reward is provided as a grant under the **EIB's Economic Resilience Initiative (ERI)**, aimed at boosting job creation and sustainable private sector growth. This was the first EIB private sector loan in the **Western Balkans under ERI**, which contributed to the most important goals of promoting sustainable development.

Country: Hungary

Values: Caring, Ownership

UTB Envirotech Zrt. puts sustainability at the forefront

UniCredit client **UTB Envirotech Zrt**. is a company well versed and fully engaged in wastewater purification and treatment. They design, construct and develop the technologies to achieve this, with their main patents in wastewater treatment and "**cyclator**" technology. A total of **50 patents** are already operating in **Hungary** and the surrounding countries, as well as a related decanter product line, of which **more than 100** are already operating worldwide, including New Zealand and Australia.

Out of all UTB Envirotech Zrt.'s developments, their most important sustainability-related developments is **Cycle**. Cycle is a range of cleaning products based on a unique technology that allows them to recover useful raw materials from the sewage sludge and turn it into the desired detergent range.

As a company that is heavily invested in **Sustainability and ESG** as a whole, it's our top priority to ensure our clients have the same focus and drive to better the world around us. Identifying clients who make concrete sustainable efforts and embed this in their work is always something UniCredit wants to be part of. For this reason, UniCredit has been their **exclusive partner for 15 years**, providing the client with financial sustainability. In those 15 years, the Group has seen its turnover quintuple and the number of employees triple.

Country: Czech Republic and Slovakia

Values: Caring, Ownership

Bank@Work

Our bank and its people are motivated by the strong relationships we build with our people, our clients, and all our stakeholders. **Bank@Work** is a business initiative in C**zech Republic and Slovakia** focused on client acquisition an agreement between the retail and corporate teams in the bank. The initiative was based on a special offer of retail products for individuals who are employees of our corporate customers.

When our bank identifies new customers and clients to do business with, it is essential that we offer them a full-scale, first-class service from a holistic point of view. This also means offering their employees, the people who keep the business running and maintain its success, the same support and resources our bank has to offer. Employees of our clients are able to access a special UniCredit offer available to clients only, which also adds a special and exclusive perk to working for our clients' companies by providing this additional employee benefit.

In 2022, through the Bank@Work programme, we managed to acquire **more than 15,000 new clients** to our retail franchise from our clients' businesses alone. As a next step, there is a strong focus on product cross-sell, ensuring client retention and revenue growth. Maintaining these relationships with our clients is a strong driver in ensuring we can extend the UniCredit offering across all facets of our business, our clients' business, and beyond.

Digital & Data

Digital & Data is a key pillar of the UniCredit Unlocked strategic plan. We embarked on a transformation journey to optimise our digital machine, building an efficient and modern infrastructure with up-to-date solutions and rationalised data centres.

To upscale the infrastructure, bring it closer to the business, and gradually automate processes, we started by taking back control of the outsourced technology. One of the most noteworthy milestones achieved was the merger and absorption of UniCredit Services S.C.p.A into UniCredit S.p.A.

At the same time, we are rationalising the number of applications across Europe and improving our client experience by rebuilding them around their needs. For example, in 2022, we launched UCX Consumer Finance for our retail clients and UC Hedge and UC Pay FX for corporates.

Regarding our workforce, we rein- forced our key competencies internally, starting with reskilling our people through UniCredit University Digital. We also implemented a new agile and data-driven way of working, leveraging internal talents to be more efficient and reduce our time to market.

To follow UniCredit's Digital & Data journey in 2022, click on the timeline and find out more about how we transformed throughout 2022 in order to fulfil our Purpose: to empower communities to progress.

Digital & Data milestones

JANUARY

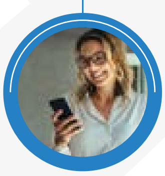
Optimising our digital portfolio through leading data analysis technology
Germany launches the OneWealth platform

MAY

Keeping our digital communities connected
UniCredit expands its social media footprint

JULY

A new offering for Digital-first corporate services
Investing in new online solutions



SEPTEMBER

Empowering our employees with collaboration tools
A Group-wide Digital transformation through cloud technology

OCTOBER

Building an integrated, fast and Digital bank
Living Digital Days

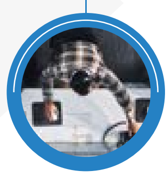
Integrated Report Intellectual Capital

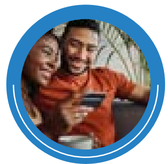
NOVEMBER

Next-generation Wi-Fi for all
Network efficiency across all our premises

DECEMBER

Data stands behind our improved customer service
Building a better data-driven bank





Creating an enhanced Digital experience for our retail clients
A new approach to doing business

Optimising our digital portfolio through leading data analysis technology

Germany launches the OneWealth platform

Values: Integrity, Caring

Embedding digital in the way we do business is essential if we want to build our competitive bank for tomorrow. With the launch of **OneWealth** in the beginning of 2022, we offered our **Wealth Management & Private Banking** clients holistic portfolio advice using a portfolio and risk analysis tool. Together with their advisor, our clients can build a portfolio that is tailored to their needs, while our portfolio and risk analysis enables them to understand exactly which interrelationships and decisions affect their overall investment and how.

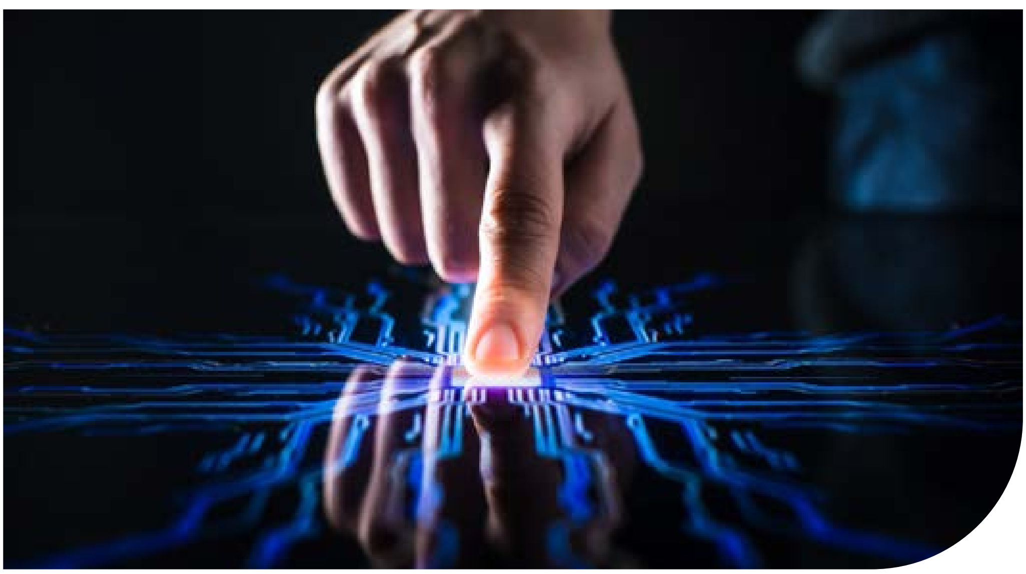
With OneWealth, consultants no longer only look at individual components of a portfolio but analyse it as a whole. More than **3,000 daily updated risk factors** and a variety of market scenarios are considered – this way, clients can identify when and why there is a need for action and anticipate future market developments in their investment decisions.

With just a few clicks, advisors can create investment proposals and tailor the investment strategy precisely to the needs and risk range of clients. Contract creation and client communications are carried out on a **consistently digital basis**. Printouts are just as unnecessary as the cumbersome switching between different banking systems. The workflows are thus greatly simplified, leaving more time for the exchange with the clients.

This has revealed additional potential of our clients' assets and has given them more choice and flexibility for their investments – as well as a whole new view into the potential future of their assets. Together with their advisor, our clients can determine how they can fully exploit their risk variant and the performance strength of their assets as well as how they can further **diversify and develop** their portfolio. They can do this through understanding the future scenarios and opportunities of their selected assets, which the new tool supports.

Like our people, our clients are experiencing first-hand what it truly means to "**live digital**". OneWealth made an important contribution to achieving the strategic goals of simplification and client centricity. In this way, OneWealth is helping **UniCredit HypoVereinsbank** achieve its ambitious growth plans in the German wealth management and private banking market.

Watch the video



Keeping our digital communities connected

UniCredit expands its social media footprint

Values: Ownership, Caring

Now more than ever, it is essential that our people remain well connected across our business. **Digital communities** and how they interact have become increasingly important and have never been richer, more vibrant, and more impactful on people's daily experiences than they are now. In line with our ambition of being the bank of Europe's future, we strongly value relating and engaging with virtual communities as well as empowering them by providing the digital tools and resources they need to stay connected with each other.

In an effort to continue transforming our Bank into a more **integrated, fast, and digital organisation** for our people and our clients, our goal was to invest in building strong social media relationships that evolve, grow and resist the test of time.

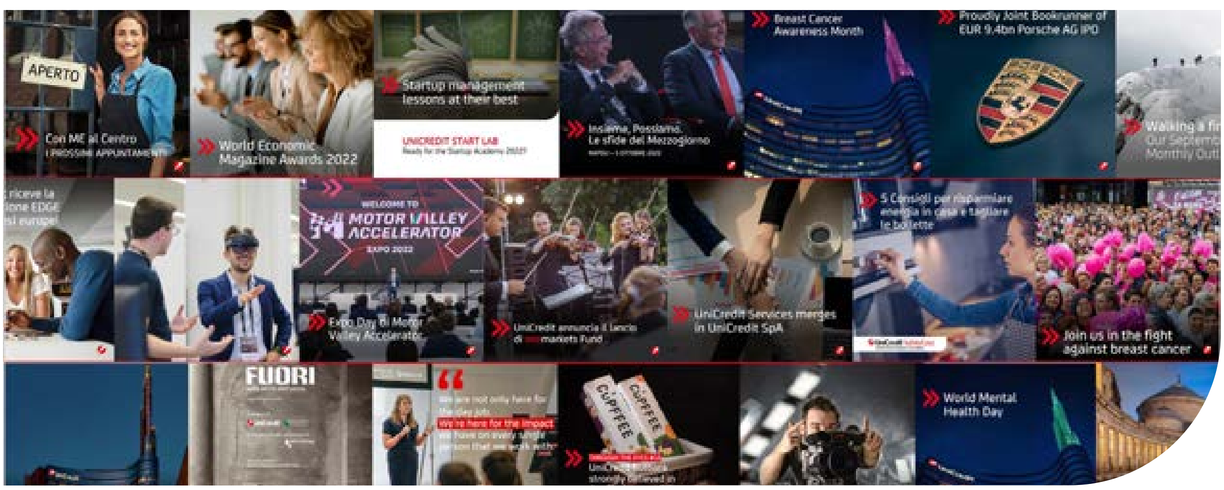
Each market communicates to its audience with the aim of highlighting its own distinctive features while leveraging the strength and the communicative power of a large Group. In this respect, **social media** and virtual communities have become a key source for intra-company inclusion, building a strong foundation for social relations among our people and with the outside community both in our industry and beyond.

To promote such inclusion through a genuine interaction based on facts, figures and concrete and meaningful actions, UniCredit joined the social media landscape more than a decade ago. We have always valued the importance of connecting and speaking to all our stakeholders across Europe and experimenting with new formats and trends to share insights and unique stories.

To further connect with those communities and reach the younger generation, we opened our **@UniCredit_EU** global account on **Instagram** in May. Thanks to an impactful storytelling campaign leveraging images, short videos, and valuable financial tips, we have been able to reinforce the proximity to our clients, communities, and people. One month later, we also launched our first global **Facebook** profile, another platform offering useful and engaging content to fully discover the potential of an ever-evolving banking institution. To cement these efforts, we drove the importance of our key strategic initiatives through a dedicated **Group-wide podcast** – featuring key leaders from across our business.

UniCredit's presence on Instagram and Facebook leverages the creative and engaging tools that the social network makes available – offering followers a vivid and rich dialogue to foster a daily relationship with our Bank, its progress and our **digital impact** across Europe.

Read the interview with Joanna Carss, Head of Group Stakeholder Engagement



A new offering for Digital-first corporate services

Investing in new online solutions

Values: Ownership

Digitalisation is at the heart of our **simplification** strategy. That is why our priority in 2022 was to invest in new online solutions, such as **UC Hedge** and **UC Pay FX**, to offer our corporate clients an excellent digital-first experience.

We developed UC Hedge - a UniCredit online offering for small and mid-sized corporate clients - to support them with the end-to-end management of FX risk, which includes transparent insight into their FX exposure, possibility to analyse the FX Risk against the client's Hedging Policy and calibrate it, and trading execution according to the analysed FX risk scenarios.

UC Hedge is the first business component deployed on the new Cloud Digital Platform. It is a **cloud-based** application, technically composed of global, modular components, developed as micro-frontend/services-based APIs, scalable to any country and customer segments for e-Banking solutions. In 2023, we plan to open the full commercialisation of the product, improve the current functionalities and more based on customer needs and habits.

Keeping our **clients at the centre** of everything we do, we invested in developing UC Pay FX – a digital solution that provides tailor-made currency conversion of foreign payments based on customer-specific needs. The application was released in **Germany** on the **UC Corporate Portal** to serve clients with relevant information on converted transaction volumes, review of product details, reports and settings. Furthermore, UC Pay FX can be digitally purchased and activated by Customers directly in the Corporate Portal via the brand-new Customer Digital Onboarding.

Our bank plans to extend this digital solution to Italy for the upcoming year and supplement it with new features, such as Dealing Offline/Online, Currency Guide and Financial Institution dedicated upgrades.

Discover more

Empowering our employees with collaboration tools

A Group-wide Digital transformation through cloud technology

Values: Integrity, Ownership, Caring

With the adoption of new working patterns demanded by the **global pandemic**, our bank accelerated our **digital transformation** at UniCredit to forge a truly visible and connected workforce – offering a seamless experience across all devices anytime, anywhere.

UniCredit is committed to empowering our employees with the use of **technology**. This is no easy task for an organisation employing more than **80,000 people** across **13 countries**. The way we communicate has changed with the launch of an extensive IT migration program to introduce a unified modern workforce platform and unite all employees.

We embraced collaboration solutions, such as the **O365 package**, to enable consistently more agile and modern working. In 2022, the project reached nearly 100% completion across geographies and has proven transformational, with the latest migration to our single workplace platform including **15,000 users** from **Central and Eastern European countries**, which was completed in **less than six months**.

By leveraging digital tools such as **Microsoft Teams**, **OneDrive** and **Outlook**, we offered our colleagues a mobile phone solution that mirrors our laptop and desktop devices. In addition, we reviewed and reduced the number of applications available to simplify the work of our people. For example, the new corporate mobile app catalogue allows colleagues to customise their mobile workspace, cutting down on unnecessary clutter on their phone screens.

Leveraging local skills was crucial to the speed of the rollout, which was made possible through an **upskilling** and **reskilling** programme launched alongside the main migration. Key to supporting our transformation was ensuring that our users were developing the necessary skills and becoming certified on our new solution to help us in the immediate rollout as well as in the future.

Our employees have changed how they live their day-to-day lives and are more confident using these new solutions: collaborating, sharing documents, brainstorming, and participating in breakout sessions – ultimately embracing a cultural shift that complements **simplification** with **digitalisation**.

Discover more

We understood that if we wanted all our employees to feel confident and inspired, we needed to provide them with the right tools.

Tina Pogacic
Chief Digital and Information Officer CE&EE

Building an integrated, fast, and Digital bank

Living Digital Days

Values: Ownership, Caring

Over the past year, our Group has reached new and meaningful heights: launching **UniCredit University Digital**, the **Living Digital Community**, the **UCX Consumer Finance** in Italy, the **OneWealth** platform in Germany and the **COSMOS** platform, and much more.

This year, colleagues across our Bank gathered to learn from Digital and Business experts about the most recent initiatives we are putting in place to build an integrated, fast, and digital bank through our first-ever **Living Digital Days**.

Over the course of three days, **more than 10,000 colleagues** followed the event and connected online or attended in presence at our 25 speeches and 25+ physical stands in **Milan**, **Munich**, **Vienna**, **Zagreb**, **Budapest**, **Prague** and **Bucharest**. Over **40 speakers** offered insights on how we are transforming our Bank to offer our clients best-in-class products and services.

The event kicked-off with **Jingle Pang**, Group Digital & Information Officer, confirming the progress made in our **digital transformation journey**, emphasising why we need to focus on the future, embrace the latest and greatest technologies and deliver digital solutions for a best-in-class, integrated customer experience.

At UniCredit, we recognise that a digital transformation for an organisation of our size and scale is never simple or immediate. Our Bank is rich in history and built on knowledge only attained by many years of past experience. On the other hand, we are focused on the future, embracing the latest and greatest technologies and digital solutions to deliver a world-class experience. Combining the two is what gives us our **competitive advantage**.

Over the **3-day expo** we exhibited and demonstrated how Digital is shaping our Bank, our industry and concretely changing the lives of our clients. This transformation is possible because each of our people are taking ownership and contributing, no matter how small, to the success of our bank: from our Digital colleagues to the Business areas and support functions who act as our true partners.

More specifically, the Living Digital Days event represented a critical next step for our Bank – recognising each employee participant and their essential role in our digital transformation.

Watch the video

Read the interview with Jingle Pang, Group Digital & Information Officer

Discover more about the Intellectual Capital chapter in our Integrated Report

The first-ever digital event to gather everyone in our Group and showcase the power of technology. Combining it with a best-in-class integrated customer experience is what gives us our competitive advantage.

Jingle Pang
Group Digital & Information Officer

An event with a great balance between content that is both informative and creative, conveying the Group's Digital strategy in a simple way.

Barisaac Raphael
Global Head of Cash Management

Next-generation Wi-Fi for all

Network efficiency across all our premises

Values: Ownership

Keeping our people connected to the business and to one another, is a key driver of our success. A **high-speed Wi-Fi connection** is essential for our Bank's efficiency. It allows us to access Group IT resources, carry out our activities, collaborate with colleagues and clients more effectively, and develop stronger relationships.

We began taking back control of our largely outsourced technology and continued building the core capability internally. Kicking off the first milestone of the strategic skills internalisation, we started by upgrading our Wi-Fi in our Milan offices, managed entirely by our in-house experts.

To **simplify our colleagues' daily work** and enhance their service, we worked diligently to install more powerful and efficient Wi-Fi networks on our premises. As part of the project, in the last quarter of the year, we successfully delivered a new generation Wi-Fi network to our UniCredit offices in Milan and continued the implementation throughout Italy at our bank's Lampugnano offices.

The infrastructure consists of **over 500 Wireless Access Points**, significantly improving the bandwidth availability and speed for the connected users. Furthermore, we used a modern monitoring system leveraging Artificial Intelligence for a complete view of real-time performances and predictive issues monitoring.

We obtained excellent results in terms of the quality of the service, speed, and latency. In fact, in terms of performance, we measured a significant improvement in download and upload figures, and a significant decrease in the system latency, the primary indicator of connection responsiveness.

As a first initiative entirely managed by our teams, the results were remarkable – completing the rollout in our Milan headquarters one month before the estimated date. In economic terms, we expect a **drop of approximately 50%** compared to the initial cost estimation on the **3-year Total Cost of Ownership (TCO)**. We will relentlessly continue to work on improving the Digital experience for our colleagues and our clients.

Data stands behind our improved customer service

Building a better data-driven bank

Values: Caring

As a **data-driven Bank**, we have been working relentlessly to make relevant data available and accessible through our **Data Platform**. As one of our driving forces, this platform governs **42%** of all our data, and with its roll-out, we achieved one of our key 2022 goals six months in advance.

We have developed **12 customer analytics models** working in tandem with AI to increase our understanding of our customers and their user experience and improve and implement automation and decision-making.

Using AI-fueled data products has a plethora of benefits to capture business value, such as: reducing the risk of financial sanctions, reducing time to process corporate balance sheet information by leveraging automation capabilities **from 60 minutes to 2 minutes**, improving business targeting and customer analytical capabilities and improving conversion rates on consumer finance activities thanks to digital behavioural segmentation.

We implemented **Data Mesh** – an innovative system to manage analytical data at scale – allowing all users to access and employ strategic data to generate insight for daily business. Furthermore, we let Data call the shots. We strengthened our data proficiency through reskilling, with **over 1,000 colleagues** involved in data culture events that took place throughout 2022.

Through data replenishment **increasing from 20% to 42%**, we generated **60% of cost synergies**, equal to approximately **€10 million** on FY22 data portfolio initiatives. Capitalising on the solid foundation, we honed in on extracting value from customer-oriented use cases by scaling-up Data product adoption across businesses. Data is and remains the focal point of all our future developments so we can continue serving our clients with excellent service complemented by efficiency and a forward-thinking mindset.

For us, digitalisation translates into execution and requires a number of elements to be deployed together. Our target is to combine investments in technology with data integration into all areas of the Bank.

Artur Gruca
Chief Digital and Information Officer Germany

Creating an enhanced Digital experience for our retail clients

A new approach to doing business

Values: Integrity, Caring

UniCredit's transformative road towards **simplification** continued in 2022 with the **digitalisation of Consumer Finance services** for the convenience of our retail customers. **UniCredit Customer Experience** (UCX) is our multi-year digital transformation programme which aims to provide our customers with a unique and consistent digital experience across all devices and channels.

In Italy, the latest rollout of UCX was in Consumer Finance. We created a seamless online customer service experience across many of our channels, setting the foundations for a new approach to doing business with our clients, increasing productivity, streamlining processes, and cutting red tape. As a result, we are giving our clients the opportunity to make the most out of their digital experience for consumer lending.

The **Digital and Data** teams introduced several exciting new features for UCX Consumer Finance, including new client onboarding, reducing the number of in-branch visits, multiple phone calls and excess paperwork, by offering clients the option to sign up and activate their profiles online, identify themselves using self-authentication methods, request services and purchase banking products on their own. Further, we introduced automatic decisions investing in data analysis software and online credit policy reviews to help our customers view the status of their requests and loan approvals instantly and automatically receive updates on other consumer finance services.

Our goal is to provide our clients with ease when it comes to receiving the financing they need without added hassle, so we have reduced the amount of income documentation required to be presented during a loan application.

Lastly, we introduced faster **Time-to-Yes** and **Time-to-Cash**. Credit is at the heart of most customer relationships, and digitising part of their experience offers significant advantages. For this reason, our investments in automation and digitalisation reduced considerably the Time-to-Yes and Time-to-Cash, all while increasing the "**quality of yes**".

Digital is at the core of our strategy, and it is also a daily need for our customers. Being close to our customers, understanding digitalisation trends, and being able to incorporate these into daily software development and service design require time and dedication from everybody in our organisation.

Luba Uram
Chief Digital and Information Officer Italy and Head of Retail Business Platform

Digitalisation is everywhere. At UniCredit, our aim is to serve our customers in the most frictionless way and be one tap away from their daily financial needs. We are committed to staying closer to our customers, offering them every possible digital touch point, and promptly responding to their financial needs on every channel.

Vedat Sozer
Head of Alternative Distribution Channels

Digital & Data stories

Country: Italy

Values: Ownership

Su Misura per Te

(Tailor Made for You)

This year, guided by our strategic plan, we shifted our focus to **Simplification** and streamlining our processes across all facets of the business. A program aimed at simplifying the daily life of the Italian network by eliminating unnecessary and redundant checks and tasks, “**Tailor Made for You**” was created to simplify our Bank’s processes, many of which have transformed to becoming unnecessarily complex and lengthy. The project was launched to build an in-depth comparison of current processes and strategies to make our way of operating **faster and more efficient**.

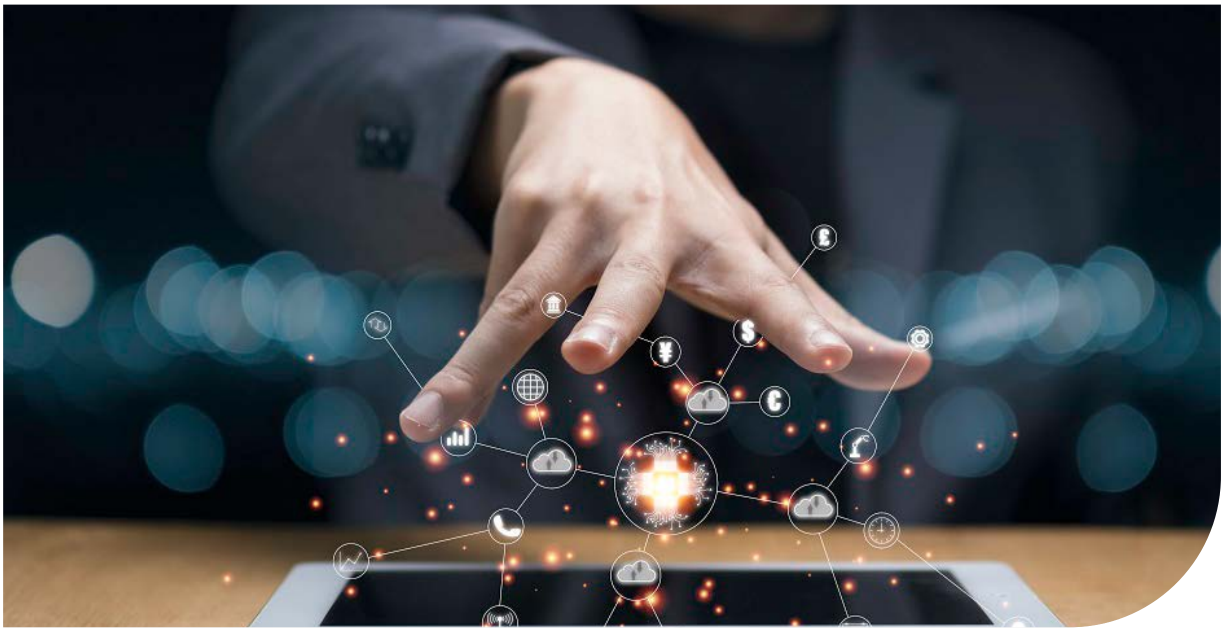
As part of the initiative, one component included was the paper-based authorisation for non-digitised customers. This allowed our bank to continue to serve customers in the best possible way, especially those whom, for various reasons - one of which is age – are unfamiliar with new technology. This means that we were able to complete the contracts for products and services for non-digitised customers using the old paper printing system, meeting these needs as well.

The overall project automated repetitive activities to free-up commercial time by: rationalising checks and administrative tasks considered obsolete or redundant; automating repetitive activities to reduce network fatigue and reducing the cost to serve. It also allowed for continuous “**listening**” to the network proposals, thanks to a “**Sounding Board**” created by branch manager colleagues.

Throughout the year, almost **200 interventions** were applied including: **147 checks and administrative tasks** that were rationalised, **27 processes** reviewed, and **13 automatisation processes** implemented.

New projects are planned to be implemented in the next year as our bank continues along its simplification journey.

Discover more



Country: Italy

Values: Ownership

Together4Digital: A partnership with Microsoft Italia to help 100,000 businesses go digital

To build the bank of the future, it is essential that we lean on the market leaders of digital and data know-how so we can continue to evolve as a bank, and as a Group. The collaboration between UniCredit and **Microsoft** aimed to further intensify our commitment to digitalisation by promoting both the **modernisation** of production and distribution processes, and the consolidation of digital skills, in line with the **National Recovery and Resilience Plan (NRRP)**. The collaboration, launched at the end of 2021 and further strengthened in 2022, aimed to generate a positive impact for all levels of the value chain and for all production chains in the country through a series of structured interventions.

Microsoft offered specialised advice, technology and digital solutions through their partner, **Var Group**, on the platform. Starting from May 2022, companies willing to launch their transformation could freely be recipient of a **Solution Assessment** driven by experts who assessed their digital skills and suggested tailored action plans with a focus on the proper cyber security posture. In addition, e-skills training were made available according to specific needs.

UniCredit offers financial support for digital investment, personalised assistance and education on financing tools through its **Banking Academy**. All companies were also granted access to **Warrant Hub's** tailored advice on subsidised finance and tax issues, to verify if companies are eligible and have the necessary requirements to access NRRP funds.

Together, Microsoft and UniCredit provide SMEs with **quick and simple services** and solutions to assess their degree of digitalisation. By continuing our digital evolution with key players like Microsoft, we can build a better bank for our people and provide them with the tools they need for the future.

Watch the video

Country: Germany

Values: Ownership

SmartDepot: A new digital securities account – simple and fast trading of securities

Embedding digital in everything we do is the only way our bank can continue to evolve and alongside the ever-changing landscape of the banking industry. With **SmartDepot**, **UniCredit HypoVereinsbank** expanded its securities offering for digital private clients in August 2022. The result of the project was a new securities account that can be opened online, fully paperless, in **less than 10 minutes.**

As a bank, we are fully focused on implementing Simplification across the Group – understanding and identifying key opportunities in our current processes to complement streamlined processes with a digital-driven mindset. Customers are becoming well-versed in digital, adopting new ways of banking in the fastest and most efficient ways possible.

UniCredit HypoVereinsbank's retail customers are increasingly benefiting from **digital**, **paperless** and more **cost-effective** offerings in all service and product areas. With its mix of technology, first-class service and expert advice, the bank offers customers a flexible range of banking services, both in the branches and through various digital channels. With that, the bank combines the advantages of cost-effective and fast online services with the benefits of an advisory bank: Securities can be traded conveniently in the **UniCredit HypoVereinsbank Online Banking** and with the **Mobile Banking app** – even while on the move.

Country: Bulgaria

Values: Integrity

Digital process for onboarding of legal entities

Digital onboarding of legal entities for UniCredit in **Bulgaria** has become an **entirely remote process**. When it comes to acquiring new legal entities as customers of the bank, using the new digital processes and services of local **Qualified Trusted Service Providers** is essential. This includes signing with **Qualified Electronic Signatures**, a feature that is now readily available for companies owned by individuals who are existing or incoming customers of the bank. By digitising the process from start to finish, we **cut the overall processing time in half**, all while maintaining the integrity of our work and the strong relationship with our customers.

Remote E2E processes for mortgage lending is an entirely remote process for taking a mortgage loan using **Qualified Electronic Signature** for digital signing. This applies to all stages of the process: from the consultation, to accepting the application and necessary documents, to including the signing of the contractual documentation. The only visit of the customer is at the end with the notary signing.

Embedding simplification processes in our various ways of working has a ripple effect on every area. As the signing is an essential step for many of our customers' business and personal journeys, close to **300 mortgage deals** have since been processed to date and that number continues to grow.

Country: Romania

Values: Integrity, Ownership, Caring

IOANA - The digital guide for UniCredit Romania

UniCredit puts "**living digital**" at the forefront when it comes to creating a best-in-class experiences for our clients. Ioana, the **vocal guide** introduced as part of the digital transformation strategy, was launched to interact with all private individual customers of UniCredit Bank and UniCredit Consumer Financing. Ioana enables human-like interactions in **Contact Center IVR** using **Natural Language Understanding** capabilities in Romanian, allowing individuals to self- serve and successfully resolve issues, while benefiting from a shorter time to answer and improved customer experience. Further, it runs reactive and proactive initiatives for customers' activation and digital acquisition while delivering administrative and commercial outbound campaigns (extending our reach).

Through Ioana, we deliver an intuitive service experience that anticipates the caller's needs and allows them to interact with the system naturally, and in their own words, through simple voice indications. In terms of the benefits to the Bank, we achieved internal efficiency in our remote servicing model by delivering services with zero waiting time for the clients, addressing increased demands at constant headcount, using efficiencies to cross-sell, and more.

Leveraging on **Mediatel Data Contact Center software** and **Nuance enhanced capabilities**, Ioana's role and contribution continues to evolve as we add new skills in accordance with the business strategy. The last one was launched in November 2022 and since then, the vocal guide is performing in IVR full caller identification, guiding the customer to log into Mobile Banking before transferring the call to a Contact Center Agent. Through Ioana, we can merge both the **best of digital and human interaction**, complementing one another to result in a streamlined approach to modern-day banking.

Country: Serbia

Values: Ownership

Discover the WoCa platform

At **UniCredit Serbia**, we are modernising our processes by implementing simplification best practices in the tools we use every day. **WoCa** is the **new-age e-platform** for processing factoring products and improves efficiency and time savings, allows for the reduction of bureaucracy and achieves an incomparably faster process of disbursement of funds. The platform allows clients to manage their claims and obligations in a simple way, through a financial instrument that aims to speed up the collection of claims from debtors that are due with a delayed payment deadline.

The WoCa platform integrated the possibility for both the client and its partners to access the system directly from their computers, communicate quickly and easily with the bank, and seamlessly authorise requests. The platform is a complete revolution in factoring on the Serbian market and has a great positive response among clients.

WoCa is a platform with access to data at **any time, 365 days a year** and automatically sends notifications to all of the client's partners. This means that the platform enables the automatic processing of a very large number of invoices at once due to the fact that the architecture of the platform has the prerequisites for direct connection with the client's information system.

Country: Czech Republic and Slovakia

Values: Ownership

Digitalisation of key products – a new digital platform

Digitalisation of key retail products is a key pillar to boost our business. In 2022, we introduced a new digital platform that offered the opportunity to clients in **Czech Republic and Slovakia** to open and access all key retail products – current accounts, mortgages, and consumer loans – in a digital and paperless manner, anytime and from anywhere – whether it's at a branch, online, through a special client centre or digitally through third parties.

Because of this innovation, it takes less than 10 minutes to open an account, 10 minutes to conclude a pre-approved consumer loan, and 20 minutes for a standard consumer loan. The mortgage process is digital from the submission of the application to its submission for approval. As a result, about **50% of consumer loans** and **60% of accounts** we serve are **fully digital**.

This brings not only a new concept of the digital customer experience for our clients, but completely changes the work routine of our colleagues in branches. Through new digital ways of working, automated and paperless processes can be efficient, sustainable, and allow our people to devote more time to our clients, who are always our top priority. So far, the open platform has saved **two million working minutes** through opening **50,000 current accounts** and more than **8,500** consumer loans and mortgages.

Country: Bosnia and Herzegovina (Banja Luka)

Values: Integrity, Ownership

New UniCredit Mobile Banking App functionalities

Our bank continues to enhance our current digital offering to our clients, including a new functionality within the **UniCredit Banja Luka's "m-bank" mobile app** – dividing credit card transactions into instalments. UniCredit presented a campaign promoting this new functionality of the mobile banking application, which now provides the possibility of **dividing one-time transactions** into instalments made with **Visa** credit cards within UniCredit m-bank. In a simple way, our clients can divide a one-time transaction into the desired number of instalments, regardless of where it was done – online or POS purchased, as well as ATM withdrawals, within the country or abroad. Splitting transactions into instalments is made possible for amounts ranging from 100 - 10,000 KM. Depending on the amount, the transaction can be divided into **minimum of 3** and **maximum of 24 instalments**.

Together with UniCredit Bank Mostar, our bank, for several years in a row, received the Golden BAM award for the best mobile banking application on local market.

UniCredit in **Bosnia and Herzegovina** continuously monitors clients' satisfaction and creates its products and services according to their needs. We always take into account the needs and habits of our existing and new clients in order to improve digital services and introduce new technologies which bring digital and data benefits to all stakeholders.

Country: Austria

Values: Ownership

MoneyMatters: youth financial education programme

At UniCredit, we understand the importance of **providing our youth with opportunities** to enhance their skills at a young age and prepare them for their future. The innovative financial education programme "**MoneyMatters**" was adopted, which offers students from the eighth grade onwards the opportunity to strengthen their financial knowledge in a playful and multimedia form. This blended learning programme is designed for students and trainees ages 14 and over. It was developed by **UniCredit Bank Austria** together with teachers and the **Institute of Business Education at the Vienna University of Economics and Business Administration** and launched in a pilot project at schools in the federal state of Burgenland.

The programme taught children and young adults how to handle money responsibly. Students and trainees can continue to work independently and regardless of their location via smartphone, tablet or PC. The **12 digital lessons** include basic knowledge trainings about money and the economy, cryptocurrency and cybersecurity. They receive a Basic Certificate after completing the first five basic modules and a **Premium Certificate** after completing ten modules. Through videos, quizzes and animated diagrams, MoneyMatters combines the best of digital as well as playful approaches alongside knowledge transfer.

UniCredit Foundation

UNLOCKING THE POTENTIAL OF EUROPE'S NEXT GENERATION

UniCredit Foundation

Unlocking the potential of Europe's next generation

This year, the UniCredit Foundation relaunched its Purpose and commitment to empowering Europe's youth by unlocking their potential through equal education opportunities.

We believe that only by investing in the next generation's education and progression, can we ensure growth and development across our society.

In line with UniCredit's ambition – to be the bank for Europe's future – our Foundation is focused on giving Europe's next generation the key to unlocking their innate potential and empowering them to become the changemakers of our society.

To do this, the UniCredit Foundation is working towards combating school dropout rates, enhancing employability, encouraging university attainment and promoting study and research. These all directly feed into to the Foundation's new Purpose: to unlock the potential of Europe's next generation. The UniCredit Foundation empowers our youth by providing them with the tools and resources they need to become successful in their academic and professional careers.

This is why the Foundation relaunched its Mission: offering equal educational opportunities to Europe's youth – our future leaders of tomorrow. To pursue this ambitious new journey, the UniCredit Foundation reshaped its governing bodies, electing a new Board of Directors for the next three years, which will be chaired by Andrea Orcel, Group Chief Executive Officer and Head of Italy, and vice-chaired by Professor Giorgio Barba Navaretti. Serenella De Candia has maintained her role as a member of the Board, while six new members have joined: Katharina Gehra, Szilvia Gyurkó, Roberto Kutić, Dorith Salvarani-Drill, Gerry Salole and Klaus Schwertner.

The nine international members aim to ensure there is equal representation both internally (UniCredit Group) and externally outside of the bank. Further, the careful selection of representatives maintains a strong presence of members from all four UniCredit regions, who represent diverse backgrounds, gender, expertise, and philanthropic experience.

> Education is essential. It's a key driver of Europe's future, and it is our responsibility as an institution to identify, support and empower our youth – those individuals who will lay the foundation for Europe's progress and success in the years to come. It is our bank's Purpose to empower communities to progress, and it is our commitment to promoting social advancement, in line with our ESG strategy and strategic plan.
>
> **Andrea Orcel**
> Chairman of the
> UniCredit Foundation

2022: Year of transition

2022 has been a transitional and evolutionary year for the UniCredit Foundation.

Key Milestones

MARCH

HUMANITARIAN EMERGENCY

Our charitable initiatives for Ukraine
A total of 4,170 employees from across the Group came together in unity to donate their personal funds in full support for Ukrainian refugees. All donations were matched (doubled) by the UniCredit Foundation **for a final total contribution of approximately €845,000**.

Food For Poverty Initiative
Since the beginning of the pandemic, the UniCredit Foundation has taken concrete actions to fight food poverty across Italy and to support organisations involved in the distribution of food to all those in need throughout the Country. To date, the Foundation has donated over **€5 million, the equivalent of 3.8 million meals, to 69 non-profit organisations.**

HUMANITARIAN EMERGENCY

MAY

FOTO FORSE DA CAMBIARE

JUNE-JULY

SUPPORT TO STUDY & RESEARCH

PhD, Master scholarships and Fellowship
UniCredit Foundation launched a series of initiatives to support European university students, in line with its continued commitment to supporting study and research. This includes **about 30 scholarships and research grants, with a total value of around €1.5 million**.

Since 2003, the UniCredit Foundation has always supported projects with relevant social impact and innovation, to better our communities and drive progress for those we serve. We now plan to continue that mission with a focus on European youth with dedicated support for their developmental and academic endeavours.

Silvia Cappellini
General Manager of the UniCredit Foundation

Listen to the podcast

NOVEMBER

PILOT PROJECTS IN EDUCATION

Obiettivo Lavoro Project - Orienteering in Vocational School
Together with the Fondazione Ing. Rodolfo Debenedetti, the Foundation acts as a compass, addressing the lack of **connections between schools and labour market intermediaries**. The ambition is to **improve access to employment** for young graduates of vocational schools through the implementation and evaluation of the impact of a **counselling programme**.

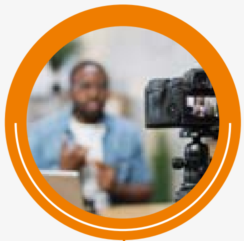
THE RELAUNCH

New mandate and look
This year, the UniCredit Foundation **relaunched its Purpose** and commitment to empowering Europe's youth by unlocking their potential through equal education opportunities. The Foundation also presents a fresh look: **a brand-new logo** composed of a harmonious intersection of lines, shaping the 'U' and the 'F' with shades of warm colours representing growth, development, and progress. This introduces **a new visual identity** to bring it closer to its target audience.

DECEMBER

PILOT PROJECTS IN EDUCATION

Call for Education
UniCredit Foundation launched an internal call to identify and support educational projects in **Bulgaria and Romania** for young people in the 11-19 age group (lower and upper secondary school), allocating financial resources **up to €500,000**, to maximum of 4 wide-ranging projects.



20 YEARS OF GIFT MATCHING

Gift Matching Program
UniCredit Foundation launched the Gift Matching Program **for the 20th year** in a row. Through this initiative, the Foundation and UniCredit's people joined forces in their solidarity commitment. The 2022 edition supported non-profit organisations engaged in activities for children and young people up to the age of 24, **doubling donations made by groups of colleagues** and recognising an **additional contribution** to initiatives aimed at **fostering educational equality**.

Unlocking...

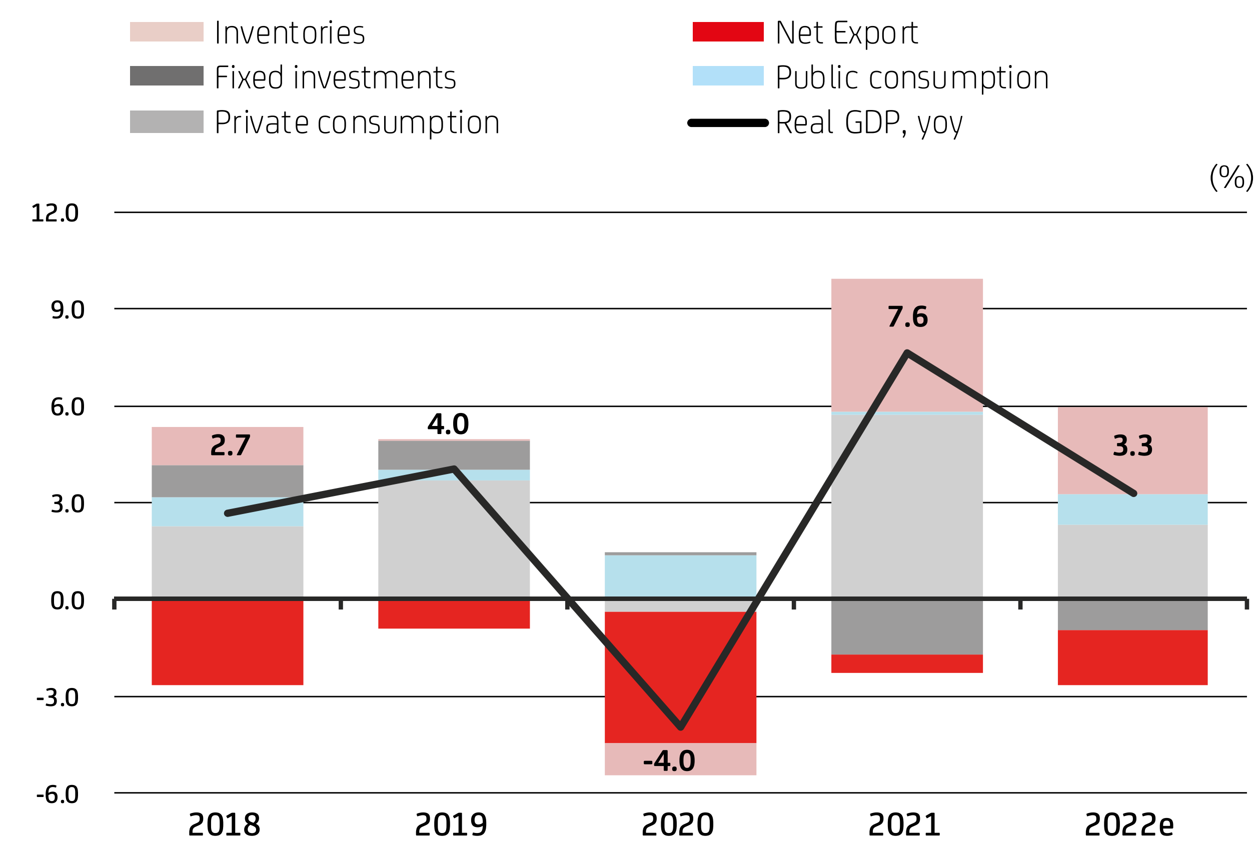
A better bank
A better world
A better future

Clients

Discover Milestones Stories here

BULGARIAN BANKING SECTOR IN 2022

Real GDP growth and contribution to growth



Source: National Statistical Institute, UniCredit Bulbank

Last year was marked by the start of the Russian aggression against Ukraine. From all we have seen so far, it seems that we are in the early stage of the most profound geopolitical shift the world has ever seen since the end of the Second World War. This shift is promising more abrupt and more dangerous changes to the structure of the global economy than the one we experienced when the Soviet Union collapsed in 1989.

After the start of the war in Ukraine, the USA and their allies imposed series of sanctions against Russia, which triggered a process of decoupling of Russian economy from the European one. To retaliate, Russia used energy supplies as a weapon, which caused an energy shock with proportions not seen since Arab countries caused oil embargo in the seventeen years of the XX century.

Inflation reached levels not seen since the financial crisis in 1996 - 97. Headline consumer price index is likely to have peaked at 18.7% in September, pushed by massive surge in energy and, to a lesser degree, food prices. However, core prices are unlikely to have peaked yet and are set to remain a source of inflationary pressure for the most part of the current year, according to most analysts.

To contain elevated inflation, the central banks of the developed economies embarked on the largest and most closely coordinated tightening of monetary conditions in the past several decades. This immediately translated into higher borrowing cost of foreign currency denominated loans. However, transmission of higher interest rates in the developed economies into higher costs of BGN-denominated credit for local companies and households took place very slowly. The latter was positive for growth dynamics as it prevented lending growth from decelerating sharply last year.

Bulgarian economy proved more resilient to the war caused disruptions than many anticipated initially. Real GDP growth slowed to an estimated 3.3% last year, but a sharper contraction of growth and employment was avoided, mostly due to the decisive actions of the public authorities, with the coordination and solid financial support provided by the EU structural and cohesion funds.

The government designed and implemented a series of fiscal support measures aimed at reducing the negative impact of very high inflation. We estimate the size of the total fiscal support package deployed by Bulgarian authorities last year at around 2.6% of the country's GDP. The fiscal support measures mostly took the form of higher pensions and public sector wage increases, while temporary reduction in some taxes played a more limited role. Widespread use of public subsidies for electricity consumers in the corporate sector was key in preventing dangerous increase in joblessness and companies' bankruptcies in the energy intensive part of the economy.

While consumers turned markedly more pessimistic when the war began, their spending habits changed only very gradually. Expecting higher prices and interest rates, Bulgarian households' decided to frontload spending and borrowing during the spring and summer months of the year. Precautionary savings accumulated during the lockdowns likewise played a key role in mitigating the negative impact that high inflation has had on the purchasing power of households' incomes.

The labour market remained tight, with average unemployment rate at only 4.3% for 2022, while the share of business managers reporting labor shortages remained significant in all key sectors of the economy. Nominal wages increased strongly, underpinned by government-funded increases of wages in the public sector of the economy. Producers in manufacturing were able to accommodate the strong wage increases by keeping employment almost unchanged, as production activity intensified in 2H22 in the context of the significant subsidies for electricity consumers.

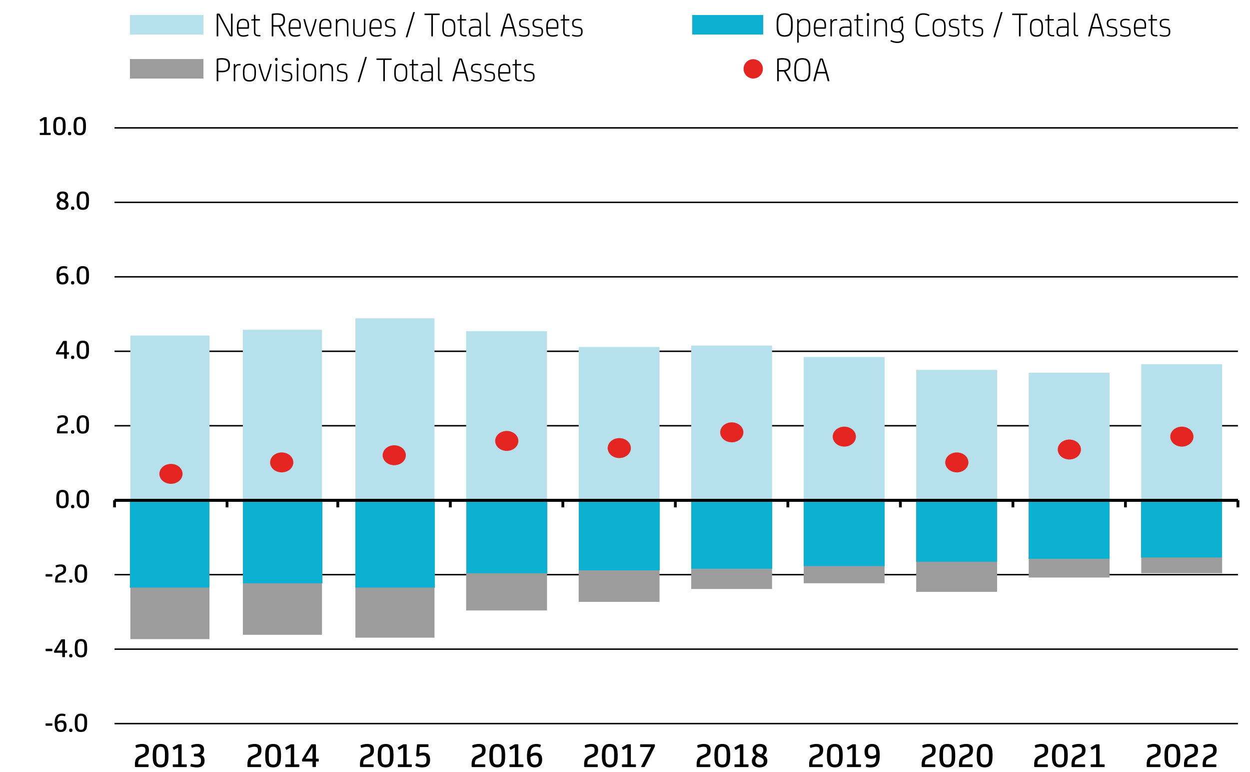
MACROECONOMIC INDICATORS	2022	2021	2020	2019	2018	CHANGE 2022/2021
Nominal GDP[1] (BGN million)	166 806	139 012	120 553	120 396	109 964	20.0%
GDP per capita[1] (BGN)	24 637	20 327	17 430	17 319	15 709	21.2%
Real GDP growth[1]. swda (%)	3.3	7.6	(4.0)	4.0	2.7	(4.3 pp)
LEONIA. avg (%)	0.02	(0.58)	(0.65)	(0.48)	(0.50)	+0.6 pp
Inflation. eop (%)	16.9	7.8	0.1	3.8	2.7	+9.1 pp
Inflation. avg (%)	15.3	3.3	1.7	3.1	2.8	+12.0 pp
Unemployment rate[1]. SA (%)	4.3	5.3	5.1	4.2	5.2	(1.0 pp)
Official exchange rate. eop (BGN/USD)	1.86	1.65	1.72	1.74	1.71	12.5%
Official exchange rate. avg (BGN/USD)	1.85	1.73	1.61	1.75	1.66	6.8%
Current account balance[2] (BGN millions)	893	(686)	48	2 245	1 040	(230.1%)
Current account balance[2] / GDP[1] (%)	0.5	(0.5)	0.0	1.9	0.9	+0.3 pp
Net foreign direct investments[2] (BGN millions)	2 192	1 931	5 402	2 421	1 481	(11.3%)
Net foreign direct investments[2] / GDP[1] (%)	1.3	1.4	4.5	2.0	1.3	(0.5 pp)
Gross foreign debt. eop (BGN millions)	85 640	81 149	76 858	73 766	72 737	5.5%
Gross foreign debt / GDP[1] (%)	51.3	58.4	63.8	61.3	66.1	(7.0 pp)
Public debt. eop (BGN millions)	37 093	32 528	28 859	23 563	23 893	14.0%
Public debt / GDP[1] (%)	22.2	23.4	23.9	19.6	21.7	(1.2 pp)
BNB FX reserves (BGN millions)	75 151	67 666	60 334	48 574	49 037	11.1%
Budget balance. cash basis / GDP[1] (%)	(0.8)	(2.9)	(2.9)	(1.0)	0.1	+2.1 pp

Source: Eurostat. Bulgarian National Bank. National Statistical Institute. Ministry of Finance and UniCredit Bulbank projections

[1] UniCredit Bulbank forecast for 2022

[2] Data as of November 2022

ROA breakdown (%)



Source: Bulgarian National Bank, UniCredit Bulbank

Marked surge in demand helped lending growth to accelerate to 12.6% y/y last year. The retail segment and mortgage lending in particular spearheaded the acceleration of credit growth in 2022. Meanwhile, corporate lending growth drew support from the increased residential construction and raising investments in sun and wind power plants in the context of the green transition acceleration.

A unique combination of factors pushed depo growth (14.7% y/y) to its strongest level since 2007. Among these were very large public sector subsidies for electricity consumers on top of the first tranche of NGEU funding as well as the positive impact of liquidity fee removal last year. In the context of the elevated inflation, strong demand for new credit was likewise among the key drivers pushing deposit growth to proportions not seen in almost two consecutive decades.

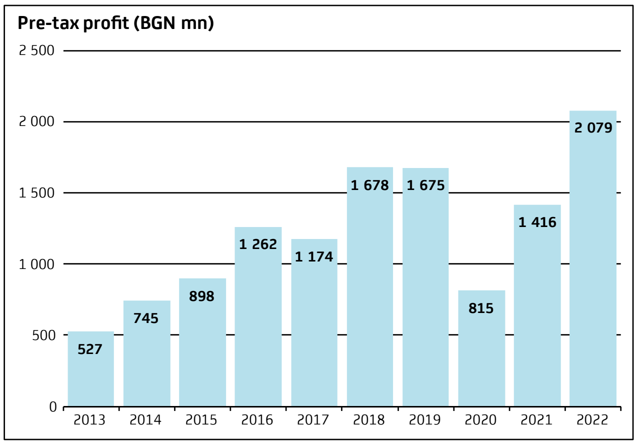
The average nationwide house price index accelerated to 15.6% y/y during the third quarter, in the context of the acceleration of mortgage lending to levels not seen since the last credit boom in the period between 2004 and 2008. We think that the average housing prices remain broadly in line with the country's prevailing income levels. At the same time, housing affordability have deteriorated markedly in some of the largest cities in the country, where housing in the most desired locations seems affordable to only a small fraction of the highest income part of the population.

The unprecedented tightening in the monetary conditions in the developed economies, pushed average interest rate on foreign currency denominated loans to 2.76 last year (from 2.58 in 2021). The letter reversed more than a decade long trend of interest rates contraction. This in turn resulted in a remarkable 17% y/y increase in net interest income last year. At the same time, interest rates on BGN denominated lending proved very resilient to the changes in the monetary conditions in the developed economies. This played an instrumental role in keeping the cost of BGN denominated lending very little changed, thereby supporting demand for new retail loans, despite aggressive monetary policy undertaken by the central banks of the most developed economies.

Solid support which public sector provided to the households and particularly to the corporate sector helped labor market to remain very healthy last year, which in turn prevented any deterioration in the credit quality. In response, cost of risk remained below 1 pp mark, while provisions were 11% down y/y. Fee and commission income was up by 15.2% y/y to reflect two main developments – solid double digit increases in the underlying deposits, lending and payments activities as well as some selective rises in the fee and commissions to capture the effect of higher administrative costs pressure.

Despite challenging operating environment, Bulgarian banking sector posted a significant 47% increase in after tax profit to BGN 2.1bn last year. This result was mostly attributable to the unprecedented tightening of monetary conditions in the developed economies. Impressive business volumes growth in the context of the resilient economy, which helped preventing loans quality from deterioration last year, also played its part to explain record high profitability performance last year.

Next year promises to be challenging. Deceleration of GDP growth and stubbornly high inflation are likely to put economy's resilience to the test. We think that banks are well prepared to deal with these challenges, as capital position is very comfortable, while banks have tightened credit origination standards to adopt to the new operational environment of higher costs. At the same time, higher cost of credit is likely to cool housing market in an orderly manner, thereby preventing housing prices from reaching potentially unsustainable proportions in the medium run.



Source: Bulgarian National Bank, UniCredit Bulbank

BANKING SYSTEM KEY FIGURES	2022	2021	2020	2019	2018	CHANGE 2022/2021
INCOME STATEMENT (BGN MILLION)						
Operating income	5 276	4 452	4 162	4 232	4 223	18.5%
incl. Net interest income	3 227	2 757	2 649	2 746	2 742	17.0%
incl. Net non-interest income	2 049	1 695	1 513	1 486	1 480	20.9%
Operating costs	2 253	2 058	1 961	1 933	1 893	9.5%
Operating profit	3 023	2 394	2 201	2 299	2 330	26.3%
Provisions (net)	588	661	991	511	529	(10.9%)
Pre-tax profit	2 435	1 733	1 210	1 789	1 800	40.5%
Net profit	2 079	1 416	815	1 675	1 678	46.8%
BALANCE SHEET (BGN MILLION)						
Total assets	155 406	135 410	124 006	114 201	105 557	14.8%
Loans to customers (incl. non-residents)	86 081	75 875	69 500	66 293	60 908	13.5%
thereof: Non-performing loans	4 447	4 969	5 711	6 120	6 790	(10.5%)
Deposits from customers (incl. non-residents)	126 197	109 356	100 671	91 853	84 571	15.4%
Shareholders' equity	17 281	16 607	15 352	14 397	13 858	4.1%
KEY PERFORMANCE INDICATORS (%)						
Loans-to-Deposits ratio (on residents)	67.4	68.6	68.8	72.5	72.3	(1.3 pp)
Cost / Income ratio	42.7	46.2	47.1	45.7	44.8	(3.5 pp)
NPLs ratio	5.2	6.5	8.2	9.2	11.1	(1.4 pp)
Cost of Risk[1]	0.8	1.0	1.5	0.8	0.9	(0.2 pp)
ROAE (after tax)	12.3	8.9	5.5	11.9	12.7	+3.4 pp
ROAA (after tax)	1.4	1.1	0.7	1.5	1.7	+0.3 pp
RESOURCES (NUMBER, EOP)						
Acting commercial banks at the end of the period	25	25	24	24	25	0

Source: Bulgarian National Bank

[1] Provisions flow/Avg gross loans

MARKET POSITIONING

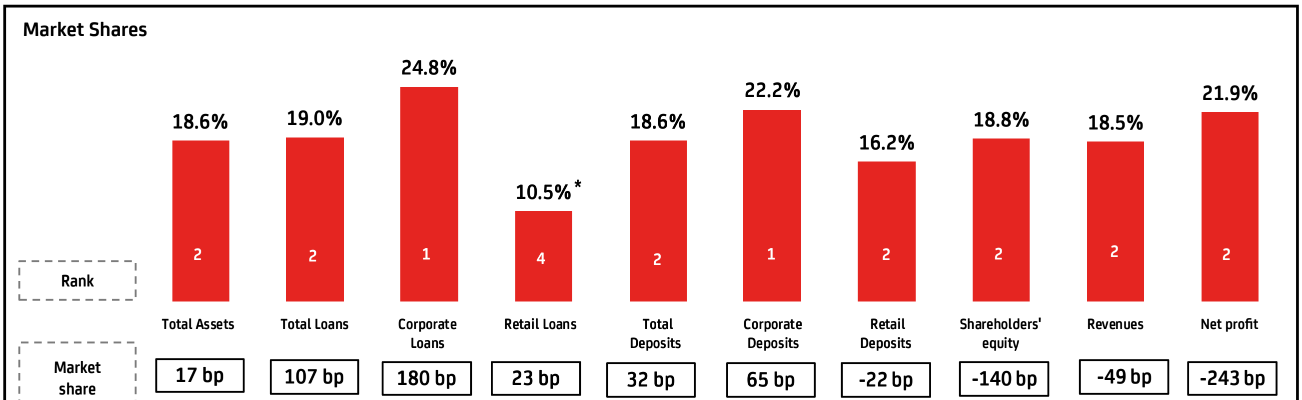
In 2022 **UniCredit Bulbank** successfully managed to preserve its **leading position** on the Bulgarian banking market closing 2022 as one of the best liquid and capitalized banks (CET 1 at 22.9% - stand-alone) with Net Profit at BGN 465.9 m, growth of 48.5% y/y (stand-alone). As of 31 December 22 both UniCredit Bulbank and the second most important bank in Bulgaria keep either 18.6% market share in total assets.

In an environment of margins' compression, excess liquidity, fierce competition, challenging macroeconomic scenario and ongoing consolidation of the banking sector which benefits our main rivals, **UniCredit Bulbank growing fully organically** is the most active bank on the Loans Market for 2022 and continued to be a key player on the Bulgarian Banking Market accumulating above 1/5 of Banking System's Net Profit for another year in a row.

Moreover, **UCB** sustainably **outperformed the market** in ROA and ROE, has lower leverage compared to market average and on a peers level, UniCredit Bulbank is ranked as **the most efficient bank in Bulgaria**, keeping the lowest C/I Ratio (excluding Dividend contribution) at 36.3% (FY22 perimeter Stand Alone incl. UCFin).

Although the ongoing consolidation of the Banking System in Bulgaria, UniCredit Bulbank **continues to be undisputable market leader in Corporate segment where UniCredit Bulbank increased** the positive variance vs the main peers. **In Retail segment** the Bank remained **one of the key players**.

The success of the Bank was underpinned by its diversified business model and its solid financial foundations with a very robust capital and liquidity position and strong risk discipline. **Highest ever new loans volumes production in both Corporate and Retail**, decreasing NPE ratio and lower loan loss provisions benefitting from a sustainable business origination and prudent risk approach, excellent excess liquidity management and further acceleration of our efforts in the digital area were the key drivers for the **extraordinary results**.



Source: Regulatory financial statements and Monetary Statistics of UniCredit Bulbank and BNB.
* 16.1% market share or second position if including the business, generated mainly through the Bank's subsidiary, specialized in consumer financing UCFin.

The **strong market position** originates from the sustainable business strategy, outstanding reputation and customer centric commercial approach. It involves constant focus for creating a positive customer experience as well as focus on innovations in all areas. The digitalization of products and services, streamlining processes and efficiency continue to be top priority for the Bank.

Serving more than 1.2 million customers through a branch network of 133 units UniCredit Bulbank is part of UniCredit, successful Pan European Commercial Bank, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise. UniCredit Bulbank's synergies with its parent are very strong, thus building another competitive advantage especially in terms of robust positioning in international businesses.

In 2022 in **Total Assets**, UCB achieved 18.6% market share, +17 bp y/y (+15.8% y/y vs growth of 14.8% for the Banking System).

UCB keeps higher Market Share in **Shareholders' Equity** at 18.8% as of Dec 2022 supported by the strong Net Profit.

The shrinking loans margins (due to the lowest ever interest rates on new loans) have been counterbalanced by further **streamlined liquidity optimization policy** of the Bank as well as focus on capital light fee generating products.

In 2022 **UniCredit Bulbank** remained the most important institution among the financial intermediators keeping leading position in bonds and corporate loans. As of 31 December 22 the Bank keeps more than 4 pp distance vs the main peers in bonds and more than 7 pp distance in corporate Loans.

UCB's CET1 capital ratio remained much higher (22.9% for 2022) than the minimum BNB requirement of 12.0% (including applicable capital buffers) and was further supported by a net profit of BGN 466 m.

Based on a specially tailored commercial approach, oriented to establish a long-term relation with both corporate and individual customers, **UCB** continues to be one of the **Top Market Lenders** with a market share of 19.0% in Total Gross Loans (or 19.4% if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing – UniCredit Consumer Financing (UCFin).

Real GDP in 2022 is estimated to consolidate at around 3.3%. Both Banking System and UCB achieved a positive y/y lending growth above the level of GDP (lending growth of 12.6% for Banking System vs growth of 19.3% for UniCredit Bulbank).

From a commercial perspective, in 2022 **the Bank achieved the highest ever new volume production in both Corporate and Retail Loans**. UniCredit Bulbank (being **the most active player on loans market in 2022**) managed to accumulate **double digit growth** in both Corporate and Retail Loans, thus successfully **recovering pre-Covid levels of Market Shares** in both Corporate and Retail Loans.

In **Corporate Loans** sector UCB continues to be absolute **market leader** with 24.8% market share. The Bank remained the main partner of companies operating in Bulgaria as indicated by the indisputable leadership position in the sector of non-financial corporations, where the Bank holds above 1/5 of total exposure in the banking system (21.1% market share as the end of 2022).

Despite the challenging business activity and following a strict risk discipline, in **Retail Loans**, **UniCredit Bulbank** (including UCFin) **outperformed the Banking System** achieving growth of 19.2% y/y vs growth of 15.1% for Banking System (+56 bp to 16.1% market share, **the highest ever** after **12 consecutive months of increasing market share**) supported by a sustainable **double digit growth** in both Mortgage and Consumer Loans. Thanks to continuous processes' simplification, new service model implementation, **UCB outperforming the Banking System** achieved growth of 18.9% y/y in **Mortgage Loans** achieving market share of 19.7% and above the market share of total Retail Loans (including UCFin). **Consumer Loans** (including UniCredit Consumer Financing's contribution) outperformed the market achieving growth of 21.8% y/y vs growth of 13.6% for Banking System (+90 bp to 13.3% market share). In 2022, the Bank achieved **the best ever** new loans volumes production of consumer and mortgage loans.

In 2022 **UCB** continues to be amongst **the most trusted banks on the Deposit market**, achieving strong growth of 16.6% y/y (market share at 18.6%, +0.32 pp y/y).

In **Retail deposits** the Bank recorded growth of 6.8% y/y vs growth of 8.3% for the market, market share reached 16.2%, -22 bp y/y. Deposits' trend was in line with bank's strategic target to optimize the level of excess liquidity as well as to redirect customer's fund to the investment products offered on financial markets.

Within **Corporate segment** UCB remains indisputable market leader with market share of 22.2%(+65 bp y/y) keeping its distinguished position vs the second largest competitor at 10.0 pp.

In an environment of ongoing consolidation of the banking sector, which favored economies of scale of UCB's competitors and the system as a whole, **UniCredit Bulbank growing fully organically** continues to be **the most efficient bank in Bulgaria** keeping its Cost to Income Ratio(excluding Dividend contribution) below the market average and main competitors (36.3% for UCB vs 46.0% for the Market). The Bank kept its market share in Revenues(excluding Dividend contribution) stable at 18.9%, **above** the market share in Total Assets at 18.6%.

With a **Net Profit of BGN 466 m**, the Bank accumulated more than 1/5 from Banking System's 2022 Net Profit for another year in a row, **outperforming** the Market Average in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio and kept significantly lower NPE ratio.

UNICREDIT BULBANK ACTIVITY REVIEW

Unconsolidated Financial Results

On the background of margins' compression, excess liquidity and ongoing consolidation of the banking sector, UniCredit Bulbank successfully managed to protect its profitability announcing growth of 48.5% y/y in Net profit, thanks to better performance in all revenue lines.

Focus on creating positive customer experience, digitalization, diversifying the product and service's offer, building lean processes along with its excellent reputation helped **UniCredit Bulbank to mark another year of success.**

In 2022 **Operating income** increased by 20.5% over 2021, amounting to BGN 899.1 m, growing organically with main contributors net interest income and fees and commissions.

The main contributor to operating income growth was **Net interest income** at BGN 424.5 m with increase by 17.9% y/y, supported by growth in lending volumes, optimized excess liquidity volumes incl. through increased bond's investments and higher income from placements with banks. **Net fees and commission income** (BGN 271.7 m), up by 14.3 y/y, thanks to growth in all main categories: fees from transactional services (collections and payments services as well as account services), fees from financial services as well as from brokerage services. The growth was triggered by increased economic activity in the country as well as by dedicated commercial actions of business divisions especially on high value added financial services areas (trade finance, investment products, corporate finance advisory, etc.).

Net gains on financial assets and liabilities held for trading and hedging derivatives (incl. FX revaluation) also increased by 32.4% y/y to BGN 104.9 m, due to high results from customer-driven FX sales gains, while **Dividends and net gains from financial assets mandatorily at fair value and at fair value through other comprehensive income** reported a growth of 41.7% y/y, mainly due to received dividend income from subsidiaries in 2022.

Other operating income/expense, net are in the amount of BGN -20.3 m (growth of 37.9% y/y) , where the main contributor is the lower installment for systemic charges in prior 2021, additionally supported by the lower rental income, received in 2022.

Operating expenses (BGN -319.0 m) increased by 7.5% y/y, coming from: staff expenses, related to inflation salary adjustments; depreciation costs, related to various transformation and digitalization strategic projects. Annual increase of other administrative expenses is driven by the higher ICT expenses, linked to costs for design and implementation of new business and strategy functionalities; expenses, related to inflationary impacts, especially rising prices of fuel, electricity and heating; as well as the higher regulatory fees, related to ECB supervision.

In line with the trend in Operating income, **Gross operating profit** rose by 29.1% to BGN 580.0 m.

In thousands of BGN

INCOME STATEMENT	YEAR		CHANGE	
	2022	2021 RESTATED	%	AMOUNT
Net interest income	424 532	360 200	17.9%	64 332
Net fee and commission income	271 673	237 739	14.3%	33 934
Net gains on financial assets and liabilities held for trading and hedging derivatives	104 920	79 250	32.4%	25 670
Dividends and net gains from financial assets MFVPL and at FVTOCI	118 247	83 452	41.7%	34 795
Other operating income/expenses. net	(20 286)	(14 714)	37.9%	(5 572)
OPERATING INCOME	899 086	745 927	20.5%	153 159
Operating expenses	(319 018)	(296 635)	7.5%	(22 383)
GROSS OPERATING PROFIT	580 068	449 292	29.1%	130 776
Net impairment loss on financial assets	(87 912)	(107 570)	(18.3%)	19 658
Provisions for risk and charges	(1 980)	(2 816)	(29.7%)	836
Income from property. plant and equipment	15 240	2 488	512.5%	12 752
Income tax expense	(39 531)	(27 568)	43.4%	(11 963)
NET PROFIT	465 885	313 826	48.5%	152 059

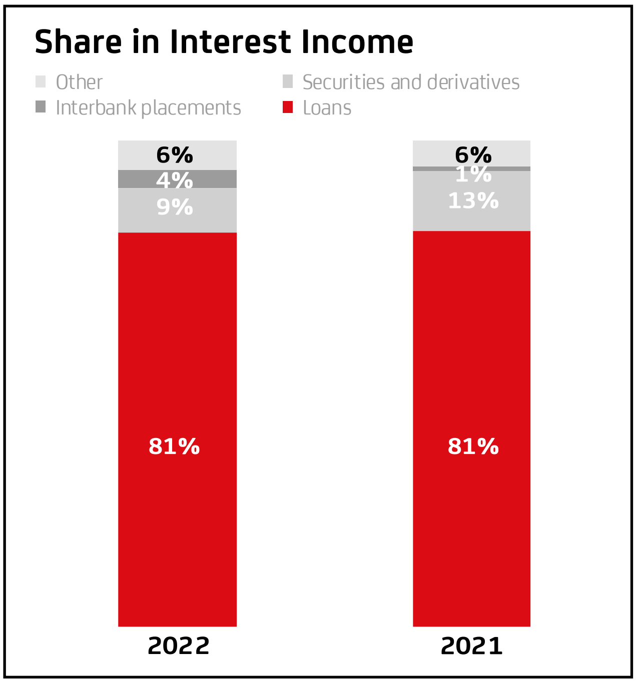
REVENUE STRUCTURE	YEAR	
	2022	2021 RESTATED
Net interest income	47%	48%
Net fee and commission income	30%	32%
Net income from dividends. trading income. hedging derivatives and investment securities and other net operating income/expenses	23%	20%
OPERATING INCOME	**100%**	**100%**

Unconsolidated Financial Results (continued)

Net Impairment loss on financial assets (BGN -87.9 m) decreased by 18.3% y/y, benefitting by healthy asset quality and from a continued disciplined risk approach.

In 2022 **Net interest income** (BGN 424.5 m) remained the **major item in revenues composition** for UniCredit Bulbank with a share of 47% (48% in 2021). However, the share of non-interest income slightly rose to 53% in 2021 vs 52% in 2021.

Interest income (BGN 462.7 m) increased by 13.8% y/y and is primarily earned from the lending business, which accounted for 81% of total interest income, affirming the Bank's strategic



focus on commercial banking and the commitment to the local economy. **Interest income from customer loans** (BGN 374.7 m) increased by 13.2% y/y, while **interest income from investment securities and HFT derivatives** (BGN 43.2 m) dropped by 15.2% y/y and accounted for 9% from interest income (compared to 13% in 2021). In 2022 **interest income from interbank placements** significantly increased and amounted to BGN 17.7 m at the end of the year. Thanks to continued better excess liquidity management in 2022, interest income on liabilities registered a growth of 21.2% y/y.

Interest expenses (BGN -38.1 m) decreased by 17.8% y/y, mainly due to lower interest expense on assets and on derivative used for hedging. **Interest expenses on customer deposits** (BGN 1.7 m) reported an annual growth and accounted for 4% of total interest expenses (2% in 2021). **Interest expenses on derivatives used for hedging** (BGN 12.5 m) considerably declined by 35.2% y/y, reaching a share in total interest expenses of 33% (41% in 2021). **Interest expenses on assets** (BGN -13.7 m) represented 36% of total interest expenses and marked a decrease of 46.8% y/y.

In 2022, besides the general recovery of economic activity, the Bank continued it's strong focus on deepening the penetration in capital light fee generating products. Partnership programs in the area of investment products, adding new functionalities to the digital channels and further enhancements of cards business continued to be the key drivers for enlarging fee-generating product portfolio. All this, along with the traditional strong synergy with the external product factories for consumer financing and leasing made the net fees and commissions income again one of the key driver for revenue growth.

Net fee and commission income (BGN 271.7 m) accounts for 30% of Total operating income and recorded solid growth of 14.3% y/y, mainly in fees from transactional services (net fee for collection and payment services stated 16.3% growth y/y, fees on accounts services and packages increased by 8.9% y/y, induced by the resuming increased business activity during the year; in fees from financial and brokerage services (22.5% growth y/y) thanks to growing volumes; and in other fees (4.6% y/y).

Operating expenses increased annually by 7.5%, which is driven by: a growth of 7.3% y/y for **personnel costs** (reaching BGN -159.6 m), in line with the general labor market trends for inflation salary adjustments; **Non-personnel costs** (BGN -111.0 m) increased by 5.6% y/y, as above stated mainly due to higher ICT expenses; cost, related to inflationary impacts; and higher regulatory fee for ECB supervision. **Expenses for amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale** grew by 13.4% y/y to BGN - 48.4 m, due to investments in new business and operational strategic projects.

Net Impairment loss on financial assets (BGN -87.9 m) decreased by 18.3% y/y, thanks to the remarkable improvement in asset quality and adherence of strict discipline approach. At the end of 2022 NPE ratio decreased to 3.1%, 0.9 bp better vs. a year ago (4.0%). NPE coverage ratio marked 82.2% (78.6% in 2021).

Profit before tax recorded a positive development of 48.0% y/y, reaching BGN 505.4 m and as a result **Net profit after tax** reached BGN 465.9 m (+48.5% y/y), which represents more than 20% from the Net profit of the Bulgarian banking system.

Unconsolidated Assets and Liabilities

Despite the challenging macroeconomic scenario, fierce competition and banking sector consolidations during the last years, successfully managed to preserve its leading position on the Bulgarian banking market, closing 2022 as one of the best liquid and capitalized banks. In terms of **Total assets** the Bank recorded a growth of 15.8% y/y, reaching BGN 28 889 m. In 2022 the balance sheet trends were driven by the Bank's strategy for liquidity optimization and organic growth. Total assets development was supported by the increase in customer deposits (+17.3% y/y). However, on the assets side a significant increase of net customer loans and debt securities at amortized cost was recorded (+27.7%),

Unconsolidated Financial Results (continued)

In thousands of BGN

STATEMENT OF FINANCIAL POSITION STRUCTURE	YEAR		CHANGE	
	2022	2021	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	7 070 403	6 677 436	5.9%	392 967
Investment securities and non-derivative financial assets held for trading	2 537 085	3 480 263	(27.1%)	(943 178)
Derivatives held for trading and held for hedging	247 565	99 015	150.0%	148 550
Loans and advances to banks and debt securities at amortised cost	1 282 131	697 985	83.7%	584 146
Loans and advances to customers and debt securities at amortised cost. net	17 267 825	13 519 451	27.7%	3 748 374
Property. plant. equipment. right of use assets and investment properties	238 781	236 916	0.8%	1 865
Intangible assets and other assets	245 320	237 310	3.4%	8 010
TOTAL ASSETS	28 889 110	24 948 376	15.8%	3 940 734
LIABILITIES AND EQUITY				
Deposits from banks	1 577 699	1 128 575	39.8%	449 124
Deposits from customers and other financial liabilities at amortized cost	23 214 919	19 795 330	17.3%	3 419 589
Financial liabilities held for trading and derivatives used for hedging	291 466	112 435	159.2%	179 031
Debt sequrities issued	313 701	313 104	0.2%	597
Other liabilities	239 332	241 233	(0.8%)	(1 901)
TOTAL LIABILITIES	25 637 117	21 590 677	18.7%	4 046 440
SHAREHOLDERS' EQUITY	3 251 993	3 357 699	(3.1%)	(105 706)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	28 889 110	24 948 376	15.8%	3 940 734

reinforced by all main assets lines, excluding Investment securities and Non-derivative financial assets held for trading and hedging.

Net loans and advances to customers, incl. debt securities at amortized costs increased to BGN 17 268 m, primarily component related to loans and advances to customers at amortized costs (more than 27.7% of y/y growth). The production of the consumer lending to individuals continued to be performed via the Bank's specialized subsidiary – UniCredit Consumer Financing. As a result of this strong growth, **net loans and advances to customers, incl. debt securities** at amortized costs already constitute more than half (60%; + 5.6 pp y/y) of the total assets of the Bank, confirming its strategic commitment on **sustainable development of traditional commercial banking**.

Investment securities portfolio (investment securities, pledged investment securities and non-derivative financial assets held for trading) decreased to BGN 2 537 m, (-27.1% y/y), mainly in government bonds, with share in total assets of 9% (14% in 2021). Almost the entire portfolio comprised of Bulgarian government bonds.

In 2022 **Net loans and advances to banks and debt securities at amortised cost** striking an increase of 83.7% y/y to BGN 1 282 m, entirely due to loans and advances to banks. At the end of 2022 they represented 4% of Total assets from 3% in 2021.

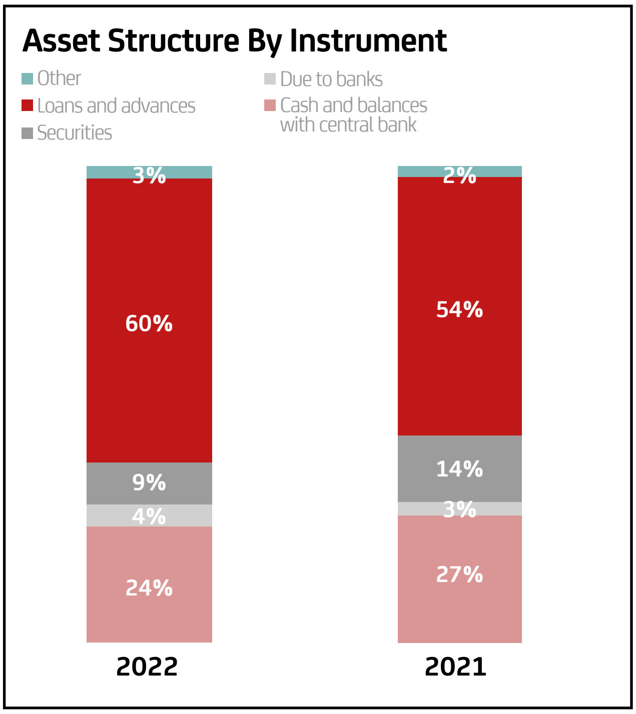
Intangable assets and other assets are at the amount of BGN 245 m (1% share of total asset) and comprise of other items on the asset side of the statement of financial position, such as intangible assets; investments in subsidiaries and associates; current tax assets; non-current assets and disposal groups classified as held for sale; other assets, mainly receivables and prepayments, and foreclosed properties.

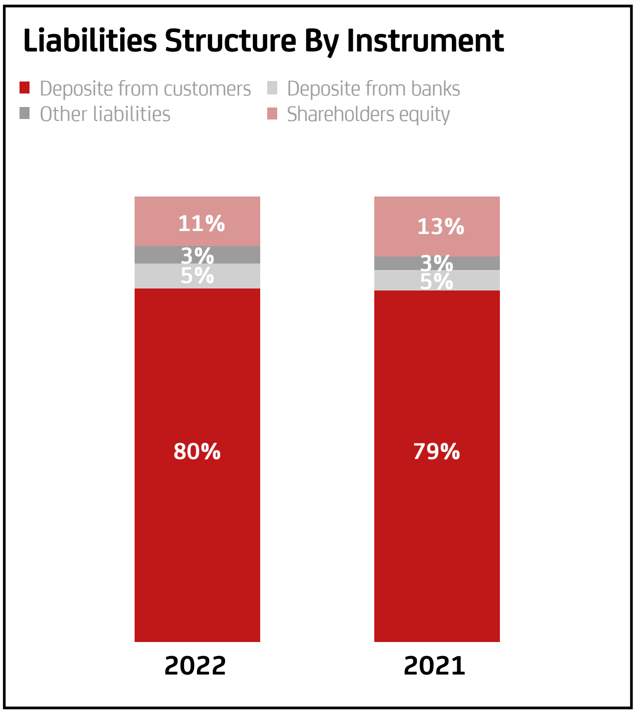
Customer deposits and other financial liabilities at amortized cost reached BGN 23 215 m and kept their very high share in total liabilities (excl. equity) of 91%. Thus, the Bank affirms its self-funding profile. Taking advantage of the banking system liquidity, its strong market position and impeccable reputation, UniCredit Bulbank achieved growth in customer deposits of 17.3% y/y, in both segments Retail and Corporate. In 2022 **Net loans/deposits ratio** increased to 74.4%.

Deposits from banks up by 39.8% y/y to BGN 1 578 m, remaining with insignificant share in total liabilities (6% in 2022 vs 5% in 2021).

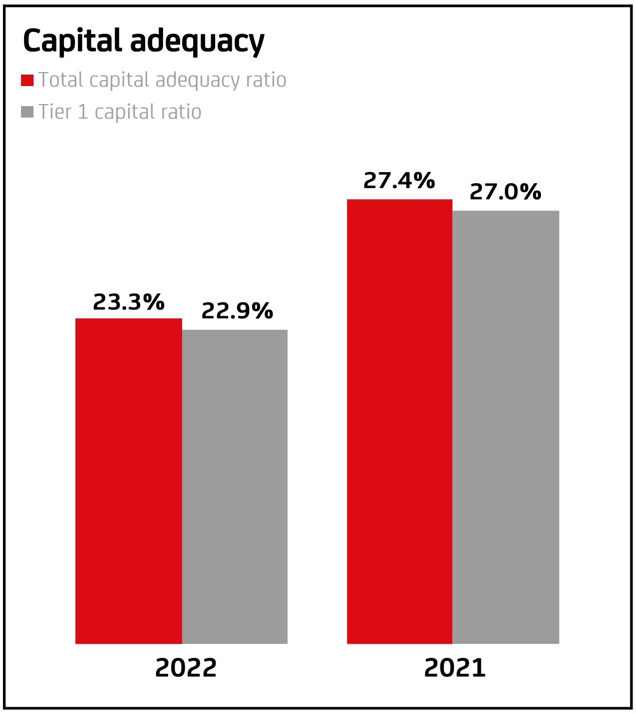
Shareholders' equity reached BGN 3 252 m, with 11.3% share in total liabilities and equity. The decrease of 3.1% y/y is attributable to revaluation and other reserves, mainly related to change of revaluation reserve on investment securities.

Unconsolidated Financial Results (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2022 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 15.5% for total capital adequacy ratio and 13.5% for Tier 1 ratio. The **total capital adequacy ratio registered 23.3%** and **Tier 1 ratio reached 22.9%**. The comparable levels of total and Tier I capital adequacy indicate the **high quality of the capital instruments – i.e. mainly Tier I eligible ones**.



Unconsolidated Financial Results (continued)

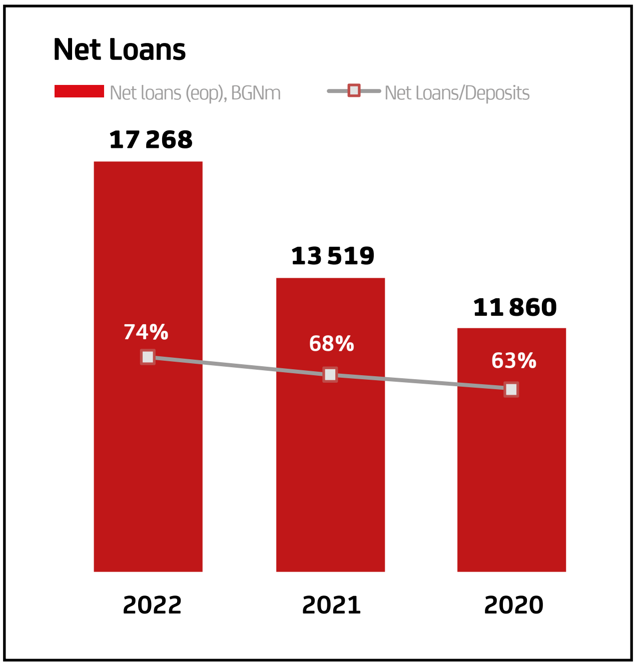
Customer Loans

While managing to be the most active Bank on the loans market in 2022 UniCredit Bulbank growing fully organically and relentlessly **supported its clients and the real economy.** We worked together in a rapidly changing business environment, always supporting our customers and protecting our people. **The commercial initiatives were addressed to providing a comprehensive range of financing products** tailored for the specific needs of the customer and covering the full range of not only banking services but also leasing and consumer financing solutions.

UniCredit Bulbank affirmed its leading market position with **net customer loans, incl. debt securities at amortized cost** at the amount of BGN 17 268 m and **gross customer loans, incl. debt securities at amortized costs,** amounting to BGN 18 028 m. The Bank continued to be one of the biggest players in the Bulgarian lending market with a share of 18.9%.

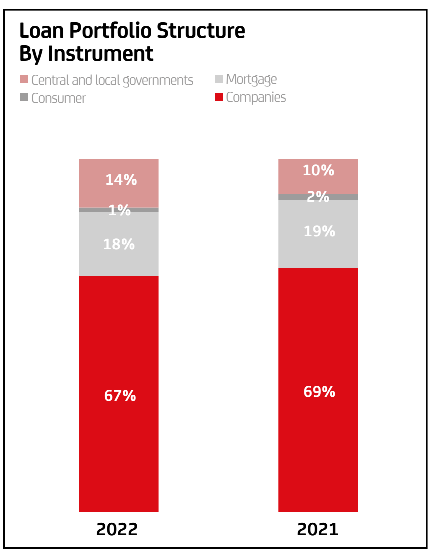
Loans to companies and central and local government represented the largest portion (81%) of the Bank's loan portfolio and amounted to BGN 14 513 m, up by 29.2% y/y. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. **Loans to individuals** amounted to BGN 3 515 m, representing 19% share of total loans. In 2022 mortgage loans marked a positive trend of 19.6% y/y, reaching BGN 3 301 m. Their share in loans to individuals increased to 94% (18% share in total loans).

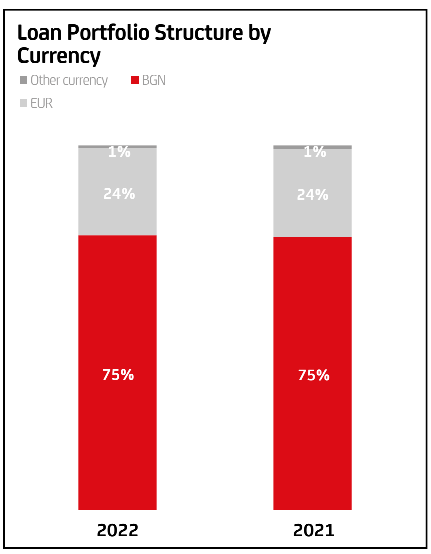
At the end of 2022 loans in BGN (BGN 13 564 m) grew by 27.4% y/y and keeping their share at 75% of Bank's gross loan portfolio.

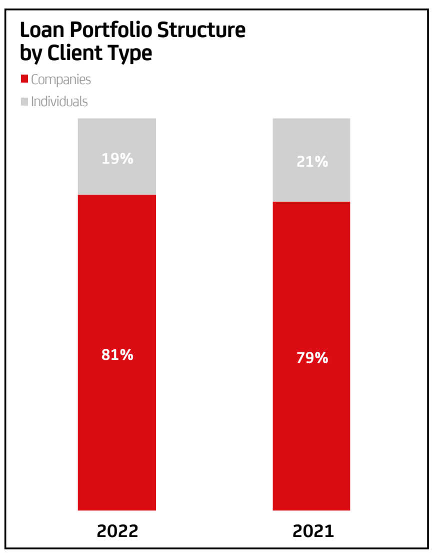


The share of loans in EUR also stayed flat at 24% in the end of 2022, while the loans in other currencies remained immaterial with 1% share.

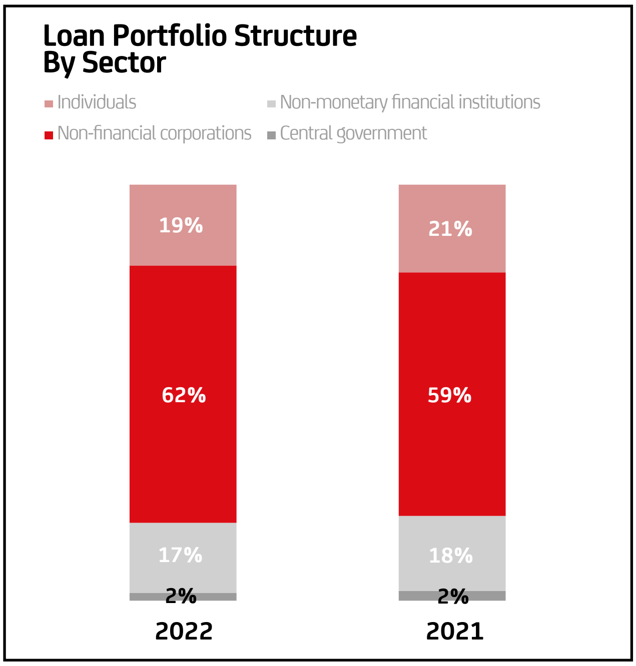
Regarding the **structure by economic sectors**, over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume. They took the share of 62%, while the loans to non-banking financial institutions decreased its share to 17%. The share of loans to individuals shrank to 19%, while the loans to central government remained flat at 2% in 2022.







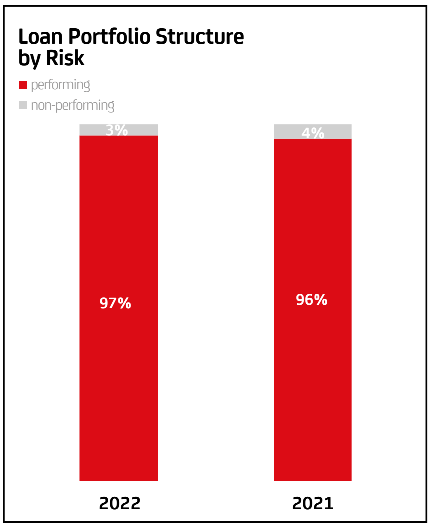
Unconsolidated Financial Results (continued)

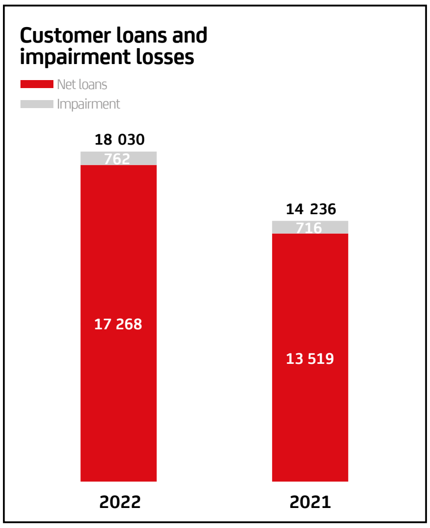


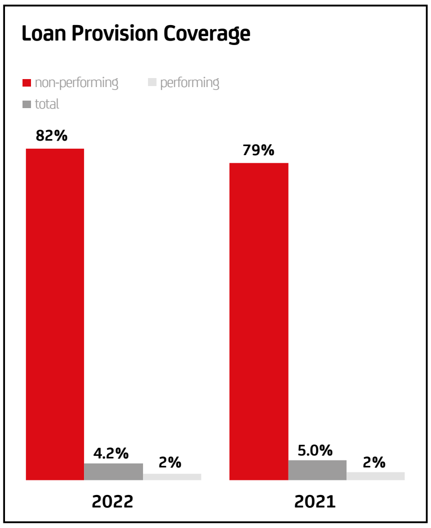
Despite the challenging macroeconomic scenario the Bank continued to observed its strategic goals related to **assets quality** activities. Benefitting from a continued disciplined risk approach the performing loans portfolio represented 97% (+27.8% y/y growth) and amounted to BGN 17 462 m. On the other hand, the non-performing loans stayed almost flat (+0.1% y/y to BGN 567 m).

As of December 2022 the Bank reported NPE ratio at 3.1%. The loan loss provision coverage of non-performing exposures acquired additional 353 bp and reached 82.2%. Total loan loss impairment allowances increased by 6.4% on an annual basis and reached BGN 762 m. Total coverage ratio is set at 4.2% (5.0% for 2021).

In terms of industry structure at the end of 2022 the most significant growth in share was achieved by sector Sovereign (increase by BGN 1 072 m y/y), followed by Commerce (BGN 775 m). In line with the Bank's strategy, Housing loans registered an increase by 19.6% y/y with share of 19%. At the end of 2022 the largest areas of concentration were Financial services (18%), Manufacturing (15%) and Housing loans (18%).







Thousands of BGN

INDUSTRY STRUCTURE	2022		2021	
	AMOUNT	SHARE	AMOUNT	SHARE
Financial services	3 167 175	18%	2 712 349	19%
Manufacturing	2 694 948	15%	2 260 524	16%
Commerce	2 684 298	15%	1 909 119	13%
Sovereign	2 496 637	14%	1 425 221	10%
Construction and real estate	1 653 985	9%	1 389 386	10%
Transport and communication	686 410	4%	636 308	4%
Agriculture and forestry	492 013	3%	408 231	3%
Services	352 816	2%	221 886	2%
Tourism	288 239	2%	273 674	2%
Retail (individuals)	**3 515 056**	**19%**	**3 000 231**	**21%**
Housing loans	3 300 749	18%	2 760 459	19%
Consumer loans	161 110	1%	174 752	1%
Other	53 197	0%	65 020	0%
TOTAL LOAN PORTFOLIO	18 031 577	100%	14 236 929	100%

Unconsolidated Financial Results (continued)

Customer Deposits

In an environment of excess liquidity and for most of the year deposits offer rates close to zero, UniCredit Bulbank recorded another successful year in the field of attracting and managing funds.

UniCredit Bulbank confirmed its position of a leading contributor on the market of customer deposits with **18.3% market share** leveraging on its distinguished reliability and faithfulness.

In 2022 UniCredit Bulbank's **Deposits from customers and other financial liabilities at amortized cost** grew by 17.3% y/y to BGN 23 215 m supported by both Retail and Corporate segments, where the Bank continues to be one of the most trusted and preferred banks.

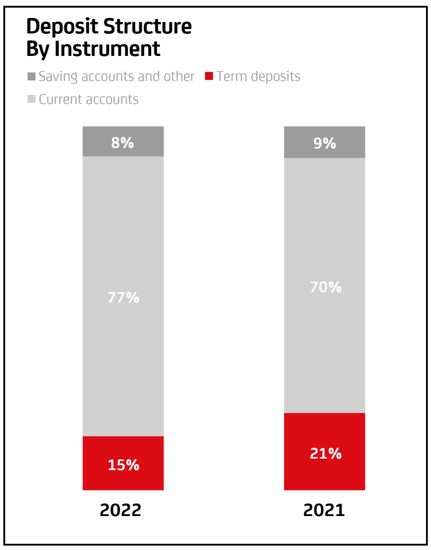
UniCredit Bulbank became the Bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.

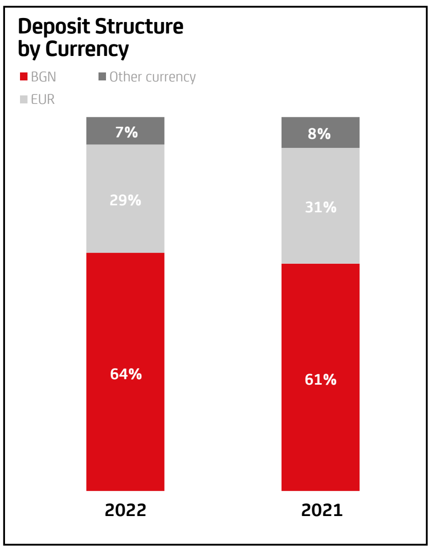
In terms of **clients type**, deposits of Individuals had an upward momentum of 6.6% y/y, ending 2022 at BGN 11 944 m and the company's deposits (incl. budget and state deposits, leases and factoring related liabilities) registered a significant increase of 31.2% y/y to BGN 11 271 m. In 2022 the share of Individuals deposits reported 51% share in customer deposits, compared to 49% share of deposits from companies, signaling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

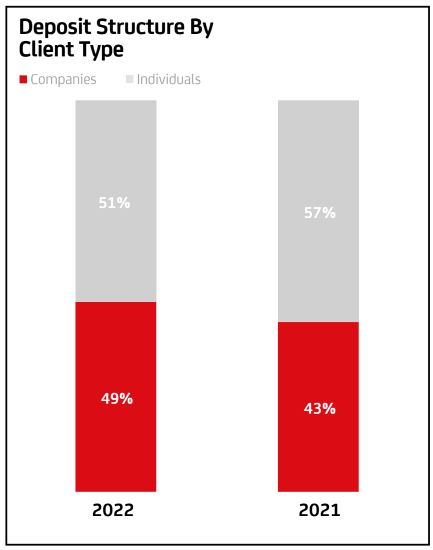
With regard to the **product structure**, current accounts increased by 28.5% y/y and reached 77% share (70% in 2021). Term deposits decreased by 17.2% y/y and as a result, shrank its share in total funds to 15% in 2022 vs 21% in 2021. Saving and other accounts remain with 8% share similar to prior year level (9% in 2021).

In terms of **currency distribution**, the structure of deposits remained balanced, 64% share of BGN denominated deposits vs 36% in EUR and other currencies. The growth of the deposit base is predominantly driven by BGN denominated deposits which increased by 23% y/y, while those in other currencies grew by 13.3% y/y.

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 Amundi Investments, life insurances and pension funds of Allianz.







Consolidated Financial Results

As of 31 December 2022 UniCredit Bulbank's subsidiaries and associates (UniCredit Bulbank Group, the Group), their consolidation method and the respective participation in their equity are presented as follows:

COMPANY	PARTICIPATION IN EQUITY	CONSOLIDATION METHOD
UniCredit Consumer Financing EAD	100.0%	Full consolidation
UniCredit Leasing Group	100.0%	Full consolidation
UniCredit Fleet Management EOOD	100.0%	Full consolidation
Cash Service Company AD	25.0%	Equity method

The **consolidated net profit** of UniCredit Bulbank Group for 2022 was at BGN 460.4 mln, up by 24.4% y/y, driven by better performance in all revenue lines.

Focus on creating positive customer experience, digitalization, diversifying the product and service's offer, building lean processes along with its excellent reputation helped **UniCredit Bulbank Group to mark another year of success.**

In 2022 **Operating income** increased by 11.6% over 2021, amounting to BGN 980.6 mln, growing organically with main contributors net interest income and fees and commissions.

The main contributor to operating income growth was **Net interest income** at BGN 584.3 mln with increase by 12.6% y/y, supported by growth in lending volumes, optimized excess liquidity volumes incl. through increased bond's investments and higher income from placements with banks. **Net fees and commission income** (BGN 281.3 mln) up by 10.1 y/y, thanks to growth in all main categories: fees from transactional services (collections and payments services as well as account services), fees from financial services as well as from brokerage services. The growth was triggered by increased economic activity in the country as well as by dedicated commercial actions of business divisions especially on high value added financial services areas (trade finance, investment products, corporate finance advisory, etc.).

Net gains on financial assets and liabilities held for trading and hedging derivatives (incl. FX revaluation) also increased by 32.4% y/y to BGN 104.9 mln, due to high results from customer-driven FX sales gains, while **Dividends and net gains from financial assets mandatorily at fair value and at fair value through other comprehensive income** reported a decrease of 66.3% y/y, mainly due to lower gains from the sale of bonds, measured at FVTOCI.

Other operating income/expense, net are in the amount of BGN 3.6 mln (drop of 32.1% y/y), where the main contributor is the lower installment for systemic charges in prior 2021.

Operating expenses (BGN -372.4 mln) increased by 7.4% y/y, coming from: staff expenses, related to inflation salary adjustments; depreciation costs, related to various transformation and digitalization strategic projects. Annual increase of other administrative expenses is driven by the higher ICT expenses, linked to costs for design and implementation of new business and strategy functionalities; expenses, related to inflationary impacts, especially rising prices of fuel, electricity and heating; as well as the higher regulatory fees, related to ECB supervision.

In line with the trend in Operating income, **Gross operating profit** rose by 14.4% to BGN 608.2 mln.

In thousands of BGN

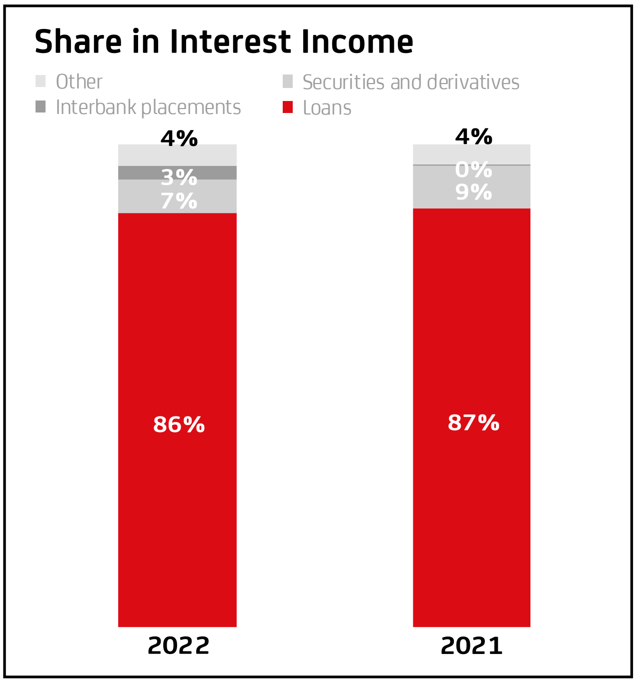
INCOME STATEMENT	YEAR		CHANGE	
	2022	2021 RESTATED	%	AMOUNT
Net interest income	584328	519082	12,6%	65246
Net fee and commission income	281304	255472	10,1%	25832
Net gains on financial assets and liabilities held for trading and hedging derivatives	104920	79259	32,4%	25661
Dividends and net gains from financial assets MFVPL and at FVTOCI	6528	19344	-66,3%	-12816
Other operating income/expenses, net	3550	5226	-32,1%	-1676
OPERATING INCOME	**980630**	**878383**	**11,6%**	**102247**
Operating expenses	-372416	-346776	7,4%	-25640
GROSS OPERATING PROFIT	**608214**	**531607**	**14,4%**	**76607**
Net impairment loss on financial assets	-112465	-120863	-6,9%	8398
Provisions for risk and charges	243	-3087	-107,9%	3330
Income from property, plant and equipment	15196	2858	431,7%	12338
Income tax expense	-50757	-40483	25,4%	-10274
NET PROFIT	**460431**	**370032**	**24,4%**	**90399**

Consolidated Financial Results (continued)

Net Impairment loss on financial assets (BGN -112.5 mln) decreased by 6.9% y/y, benefitting by healthy asset quality and from a continued disciplined risk approach.

REVENUE STRUCTURE	YEAR	
	2022	2021 RESTATED
Net interest income	60%	59%
Net fee and commission income	29%	29%
Net income from dividends. trading income. hedging derivatives and investment securities and other net operating income/expenses	11%	12%
OPERATING INCOME	**100%**	**100%**

In 2022 **Net interest income** remained the **major item in revenues composition** for UniCredit Bulbank Group with a share of 60% (59% in 2021), while the share of non-interest income slightly decreased to 40% in 2022 vs 41% in 2021.



Interest income (BGN 625.5 mln) increased by 10.0% y/y and is primarily earned from the lending business, which accounted for 86% of total interest income, affirming the UniCredit Goup's strategic focus on commercial banking and the commitment to the local economy. **Interest income from customer loans** (BGN 537.5 mln) increased by 9.0% y/y, while **interest income from investment securities and HFT derivatives** (BGN 43.2 mln) declined by 15.2% y/y and accounted for 7% from interest income (compared to 9% in 2021). In 2022 **interest income from interbank placements** significantly increased and amounted to BGN 17.7 mln at the end of the year. Thanks to continued better excess liquidity management in 2022, interest income on liabilities registered a growth of 21.2% y/y.

Interest expenses (BGN -41.2 mln) decreased by 17.3% y/y, mainly due to lower interest expense on assets and on derivative used for hedging. **Interest expenses on customer deposits** (BGN -3.1 mln) reported an annual growth and accounted for 8% of total interest expenses (4% in 2021). **Interest expenses on derivatives used for hedging** (BGN -12.5 mln) considerably declined by 35.2% y/y, reaching a share in total interest expenses of 30% (39% in 2021). **Interest expenses on assets** (BGN -13.7 mln) represented 33% of total interest expenses and marked a decrease of 46.8% y/y.

In 2022, besides the general recovery of economic activity, the Group continued it's strong focus on deepening the penetration in capital light fee generating products. Partnership programs in the area of investment products, adding new functionalities to the digital channels and further enhancements of cards business continued to be the key drivers for enlarging fee-generating product portfolio. All this, along with the traditional strong synergy with the external product factories for consumer financing and leasing made the net fees and commissions income again one of the key driver for revenue growth.

Net fee and commission income (BGN 281.3 mln) accounts for 29% of Total operating income and recorded a growth of 10.1% y/y, mainly in fees from transactional services (net fee for collection and payment services stated 15.1% growth y/y, fees on accounts services and packages increased by 8.9% y/y), induced by the resuming increased business activity during the year; in fees from financial and brokerage services (6.1% growth y/y), thanks to growing volumes; and in other fees (4.6% y/y).

Operating expenses increased annually by 7.4%, which is driven by: a growth of 7.1% y/y for **personnel costs** (reaching BGN -181.8 mln), in line with the general labor market trends for inflation salary adjustments; **General and administrative expenses** (BGN -118.8 mln) increased by 4.4% y/y, as above stated mainly due to higher ICT expenses; cost, related to inflationary impacts; and higher regulatory fee for ECB supervision. **Expenses for amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale** grew by 13.6% y/y to BGN – 71.8 mln, due to investments in new business and operational strategic projects.

Net Impairment loss on financial assets (BGN -112.5 mln) decreased by 6.9% y/y, thanks to the remarkable improvement in asset quality and adherence of strict discipline approach. At the end of 2022 NPE ratio decreased to 3.7%, 112 bp better vs. a year ago (4.8%). NPE coverage ratio marked 80.6% (77.5% in 2021).

Profit before tax recorded a positive development of 24.5% y/y, reaching BGN 511.2 mln and as a result **Net profit after tax** reached BGN 460.4 mln (+24.4% y/y).

Consolidated Assets and Liabilities

Despite the challenging macroeconomic scenario, aggressive

Consolidated Financial Results (continued)

competition and banking sector consolidations during the last years, UniCredit Bulbank Group successfully managed to preserve its leading position on the Bulgarian banking market. In terms of **Total assets** the Group recorded a growth of 15.2% y/y, reaching BGN 29 302 mln. In 2022 the balance sheet trends were driven by the Group's strategy for liquidity optimization and organic growth. Total assets development was supported by the increase in customer deposits (+17.3% y/y). However, on the assets side a significant increase of net customer loans, debt securities and finance leases at amortized cost was recorded (+26.3%), reinforced by all main assets lines, excl. Investment securities and non-derivative financial assets held for trading and hedging.

Net loans and advances to customers, incl. debt securities at amortized costs and finance leases increased to BGN 17 608 mln, primarily component related to loans and advances to customers at amortized costs (26.3% y/y growth). The production of the consumer lending to individuals continued to be performed via the Bank's specialized subsidiary – UniCredit Consumer Financing. As a result of this strong growth, **net loans and advances to customers, incl. debt securities and finance leases** at amortized costs already constitute more than half (60%; + 5.3 pp y/y) of the total assets of the Group, confirming its strategic commitment on **sustainable development of traditional commercial banking**.

Investment securities portfolio (investment securities, pledged investment securities and non-derivative financial assets held for trading) decreased to BGN 2 537 mln, (-27.1% y/y), mainly in government bonds, with share in total assets of 9% (14% in 2021). Almost the entire portfolio comprised of Bulgarian government bonds.

In 2022 **Net loans and advances to banks and debt securities at amortised cost** striking an increase of 83.0% y/y to BGN 1 282 mln, entirely due to loans and advances to banks. At the end of 2022 they represented 4% of Total assets from 3% in 2021.

Intangable assets and other assets are at the amount of BGN 217 mln (1% share of total asset) and comprise of other items on the asset side of the statement of financial position, such as intangible assets; investments in subsidiaries and associates; current tax assets; non-current assets and disposal groups classified as held for sale; other assets, mainly receivables and prepayments, and foreclosed properties.

Customer deposits and other financial liabilities at amortized cost reached BGN 23 223 mln and kept their very high share in total liabilities (excl. equity) of 90%. Thus, the Group affirms its self-funding profile. Taking advantage of the banking system liquidity, its strong market position and impeccable reputation, UniCredit Bulbank Group achieved growth in customer deposits of 17.3% y/y, in both segments Retail and Corporate. In 2022 **Net loans/deposits ratio** increased to 75.8%.

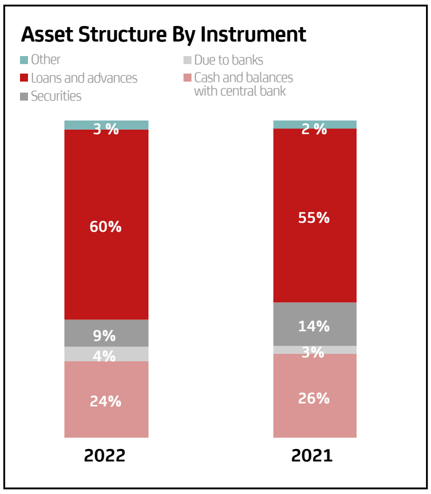
In thousands of BGN

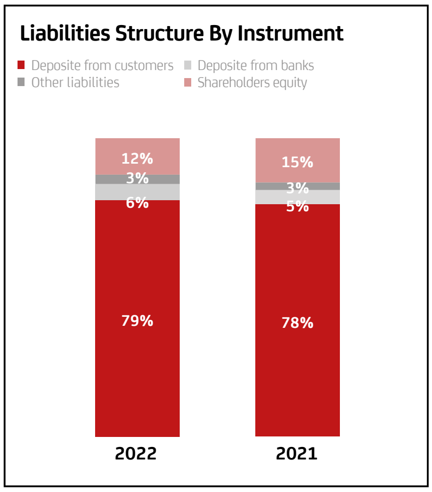
STATEMENT OF FINANCIAL POSITION STRUCTURE	YEAR		CHANGE	
	2022	2021	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	7 070 405	6 677 438	5.9%	392 967
Investment securities and non-derivative financial assets held for trading	2 537 085	3 480 263	(27.1%)	(943 178)
Derivatives held for trading and held for hedging	247 565	99 015	150.0%	148 550
Loans and advances to banks and debt securities at amortised cost	1 282 131	700 788	83.0%	581 343
Net loans and advances to customers, incl. debt securities at amortized costs and finance leases	17 608 322	13 946 002	26.3%	3 662 320
Property, plant, equipment, right of use assets and investment properties	339 770	328 737	3.4%	11 033
Intangible and other assets	216 722	196 979	10.0%	19 743
TOTAL ASSETS	**29 302 000**	**25 429 222**	**15.2%**	**3 872 778**
LIABILITIES AND EQUITY				
Deposits from banks	1 613 792	1 211 620	33.2%	402 172
Deposits from customers and other financial liabilities at amortized cost	23 222 863	19 800 871	17.3%	3 421 992
Financial liabilities held for trading and derivatives used for hedging	291 466	112 435	159.2%	179 031
Debt sequrities issued	313 701	313 104	0.2%	597
Other liabilities	283 572	279 409	1.5%	4 163
TOTAL LIABILITIES	**25 725 394**	**21 717 439**	**18.5%**	**4 007 955**
SHAREHOLDERS' EQUITY	**3 576 606**	**3 711 783**	**(3.6%)**	**(135 177)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**29 302 000**	**25 429 222**	**15.2%**	**3 872 778**

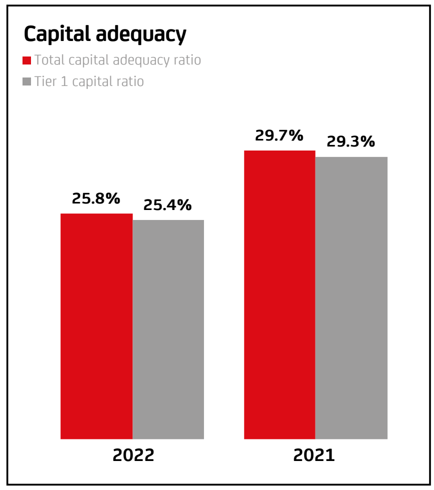
Consolidated Financial Results (continued)

Deposits from banks up by 33.2% y/y to BGN 1 614 mln, remaining with insignificant share in total liabilities of 6% in 2022.

Shareholders' equity reached BGN 3 577 mln, with 12% share in total liabilities and equity. The decrease of 3.6% y/y is attributable to revaluation and other reserves, mainly related to change of revaluation reserve on investment securities.







In compliance with Basel III (CRD IV) regulatory framework, in 2022 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 15.5% for total capital adequacy ratio and 13.5% for Tier 1 ratio. The **total capital adequacy ratio registered 25.8%** and **Tier 1 ratio reached 25.4%**. The comparable levels of total and Tier I capital adequacy indicate the **high quality of the capital instruments – i.e. mainly Tier I eligible ones**.

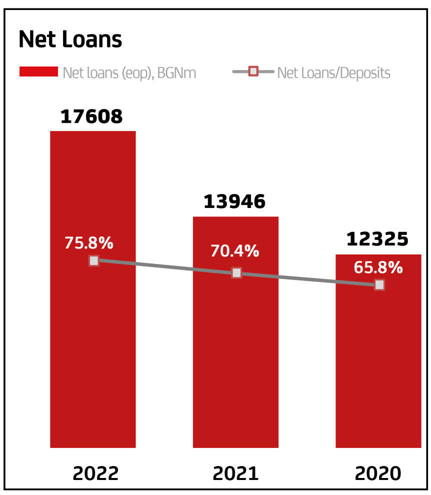
Customer Loans

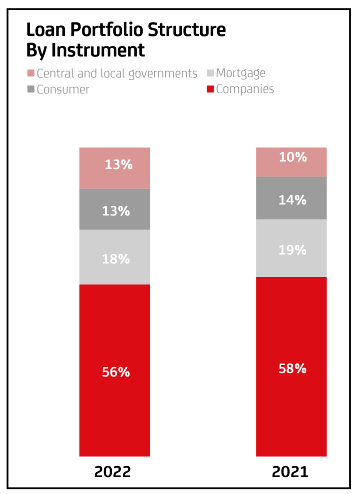
While managing to be the most active participant on the loans market in 2022 Unicredit Bulbank Group growing fully organically and relentlessly **supported its clients and the real economy.** We worked together in a rapidly changing business environment, always supporting our customers and protecting our people. **The commercial initiatives were addressed to providing a comprehensive range of financing products** tailored for the specific needs of the customer and covering the full range of banking, leasing and consumer financing solutions.

The Group affirmed its leading market position with **net customer loans, incl. debt securities at amortized cost and finance lease** at the amount of BGN 17 608 mln and **gross customer loans, incl. debt securities at amortized costs and finance lease,** amounting to BGN 18 508 mln.

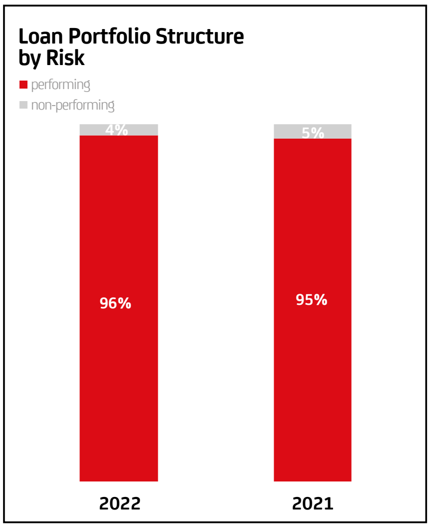
Loans to companies and central and local government represented the largest portion (69%) of the Group's loan portfolio and amounted to BGN 12 770 mln, up by 27.7% y/y. With regard to corporate customers, the Group continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. **Loans to individuals** amounted to BGN 5 738 mln, representing 31% share of total loans. In 2022 mortgage loans marked a positive trend of 19.6% y/y, reaching BGN 3 301 mln. Their share in loans to individuals increased to 58% (18% share in total loans). At the end of 2022 loans in BGN and EUR represented 99% of gross loan portfolio.

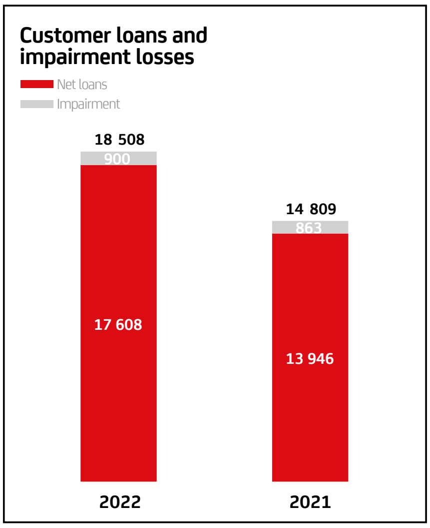
Despite the challenging macroeconomic scenario the Group continued to observed its strategic goals related to **assets quality** activities. Benefitting from a continued disciplined risk approach the performing loans portfolio represented 96% (+26.5% y/y growth) and amounted to BGN 17 830 mln. On the other hand,

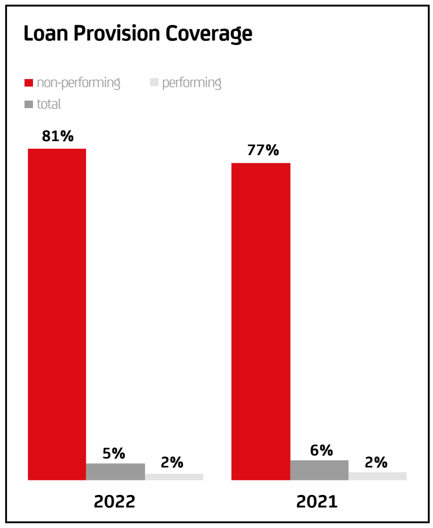




Consolidated Financial Results (continued)







the non-performing loans declined by 4.4% y/y to BGN 676 mln.

As of December 2022 the Group reported NPE ratio at 3.7%. The loan loss provision coverage of non-performing exposures acquired additional 314 bp and reached 80.6%. Total loan loss impairment allowances increased by 4.2% on an annual basis and reached BGN 900 mln. Total coverage ratio is set at 4.9% (5.8% for 2021).

In terms of industry structure at the end of 2022 the most significant growth in share was achieved by sector Sovereign (increase by BGN 1 071 mln y/y), followed by Commerce (BGN 726 mln). In line with the Group's strategy, in 2022 Retail loans registered an increase by 19.1% y/y (32% share of total loan portfolio), where mortgage loans were up by 19.6% y/y. At the end of 2022 the largest areas of concentration were Commerce (16%), Manufacturing (16%) and Housing loans (18%).

Customer Deposits

In an environment of excess liquidity and for most of the year deposits offer rates close to zero, Unicredit Bulbank Group recorded another successful year in the field of attracting and managing funds.

In 2022 the Group's **Deposits from customers and other financial liabilities at amortized cost** grew by 17.3% y/y to BGN 23 223 mln supported by both Retail and Corporate segments, where the UniCredit continues to be one of the most trusted and preferred banks.

UniCredit Bulbank became the Bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.

In terms of **clients type**, deposits of Individuals had an upward momentum of 6.6% y/y, ending 2022 at BGN 11 944 mln and the company's deposits (incl. budget and state deposits, leases

Thousands of BGN

INDUSTRY STRUCTURE	2022		2021	
	AMOUNT	SHARE	AMOUNT	SHARE
Commerce	2 931 359	16%	2 205 828	15%
Manufacturing	2 914 224	16%	2 587 054	17%
Sovereign	2 496 637	13%	1 425 221	10%
Construction and real estate	1 743 062	9%	1 502 476	10%
Transport and communication	862 832	5%	797 163	5%
Agriculture and forestry	655 844	4%	552 517	4%
Services	403 220	2%	266 100	2%
Financial services	313 834	2%	245 200	2%
Tourism	294 807	2%	278 911	2%
Retail (individuals)	**5 893 688**	**32%**	**4 949 708**	**33%**
Housing loans	3 300 749	18%	2 760 459	19%
Consumer loans	2 373 054	13%	1 978 802	13%
Other	219 885	1%	210 447	1%
TOTAL LOAN PORTFOLIO	**18 509 507**	**100%**	**14 810 178**	**100%**

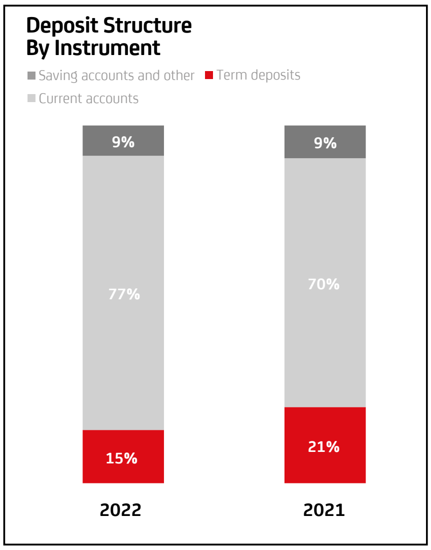
Consolidated Financial Results (continued)

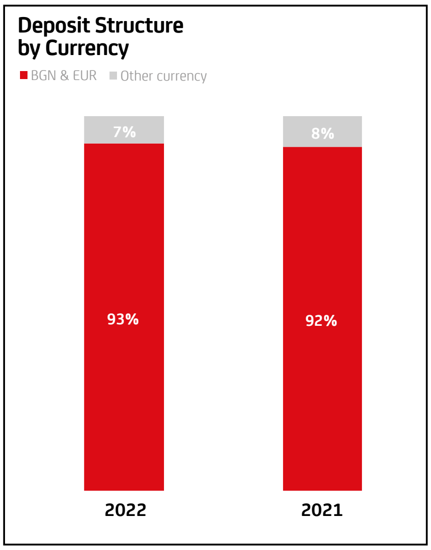
and factoring related liabilities) registered a significant increase of 31.2% y/y to BGN 11 278 mln. In 2022 the share of Individuals deposits reported 51% share in customer deposits, compared to 49% share of deposits from companies, signaling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

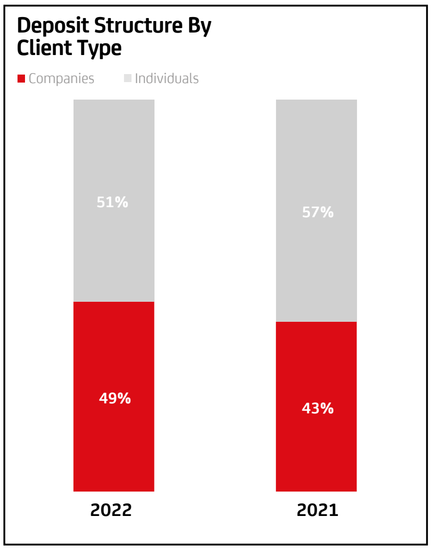
With regard to the **product structure**, current accounts increased by 28.8% y/y and reached 77% share (70% in 2021). Term deposits decreased by 17.2% y/y and as a result, shrank its share in total funds to 15% in 2022 vs 21% in 2021. Saving and other accounts remain with 9% share similar to prior year level.

In terms of **currency distribution,** the structure of deposits comprised of 93% share of BGN&EUR denominated deposits vs 7% in other currencies. The growth of the deposit base is predominantly driven by BGN&EUR denominated deposits, which increased by 18.4% y/y, while those in other currencies grew by 4.3% y/y.

Following customer behavior trends, the Group 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 Amundi Investments, life insurances and pension funds of Allianz.







Consolidated Financial Results (continued)

Events after the reporting period

As part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", UniCredit Bubank is subject to internal Minimum Requirement for Own Funds and Eligible Liabilities (iMREL).

On 1st of Jun 2022, UniCredit Bulbank has received the Single Resolution Board decision on the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). It defines the fully loaded requirement to be fulfilled since 1st of January 2024 at 15.46% plus the Combined Buffer Requirement (CBR) of the Risk weighted assets (iMREL RWAs) and 5.90% of the Leverage Ratios Exposures (LRE). In addition, intermediate targets valid since 1st of January 2022 and set during the 2021 resolution cycle were confirmed: 15.16% +CBR of and 5.90% RWAs.

In 2023, based on the projected development, business volumes will continue to grow increasing the absolute amount of the Risk Weighted Assets of the bank. Besides, Bulgarian National Bank already announced increase in countercyclical buffer to 1.5% from 1st of January 2023 and 2.0% since 1st of October 2023. In addition, SRB indicated that during the 2023 resolution cycle it will revise the 2024 fully loaded requirement and will move it from stand-alone to sub-consolidated level.

Thus in order to keep compliance with iMREL requirement in 2023, UniCredit Bulbank issued in January 2023 a second own senior non-preferred bond, MREL eligible and subscribed by UniCredit Spa in line with single point of entry resolution Strategy. The nominal amount of the bond is EUR 250 Mio, interest rate is floating one, linked to 3Mo Euribor, maturity date is in January 2029 and a call option exercisable in January 2028. The details for the first issued MREL bond are presented in note 39.

There are no other significant events after the reporting period with effect on the financial statements as of December 31, 2022.

Risk Management

Credit Risk

In 2022 UniCredit Bulbank continued to perform its **credit activities** in compliance with the governing rules and internal policies, while at the end of February the Russian / Ukrainian conflict started, which is expected to continue in 2023.

In general, the business climate in the country was affected by growing prices of energy resources. Due to this reason the Bank has implemented new multipliers for the most affected industry sectors according to the methodology related to Geo-political uncertainties overlay computation introduced by Head Office, which should replace the managerial overlay related to 'High inflation pressure due to continuous increase of energy prices'. The overall impact on Expected Credit Loss related to the changed methodology as of December 2022 is BGN 157.4 mln.

The overall annual growth of the customer loan portfolio is 18.6%, out of which 20.8% in Corporate segments and 19.4% related to mortgage lending to Private Individuals. Despite the geopolitical situation it is worth mentioning that it was a good year with regards to recoveries of defaulted exposures and lower than expected new inflows to impaired portfolio. Mainly due to these circumstances there is reduction of NPE ratio on consolidated base by -112 bp on a level of 3.7% after adjustment of gross volumes by intercompany transactions. In terms of cost of risk ratio there is further reduction compared to the level of last year by -46 bp on a level of 0.51%, which is in line with the limits set by the Risk Appetite Framework for 2022. The loan loss provision coverage is on very comfortable level for both portfolios – performing and non-performing.

In second quarter of 2023 UniCredit Bulbank is planning to implement the updated credit risk models for Private Individuals PD. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 3.1 mln as of December 2022, in order to avoid volatility in net LLP charge for next year.

Estimated Overlay with regards to new introduced evaluation methodology for Bullet and Balloon payment transactions in the amount of BGN 1.2 mln. Base for this estimation was simulation with condition that Bullet and Balloon transactions portfolio will reach the current level of share in Stage 2 transactions of the Bank.

In Terms of Risk Weighted Assets, the Bank has prudently reviewed its processes and model landscape availing for better capital efficiency trough:

- Optimal usage of guarantee schemes and credit risk protections
- Strengthening the collateral monitoring and optimal usage for capital and risk mitigation purposes
- Synthetic Securitization on SME Portfolio
- Other efficiency measures

Unlike 2021 where short term restructuring solutions were implied addressing temporary companies working capital needs from stretched supply chains and raising commodities & utilities prices, year 2022 were marked with supporting companies in their middle term business strategy to alter their supply chains and invest in efficiency to limit the impact of external factors on business profitability. Collection activities benefitted most from existing business uncertainty. The trend of increased asset appreciation intensified in comparison of last year allowing further decrease of workout portfolio of the bank enabling next year challenges to be properly addressed when the delayed effect of increased loan servicing costs and inflation pressure will decrease available saving buffers in the companies and the population which is expected to result in non-performing exposure increase.

The Monitoring team continues to be strongly focused on streamlining the overall monitoring and Watch List (WL) process. The Monitoring function both in Corporate and Retail continues to be significantly involved in the collateral management process, including renewal of statutory validity, market appraisal and insurance, delivering periodic reports to the respective business/ competence lines.

Building on the UW systems and processes optimization, further enhancements in the underwriting have been introduced to achieve an ongoing simplification of processes aiming at freeing up time for commercial activities:

- Focus on UW credit process improvements for all segments
- Build additional automatic data integrations/payment behavior and verifications that are pre-requisite for the automatic decision, implement new PI PD model
- Implementation of automatic decision in Retail segment
- Focus on SME Pre-approved Lending for Retail and Corporate and increase lending volumes targeting existing customers with good risk profile or non-lending customers with good payment behavior and financial standing, increase the share of automatic and simplified review/renewal process

The existing Credit risk models are being modified to meet the updated EBA guidelines and forthcoming changes in the default definition. Meanwhile, they are subject to annual ongoing validation, where the assessment criteria are defined by the UniCredit Group internal framework and ECB instructions.

Capital adequacy is assessed both under the regulatory Pillar 1 perspective and the internal Pillar2/ICAAP view. Regulatory capital for credit risk is reported 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) 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).

Risk Management (continued)

In parallel to regulatory capital calculation, the Bank also maintains a 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.

Financial risk and models (market, counterparty and liquidity risks)

Within 2022 the Financial Risk Management (FRM) function in UniCredit Bulbank executed rigorous monitoring and control and performed regular assessment of the market, IRRBB, liquidity and counterparty credit risk, in compliance with the set risk appetite framework and strategy and focus on client-flow business. The policies and operational framework within the area were transformed in the group-wide effort for simplification while maintaining solid capabilities responding to regulatory and managerial needs for risk management. Methodologies and processes were regularly adapted to ensure group-compliant risk measurement and control.

In 2022 the Bank continued to leverage on the Group risk measurement and reporting infrastructure. In the area of IRRBB and liquidity risk management the bank successfully completed to the migration to Group systems leveraging on Global Liquidity DataBase ensuring alignment for interest rate risk metrics and liquidity stress testing. The IT framework was enhanced with policies and processes for data quality management to ensure maintaining reliable and stable managerial and regulatory information. The bank's subsidiaries UniCredit Consumer Finance and UniCredit Leasing were intergraded to the broader data feeding while UniCredit Factoring was incorporated within the bank.

Behavioral modelling, in line with EBA Guidelines, continued to be pivotal in the area of IRRBB and Liquidity risk management. The liquidity and IRR profile of modelled non-maturing deposits (sight and saving accounts) was re-calibrated twice in 2022 responding to business developments. Going forward, activities over the course of 2023 will include a revision of the modelling methodology and a possible development of rollover model for term deposits in reflection of the evolution of the business strategy with regards to the depositors.

In the area of stress testing for liquidity risk management, the introduced in 2021 methodology was enhanced with a refinement of product clusters and customer groups. As part of the on-going maintenance, final loss parameters were re-calibrated to reflect up-to-date developments.

In 2022, after a preceding inspection by JST at UniCredit Group level on the framework for calculation and monitoring of the Settlement Risk, a Group-wide project was inaugurated aiming at harmonized and integrated methodology and processes in UniCredit Group. The project was executed in the course of 2022, with the enhancements in the perimeter and methodology in accordance to the JST's recommendations brought into practice in the daily monitoring of settlement risk in UniCredit Bulbank by November 2022.

Regarding risk control activities, the FRM function continued to supply the bank's management with daily limit compliance reports. These consisted of Value-at-Risk metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, combined with stop-loss and operative liquidity triggers. Within Financial and Credit Risk Committee – ALCO session (FCRC - ALCO), the Bank's management was regularly supplied with comprehensive summary of potential profit and loss impact of extreme shifts in FX, interest rates, credit spreads as well as of market liquidity squeeze impacts on all portfolios.

In the area of market risk controls, UniCredit Bulbank continue to use the Group internal model IMOD for daily managerial control and economic capital assessment, leveraging on Group market risk methodology and architecture.

In terms of enhancement and additional development in the FRM system and processes in 2022 the verification mechanism and controls over data output for Fundamental Review of Trading Book reporting were automatized. Within the Standardized Approach for Counterparty Credit Risk (SA-CCR) the Group calculation engine was enlarged, adding addition report (the so called MREL run). Adjustments were made also to the scope of transactions subject to validation rules set in Marconis (the tool for monitoring of the price transparency of customer derivative deals regarding the Commercial Mark-up and Hedging cost, related to OTC client business) in order to better meet the internal informational needs and custom reports and improve managerial reporting capabilities.

Non-Financial Risk

The main focus of the Non-Financial Risk Function (NFR) activities in 2022 was adequate managing of the overall operational and reputational risks exposure of the bank, as well as assessment and mitigation of risks, participation in dedicated bank processes, projects and initiatives, enhancement of the controls and evaluation of new emerging risk.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; ICT Project Risk Assessment; Operational Risk oversight and Second level controls on Third Party Risk Management framework; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk

Risk Management (continued)

Strategies Definition and Monitoring; Operational Risk Oversight Model on UniCredit Bulbank Subsidiaries; Insurance Analysis – Insurance recoveries, Annual evaluation on local insurances.

On top of the regular annual operational risk activities, within 2022 several new initiatives and processes were implemented, as well as some existing one were further enhanced and improved:

- Operational Risk Permanent WorkGroup (PWG) was established, following the Group regulations. The PWG represent an expert work group, ensuring structured and continuous cooperation among business, support and control functions, enabling a joint and widespread identification of the sources of Operational Risks aiming at reduction of the Operational Risk exposure of the Legal Entity. The main outcomes (the mitigation actions) and escalation topics in case of delays or deviations from the expected outcomes regarding the implementation of the mitigation actions, planned and approved by the competent functions are reported to Non-Financial Risk and Control Committee - General Session – Operational Risk stream for information or for decision.
- Second level controls on ICT and Security processes - a dedicated set of second level controls was implemented upon a Group Non-Financial Risk request in order to strengthen the management of ICT and Cyber risks. These controls cover some processes in the ICT and Security areas like Change Management and ICT Incident Management Processes.
- ICT Project Risk Assessment – the scope of the ICT projects on which an additional analysis is performed including the projects assessed as not containing material risks was enlarged. The number of risks per project included of one risk assessment has increased significantly (70%).
- Risk and Controls Self-Assessment (RCSA) - the activity is now directly integrated with IT evaluations on ICT Assets servicing the business Processes. A detailed set of dedicated ICT and Cyber risks have been added to the already existing process risks bundle. The number of risks per E2E process has doubled to about 40 risks per a process. The number of mandatory assessed end-to-end (E2E) processes is increased from 18 to 24
- New Key Risk Indicators (KRIs) in several areas were created:
  - 9 KRIs related to credit processes and 3 KRIs related to card fraud monitoring have been implemented aiming at second level controls enhancement and harmonization throughout UC Group.
  - 19 ICT and Cyber Risk indicators for monitoring was introduced covering various ICT and Cyber Risk areas, reported separately for UniCredit Bulbank, UniCredit Consumer Financing, UniCredit Leasing and UniCredit Fleet Management.
- New control framework on Outsourcing and TPRM arrangements was implemented with enhanced several steps on second level controls. NFR performs several evaluation checks such as correct assessment of the service inherent risk, adequacy of the identified corrective measures, correct assessment of the residual risk, integrity checks on cyber inherent risk, review of cyber security risk assessment. In the event that, as a consequence of the review, the overall residual risk of the Outsourcing initiative or the residual risk of a single scenario is reclassified as medium-high or high, the escalation process must be activated.

All activities regarding operational and reputational risk management included in the annual plan, defined by the Group, were performed following the Group methodology and executed in a timely manner with no delay.

All key activities and results of the Operational Risk Identification (eg. Internal losses, external data, scenario analysis), the Assessment Measurement (eg. KRI, RCSA) and the Addressing – Mitigation activities (e.g. Operational Risk priorities and Strategies) were regularly reported for approval to the Non-Financial Risk and Controls Committee – General Session (NFRC-GS), or for information in order to provide adequate awareness to the senior management on the operational risk exposure of the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management.

The organization of Non-Financial Risk management in UniCredit Bulbank is well established, as it can be concluded from the outcome of the annual Self-Assessment report. No deficiencies in any of the operational risk system components have been identified during the self-assessment process by the Non-Financial Risk function. The Self-Assessment Report is fully compliant with UniCredit Group guidance and regulations. This was confirmed by the Bank's Internal Audit inspection, outcome of which is that the overall evaluation of UCB Operational Risk Management System is "Adequate" (highest possible score). During 2022 Group Internal Validation assessment of the Operational Risk Management system in UCB was also performed. The final result was also "Adequate" (highest possible score).

Within 2022 the Non-Financial Risk continued to develop and strengthen the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure via adoption and implementation of key Group documents regulating the area. The Non-Financial Risk and Controls Committee – Reputational Risk Session (NFRC-RRS), is the decision-making body for reputational risk topics and holds monthly meetings to discuss deals and issues in the scope of the reputational risk.

The reputational risk culture has been constantly spread out by the Non-Financial Risk throughout the organization, via training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness at Bank level.

Risk Management (continued)

In 2022 the NFR organized dedicated trainings aiming to improve the expertise of the branch managers of the retail network of the bank regarding operational risks in their daily activities. Moreover, three dedicated practical online trainings were held in 2022. One training related to operational risk loss data reporting and confirmation by the operational risk managers, another covering the specifics of the ICT Project Risk Assessment performed by the project leaders and another one named „Operational risk: theory, practice and procedures relevant to the activities of corporate credit experts“. The NFR conducts regular Operational Risk Introductory training for all new employees and employees who change their position. With regard to Reputational Risk a new online introductory course was uploaded for all new employees of the Bank, containing the key definitions and requirements regarding the Reputational Risk Management in UCB and the Sensitive Sectors.

Non-Financial Risk also participated in several key business projects driving the digital transformation of the Bank. Among them were the New organizational model, Omnichannel project, UCX (Unified Customer Experience) project, Instant Payments, PSD2 Bulk Payments project Robotic Process Automation Room project, Content Service Platform, Transaction monitoring, ESG Strategy and Roadmap Implementation, Compliance consolidation Program and many activities related to improving Compliance systems, KYC processes aiming to reflect the IT automation and regulatory changes.

During the year two policies which set a new framework for Reputational Risk Management were adopted and implemented:

- Global Policy “Group Reputational Risk Management” replaces the regulatory framework for reputational risk management which was previously in force, changing the approach for assessing the reputational risk and the whole reputational risk decision process. The document describes the organizational model, the governance principles and the main formal and functional relationships between Holding Company and Legal Entities. The key changes, compared to the previous Policy, are the new conception for empowerment of Business through performing a separate Reputational Risk analysis called Reputational Risk Evaluation, the wider scope of cases when RepRisk Evaluation must be assessed and the strong focus on ESG in the process of Reputational Risk Assessment with compliance with indicated set of Environmental and Social Standards.
- Global Policy “Reputational Risk Management in the Sensitive Sectors” sets out a common approach to the reputational Risk Analysis in all Sensitive sectors (Coal, Oil & Gas, Defence, Mining, Nuclear Energy and Water Infrastructure). Any transactions/projects supported by the Bank, regardless of the sector they belong to, must be conducted with an overall objective of preventing or minimizing environmental, social, and associated reputational risks. The new policy sets out the general common requirements regarding each one of the Sensitive Sectors, which set out the foundation principles for the specific provisions for each sensitive sector, among which are the pre-requisites for a relevant subjects/companies to operate with UniCredit Group, and based on these principles, the allowed activities that can be supported, the forbidden activities, and the customers, operating in the sensitive sector, which cannot be supported even outside the financing of the projects in the specific sensitive sector (phase out customers). Amendments were made also in all six sensitive sectors Reputational Risk Regulations.

For 2023 the Non-Financial Risk will focus and closely monitor the following risk drivers and related initiatives:

- Cyber Risk – Cyber-attacks targeting UniCredit Group Legal Entities and/or UCG Third Parties
- IT Risk – Digital Operational Resilience - Monitoring of existing Risk assessment framework metrics and their thresholds for trigger / limit in the area of ICT major incidents / obsolescence levels / overdue critical vulnerabilities / endpoints not protected by anti-malware solution or data loss prevention;
- Conduct Risk – Monitoring of the average number of complaints monthly accepted by Complaint Office related to products/services.
- Fraud Risk – Internal and External Frauds (including Frauds on cards)
- Reputational Risk –- Regular annual review of all cases in coal sector. Local ESG Reporting procedure. ESG guidelines driven by the Holding. Participation in ESG Strategy and Roadmap Implementation project.
- Transformation Risk – Digital Roadmap - Change platforms / Project management complexity / Adequate skill set / people reskilling. Monitoring of forthcoming Digital Strategy and Risk assessment of important projects regarding Digital Operational Resilience, Voice and Chatbot implementation, Leadership in SME project and Small Corporate Remote Hubs project. Second level controls over change management activities.
- EURO adoption.

Climate-related and environmental risks (ESG)

The climate-related and environmental risks and the accompanying shift towards sustainable finance are mounting challenges to the financial sector. In the context of an evolving regulatory framework that since 2020 have been putting even stronger emphasis on the climate risk topic, the Bank, in line with the Group's strategy, continued to proactively address these challenges by means of increased commitment to sustainability and tangible initiatives aimed at improving the management of risks to anticipate the possible increases in the riskiness of specific sectors and to analyze the impact on the overall Bank's business and risk profile.

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards.

UniCredit defines the Climate related and environmental risks as the sources of structural changes that might affect the economic activities and led by the following risk drivers:

- *Transition risk* refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower carbon and more environmentally sustainable economy; We carefully manage Transition Risk, ensuring proper origination, monitoring and management of the portfolios, following holistic approach including:
  - Portfolio steering through Risk Appetite Framework, Credit strategies cascading and sector policies issuing;
  - Portfolio analysis and monitoring;
  - Single counterparty risk assessment (starting from Large Corporate).
- *Physical risk* refers to the financial impact of extreme weather events and gradual changes in climate, as well as of environmental degradation (e.g. water and land pollution, water stress, biodiversity loss and deforestation). Physical risk can directly result in damage to property or reduced productivity.

  We are focused on the enhancement of the methodology to assess vulnerable portfolios and mitigate related physical risks.

  After the preliminary assessment of the collaterals portfolio on physical risk caused by sea-level rise and by flooding in line with the Group's methodology, our target for 2023 will be the establishment and introducing of new KPIs and internal guidelines for Physical Risk evaluation as per the Group Climate Risk Project Plan pipeline.

  To ensure regulatory requirements we continue to streamline data gathering and analytics, in order to further identify sources of climate related risks. Our efforts are aimed at introducing a lean methodological approach for evaluation on ESG factors affecting the value of the loan collaterals and in particular the impact of Energy Efficiency of buildings.

  As a result of the initiative launched in 2021, a new local process for providing of issued Energy Performance Certificate (EPC) of real estate properties proposed for collaterals has been implemented since April 2022 with the respective proper entering in the local core banking system of the Energy class label, Primary energy demand and CO2 emissions intensity as core EPC data applicable for all new business flows in Retail and Corporate segments.

  For the stock real estate portfolio without Energy performance certification proxy individual energy efficiency characteristics of the buildings are calculated by the external vendor REValuta Spa (a Tinexta Group company specialized in real valuations) through data remediation matching proprietary databases and deploying statistical algorithms.

  The availability of proxy parameters together with the actual energy efficiency characteristics being entered forward will allow UniCredit Bulbank to distinguish between the so called 'green' or energy efficient properties and those that are considered 'brown' or non-efficient from an energy standpoint across its mortgage collateral portfolio, helping to disclose real estate exposures and their distribution by energy performance of the collaterals and to meet the bank's Pillar III reporting requirements.

In line with the entered into force EBA Guidelines for Loan Origination and Monitoring, the Bank uses ESG information in its underwriting process based on a Group-wide questionnaire for climate risk assessment applicable for transactions with economic groups above predefined exposure threshold.

The Climate & Environmental (C&E) Risk Assessment Questionnaire aims to determine the customers' position on the transition pathway. The approach comprises:

- filling in of the above-mentioned questionnaire addressing both high and low emissive customers in line with regulatory expectations;
- generation of a Climate & Environmental (C&E) Risk Scorecard summarizing the main KPIs and identifying the counterparty's positioning in one of the four risk areas (low, medium-low, medium-high, high) of the Transition Assessment matrix;
- the inclusion of the environmental scoring in the credit valuation process.

C&E assessment methodology is based on 3 key dimensions:

- the climate and environmental exposure considers the actual level of Green House Gas (GHG) emissions of corporate customers as well as other environmental metrics such as water and energy consumption, waste production and recycling;

Risk Management (continued)

- the climate and environmental vulnerability evaluates the climate change management maturity level of corporate customers, considering the company's plan to shift to a lower emission level business model, the transition investment plan, the GHG emissions reduction target as well as products and services associated with positive climate impact. This dimension considers cross-industry emission targets and ESG ratings together with management and industry specific environmental strategy;
- the economic impact on corporate customers' financial and industrial performance takes into account the effects on stranded assets, the decrease in market shares or revenues due to market shift, the increase in investment costs, constraints in accessing financing and indirect effects related to their supply chain or partner industries.

The Bank intends to further develop heatmap approach to better understand the impact across sectors as well as to.cover the positions below the defined thresholds.

As integral part of the ESG Strategy, in 2023 the Bank will introduce the ESG product internal guidelines with the aim to outline the methodology to be applied to classify financial products and services offered by UniCredit Group as Green, Social or Sustainability-linked activities. The Guidelines will ensure a consistent and comprehensive methodology for the classification and reporting of UniCredit's ESG lending products mitigating the related risks of greenwashing and social washing.

UniCredit Bulbank has approved, implemented and follows several Group policies regarding sensitive sector that may have significant implication on the environment and the society. Strict monitoring and evaluation is being performed on counterparties and deals within the Coal Sector, Defense / Weapons Industry, Mining Industry, Water Infrastructure/Dams, Nuclear energy, Non-Conventional Oil & Gas and Arctic region Oil & Gas industry sector. The analysis is performed in line with all ESG criteria, requirements, standards and best practices, and ensures that all such standards and local and international regulations are met.

UniCredit has also joined the Net-Zero Banking Alliance, committing to achieve Net Zero emissions from our operations by 2030 and by 2050 on financed emissions.

In line with the Group commitment to a climate-positive future, UniCredit Bulbank has put the foundations of its Carbon Footprint Reduction Program also in 2021 and continuous the strong focus for further commitment and improvement.

In 2023 the Bank will enrich the Risk & Lending management approach aiming at evolving integration of climate and environmental factors in Risk Appetite Framework and in 2023 Credit Risk Strategies in line with the Group Credit Risk Framework and all applicable standards and best practices ensuring further improvement of UniCredit's sustainability targets and metrics supporting a sustainable economic growth and the transition to a low-carbon economy.

Corporate Banking

Overview

The **GDP** for 2022 is expected to grow by 3.3% (UniCredit Research), supported by the increased domestic demand. The uncertainties on the Bulgarian political scene had a negative impact on business confidence and investment. The Russia-Ukraine conflict generated a significant increase in commodity prices and supply-chain disruptions, leading to higher inflation.

Financial Result

Corporate banking (CB) **net revenues**, including the leasing and fleet management subsidiaries, increased in 2022, driven by net interest revenues, net fees and commissions and foreign exchange sales gains. Profit before tax increased compared to previous year, as a result of higher revenues and lower provisioning costs.

We continue to work diligently towards our ESG goals with a strong commitment to support our clients and communities in the current transition phase, ensuring a just pathway for all towards an increasingly inclusive and sustainable economy and society. To act as the leader in the local market to support transition financing with strong focus on green financing but also with intensified development of impact financing products.

As a socially responsible institution, our sponsorship complies with the established policies at local and group level, giving priority to support of projects and initiatives related to financial education, entrepreneurship and establishing institutional partnerships.

Performance by Segments

The corporate business in 2022 was benefiting from the economic recovery in all sub-segments, especially the business with domestic corporate customers which registered a double digit increase in revenues vs 2021, supported by cross-sell and up sell and focus on capital light products.

Business Lines Performance

Transactions and Payments increased YoY revenues, leveraging on the unique service model, focusing on increasing digitalization and further product enhancements – all adding value to the clients.

Advisory and Specialized lending were focused on green initiatives and social impact banking by delivering tailored solutions by all product functions.

Client Risk Management and Treasury achieved sustainable growth in FX volumes of customer-related business, resulting in higher total revenues YoY. The uptrend was supported by strong business and trading activity as a result of higher volumes of FX transactions and FX payments.

Deposits

Deposits in corporate banking increased compared to previous year, predominantly in current accounts leading the market trend.

Loans

In 2022 corporate banking loans increased compared to 2021 with focus on low risk customers and cross selling opportunities, leveraging on EU and local guarantee schemes to balance risk weighted assets. CB division offer to corporate clients high quality services and financing solutions to support their business growth.

First synthetic securitization in Bulgaria was finalized with the European Investment Bank Group in-line with the CB capital efficiency objectives and supporting SMEs with new loans at preferential rates.

Service Model and “UniCredit Unlocked” strategic initiatives

The plan was introduced in December 2021 and already showed our ability to execute and deliver sustainable outcomes.

Business intelligance usage carried through business steering dashboards for commercial activities in the client management system along with monitoring of business initiatives. More structured approach towards business initiatives set-up, monitoring and post-monitoring

Product/Coverage Model

The CB Division differentiates itself on the local market through a service model crossing client segments coverage with product factories. The segment coverage delivers a personalized relationship depending on the size and ownership of the company via a dedicated professional (Relationship manager), who follows in depth the corporate client’s business needs, while the product owner provides a sophisticated solution in a specific area. The main focus is providing tailor-made solutions and delivering and making accessible to the maximum extend the simpler operations in the online banking – Bulbank Online.

In 2022 the product factories remained focused on **innovation and digitalization**, targeting improved customer experience. This practice will be continued also in 2023.

As of 2022, the cash services of the corporate clients were fully transferred to Retail banking branch network and the entire service model and concept of the corporate branches was changed. The corporate branch network was transformed and currently consists of operative function support to the relationship managers.

Digital innovations in 2022

- In 2022 UniCredit Bulbank was the first on the market to launch the digital solution for financial and industry analysis and benchmarking. The solution is created with the feedback of the clients – companies from different sizes, industries and origins participated in R&D interviews and UX tests in order to best develop the application. It is part of Bulbank

Corporate Banking (continued)

Online – Menu Digital products. In 2023 it will be further developed with exciting new functionalities related to the definition of the customer behavior profile.

- FX deals – new types of FX deals were introduced in the online banking: SPOT, Forward, Optional forward and Swap.
- New digital request for bank references.
- Bulbank Online packages offer customers the option to choose between "Light" and "Standard" package.
- Introducing a new payment system in Bulbank Online for instant payments (BLINK). Participant banks send and accept payments 24/7.
- Trade finance – new advisory role "Deal consulting". Functionality allows customers to consult and reconcile trade finance deals via Bulbank Online.
- Migration of all functionalities from the old Bulbank Online site to the new redesign view and introduction of new way for issuing software certificates.

"UniCredit Unlocked" strategic initiatives

The strategic plan is implemented through several initiatives for digitalization and internal processes optimization, leveraging also on implementation of several new EU financial engineering instruments and numerous amendments of existing ones.

Development of Data Driven Services was on focus in 2022. New digital services, products requests and specific tools for analysis are implemented in the online banking platform. Those services allow us to speed-up time to delivery and provide added value for our clients.

In 2023 we are planning implementation of digital documents exchange solution for legal entities which will be enabler for remote processes and will increase the usage of electronic signatures. Bank will exchange & sign documentation with clients without physical interaction, improving timing for document exchange, reducing paper and ink and reducing internal exchange of docs by introducing access roles of different stakeholders to single platform.

Other focus in 2023 will be establishment of new partnerships between the Bank and external companies which will provide high value added services to our clients, additional value, cross selling opportunities and will improve customer experience.

Cross-divisional Initiative

Another joint initiative between "Retail division" and "Corporates division" continues to be on focus in 2023. The combined commercial efforts between CB and Retail resulted in increase in the number of net banking customers /individuals with payroll accounts at UCB and use of additional products and services. In 2023 the commercial efforts will once again focus on tailor-made offers for every potential retail client employee of our CB clients. New offers were created – packages with different preferential price/term conditions to respond to the customer needs. There is also special focus on CSR package, helping out CB clients become better employers for their employees.

European Funds

UniCredit Bulbank is **a leader on the Bulgarian market**, providing a variety of financing products with preferential conditions to small and medium-sized enterprises as well as for large companies. Some products are based on partnerships with European Investment Fund, European Investment Bank, European Bank of Reconstruction and Development and local institutions as the Bulgarian Development Bank, National Guarantee Fund, State Fund Agriculture, Fund Manager of the Financial Instruments in Bulgaria, etc.

Currently, UniCredit Bulbank has a large portfolio of subsidized loans. In the past year we signed agreements with European Investment Fund (EIF), European Investment Bank, Fund Manager Financial instruments in Bulgaria and EBRD.

In 2022 the main active guarantee agreement were:

- FMFIB provides 80% guarantee supplementing the collateral for investment and Working Capital loans.
- EGF Uncapped provides 70% paid guarantee supplementing the collateral for investment and Working Capital loans implemented uder Umbrela facility with other countries in the Group for SME's and Small Mid-caps.
- COSME - provides standard 50% guarantee supplementing the collateral for investment and revolving transactions.
- EIB EGF Risk sharing Facility - suitable for Large companies, MidCaps. Main advantages – 75% guarantee, eligible for existing exposures, not only for new transactions. Full capital relief for the guaranteed part, full delegation to UCB for inclusion of each transaction in the guarantee portfolio.
- EBRD Risk sharing Facility - suitable for Large companies, MidCaps. Main advantages – up to 65% guarantee, eligible for existing exposures, not only for new transactions. Capital relief for the guaranteed part, with eligibility approval by EBRD on a case by case basis.

The focus of EU funds team for 2023 is to finalize negotiations and utilization of four new guarantee lines:

- Next Generation guarantee instruments, suitable for SMEs and Small mid-caps, with 6 new guarantee schemes in different sectors and activities. High risk, Innovation and digitalization, ESG and green products.
- Explore the opportunities arising from Next Generation EU and Recovery and Resilience National Plan
- NGF - new guarantee capped scheme - 50% guarantee rate, for SMEs

Corporate Banking (continued)

Client Risk Management and Treasury

In 2022 UniCredit Bulbank maintained its status of preferred liquidity provider for local and international banks and the leading position on the interbank market for local currency denominated products. The Bank reconfirmed its role as a market-maker in government bonds and preserved its leading position as Primary dealer. The experienced Treasury team actively and professionally managed structural risks (liquidity and interest rates) and revenue generation in dynamically changing economic conditions and a transition to positive rates environment.

In a challenging business environment, the Corporate Treasury Sales team (CTS) kept its leading position on the local market as provider of FX services and Hedging solutions for Interest Rates, FX and Commodity. Leveraging on its knowhow and the widest product range on the local market the team managed to support our clients hedging needs. Exploiting new digitalization opportunities CTS successfully introduced a new web based FX trading platform offering automated spot, forward and currency swap transactions, in a constant effort to enhance corporate customers experience. Quality of the FX service was verified by our clients in the Euromoney Foreign Exchange Survey for third consecutive year, recognizing UniCredit as Best in Service for CEEMEA.

The Brokerage team provided Corporate, Institutional and Individual customers with high level services for equities, fixed income products and exchange traded derivatives. The fully integrated in Bulbank Online securities module evolved into the main channel for placing equities orders, enhancing customer experience and efficiency.

Anticipating dynamic 2023 market developments the Treasury team will keep its focus on sustainable revenue generation, structural risks management, capital preservation and RWA optimization. Further leveraging on the digital channels, CTS and Brokerage will focus on high value-added hedging and investment solutions offering to a wider customer base.

Specialized Lending

Specialized Lending teams within Advisory and Specialized Lending structure have deep expertise and knowhow in providing complex, tailor-made financing solutions (Project Finance, Commercial Real Estate Finance, Corporate Structured Finance, Acquisition and Leverage Finance) to corporate clients and professional real estate investors, being the leading team on the local market. We supported the economy evolvement bringing to market a number of high profile transactions and ESG solutions while also assessing for bankability all viable opportunities with specialized lending potential. We are in a position to offer to our clients high quality services to support their growth strategies for development of new prominent and economically and environmentally vital complex transactions in various industries.

2022 was a prolific year in terms of realization of new business opportunities while strictly adhering to risk appetite strategies. Despite highly competitive market but thanks to clear focus, dedication and professionalism, Specialized Lending grew in terms of revenues, loan volumes and kept overall notable market presence with focus in ESG solutions.

Due to the specific nature of Specialized Lending, tailor-made innovative financing solutions were structured to suit the objectives and constraints of each project and/or industry. This strategy was executed in line with the corporate targets and values while ensuring best possible terms and conditions from clients' and risk perspective. Financing wise, the focus remains on professional investors and financially sound projects.

Corporate Finance Advisory / Investment Banking

In 2022 Investment Banking - a function within Advisory and Specialized Lending structure - was again a preferred partner and advisor to local and international counterparties on transactions in Mergers and Acquisitions (M&A) and Capital Markets - Equity (ECM) and Debt Capital Markets (DCM) areas.

Following a record year in terms of deal value and volume, with the invasion of Ukraine in February 2022, the M&A market in Europe has become more volatile and fragile, particularly affected by the rising energy costs, supply chain disruptions, inflationary growth, weakening currencies, higher borrowing costs and governmental instability. The largest deals on the Bulgarian market in 2022 were concentrated in investments in more resilient and historically active sectors: Financial institutions, Information and Communication Technology (ICT), Energy and Infrastructure, Manufacturing, with prevailing interest from foreign investors.

There are a number of opportunities for M&A growth, despite the ongoing uncertainty on the market, namely: cash-rich strategic acquirers seeking to spend accumulated funds, consolidation of businesses in sectors with much fragmentation, distressed M&A, etc. Trends show increasing interest in technology, media and communications, renewables, fintech, biotech, oil and gas, consumer and retail. Bulgaria is strongly positioned for M&A growth, with stable fiscal and economic position, strong financial system, favorable tax regime, and advancing policy for targeted transition to renewable energy.

During 2022, the M&A team further established its position as a leading advisor on projects in the Energy and Infrastructure sector with a landmark project won in the RES sub-segment.

The active initiatives of Investment Banking Unit and the active collaboration with the pan-European Corporate Finance Advisory (CFA) platform of UniCredit Group, contributed to several successful pitches in the Energy, FMCG, Retail and Industrial manufacturing sectors which are expected to crystalize into cross border mandates in 2023.

Corporate Banking (continued)

During 2022 the equity and debt capital market origination activities in Bulgaria remained moderate with limited activity in new offerings on the Main market of the Bulgarian Stock Exchange (BSE). The interest on the SME Growth Market BEAM (unregulated BSE segment) remained, as the capital that can be raised on BEAM segment without need for prospectus approval was increased to BGN 8 mn. Local debt capital market (primary offering) remained relatively active in 2022 as well. UniCredit Bulbank acted together with UniCredit Bank AG as one of the Joint-Lead Managers and Bookrunners on the successful placement of EUR 2.25 bn dual tranche Government Bonds issued by the Republic of Bulgaria under Global Medium-term Notes (GMTN) Programme in September 2022.

In 2023 the focus of Capital Markets activity remains at providing the bank's expertise in support to customers in implementation of their equity and debt capital markets projects and proactively pitching for envisaged debt raising and public equity offerings for customers - leading players with potential for growth and attracting investors' attention, including for targeted tapping on international capital markets for more scalable projects, in cooperation with the Group's ECM and DCM teams. The emphasis is on sectors Financial Institutions (FIG), Manufacturing, Information Technologies and Telecommunication (IT&T), Pharmaceuticals and other prospective business areas. Additional possibilities for support to the clients provides the new area developed on a Group level – Alternative Capital Markets (ACM), as the cooperation with the companies commences at an early stage on their development and offers access to alternative financing prior to potential entering on the traditional equity capital markets, as private placements, equity-linked instruments, minority solutions, private investment in public entities (PIPEs) of Special Purpose Acquisition Companies (SPACs) etc.

As a part of the leading commercial bank in Bulgaria, Investment Banking will continue to leverage on the existing client base of UniCredit Bulbank and on the close collaboration with the UniCredit Group's Corporate Finance Advisory (CFA), ECM, DCM and ACM platforms in order to generate new business opportunities, provide tailored advice and successfully execute the transactions.

Transaction Banking

In the continuing unprecedented business environment of 2022, leveraging on the full commitment and flexibility of our people we managed to support our clients and to reconfirm the Bank's role as a preferred Cash Management, Trade Finance, Transactional Sales, Global Security Services and Factoring partner for both domestic and international corporate clients of all sizes and industries.

Active and professional management of the well-diversified correspondent banking network with global coverage by the Transactional Sales team makes the Bank the first-choice in BGN cash and clearing provider in the country for international financial institutions, generating additional business opportunities for other product areas.

In the Cash Management area following the global trends for digital transformation, we were focused on implementing solutions that meet the growing demands of our customers and the challenging market. We successfully launched Instant Payments in local currency. The service allows our customers to order and receive payments up to 30 000 BGN within 10 seconds, regardless of public holidays and weekends. This functionality makes for our customers to be as flexible as possible and pay to their business partners in a timely manner. The broad experience and expertise within the team are still our distinctive features to the top companies that reaffirm their willingness to work with us.

In the Trade Finance area we maintained our dominant position thanks to the team's well-recognized and appreciated advisory expertise and excellent execution, ability to structure complex transactions and prudent risk approach. In an environment with increased risk and respectively interest in documentary instruments, our digital Trade Finance platform plays key role in meeting customer needs for convenient and secure online management of their trade activities. In 2022 we successfully finalized the implementation of an online functionality for Trade finance deals' advisory, which marks another completed phase of our end-to-end digital process for advisory, ordering and issuance of bank guarantees and letters of credit. The quality of the service was verified by our clients in the Euromoney survey for another consecutive year, recognizing UniCredit Bulbank as the Trade Finance Market leader in Bulgaria.

In the Global Securities Services area a strong focus was again placed on the continued development of the custody IT systems and the simplification of the operational processes in order to ensure first-class service level for the wide range of domestic and international institutional clients. The leading position of UniCredit Bulbank in the provision of securities services was reaffirmed, for the ninth year in a row, by the Global Finance Magazine award for Best Sub-custodian Bank in Bulgaria.

At the beginning of 2022, following UniCredit Group strategy for simplification, efficiency and fully leveraging on synergies within Units, UniCredit Factoring EAD was merged with the Bank and transformed to product line within the Transactions and Payments structure. The implemented business and organizational model aims to focus on factoring business, leveraging on full awareness of factoring products, common customer portfolio and simplicity on the stage of customer acquisition.

For factoring business 2022 was a year of stable market environment and good potential for growth. The positive trend of development continued during the whole year leading to diversification and enlargement of the client portfolio and further penetrating the market, reflecting in achievement of main KPIs. The increase of factoring products' outstanding debt average and the strong commercial focus on boosting the utilization levels were the main drivers for sustainable interest income generation

Corporate Banking (continued)

in the challenging competitive environment keeping the tendency of low margins and strong competition. The factoring business volumes grew in 2022, following the ambitions to enlarge and diversify the client portfolio and boost cross-sell opportunities. The local competition on the market was mainly oriented in possibilities of optimizing price conditions for the clients giving advantage of simplified services and opportunities for customized solutions, following the individual demand.

The overview of factoring product portfolio in terms of the major categories, shows a leading position of domestic products with significant growth in non-recourse business. International factoring solutions achieved an increase for another consecutive year, following clients' demand for customized approach and individual solutions. The factoring line continues to rely on its excellent expertise in the international area, very good practices within UniCredit Group and worldwide partners within FCI as a major factoring business network. Reverse factoring continued to rise, driven by the market demand of flexible financial services and easy process of financing not only for the company but to its counterparties as well. The key success driver was the continuous activities and commercial focus on several regular initiatives providing the client with advisory services completely in line with their working capital needs.

The full digitalization of the factoring services through the web-based factoring platform eFactoring.bg continued to be an advantage for clients compared to the local competitors on the market. During the whole year, the Bank continued to work on application enhancements, providing smooth, easy and transparent process on every stage of the factoring transactions, making it even more comprehensive and useful for clients. The growth in electronically assigned turnover in every year confirms the client's choice of using the platform and reaffirms the benefits for the company and its counterparties.

The industry focus in 2022 continued to leverage on traditionally strong industries in terms of factoring opportunities and business saturation such as commodities, trade and services, heavy and light industries, transportation and storage and etc. In terms of foreign markets, the attractive EU economies and the neighbor markets opportunities provided environment for good business generation.

2023 is expected to be another good year for factoring business, following the trend of increasing customer demand, good pre-requisite for business generation and further growth. The benefits of the sales process simplification on the stage of client acquisition will lead to increase of customer satisfaction, improvement of customer experience with UniCredit Group and boosting further sales and cross–sell opportunities.

In parallel, during 2023 the commercial focus will continue to be the digitalization of services by adding high-value enhancements guaranteeing speed and transparency, fully satisfying the market demand.

Anticipating dynamic development in customer behavior and business needs and to ensure seamless and efficient interactions with the Bank, in 2023 we will keep investing in our product portfolio enhancement with focus on the digital channels and services.

2023 Outlook

The GDP growth for 2023 is forecasted at 1.3% (UniCredit Research), driven by the positive dynamics of investments, private consumption and exports. Effective management of the EU funds received by Bulgaria will have a key role in boosting potential growth. However, the risks for the economic growth are substantial as the Russia-Ukraine conflict has an impact on inflation and the stability of energy supplies. Also, Bulgarian political instability and the slow-down for some European key trading partners would hamper growth.

CB is fully dedicated to deliver "UniCredit Unlocked" strategic plan. The division continues to be market leader with strong results on customer satisfaction survey and focused on attracting foreign investments. In 2023, CB strategy is to continue to be #1 client choice, providing fast and reliable services, products, channels and value propositions, while achieving sustainable Growth through maximizing profitability of client relationships and capital efficiency. During 2023 the planned innovative products and services to be offered to the market together with the projects for simplification and digitalization are targeting improvement of customer experience.

Retail Banking

General Overview

In 2022 Retail sustained its strategy for growth with focus on ESG offers and accelerated remote channels development and usage, in line with the UniCredit Group Strategy

In 2022 revenues from Retail business grew with more than 17% y/y, supported by the increasing interest rates in the economy, and driven by our strong commercial effort in line with our strategy to be market leader and preferred choice of our customers.

We succeeded to increase our loans market share with more than 30 bps in the growing market, strongly driven by consumer, mortgage and business loans. It was record year for UCB in terms of new sales of mortgages and the bank maintains its strong position on the market. The average ticket of mortgage continue to increase YoY with around 15 % following the trends in real estate prices. In small business loans UCB increased the loan portfolio with 15 % due to substantial growth in new sales compared to previous years with major contribution of working capital loan. In the meantime the quality of portfolio remains in excellent condition with stable low level of the major risk indicators, giving the comfort to continue our growth strategy. The results in lending were supported by strong commercial activity, change of the business model and key strategic initiatives such as simplification, improvement of product and risk parameters, centralization of back office and administration activities.

In the AUM area, 2022 presented numerous challenges to the investors starting with the inflation impact and the unprecedented speed in interest rate increase. Increased demand among clients for inflation mitigation solutions called for swift development of capital protected products with potential for additional yield.

We managed to launch two capital guaranteed alternatives to plain-vanilla deposit. One PIP product - Multi-country Index certificate in EUR - successfully launched in December and will proceed with two new issues to be opened for subscription in January 2023. The second is USD alternative – Allianz US Bond insurance certificate with the additional benefits of insurance wrapper.

The number of offered Amundi mutual funds has been decreased from 80 to 33 funds covering all profiles and underlying assets and in addition bank started to offer only one termless saving plan instead the 3 variations in terms of tenor we had in the past. This was part of our initiatives for simplification the product portfolio.

We are leveraging on Group investment product factories, strategic partnerships (e.g. Allianz) and multi-country sales coverage to introduce best offer for the investors with the optimal revenue structure for the Bank. In the area of clients' awareness and education, together with our partners from Amundi and Allianz, we continued the good practice with more than 12 "Saving and Investment" seminars across the country, leveraging on the new investment opportunities as response to the market & economic conditions and suitable all-weather investment strategies (e.g. regular investing through Saving plan). The team of Regional experts investment products continue to support directly the sales and training process across entire network building up the value proposition for the investors.

Despite significant headwind on the capital markets, and decreased y/y sales volumes, UCB managed to preserve 24% AUM market share in Bulgaria.

UCB prudently managed the deposits volumes in the transitional period of high costs for attracted funds towards change positive interest rates on the financial markets. In result we maintained the deposits market share and volumes.

Main Activities, Initiatives and Achievements

Throughout the 2022 the main activities and initiatives continue to be related to increase of lending market share, as well as promoting digital channels as a main channel for customers' daily banking and as a fast and easy channel to become a customer of the bank following the on-boarding process.

The digitalization, centralization and simplification of processes were still our priority throughout the year.

We continue to be **market leader in digitalization** with more than 640ths active digital users. Our Mobile banking app for Android is the First fin app in the country with >1 mln downloads of Bank Mobile app in Google Play. We launched the instant Blink payments in the Mobile app and Online banking.

In order to meet the expectations and needs of the customers and providing them with a comprehensive offer, three **new plans for daily banking** were developed, including the most common basic bank products and services. The new plans are clear, easily understandable, with the possibility of digital discovery and banking, again in order to provide convenience and safe conditions for customers.

They include the most frequently used bank products and services at fixed monthly price. The daily banking plans are accessible from all the channels of the bank with one and the same customer experience. The also incorporate all main strategic directions and recent achievements –omnichannel concept, digital experience, best in class technology and IT environment, simplification of product offer and processes, electronic signing, new service model and ESG. The plans are in the core of our retail strategy as they represent the basic product for the clients to receive banking service. For the full 2022 UCB opened more than 100 ths. new daily banking plans.

As a part of remote service model for business clients, UCB developed majority of its servicing processes to be offered remotely and signed electronically. The ultimate achievement in that direction was implementation of **remote digital on-boarding for business clients**. The process allows micro business company non client of the bank to open an account

Retail Banking (continued)

within the bank purely remotely, leveraging on the service trusted provider for identification and Remote SME Hub to process the request. The service is well communicated on dedicated section in the public web site of the bank and combined with complete transactional offer, including account, payments, digital and POS terminals as package service. More than 40 business clients were opened remotely for the first three weeks after launching of the service.

In August UCB made changed the product offer for **regular investments with saving plan** by replacing the current fixed term products for 3,5 and 10 years with new termless product. This was major change of the concept of one of the core products in Retail towards simplification and efficiency.

Fixed rate mortgage offer - In the light of the expectation for increase of interest rates on the market and emerging interest from customers to lock their mortgage, UCB was one of the first to implement special offer for mortgage with fixed interest rate in the summer. Being attractive enough the conditions on the loan are applied only standardly and with respective cross sell products. The proposal was well appreciated by the market with ~ 265 deal and 45 MBGN new sales in the first two months of the initiative.

Following our strategy towards digital, during the year we introduced major breakthrough in **mortgage lending - electronic signing of contract**, with which all steps of the mortgage process from consulting, to application and contract signing could be performed completely remotely. In 2022 more than 500 mortgage deals have been signed electronically.

Another very important initiative in **lending** was related to **decrease the administrative load** of relationship managers business clients in the process of annual review and renewal of business loans. It was achieved through simplification and automation of the process and now around 25 % of reviews and renewals are performed automatically, which provides more time to commercial positions dedicated to pure business.

Development of Distribution Channels

In 2022 the **digital channels** of UniCredit Bulbank continue its direction for becoming a main tool in the everyday banking of our customers. The bank managed to introduce new payment options, alongside with improvements in already existing. As a result, the total amount of payments processed via Bulbank Mobile has increased with almost 60% vs. the previous year. In order to support the growing usage of the mobile banking, UniCredit Bulbank has increased the daily limit for payments to third party accounts from BGN 8k to BGN 20k. In addition, the limit for payments between own accounts was removed by incorporating the required Declaration for origin of funds for payments above BGN 30k, which still is not offered by any other bank on the local market. Another major development in the payments area was the introduction of Instant Payments (Blink) in Bulbank Online and Bulbank Mobile. Following the strategy for best customer experience, we have developed the new payment option as a default one if the payment conditions comply with the rules of Blink. With this implementation the customers are able to send and receive instantly within 10 seconds, payments up to BGN 30k.

Many improvements and developments in **Bulbank Mobile** were done in the area of cards, such as the presence of monthly credit card statement in the mobile app, real-time notification for every card transaction with push and in-app message, no matter if the payment is with debit or credit card, whether is done with plastic or tokenized card and no matter the channel, ATM, POS or e-commerce. Since Q3'22, the customers of the mobile banking are able to see the actual balance over their credit cards, without any delay in time. During 2022 UniCredit Bulbank was the first within the entire Group to offer its mobile banking application in Huawei AppGallery with all available features and capabilities to any type of Huawei devices, with Google Mobile Services and Huawei Mobile Services. This has opened a new door for potential mobile banking users, who were not able to use the app till then. The mobile banking Bulbank Mobile is showing very positive progress in terms of customers and logins with an increase of ~30% vs. 2021. The android users has made it possible, Bulbank Mobile to be the first banking app on the local market, which to surpass 1 million downloads in Google Play Store.

One of our major channels for support, consultancy and sales, namely the **Call Center**, has gone through some internal reorganizations in order to support the increasing customers demand in the inbound line. The total inbound interactions has surpassed 1 million on annual basis, keeping a good rate of self-service usage of the available options in the IVR, which went through updates and optimizations. Specialized team to support business clients was established, focused on all legal entities servicing and support, being also sales oriented towards new and existing customers.

Since June'22, following the structural changes on Group and bank level a new unit has joined the Alternative Channels family – **Remote Relationship Management and Servicing** for individuals and companies. The two teams are having Remote RMs responsible for dedicated portfolio of customers, with the main goal to utilize the relationship with those customers, maximize the cross-sales opportunities and increase in revenue per account. The team responsible for companies has started to offer entirely new remote process for onboarding of micro business clients with full range of daily banking products and services, using the digital signatures capabilities of the bank, via QES.

The **ATM business** of the bank has gone through another successful year, which was under the flag of renovation the fleet in the entire country. More than 170 devices were replaced,

Retail Banking (continued)

including the installation for the first time on the Bulgarian market of deposit devices with option to accept single cash-in transaction with up to 200 banknotes and "Recycling Ready" functionality, which will be launched in 2023 massively across the entire country. The shifting of more customers towards deposit devices continue its positive trend while the total amount of deposit amounts has increased with almost 50% vs. previous year.

Branches, the physical locations of the bank, are focused on high added value products (i.e. AuM, insurances, mortgages and SB loans) where customers still appreciate face to face interaction. 180 PoP in 2022 eop with new structure and optimal coverage (25% decrease in 3 years period). Physical presence allocation based on customers' behavior and business potential.

Card Business Overview

Following the Cards' strategy in the latest years, all initiatives in Card Business in 2022 were related to digitalization and customer experience improvement maintaining sustainable card business growing trend together with strict control on card frauds and POS network optimization and effectiveness increase.

Several main projects and tasks were completed to maintain the business growing trend and giving the bank strong competitive advantages:

- Following our ESG strategy, new vertical cards were launched, produced from PLA eco material substituting the old PVC cards
- Most popular and used cards are now with validity increased from 4Y to 6Y
- We continue with market positioning and product enhancements of UniCredit Shopping card
- Increasing utilization of delivery to address service that provides the clients the possibility to receive the plastic at their address and the e-PIN in their Bulbank Mobile with self-activation capability through mobile app by the cardholder
- Simplification and total redesign of cards documents for improving internal client's UX
- The affirm trends and efforts for being a digital bank, UCB started project with Visa for card digitization in Google Pay which is the third wallet offered by Cards for mobile payments. Increasing trend of digitized cards +26% y/y

Several key initiatives were in place regarding vPOS and rPOS as well:

- Significant improvement of cards related information in Bulbank Mobile was achieved via ability to manage the delivery upon renewal on expiry, transactional push notifications, capability to retrieve actual credit card balance in real time via pull request to BORICA and credit card statements.
- In 2022 was completed Identity Check Mobile project for biometry confirmation of 3D authentication during Internet payment with high complexity involving five different external parties. Scheduled launch in the beginning of 2023.

From Risk perspective, we continue with simplification and digitalization strategy. More than 20% of card claims are filed through Call Center since launch of this opportunity for UCB cardholders. We implemented successfully together with Security of additional anti-fraud tools – VRM by Visa and FRM by MasterCard to prevent international card fraud transactions in real time, working on improvement of the rules criteria and back-end process to assist affected customers. We managed to improve the workflow on increase/decrease of transaction limits on debit cards. The process of simplification for SME business credit cards was made.

Private Banking

Private Banking (PB) continues its strong focus and commitment towards core goals for 2023, stepping on the results in 2022.

In 2022 The Revenue almost doubled vs. 2021 to reach record of BGN 22.6 mln with main driver Current and Saving Accounts and Term Deposits being 31% from Total revenue. Investment products being 21% from revenue, where overall Non Interest Income is 37% of total Revenue, C/I Ratio of 19.5% and ROAC of 222.1% as of December 2022.

Main focus in 2022 was on providing best-in-class business relationship and products, financial solutions and services reflecting to client's individual needs.

- Widening the opportunities in 2022 for investments through final Implementation of Structured Products. In 2023 the first few successful emissions of Structured products with capital protection should take place. Products will be available for all Private Individuals client of the bank via particular MIFID II process for this product line
- Widening the opportunity for lending with focus on mortgage loans
- Enhance profitability management
- Digital trading solutions upgrade

Along with NPS and the core goals, PB aims at constantly improving investment efficiency by raising investment volumes and its profitability while improving the very solid KYC process and further digitalizing the process in 2023.

Investments part in Total Financial Assets of clients in 2022 was 42% as of year-end. Total financial assets of clients grew with 1.9% y/y in order to reach the record in the end of 2022.

In 2022, nevertheless the dropdown of financial markets and decreasing mark to market value of AUM, the uncertainty and the high volatility, the sustainable relation with clients were assured. The team remained close to clients via events, dedicated

Retail Banking (continued)

meetings and started to update regularly clients for their portfolios development under execution only type of investment service as well as monthly sharing of Private Banking bulletin. This allowed us to understand better clients view on market development, to learn about the financial plans and at the same time to keep outflows under strict control.

Nevertheless, the clients' decisions for new investments were most of the time postponed due to uncertainty, the amount of investments grew 1.6% y/y to reach record high in terms of volumes.

At the same time Loan volumes increased by 16.7% y/y and Assets under Custody increased by 7.3% y/y. Those results are mainly due to very strong increase in sales activities and proper pipeline management.

In the area of Assets under Custody (AuC), complexity of corporate actions events, including dividend and interest payments that requires extensive expertise on the different foreign market's specifics, double tax treaties, and securities trading regimes, PB is further developing custodian service as part of the overall goal to increase the quality of AuC.

2023 Outlook

Our efforts for better customers' experience and digital processes will continue in 2023 too.

Our Service Model Transformation is on-going, developing further remote and digital sales possibilities, incl. the concept of virtual branch, agent model, cashless branches, call centers merge.

Focus under the lights will be the further developments of our mobile banking in the area of payments, integrating other global wallet payments providers. Important part of our development roadmap will to offer new products and service, which to be fully End-to-end digital for the customers, offered via our "universe" – the mobile banking app Bulbank Mobile.

We will continue the path of transforming our Call Center into a new and modern place, offering best of class services, more self-service options, priority lines for our most valuable customers and speed-up the process of increase cross-sales in inbound and outbound lines.

On the ATM business side, we are planning to follow the same strategy of making the fleet more modern and ensure highest level of availability, which will be supported by the recycling functionality on our deposit devices.

The main goal for Card Business in 2023 is to make cards more user-friendly improving customer experience in the channels. Special focus will be dedicated in 2023 on premium products enhancements together in UniCredit Shopping card on one hand, and kids/teens products on the other, in order to affirm the Bank's market high positioning. New merchants' onboarding activities via channels, new sales models and development of new solution known as "tap-to-phone" and Digital card will help us confirm our market leading position.

For 2023 Private Banking will strive to:

- Increase focus on daily banking of Private clients via new banking Plan with high end banking card and close monitoring of the development of daily banking
- New functionality in BBO regarding module 'Markets & Investments'
- Mobile application for clients 'Private Invest' for investment overview and sending orders for funds and securities
- Automation of processes in order to liberate more commercial time for bankers (corp. events for securities and safekeeping fee automation)
- Series of Events and Seminars with clients and partners

In Private Banking, the focus remains at further development of business model and service levels, supported by local and group-wide projects and initiatives. Private Banking products catalog will expand with new investment products and digital solutions and implementation of a new plan/package for Private clients.

Asset-Liability Management and Funding

In 2022 UniCredit Bulbank continued to maintain healthy balance sheet with solid liquidity levels, well positioning the bank for utilizing growth opportunities in the future. The banks funding profile benefits from it's **robust customer deposits franchise**, which at the end of 2022, account for around 90% from non-equity financing. The banks' deposits base is stable and granular and in times of market stress has benefited from flight to quality, especially among retail depositors. In 2022, the net liquidity from customers' operations further improved as indicated by increase in the positive funding gap by EUR 0.4 mln (from EUR 3.6 bln as of 31 December 2021 to EUR 4.0 bln as of 31 December 2022). This is the result of faster growth of customer deposits (by BGN 3 422 mln y/y) than net customer loans, excl. debt securities at amortised cost (by 2 600 mln y/y).

At the end of 2022 Net Loan/Deposits ratio stood at 75.8% vs 70.4% for 2021.

All liquidity risk metrics (both short-term and long-term) are at **comfortable distance from limits. Regulatory metrics on LCR and NSFR** report values significantly better than the requirements: **LCR at 201% and NSFR at 182%.**

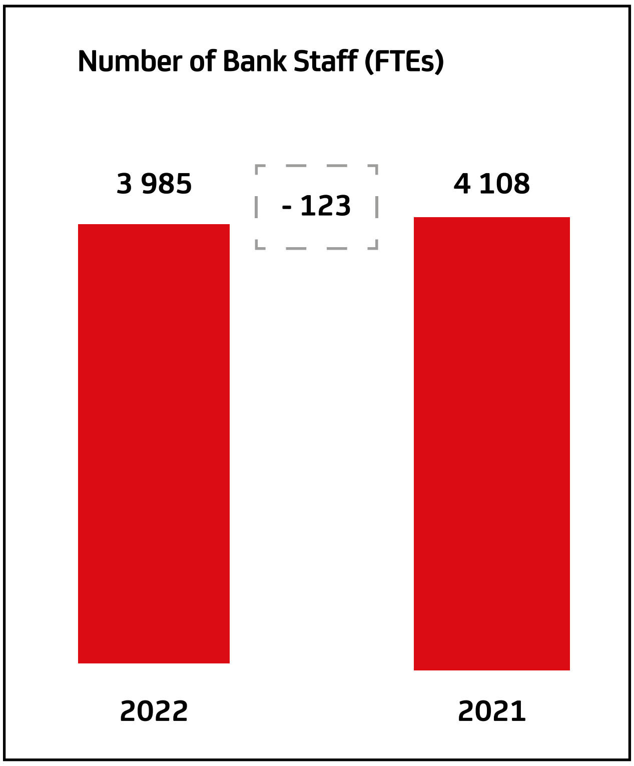
In terms of intragroup core funding, UniCredit Bulbank remains **net lender to the Group.** From the perspective of total funds attracted by the Group, the main exposure relates to relates to **iMREL/SNP bond** issued in 2021 at the amount of EUR 160 mln. **On 27th of January 2023, another SNP bond at EUR 250 mln was issued in order to assure compliance with announced** increase in the SRB MREL requirements to UniCredit Bulbank and increase in the RWAs.

As it is part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", the bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

Over the course of the year 2022, UniCredit Bulbank continued to pursue an active, but prudent **investment policy** entirely in line with the approved strategy, rules and limits and with a view of maintaining a sound short-term and structural liquidity position of the bank. The investment portfolio was increased with the aim to invest a part of the surplus liquidity, earning adequate return on an acceptable risk basis. The bond portfolio also served as a liquidity cushion, being partially pledged as collateral for funds attracted from state budget entities and banking institutions. Moreover, the government bonds in the investment portfolio are treated as high-quality liquid assets for the purpose of liquidity coverage ratio calculation.

People & Culture

In 2022 People & Culture (P&C) continued following its strong human capital development focus, fostering inclusive culture and working environment in order to unlock the full potential of our people and promoting UniCredit Bulbank as best place to work. The main goal of all activities was to support reaching the strategic goals of UniCredit Bulbank while assuring people-centric, flexible and timely response to the dynamic environment.



The number of employees (FTEs) of the bank decreased from 4 108 to 3 985 on consolidated basis in alignment with the Strategic plan, driven by continuous investments in digitalization activities, new opportunities for remote work with customers and directing operations to digital channels like mobile/online services. In terms of gender distribution the proportion of female/male overall is ~76%/24%; the ratio for the managerial positions is quite balanced – 59%/41%, while for the top managerial positions (board level and direct reports to executive directors) the ratio is ~46%/54%. Gender diversity is one of the priorities not only of the P&C team, but is part of the managerial agenda across all functions and is implicated in various internal requirements and procedures, covering not only the gender balance, but also with regards to the remuneration, succession planning, talent development etc. The average age of the employees is 43 years, and from educational structure perspective, most of the bank's employees have university education (around 78%).

The bank continued to be considered a good place to work and stable and reliable Employer, supported by the strong brand of UniCredit. The People & Culture team managed to provide sufficient number of job applications, however perceiving the labor market as more and more challenging. Still particularly challenging and already being traditional for the market, were specific segments related to highly qualified banking experts and specific positions (incl. the IT sector), as well as the geographical areas with higher turnover due to the labor market specifics – for example the capital city. The recruiting process was optimized for some of the basic network profiles by implementation of specific personality test for selection and shortening the decision making process by increasing the delegation authority to the direct managers, thus shortening the time to hire for these roles and increasing the efficiency. Further focus on attraction and sourcing of specific expertise and digital profiles was put in order answer properly to the business needs. In 2022 were hired almost 390 new people (480 on consolidated basis).

The Internship program as usual was one of the key priorities aimed to promote the employer brand and serve as an entry pipeline for professional roles, thus reducing the selection effort and improving the time for hiring of needed profiles. In 2022 almost 170 young professionals (above 200 on consolidated basis) received the opportunity to conduct an internship with the bank 40 of them (46 on consolidated basis) were offered a permanent job thus the program still being a key sources for recruiting of new employees.

Particular efforts were invested in developing deeper connections with the universities, again with the aim to build a pipeline for sourcing of high-potential young profiles and promoting the employer brand of UniCredit. Partnership with Universities is becoming a strategic initiative also in terms of sharing knowledge and supporting the right understanding of students for key business processes with bank experts as lecturers on variety of topics.

The HR costs were adjusted according to the guidelines of UniCredit Group particularly for variable payments in alignment with the Remuneration policy and the financial performance. The Remuneration 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. Due to the specific economic macroenvironment and related significant increase of inflation impacting directly the engagement of the employees, were implemented specific measures to align the remunerations with the economic situation, inclusive of salary adjustment of all employee, top-up for merit remunerations review, one-off payments and considering implementation of additional benefits as well as review of the total compensation offer with the aim to increase the market attractiveness and

People & Culture (continued)

reduce the fragmentation of the financial benefits. The overall benefits portfolio is among the best ones in the country and is an important additional factor for attracting and retaining employees. The voluntary turnover was impacted by the labor market conditions and increased with more than 1 pp to 9.8% from 8.5% on consolidated basis (only bank level the change is to 9.5% from 7.9%).

In 2022 People and Culture followed the Human capital strategy and continued to invest consistently in the learning and development of people in order to unlock their talent and to enable the bank to fulfil its full potential and to realize its purpose.

Mental health and the well-being of employees remained on focus even post Covid-19 pandemic. In order to facilitate the balance between the personal and professional life and to support the smooth transition to a phygital way of working, were organized several initiatives that were meant to show practical ways for healthy lifestyle, change management and effective emotional management.

In a heavily regulated environment with constantly emerging non-traditional competitors, customer experience (CX) continued to be a legitimate differentiator in the banking industry. Therefore, in 2022 was continued the learning strategy, part of the overall CX concept of the bank, and after the successful completion of the learning video-series introduced in 2021 were designed several gamified CX learning journeys aiming to foster knowledge sharing and to further solidify the professional habits and reinforce the customer centric behavior of the employees.

The gamified learning journeys tackle the CX from both internal and external client's perspective. The journey targeting all employees focuses on collaboration, understanding client needs and generating ideas about further simplification and optimization aiming at improvement of the experience of the bank's clients. Those targeting the client facing roles in Retail and Corporate Banking build on the UniCredit Way of Working (UniCredit WoW) concept and focus on topics such as customer service and further digitalization of processes and services aiming at continuous CX improvement. The first gamified CX learning journey has been successfully piloted in the last quarter of 2022 and the rest will be delivered in the beginning of 2023.

Led by the strive for specific actions towards simplification and further improvement of the CX, were created a series of training videos, dedicated to Lean Six Sigma – a methodology for process optimization and improvement of quality of products and services. The series are inspired by a project implemented in the Bank and aims to encourage colleagues to search for simplification and optimization opportunities in their everyday work activities and thus contributing to the realization of the Bank goals.

In compliance with the government guidelines for prevention of the spreading of Covid-19 were restarted the delivery of classroom trainings ensuring a maximum safe environment for the employees. The induction trainings for the new joiners, the professional trainings for Retail and Corporate salesforce as well as the leadership trainings have been delivered with priority in a classroom format in order to ensure higher effectives and better opportunities for networking and knowledge sharing. In 2022 for Retail sales force the focus remained on trainings dealing with the topic of customer service, customer relationship building, selling techniques and process, portfolio management and customer "moments of truth". The focus in the other business segment – Corporate banking, continued to be on the constant development of a long-term relationship based on value creation and sustainable business origination.

In 2022 the Bank continued to embrace new ESG practices and its journey to a more sustainable and responsible business. An essential part of this journey, of course, included the raising of the awareness for ESG factors and good industry examples throughout the different levels of the organization. This was done with the structuring of a holistic ESG learning journey that defined the training initiatives dedicated to environmental and social governance for each layer of the organization, starting with the top management and the senior leaders. In its educational quest, on the mechanisms of sustainability, the bank also financed the certification of more than 100 experts from different structures that took part either in the ESG academy or the ESG Master degree, organized in partnership with Sofia University "Sveti Kliment Ohridski".

In line with the ESG Strategy all new labour contracts, all type of addendums, job descriptions and resignations are available for electronic signature. By implementing the e-signature for employment documents in 2022 were achieved: 65% saved paper, min 10 minutes per employee of saved time for labour related documents and better employees experience.

In 2021 was started a transformation journey and in times of change, managers are the natural engine that encourage, inspire and motivate employees to grow and shape the future success of the organization. Thefore also in 2022 were continued the two major programs that aimed to equip, the colleagues who are leading teams, with the necessary knowledge and managerial capabilities for enhanced teamwork and productive professional relationships.

- The first initiative – the Brach manager's Master Academy, is a multi-modular program that combined internal and external training sessions, which gave good practices on operative processes, organization of the working day, annual planning, segmentation and budgeting, but also effective communication, conflict management and negotiations. In 2022 on focus were the colleagues who took over a new role as a Branch and Commercial manager.
- The second initiative – the Deliberate leadership phi-gital program, is a five-module training, supported by an online leadership application and peer-to-peer coaching sessions.

Each module of the program was made with a diverse and effective learning experience that used exercises, analysis, questionnaires and experiential learning activities.

To equip the employees with all necessary skills to continue on this transformational journey were organized several virtual trainings aiming at improving their digital literacy and facilitating the adoption of a new way of working with innovative digital tools.

The focus on accelerating talents' growth and unlocking their potential have continued to be at the core of the Talent Management Program initiatives in 2022. During the year Bank talents have participated in different training initiatives, strategic meetings, stretching assignments, mentoring/coaching through which they have been naturally improving their readiness to make a next step and even bigger impact in the organization.

The opportunities for open-enrollment in different training topics continued to be part of the training offer as well and even were broadened with new courses that facilitated the effectiveness on the workplace. Besides being highly appreciated by the employees, this possibility for a free enrollment for a session of personal interest boosted their satisfaction and engagement to the company.

Other groups of courses, stimulating the professional excellence and personal productivity of the employees, were the numerous business/process related trainings from the Retail and Corporate Banking learning paths, the ongoing trainings on Financial analysis for Corporate Banking and Risk structures, trainings on Agile methodology, project management, specialized IT topics, etc. Compliance and Security related topics kept on taking a tangible part of the training agenda also for 2022, with particular Group focus on cyber security and data management.

2023 Outlook

In 2023 People & Culture will continue to act as a strategic partner, change agent and data driven function for sustainable business and leadership growth while appropriating a premium employee experience of our colleagues strengthening the open communication with employees and local communities. Employer branding initiatives will be continued in order to maintain the good image as Employer. New initiatives will be launched in support of employee experience journey and as an answer of the 2023 business challenges and priorities. Digitalization and automation of processes and tools will be key enablers.

Regulatory Affairs

Following the establishment of close cooperation between the ECB and BNB in 2020 as well as identification of UniCredit Bulbank AD as a significant supervised entity as one of the few significant supervised entities in the country, the ECB as the competent authority directly supervises the Bank during 2022.

Local Regulatory Affairs Team established at the end of 2020 continued to perform its activity as single point of contact (SPOC) for all local and European banking authorities in 2022. Main achievements of the team and the Bank are maintaining proactive communication with local ECB/JST representatives on relevant topics as well as proper and timely addressing of all regulatory requests for information/data delivery. As part of the SREP process, regular quarterly meetings of the Bank's control functions with JST took place in order regulator to be updated on the development during the year. Final ECB/BNB decision with results of second full SREP valuation held in 2022 was received at the end of Dec 2022, confirming strong performance of the Bank in all areas (business model, governance, capital and liquidity etc.).

Compliance

Compliance with the existing regulatory framework is an essential requirement for the effectiveness of the overall corporate governance within UniCredit Bulbank AD and its subsidiaries. Its main role is to manage, oversee and mitigate the compliance risk in the Bank and its related legal entities. Moreover, Compliance has a proactive role in advising the Bank functions on regulatory requirements, especially on new products, processes, business initiatives, commercial campaigns, marketing materials, and sets rules of conducts, guidelines, and standards - for perimeter of competence - to be observed.

Compliance monitors the non-compliance risk according to a risk-based approach, i.e., an approach that, based on the ongoing assessment of Group activities and the regulatory framework and corporate environment, focuses its activities and priorities on the areas, standards, processes and procedures most at risk of being not compliant.

In order to be in compliance with the requirements specified in the local legislation and the Group procedures, the Compliance team implements valuable and effective controls, which are designed to identify and mitigate the Regulatory risk. In this regard the Compliance function in UniCredit Bulbank AD continuously keeps a deep understanding of the business and of the activities and processes to be checked in order to be aware of issues/risks that may affect currently or in future Compliance controls and to gain insight to broader issues for a proper planning. The Compliance function with regard to some regulatory area (e.g. AML, Financial sanctions, GDPR, MiFiD, Outsourcing, Regulatory Reporting, etc.), directly and independently performs controls and risk assessments, defines corrective actions when needed, ensures regular monitoring of their progress and periodically report the evolution of risk exposures to its Management Board and the Group.

During 2022 Compliance continued focusing its efforts to strictly follow the requirements of the local regulations and UniCredit Group's policies and procedures. During the last year, the AFC team ensured timely implementation of all restrictive measures imposed by EU, US and other relevant authorities following the invasion of Russia in Ukraine. In addition, the strictly following the Know Your Customer (KYC) requirements remained of utmost importance since this is one of the most effective tools to prevent the institution from being used by criminal elements for money laundering activities.

Chief Operating Office

Chief Operating Office (COO) perimeter covers a broad variety of functions, responsible for both run and change activities that we always strive to provide in a timely and quality manner, with the ultimate goal to ensure the best in class customer experience of our clients and our colleagues.

The new organizational model of the Bank, implemented in 2022, allows us to leverage on various synergies, increasing our focus on **digital strategy execution**, **enhancing the product and service offer** and ensuring operational stability, innovation, business growth and efficiency, while fully respecting the regulatory framework and consistently monitoring and managing the associated risks.

During the last year, multiple initiatives were successfully implemented – initiated, led or with the significant contribution of COO team. To mark only a few of them: **Instant Payments** launch, Digital channels enhancements (Omnichannel roadmap, Online banking, Stabilization of mobile banking), Synthetic Securitization – the first in Bulgaria and in Region, **ESG** projects aimed both at supporting a consistent introduction of ESG principles in our clients' business practices and reducing the carbon footprint. We continue to reshape our teams, embedding process optimizations, robotization and further digitalization in more areas, simultaneously to the investment in our people with the support of People & Culture (upskilling, cooperation with universities, hiring more digital profiles).

Focus on Digital & Information office (CDIO)

During the past 2022 a significant number of initiatives and projects have further enhanced technology, digitalization and internal skill profiles, together with relevant regulatory and compliance projects. We maintain a strong focus on ensuring the highest standard of service, removing as much as possible the technological obsolescence and keeping our infrastructure as best in class.

Meantime various initiatives have been deployed in cooperation with other Bank departments. Digital channels and digitalization continued its progress, including stabilization of mobile banking. Digital Sales road map has accomplished its yearly plan for the Bank and UniCredit Consumer Financing, and new functionalities have been implemented in our online banking, both for Individuals and Companies.

The Bank's strategy on stability and innovation applies on all service channels: we completed the migration of our **ATM fleet to New Borica Generation**, with more than 230 ATM and 4 000 POS replaced, 26 new ATM, and more than 3 800 new POS installed, in line with customer needs and IT obsolescence program execution.

We apply the same principles of stability and innovation to our own employees' technological working tools: more than 300 *all-in-one* PCs were distributed across our Retail Branches, we deployed O365 and Teams in the Bank and in the Subsidiaries with the aim to improve the collaboration and communication experience of our employees, and we invested in enhancing the HQ communication technology (technological Audio/Video conferencing upgrade).

Many relevant **implementations** have been delivered: UniCredit Factoring integration within the Bank, Fast Closing process implementation and automation, Digital signing for internal document (starting from employees' agreements), Underwriting system enhancement, Instant Payments, Synthetic Securitization, as well as new Private Investment products, Client FX Platform, etc.

In 2022 more 90 processes were robotized, saving effort to our colleagues and allowing for more client interaction time or managing different operative tasks.

With focus on ESG, several intervention as well in printing process were done, designing new model for optimizing the services with tangible compression as well of printing machine distribution.

In parallel, the entire Digital team has been reorganized according to the Group strategy and guidelines, enlarging "Digital" scope of action, incorporating from other areas Project Management, Data Management and ATM & POS. We **increased our focus on digital structure** with a dedicated unit in place for the digital strategy and change & transformation. In addition, a vertical unit for AI will aim to propagate machine learning across all the organization.

We keep investing in our mid-term future, both on the human capital side, where we reinforced the digital team with more than 20 employees and heavily invested on our people skills, as well as on the technological innovation, carefully testing and introducing new technologies, including AI, chat bots, event management systems and DevOps experts.

In 2023 the main focus will be dedicated to **Euro Adoption** program, while striving to continue delivering innovation. We will continue as well with the investments in our **IT infrastructure update and reinforcement** (e.g. storage enlargement, Open/shift reinforcement and the new ODI/ETL for the data strategy accomplishment) and POS/ATM devices purchase to cover the forecasted business appetite.

People evolution with upskilling and reskilling will be among our top priorities in 2023 as well (e.g. Java, DevOps, AI), leveraging on the Digital academy and through a structured collaboration with the key Bulgarian universities.

Additional effort will be invested in preventing incidents, improving as much as possible the alerting tools or in case of downtime events, granting an adequate and customer-oriented communication process.

We will continue to invest financial resources in both our run and change activities, with the clear ambition to be cost effective while provisioning quality and timely services as well from external partners.

Chief Operating Office (continued)

Focus on Security

We strive to continuously **enhance the cyber culture** for both our employees and customers. For this reason in 2022, we have maintained a comprehensive security program in the area, preparing wide security awareness campaigns with guidelines and good practices, linked but not limited to the payment services, threats and vulnerabilities, for all our employees and customers, using the variety of available digital and mobile channels. In addition, specifically for employees, a number of phishing campaigns have been organized over the past year to increase vigilance and reduce incidents in this area. The campaigns were performed both on local and group level. The results after each simulation were deeply investigated and different mitigation and improvement actions were immediately taken in order to furtherly defend the whole organization.

During 2022 we managed to complete phase 3 of Network security management (SIEM) project and phase 2 Network Access Control. For the entire past year, there were **no major cyber security incidents** and the focus was on the sustainable improvement and reinforcing of Digital Security. As a part of the multiyear security strategy we keep the strong focus to further improve and enhance the functionalities and performance of some of the most important solutions such as Identity and Access Management, Data Leakage Protection, Cyber security and Fraud prevention. In the last year there was a big change to the Bank`s internal regulatory framework, with many new Group documents being adopted in the areas of Digital Security and Corporate Security and Resilience.

In the past year, a special focus was also placed on the management of third parties, and an **annual cyber security monitoring** was carried out for all suppliers of the Bank with an identified medium or high risk.

The large scale penetration of technology in digital financial markets, and the significant increase in the use of digital and mobile communications and technology has led to a dramatic increase in related threats. It is becoming increasingly important to seek solutions and use all technical possibilities to defend against cyber-criminal attacks. Due to the further technological developments and operational excellence, the Bank demonstrates general decrease of losses in digital channels fraud cases and achievement of a very strong security level. One of the reasons for reducing losses is that the Bank started using the **Visa Risk Manager** platform to prevent fraudulent transactions. Close monitoring over the current global security threats and trends is properly established and maintained especially in the field of ICT disruptions risk, data theft and compromise, fraud and third-party risk.

Focus on Operations

At the beginning of 2022 we've launched a dedicated Operations Optimization Program with multiple streams:

- Through **boost of automation, efficiency initiatives and productivity improvement,** mainly in loan booking, payments and distrains areas, we managed to optimize our activities and thus in 2022 reduced the overall capacity by ca. 6% of entire Operations team.
- Assure Operations **competitiveness & readiness to support business growth.** Further to above optimization, we managed to absorb the double-digit growth of payment & cards transactions; growing volumes of loan origination – mainly driven by growth in mortgage lending for private individuals and guarantee-scheme-backed lending for companies.
- **Delivery of key projects**, such as **Instant Payments**, that not only deliver improved customer service, but also allows us to optimize our cost base; as well as timely activation & automation of **new guarantee schemes**, to be able to support our clients and the overall economy in the post-Covid crisis recovery.

Going forward our focus will be on:

- Full readiness of the Bank to adopt Euro as national currency
- Further centralization of know-your-customer activities
- FTE efficiency, among other initiative, mainly through: Continuous automation in the loan-booking & distrains area; and Push on further increase of migration of payments to digital channels

Focus on Real Estate, Procurement, Cost & Third Party Management

At the end of 2021, under the guidance of the Holding Company, the implementation of a **new organizational model** was kicked-off within UniCredit Group, managed locally through a dedicated project. The new organizational structure was put in place successfully by end-June 2022, according to the initial plan, thanks to the excellent planning, execution and strong cooperation between multiple Bank teams.

Aiming to achieve simplification and clear responsibilities within the Bank, as of April 2022 the former Organization, Real Estate & Logistics and Procurement Departments have been merged into one new Real Estate, Procurement, Cost and Third-Party Management structure. The change has allowed to logically connect and close the processes between all logistics, sourcing and cost management related activities for products/services within the Bank. Business process management functions were kept within the structure as well, ensuring homogeneous knowledge, management and control of all internal bank documents.

In **Real Estate** the year of 2022 has started with challenging demand of small tasks and logistics requests based on several strategic projects in the Bank like New Service Model, New Organizational Model, Culture Day and ATM replacements related to Borica New Generation project.

Chief Operating Office (continued)

Together with the finalized centralization of all active credit products to a central operative archive, in the second half of the year main efforts have been focused on strategic ESG initiatives, including but not limited to the installation of four electrical power chargers for vehicles in the main HO buildings. Several **energy efficiency initiatives**, such as replacement of the lightings in all Bank locations with LED ones, execution of the program for air-conditioning replacements, etc., have been implemented. We are proud that we achieved the Group ESG target of 100% plastic free.

Despite the challenging economic and political environment, Real Estate team managed to complete all important business projects related to the network strategy, self-service zone establishment and partial HO buildings renovations and relocations.

Our focus in sustainable and efficient ESG initiatives will continue in 2023 with projects like: remote control of advertising signs, delivery of hybrid vehicles, next waves in the program for air-conditioning replacement. Among the main priorities in Real Estate, besides following the strategic business initiatives, will be the start of various outsourcing projects, digitalization with respect to certain registration activities, and other solutions related mainly to process optimization.

During 2022 the **Procurement** strategy was fully aligned with the main Bank priorities, reflecting the specific market situation, characterized with unpredictable delivery time, increased prices of main goods and services and lack of enough resources to meet the demand. Some of the suppliers were not able to continue providing the services under the agreed terms and conditions and new tenders were initiated.

Under the dynamic market conditions, Procurement structure has managed to ensure timely delivery of important products and services under optimal financial conditions and provision of goods and services for strategic initiatives of the Bank like digitalization, omnichannel, energy efficiency, as well as important customer and regulatory related projects. Procurement actively contributed to the execution of the ESG strategy with the following activities: photovoltaic system delivery, delivery on the market of corn-based plastic cards - biodegradable and manufactured from renewable resources, replacement of plastic bottles with glass ones, etc.

Special attention was given to the third-party risk management, in compliance with the existing rules and regulations. The team continued working with the Group procurement platform SAP ARIBA, following transparent online tender procedures which result in low-risk and trustworthy relationships with our suppliers.

The main focus for 2023 is to continue supporting the strategic Bank and Group initiatives and projects.

In the field of **cost management,** the team continued to provide high quality services in the cost approval and cost controlling area, both CAPEX and OPEX, with the main purpose of ensuring fast and smooth running of the work process, while respecting the regulatory requirements and internal rules. Being aware of the difficulties in a situation of economic restrictions, we continued to work with priority over the strict cost discipline, supporting the business in the initiatives for cost optimization, incl. via business cases verification.

In 2022 a new policy on **third-party risk management** for outsourcing and non-outsourcing arrangements, as well as a new risk methodology for outsourcing contracts, were implemented. These aimed to ensure effective identification, assessment, mitigation, monitoring and reporting of the risks generated by such type of contractual arrangements. The function is expected to be further strengthened with a new Group tool, to be implemented in 2023, increasing as well the level of process digitalization.

In 2022 **Business Process Management** team assigned significant part of its capacity to the implementation of the new organizational model and the recertification process of the internal regulative documents. The consistent effort, involving colleagues from all main structures, led to optimization of the total number of documents at Bank level by almost 30%.

The main focus in 2023 will be the proactive participation and overall management in the implementation of process simplification at scale.

2023 Outlook

COO Team is prepared to take on a new year of opportunities and challenges to support the execution of the UniCredit Unlocked strategy.

The Euro Adoption project is expected to consume significant part of our resources and we will do our best to lead our clients through this transformation as smoothly as possible, while still ensuring support to business evolution and innovation.

We are dedicated to continue supporting the overall process simplification at scale at Bank level, while executing the defined digital strategy, improving the digital security, modernizing further our IT infrastructure to enhance our capacity, implementing ESG projects an providing valuable solutions on a daily basis.

Customer Experience and Complaint Management

Customer Experience Management

Based on the values of Integrity, Ownership and Care, UniCredit Bulbank works with a customer-centric approach throughout the organization and constantly building up on customer experience knowledge and culture. This is one of our key tools for achieving good business results and the way the organization works. Importance and relevance of the voice of the customer continue to support all units of the Bank meet customer expectations and needs at the right time with the right solution.

Regular Customer Experience Council, which aims to ensure customer focus, discussion and process improvement (based on relevant feedback from employees, current and potential customers and complaints) is integral to maintaining a customer-centric corporate culture. In 2022 the bank kept focusing on already started or new initiatives to strengthen this approach.

Several of these initiatives are related to the better interaction between different units in the organization, trainings with CX focus, for better understanding of customer needs.

Having the customer-centric approach, the bank conducts high volume of listening activities to leverage on customer insights and better prioritize initiatives to enhance dedicated customer journeys while continuously looking for options for improvement. With all activities and projects, the bank aimed to understand its clients' expectations as well as to address customers' needs in a fair and timely manner. In 2022 most of the projects in the listening activities area were related to not only listen to the voice of the customer but also act on this feedback on time. The single goal – improve customer experience.

Utilizing feedback based on various sources like surveys or complaints, the main focus in 2022 was to actively identify topics which could provide actionable insights for further improvement.

Customer Satisfaction and Experience

More than 55 000 feedbacks were collected from **Retail** Customers during the course of the year where the world-wide recognized Net Promoter Score (NPS) was most commonly measured.

In Retail, one of the main sources of information related to ensuring a fair benchmarking to competitors, shows a +4 pts increase YoY (reaching 32 pts.) and is 5 pts higher than Competitors' average.

Additional approximately 20 000 interview with clients with a dedicated relationship manager were also conducted to support the local initiatives related to customer experience based on relationship management model.

Another approximately 35 000 valuable feedbacks about customers' experience through different channels and touchpoints immediately after interaction with UniCredit were also collected.

To collect and act upon various feedback from different channels and product users, dedicated programs for listening to the voice of the customers are in place for Mobile Banking and Call Center users, as well as specific products (Current account, mortgage and consumer loans, etc.).

In **Corporate**, UniCredit Bulbank is at top position with NPS=31 and a positive gap to Competitors' average of +14 pts.

As in Retail, a special program for measuring the relationship with corporate customers is in place and further feedback is collected from customers who had an interaction among various channels with UniCredit Bulbank.

Internal Cooperation & Synergies

As *Customer First* is among the pillars of UniCredit, delivering an excellent service quality and top products to clients- means having a high level of cooperation between structures inside the bank. Therefore, an Internal Cooperation and Synergies Survey was conducted for 13th consecutive year. *Cooperation and Synergies Index* measuring the level of cooperation between structures and effort they put into dealing with each remains stable with 73 points (72 for 2021), confirming high level of satisfaction and engagement into daily communication and support to colleagues within the bank.

Reputation

UniCredit Bulbank's Reputation and Image are quite positive among Individual and Corporate clients and prospects. Based on the customers' and prospects' feedback collected across various surveys, the bank is perceived as stable, innovative and easy to deal with. Banks' image as a stable and respected international institution is also pointed out as one the main choices for being customers of UniCredit Bulbank.

Complaints and Compliments Management process

At UniCredit Bulbank, we value customers' complaints and consider them as a way to fix customer issues. Each client's complaint is processed individually and receives the required attention where the client is provided with an official position of the bank via the selected channel within respective legislation deadlines.

Detailed information about the complaint management process and set legal deadlines for responding is published on the official website of UniCredit Bulbank and is available in the bank branches. Thus, our customer have the opportunity to share their opinion, problem, as well as positive impressions of cooperation with the bank.

The complaints management process is centralized and in compliance with the Group Global Policy and the requirements of applicable legislation, allowing a structured and transparent claim

Customer Experience and Complaint Management (continued)

handling process as well as detailed investigation and better understanding of the underlying core reasons for the negative customer experience. Customer feedback and the information for each complaint is being analyzed and integrated in reports which are presented to Top Management and managers of the competent structures (including on Group level) for different topics and on regular basis.

Compliments, received by the Bank are also recorded in a centralized system and brought to the attention of the relevant employee, the responsible managers, as well as all other employees in the bank, as we believe that good example should be shared.

In 2022 there was a decrease in complaints received compared to the previous year, which we consider a success as a result of the efforts made to maintain high customer satisfaction during the year.

The number of customer feedback is 2 482 complaints and 284 compliments, which are processed effectively within the legal terms or provided deadlines by the relevant regulatory authorities.

2023 Outlook

UniCredit Bulbank continues monitoring and acting on customer feedback closely, placing even greater focus on improving customer journeys and interactions across all channels.

Building on the initiatives taken in this direction will further improve customer experience, using various tools. A key focus will be again the measures and activities to reinforce the culture and mindset of the power of customer experience, behaviors and ease of customer engagement with the Bank.

Corporate Social Responsibility

UniCredit Bulbank takes responsibility for its leadership position on the market and supports the prosperity of all stakeholders and local communities. In 2022 the bank was the main partner and supported the implementation of multitude of projects in the sphere of education, innovation, culture and art, business and social entrepreneurship. The bank and its employees did not overlook the most vulnerable groups in society for yet another year, which they supported with donations of considerable amount.

Education remained the most imprtant priority

The investments in education remained a priority for the Bank. In 2022 UniCredit and Tech For All – global network of organizations, part of which is "**Teach for Bulgaria**" foundation, joined efforts to support children's education in a significant Pan-European partnership. This new union will use a general approach, focusing on innovations and inclusion in order to achieve results and unlock the full potential of the young people in Europe.

UniCredit Bulbank participated in the program of BCause foundation – "**Ready for success**", which supports children with excellent grades, who lost one or both parents or who were raised by institutions and foster families. The bank granted 15 K BGN, as the amount was collected in a joined campaign with the bank's clients - UniCredit Bulbank promised to donate two monthly fees for each plan for daily banking, activated via Bulbank mobile. Due to the engagement of the bank and its clients, 15 students from all over the country will receive an annual scholarship. The granted funds will be for children from Sofia, Montana, Veliko Tarnovo, Shumen, Gabrovo as well as smaller residential areas. For yet another year UniCredit Bulbank supported the initiative of "24 hours" newspaper, which aims at ranking the performance of 52 universities within 52 professional dimensions by dozens of indicators via the so-called rating system.

We continued to develop the **Practical finance** program targeting the students within the framework of the long-term cooperation with Junior Achievement. Thus UniCredit Bulbank confirmed its engagement to create content which is suitable for children and build their knowledge about cash flows, principal bank operations, responsibility to their own funds and managing their personal budget. Volunteers from the bank continued to give lectures in schools all over the country. UniCredit Bulbank was again part of the initiative "Manager for a day", in which four students had the opportunity to be a part of the team and share their daily tasks with the top management of the bank.

In 2022 UniCredit Bulbank supported the "**Beacon**" initiative which provide schools with the opportunity to express and confirm their identity and values by creating an anthem. The mission of the initiative is to propose a model based on music, creativity, interaction, responsibility and understanding of values, which build and create a harmonious community for the future generations.

Innovations bring value for the entire society

In line with its focus on the support for innovations development in different spheres, the Bank remained the preferred partner in organizing significant forums and events. Some of the most memorable ones were:

- **Innovation Explorer**, under the motto: Think Further, and the organizers aimed at building a bold vision for future innovations in partnership with scientists, economists and investors;
- **FinTech Summit**, which showed, that the global pandemic made the fintex sector even stronger and more significant for society;
- Innovations Financial forum, organized by the Bank of the year association;
- **Digitalk** – over 30 lecturers from different countries with different technological outlook speaking on the hottest topics of the industry – Web 3.0, startups and investment in innovations, digital economy, sustainable development, social entrepreneurship, cyber-security etc.

UniCredit Bulbank works actively in favour of the social entrepreneurship. In 2022 the Bank was a partner in the mission to encourage the entrepreneurship spirit in civil organizations together with the Bulgarian Center for Not-for-Profit Law. Together with the Reach for change foundation the Bank participated in the multi-sector initiative "**Valley of Growth**", which aimed at incentivizing the development of the financial market for social enterprises in Bulgaria. UniCredit Bulbank representatives took part in the conference "The Business and Regions – changed Bulgaria" again, organized by the BGlobal magazine and the Bulgarian industrial association, which emphasis this year included economic aspects as well as social initiatives and matters connected to society development.

In 2022 UniCredit Bulbank continued to realize its joined program with the Council of Women in Business in Bulgaria – **Leadership Academy**. During the year the eight edition of the initiative was completed and the ninth was initiated. Within each edition around 40 ladies from SME receive series of trainings on leadership skills completely free of charge.

In keeping with its traditions, UniCredit Bulbank retained its position of a valuable partner of multitude of initiatives on a higher level and conferences of business chambers operating in Bulgaria, as the German-Bulgarian Industrial Commercial Chamber, Confindustria Bulgaria, Bulgarian Business Leaders Forum etc. As a sponsor of the specialized financial forum the "**Sound of money**", the Bank continued to encourage the improvement of the financial culture of the entire society.

The Bank completed the year properly, participating in **the Power summit** as one of the leading partners. The forum famous also as the "Bulgarian Davos" is an innovative platform of a constructive and operative face-to-face dialogue, among authorities, business leaders and civil sectors. Its target, supported by UniCredit Bulbank, was to invest the collective intelligence of the country in creating sustainable solutions for the future of Bulgaria. The main topics of the Powers Summit 2022 were health-care, energetics, resilience and sustainability plan, entrepreneurship, sustainable development and managed to converge the leaders of all political formations and their teams in searching for real-time solutions on leading topics in dialogue with business, civil sector and science.

UniCredit Bulbank continued to be a home for culture and art

On its ten year anniversary, the contemporary art space UniCredit studio, situated at the entrance of the emblematic head-office of UniCredit Bulbank on Sveta Nedelya square in Sofia, continued to fulfil its mission – to give opportunity to young artists to express their bold ideas for free. Today, among dozens of presented exhibitions, the gallery is a favourite place for meetings, space for discussions, host of charity bazaars, summer parties and surprising installations. Some of the most memorable exhibitions in 2022 were:

- **The installation of Boryana Ventsislavova If You Want It** – part of the exhibition WE/RE NATURE organized in the National Art Gallery, that draws the attention to the negative impact of humans on nature and calls on us to take measures for environmental protection. If we wish to do so;
- **The exhibition Get to know Bulgaria of the talented photographer Vladislav Terziyski**, which gives new outlook on nature and architecture and tells hidden stories about Bulgaria. The exhibition is a part of the partnership with Digital Tour Guide, interactive virtual touristic audio guide. Throughout 2022 the exhibition went around the country, as part of the visited cities are Plovdiv, Asenovgrad, Varna, Bourgas, Nesebar, Ruse, Svishtov, Stara Zagora, Haskovo, Blagoevgrad, Kjustendil, Pleven, Vidin;
- **The poetic photo installation The world is a sum of events**, organized jointly with Photofabrica foundation. The exhibition was held also at the "Library" gallery in the town of Ruse at the invitation of the host;
- **The art exhibition Blossoming me by Raluca Popescu** – presented unlimited variety of colors, shadows and images;
- **The photographic exhibition The Old Sozopol – 40 years back of the journalist Ivan Bakalov**, as well as the presentation of the book "Naked and salty- the sea before the concrete". The photographs gave opportunity to the visitors to dive in the atmosphere of the old Sozopol, that preserves the coziness of the cobbled streets and the smell of fig jam. The Exhibition visited the town of Sozopol as well in the building of the municipal council, as part of the art festival Apolonia 2022;
- **The project "The room in you" of the young artist Sofiya Simeonova**, that presented the internal world of the adolescents via photos of their rooms from the pandemic and post-covid period;
- **"Cater" installation of the artist Valko Chobanov**– rebellion against the contemporary consumer society;
- **The art exhibition „Transition" of Anna-Maria Ruseva**, searching for the meaning, essence and purpose of life;
- **The sculpture collection „The lords of the four elements" of the newly graduated young talent Spas Yordanov**. It is made of ceramic plastics, that personify six diverse representatives of the limitless mythical dragon world;
- **The Newest creative series "Paths of inspiration" of the artist Nikolay Marinov**. The exhibition presented two cycles of the work of the artist – pastel and oil painting that show the flight of his imagination and the different perception of the artists of seemingly ordinary events and chance meetings. The exhibition presents his new collection of poems "Friday afternoon";

The engagement of the Bank with art does not include only UniCredit studio. In 2021 UniCredit Bulbank supported also:

- **The exhibition „Georgi Bakalov through the eyes of Ivan Bakalov"** in the Kapana gallery, Plovdiv;
- **The Precious journey of Dante – exhibition of the work of the famous roman jewelry designer Diego Percossi Papi** at the National Art Gallery on the occasion of celebrations of the 700 year anniversary from the death of Dante.

In 2022 UniCredit Bulbank continued its successful partnership as the official Bank of the **international cinema-literary festival Cinelibri**. The series of events were held under the motto # Rediscovered time and the idea that the beauty and perfection of a work of art or an intellectual achievement cannot lose their value with time.

For more than 10 years now UniCredit Bulbank has supported the ceremony **Flight of art of the Stayan Kambarev foundation**, which purpose is to provide opportunity for young artists to perform.

Donations

Building ecological way of thinking of poor and vulnerable groups of children; reintegration in the school community of young people at risk; presenting composting to children as a greener way of waste management; developing new skills through creativity in girls from educational institutions – these are part of the topics that were awarded in the annual edition of the Call for Europe program: Childhood support of UniCredit foundation. Over 50 projects with different long-term positive effect applied for financing on the program, which focus is "young people and education"

Corporate Social Responsibility (continued)

After the evaluation of a competent jury with members from the civil sector and UniCredit Bulbank, the UniCredit foundation chose to distribute the total amount of 40 000 EUR among four projects:

- **"Art – a path for change for girls in conflict with the law"**, Association „Pleven municipal fund – Lyceum
- **"Eco heroes",** NSO club- Targovishte
- **"Ready for the world"**, International award of the Duke of Edinburgh - Bulgaria
- **"Eco -craftsmen – the future is in our hands"**, "Rotary club Varna" association

This program as well as other significant donations of the Bank in favour of children, as for example the joint initiative with the Embassy of the Sovereign order of Malta, brought to the Bank one of the most valuable distinctions – for a second year UniCredit Bulbank was awarded with the certificate "Company child friend" of the national children network. It is awarded after an audit in the sphere of economic processes, market behavior, marketing, advertising and the company contribution for society development. The certificate is based on the UN Convention on the rights of the child and the ten principles of the common initiative of the UN Global compact, UNICEF and "Save the children".

Events Related to Sustainable Development (ESG)

In 2022 UniCredit Bulbank was established as the leading institution of the social dialogue on the topic, as it was the main partner of the most significant forums dedicated to ESG. Among them are:

- **The green transition – decisions and challenges for Bulgaria**, organized by DIR.BG and 3eNews in hybrid format and under the auspices of the Prime Minister of Bulgaria with the support of the Ministry of environment and water, Ministry of economy, Ministry of energetics, WWF Bulgaria etc.;
- **Net Zero Economy** – the conference presented business opportunities that suggest the transition to sustainable economic growth. The forum served as a networking platform and basis of successful initiative development platform for public-private partnership;
- **TEDxVitosha COUNTDOWN**, part of the global TED initiative for encouraging and accelerating decision making for the climate crisis, turning ideas into action. The purpose of the event was to answer five fundamental interlinked questions (in the field of energy, transportation, materials, food, nature), that help create a cleaner future plan, uniting scientists, activists, entrepreneurs, investors, artists, state employees and opinion leaders, searching for the most effective ideas, based on evidence;
- **The exhibition and international conference CasaClima "Let's build the future"**, organized by Confindustria Bulgaria with main focus: Future of cities and opportunities for energy effective financing.

UniCredit Bulbank initiated many activities and projects in favour of society and environment and incentivized the social responsibility as a way of thinking and action of its employees via its programs for volunteering and charity.

Over 800 employees of UniCredit Bulgaria and their families participated as volunteers all over the country during the Green day 2022 within the framework of the National volunteer program of the bank. The wide-scale initiative was held in 12 protected localities in Sofia, Plovdiv, Bourgas, Ruse, Plevan, Stara Zagora, Varna, Blagoevgrad. The green day was realized with the support of the partners of UniCredit for Bulgaria – the Bio-diversity foundation.

At the same time we supported forums, presenting business opportunities of the transition to sustainable economic growth like NetZero Economy, TEDxVitosha, TEDxCoundown, Accelerate Green.

The Bank participates in an active partners' ecosystem:

- Green Financing and in the HR Committees of American Chamber of Commerce in Bulgaria
- Green alliance in the British-Bulgarian Business Association
- Green Finance and Energy Center at the Bulgarian Stock Exchange
- German-Bulgarian Chamber of Industry and Commerce – regular ESG related events and partnerships
- UN Global Compact – global and local member
- Sustainable Finance working group at the Association of Banks in Bulgaria
- Deloitte, PwC – training partners
- Sofia University – partner in ESG Master and in ESG Academy
- JAMBA – an NGO related to hiring people with disabilities
- National Alliance for Responsible Employers – upcoming membership
- Bulgarian Business Leaders Forum
- Council of Women in Business in Bulgaria
- Forbes Women Forum
- Junior Achievement
- Reach for Change (+all the partners in the EU project consortium for the creation of a new financial instrument for social enterprises)
- Teenovator
- America for Bulgaria/BASE
- Teach for Bulgaria
- Bulgarian Donor's forum
- Single Step
- Sofia Development Association
- Interreg Finance for social change
- Bulgarian Center for Non-profit Law
- Trust for social achievement

ESG Governance and Strategy

Environmental, social, and governance (ESG) issues as well as their associated opportunities and risks are becoming more and more relevant for the financial sector.

After in 2021 the Bank's ESG strategy was determined. And the ESG Governance Framework had been established, the work in the bank continued in a structured way as per following working groups:

- ESG Governance Stream
- Strategy: Products and Clients – Retail
- Strategy: Products and Clients – Corporate and Investment Banking
- Strategy: People and Culture Transition
- Strategy: Internal Operations Transformation
- Risk and Credit Stream
- Metrics and Targets: Integrated report
- Metrics and Targets: Communications and Communities Engagement

More than 40 ESG reference points across the different functions of UniCredit in Bulgaria were identified and empowered to meet monthly, plan and share progress.

Last year the green financing to our clients reached circa BGN 500 million and the social impact loans are close to BGN 9 million. UniCredit Bulbank created the opportunity to increase the financial culture of 3400 students and social entrepreneurs all over the country with the help of the bank's partners and circa 30 volunteers from the bank. Following the engagement to lead by example, UniCredit Bulbank succeeded 100% in removing the single-use plastic articles in our primary buildings.

The ten awards the Bank received in the field of ESG factors management are an objective evaluation of the progress of the bank vis-a-vis the market. The awards and the competitors' development are an incentive to search for new opportunities of improvement in favour of the clients.

Circa 3500 colleagues in the Bank have completed at least one ESG related training and its application in practice. Circa 90 colleagues completed the specialized certification program ESG Academy of the Sofia University "St. Kliment Ohridsky" in 2021-2022. In addition the bank financed the training of over 50 colleagues who were accepted in the Master's degree program of the Sofia University for "Responsible and sustainable governance".

In line with the Bank's engagement to the communities it operates in, UniCredit Bulbank will continue to improve its service-model, optimize its productivity through more disciplined control and risk management as well as through strict capital and account balances management. ESG services will remain main focus, and key targets will be – to develop ecological and social client offers, to enrich the educational ESG approach with participation of clients, to widen the activities in the program of decreasing our carbon footprint, following the bank's policy of full transparency, consistent communication and building of communities.

Solutions for the future – that is how all the common work in creating the framework for sustainable finance. 2 trillion euro – these are approximately the additional global opportunities for net financing by banks in order to keep global temperatures from increasing by 1.5°C from pre-industrial levels to 2050.

This is our common mission – to look for solutions for the future.

That's why among the main priorities of the ESG strategy of UniCredit Bulbank was the review and enrichment of the ESG product portfolio focused on simplification, green financing, digitalization, service model, financial inclusion and active utilization of guarantee schemes for improving conditions on customer loans.

European Taxonomy in the ESG Portfolio of UniCredit Bulbank

- Social impact financing – circa BGN 9 million
  - Inclusion financing for individuals
    - Student loans
    - Pensioner loans
  - Inclusion financing for small business
    - Microloan equal opportunity
- Social impact banking – impact financing
  - Project financing
- Social impact lending
  - Mortgage loan for young families
- Green financing – circa BGN 500 million
  - Renewable energy financing
    - Photovoltaics
    - Wind power stations
    - Hydrogen plants
    - Geothermal energy
    - Bioenergy
- Financing for increasing energy efficiency
  - Mortgage loan for energy effective buildings – green mortgage
  - Green initiative for small business
  - Consumer loan for energy efficient appliances etc.
- Other green financing
  - Electric car leasing
  - Photovoltaics insurance etc.

ESG Governance and Strategy (continued)

ESG Product Mix for Individuals

- Green mortgage – mortgage loan for financing of an energy effective property
- Green initiative for investment financing – investment loan for energy effective events
- Equal opportunity micro-lending – working capital financing for special client groups or clients with scope of activity in the sphere of social entrepreneurship, health and humanity work
- Student loan – financing of student education and accommodation costs
- Golden age loan – consumer loan for financing of current needs of pensioners
- POS loan for purchasing of energy effective appliances – incl. air-conditioners, heating systems and appliances
- Amundi Funds Global Ecology ESG – invests in over 10 different ESG spheres (renewable resources, healthy living, ecology, energy efficiency etc.)
- Leasing for electric cars – financing for the purchase of an electric car
- Credit cards for children and young people

What is ahead?

- In the next year and a half, the most used cards will be produced by corn threads (PLA) or in numbers – over 1 million newly issued renewed cards
- Focus on e-signing and "Paperless" – more processes for instance business packages, automation and digitalization
- Daily banking for special client groups – children teenagers, students
- Children savings plan
- Loans for special client groups- mortgage loan for young families

Green transformation of the big business

UniCredit Bulbank supports its corporate clients in their transition to creating greener and socially inclusive economy. The investment in projects of our clients in the sphere of renewable resources are the biggest part of the green portfolio and exceed BGN 0.4 bn at the end of 2022. The first similar investments started ten years ago.

We expect a strong growth of these volumes, because the ESG product and program portfolio is growing and the client demand is big. We rely on the government, on our cooperation with EIB, BDB, EBRD for new programs and guarantee schemes, with which to reach more clients. In the period of 2022-24 UniCredit Bulbank has planned new EUR 150 mln for green and social investment, sustainable bonds and ESG investment products.

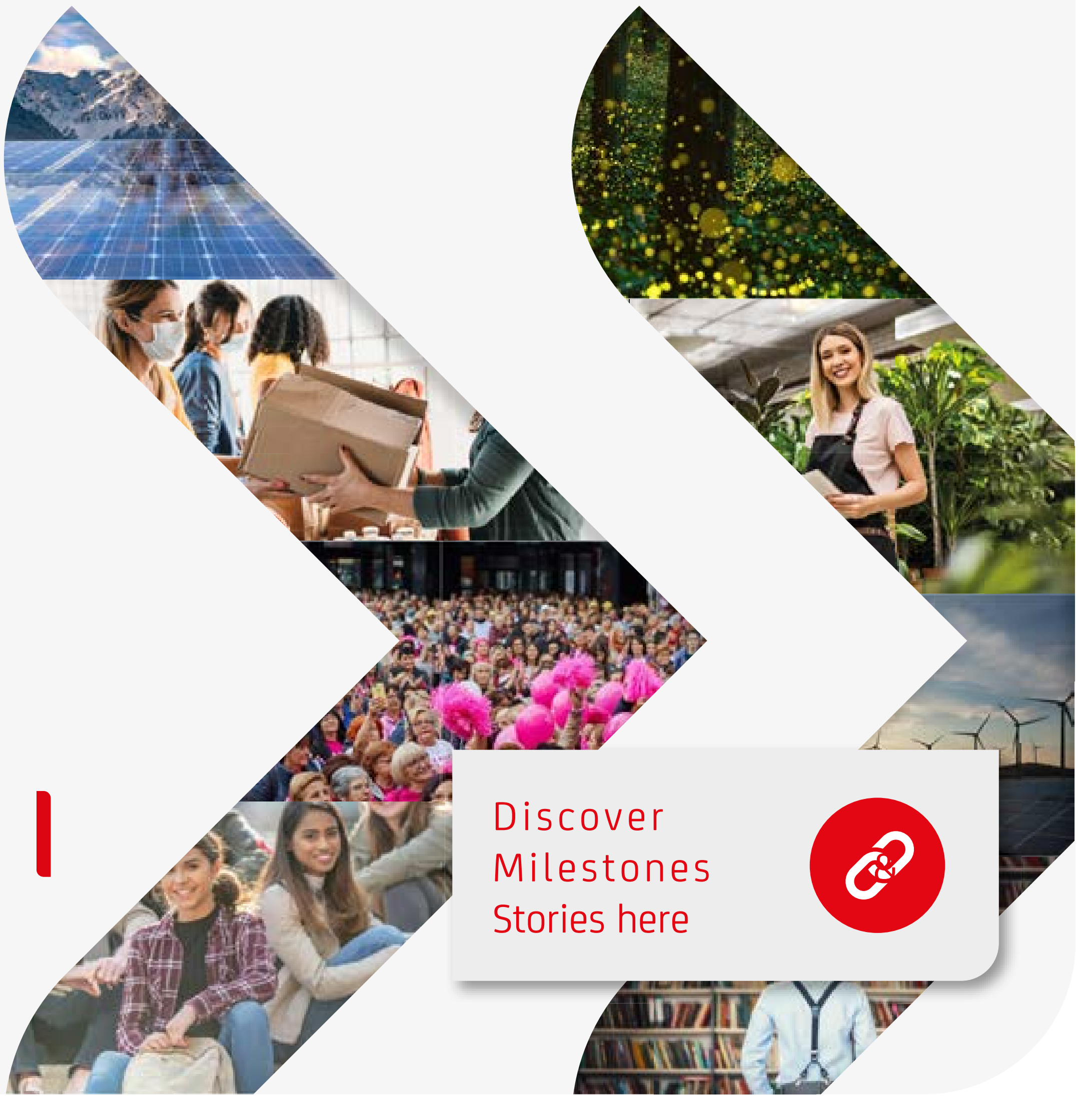
Apart from loan products, the Bank offers preferential terms for insurance of photovoltaic plants of individual usage via its Insurance broker.

Through the access to the leading insurers in Bulgaria and Europe, UniCredit Insurance Broker provides complex insurance solutions for the whole project life-cycle, as the investment is fully protected in:

- Construction
- Exploitation
- Increased costs for purchasing of electrical energy.

Unlocking...

A better bank
A better world
A better future



ESG

Discover
Milestones
Stories here

CORPORATE GOVERNANCE DECLARATION

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.

As a pan-European Bank, UniCredit is committed to the highest standards of corporate governance. The current practices have been developed by studying the best international practices and market expectations. UniCredit Group is fully transparent in the disclosure of governance practices, to help stakeholders, including investors, assess our Group in terms of management and effectiveness of our internal controls system. More information could be found on: **https://www.unicreditgroup.eu/en/governance.html**

The main documents regulating the corporate governance of UniCredit Group are available on UniCredit Group's website: **https://www.unicreditgroup.eu/en/governance/governance-system-and-policies.html?topmenu=INT-TM_GOV1_en023**

Among them (but not only) are:

- Articles of association;
- Code of ethics;
- Code of conduct;
- Whistleblowing;
- Anti-corruption policy;
- Conflict of interest policy.

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 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 governing 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.

The General Meeting of the Shareholders:

1. Amends and supplements the Statute;
2. Increases and decreases the capital;
3. 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;
4. Appoints and dismisses the members of the Supervisory Board and determines their remuneration;
5. 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;
6. 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;
7. Appoints liquidators upon dissolution of the Bank, except in the case of insolvency or compulsory liquidation;
8. Exempts from liability the members of the Supervisory Board and of the Management Board;
9. Resolves on the issuing of bonds, including bonds convertible into shares;
10. Appoints and dismisses the management of the Internal Audit;
11. Appoints and dismisses the members of the Audit Committee and determines their number, term of office and remuneration.
12. Appoints and dismisses the Chairman of the Audit Committee;
13. Resolves on other matters within its competence entrusted to it by law and the Statute.

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 does 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 is determined by a decision of the General Meeting of the Shareholders.

A member of the Supervisory Board is 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/ECB.

Management Board

The Management Board manages the activities of the Bank by exercising its rights and obligations in accordance with the law, the Statute of the Bank, the 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 consists of 3 to 9 (three to nine) 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 is determined by a decision of the Supervisory Board.

A member of the Management Board is 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 prior approval of the BNB/ECB. No member of the Management Board can be at the same time a member of the Supervisory Board or an employee of Internal Audit.

Each governing body of UniCredit Bulbank has its own rules or procedure 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 are governed by the law, regulatory framework of the Bank and UniCredit Group as well as the good practices of integrity and competence.

The Annual Report on the activity of the Bank for 2022 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 governing bodies of the Bank. Permanent committees are the forums of the Bank to prepare, discuss and take decisions.

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 shall not be MB members and employees of the Bank or its subsidiaries. The majority of the AC members shall be external to and independent from the bank according to the legislative requirements. 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.

Supervisory Board Committees

1. Nomination Committee

The major function of the Nomination Committee are:

- to identify and recommend, candidates to fill management bodies vacancies (to the General meeting of shareholders for members of the Supervisory Board and to the Supervisory Board for members of the Management Board);
- to evaluate the balance of knowledge, skills, diversity and experience of the candidates;
- to carry out collective and individual suitability assessment of the management bodies and their members;
- to prepare a description of the functions and requirements for the candidates for the positions and determines the time commitment that the elected members are expected to devote to each role;
- to assess, nominate and recommend candidates to be appointed as Key function holders, considering their experience, qualification, knowledge and skills, as well as their professional experience, needed for the bank's management which shall be done in alignment with the existing applicable regulations and the internal bank policies.

The Committee's functions are in line with the provisions of the Credit Institutions Act and with the rights and obligations as per Ordinance №20/2019 of BNB.

2. Remuneration Committee

The Remuneration Committee has as its general task the following competencies:

- to be responsible for the preparation of decisions on remuneration to be taken by the supervisory function, including the remuneration of the members of the management board of the Bank;
- to be responsible for the preparation of decisions on the Bank's policy on the matters of remunerations so to ensure respect towards principles of transparency and corporate governance;
- to support the supervisory function in overseeing the remuneration policies, practices and processes and the compliance with the remuneration policy;
- check whether the existing remuneration policy of the Bank is still up to date and, if necessary, make proposals for changes before the Supervisory Board;
- may approve the remunerations of other identified staff (for example for Group Identified Staff) in alignment with UniCredit Group guidelines and practices.

The Committee's functions are in line with the provisions of the Credit Institutions Act and with the rights and obligations as per BNB Ordinance №4/2019 for the requirements of remunerations in banks.

3. Risk Committee

The Risk Committee is an independent permanent advisory body appointed and dismissed by the Supervisory Board of the Bank. It shall advise the SB and the Management Board (MB) of the Bank on the Bank's overall current and future risk appetite and strategy, taking into account all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture and values of the Bank. The Risk Committee assists the SB and MB in overseeing the implementation of the strategy by senior management of the Bank. The Risk Committee has advisory functions only, and the SB and MB retain overall responsibility for risks, the risk management and control. The main functions of the Risk Committee, among others, are:

- to monitor and advise on the effectiveness of the Bank's risk management system and to analyze the related periodic information;
- to monitor and advise on the effectiveness of the independent risk management function and the effectiveness of the risk structure in the Bank;
- to monitor and advise on the current risk situation of the Bank, the overall current and future risk appetite and strategy;
- to monitor and assist on the effectiveness of the implementation of the risk strategy by senior management;
- to oversee the implementation of the strategies for capital and liquidity management (including liquidity risk strategy, liquidity risk tolerance, the Funding Plan, Intragroup Funding Plan, Investment Portfolio plan and Contingency Funding Plan) as well as for all other relevant risks of the Bank, in order to assess their adequacy against the approved risk appetite and strategy;
- to provide the Supervisory Board with recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Bank, market developments or recommendations made by the risk management function;
- to review a number of possible scenarios, including stressed scenarios, to assess how the Bank's risk profile would react to external and internal events;
- to review the ICAAP, ILAAP and Recovery plan;
- to evaluate whether the prices of the bank products and services do properly reflect risks in accordance with the business model and risk strategy and, if necessary, to present to the SB and/or MB a remedy plan;
- to examine whether incentives provided by the remuneration system take into consideration the risk, capital, liquidity and the likelihood and timing of earnings and, without prejudice to the remuneration (compensation) committee of the Bank, to discuss them, at its sole discretion, with the SB;
- to review audit results and findings within the risk management area by the Bank's Internal Audit and External Auditors.

Management Board Committees

1. **Financial and Credit Risks Committee** with two separate sessions

   1.1. ALCO session is dedicated to the management of liquidity and market risk. Financial 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 structure and compared to the risk limits approved by the Management Board and Financial and Credit Risks Committee.

   1.2. Credit Risk session is dedicated to:

   1.2.1. Monitoring, evaluation, classification, and provisioning of risk exposures for losses from impairment, forbearance and write-off's;

   1.2.2. Periodical monitoring and review on credit portfolio quality, Risk Weighted Assets and Expected Loss ratios, Watch list process and dashboards on Credit Policy and Strategy;

   1.2.3. Proposals for changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes.

2. **Transactional Committee with two separate sessions**
   2.1. The Transactional Committee-Credit Council Session is a collective body for taking credit decisions in the scope of granting loans in compliance with the statutory requirements and internal bank regulations, applicable at the moment of considering the specific loan application, and the relevant resolutions of the Management and/or Supervisory Board. Within the parameter of decision taking by the Transactional Committee-Credit Council Session are :
      2.1.1. GAM and Group clients with local exposure up to BGN 50 mln;
      2.1.2. Non material waivers and changes from technical character for exposures over BGN 50 mln which do not deteriorate risk profile of transaction
      2.1.3. Flexibility range regarding capital-light products (leasing and factoring frames) up to BGN 5 mln for exposures over BGN 50 mln
   2.2. The Transactional Committee-Credit Committee Session is a collective body for taking credit decisions in accordance with the relevant resolutions of the Management Board and the Supervisory Board. The Transactional Committee-Credit Committee Session takes decisions on credit applications with total exposures of a single customer or obligor group over BGN 50 mln which are above the competence level of the Transactional Committee-Credit Council Session.

3. **Project Portfolio and Real Estate Portfolio Committee** with two separate sessions
   3.1. Project Portfolio session dealing with 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.
   3.2. Real Estate Portfolio session with generic goal to steer the demand and change management process within the Bank and its subsidiaries, when it comes to Real estate related projects. Real Estate Portfolio Committee is the highest decision-making and escalation body of each project/program, run within UniCredit Bulbank and its subsidiaries' Real Estate project Portfolio.

4. **Non-Financial Risk and Control Committee** with 4 separate sessions
   4.1. General session dedicated to Operational Risk mitigation measures and coordination of risk activities, regular analyses of the critical topics related to the Internal Control mechanisms and monitoring and prioritization of the corrective actions, assessment of the overall Internal Control System adequacy related to the Compliance area and providing support to the Management in taking decisions for mitigating such risks.
   4.2. ICT, Security & Cyber Risk session has the mission to steer the overall security management framework as well as actively participate in the Business Continuity, Pandemic, and Emergency & Crisis Management activities performed in the day to day actions and management of the legal entities in Bulgaria. The session is to support Security and the management to achieve the set objectives according to the business needs as well as the security related aspects to the main IT initiatives. All Security aspects are being constantly and closely monitored, if needed updated and validated by the session.
   4.3. Reputational Risk session is a dedicated body for discussion and decision for all transactions/initiatives/projects referring to Reputational Risk Sensitive Sectors - as regulated by the dedicated global policies - and for all other cases on Business proposal (e.g. other relevant sectors or relevant clients). Material events and other topics and business activities generated by UniCredit Bulbank or its subsidiaries, and evaluated by the Non Financial Risk, as High reputational risk. Its approval of High risk transactions is mandatory prior to their submission to Local Transactional Committee.
   4.4. Third Party Risk session responsible for the management of the Exception process (escalation process) of the Rules for Third Party Risk Management for Non-Outsourcing contracts and the Rules for Outsourcing contracts of the Bank and its Subsidiaries.

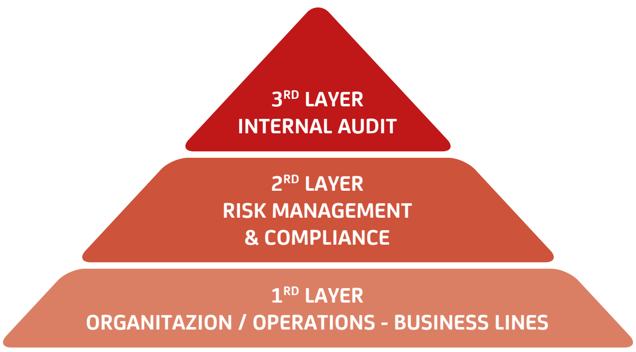
5. **Local Investment Committee to Private Banking**

   The Local Investment Committee to Private Banking 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.

6. **Whistleblowing Committee**

   The Committee main responsibilities are to take decisions on whistleblowing cases investigations opened on the base of reported unacceptable conducts.

Internal Control Mechanisms



Layers of the internal control system

The Internal Control System (ICS) is the set of rules, procedures and organizational structures aimed to ensure the correct functionality of our company.

The Internal Control System (ICS) consists of a set of rules, procedures and organizational structures which aim to:

- ensure that corporate strategy is implemented
- achieve effective and efficient corporate processes
- safeguard the value of corporate assets
- ensure the reliability and integrity of accounting and management data
- ensure that operations comply with all existing rules and regulations.

Risk Management

In its ordinary activity UniCredit Bulbank AD is exposed to various kinds of risks - market, liquidity, 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.

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.

Internal Audit

In accordance with the currently effective organizational structure of the Bank, Internal Audit 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 is appointed by the General Meeting of the Shareholders. The principles, organization and functions laid down in the Rules and Regulations of Internal Audit 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 2022

As at the end of 2022 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 2022 on an individual and consolidated basis.

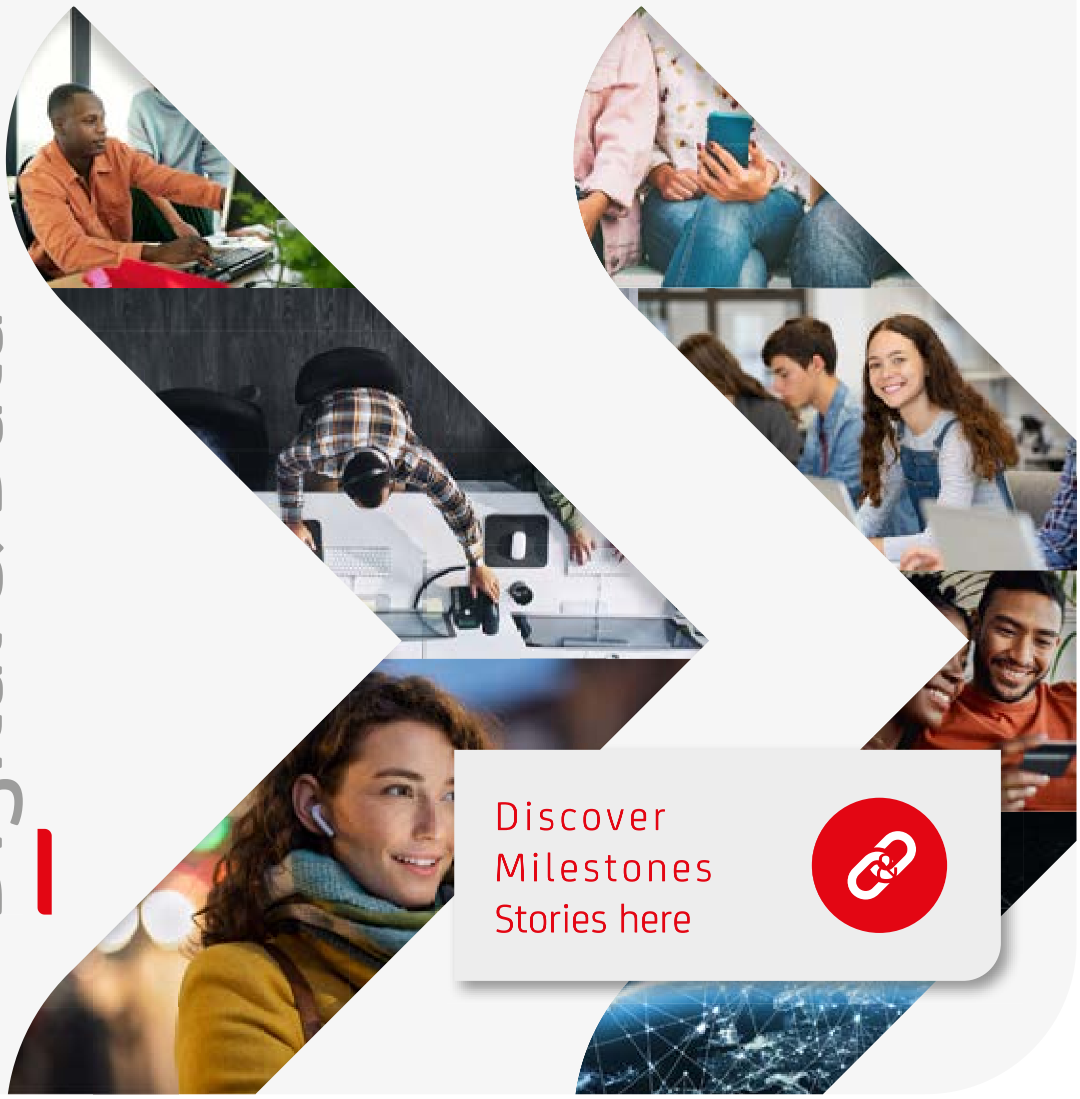
For UniCredit Bulbank AD:

....	....
Tsvetanka Mincheva	Andrea Tognetti
Chairperson of the Management Board Chief Executive Director	*Member of the Management Board and Executive Director*

Unlocking...

A better bank
A better world
A better future

Digital & Data



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Independent Auditors' Report

To the shareholders of UniCredit Bulbank AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of UniCredit Bulbank AD ("the Bank") as set out on pages 2 to 110, which comprise the separate statement of financial position as at 31 December 2022 and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and 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 give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2022, and of its unconsolidated financial performance and its unconsolidated 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 "Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the 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 requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Impairment of loans and advances to customers at amortised cost

As at 31 December 2022, the separate financial statements include:

- Gross loans and advances to customers at amortised cost of BGN 15,885,739 thousand (31 December 2021: BGN 13,159,465 thousand) and related impairment allowance of BGN 761,820 thousand (31 December 2021: BGN 715,334 thousand), as disclosed in note 27 to the separate financial statements.
- Net impairment credit losses recognized in the separate statement of profit or loss of BGN 57,536 thousand (2021: BGN 111,315 thousand), as disclosed in note 20 to the separate financial statements.

Also refer to the following notes to the separate financial statements:

- 3 (i) Impairment
- 4 (d) Credit risk

Key audit matter	How this key audit matter was addressed in our audit
Impairment allowances for loans and advances to customers (collectively, "loans", "exposures") represent the Bank's best estimate of expected credit losses ("ECL") associated with these exposures at the reporting date. Measurement thereof requires the Bank to make complex judgements and assumptions. As described in note 3 (i), the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures. For performing exposures (stage 1 and stage 2 loans in the IFRS 9 hierarchy), as well as individually non-significant stage 3 (non-performing) exposures, the expected credit losses are determined based on statistical models using the Bank's historical debt service data and also forward-looking information and macroeconomic scenarios. The key assumptions in this area are, among other things, the probability of borrower's default ("PD"), the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default", "LGD") and of the amount of exposure	Our audit procedures performed, where applicable, with the assistance of our financial risk management, valuation and IT audit specialists, included among others: — Evaluating the appropriateness of the loan impairment accounting policies and related methods and models against the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL estimation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for access and program change; — Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the

at default ("EAD"). In the wake of the geopolitical volatility following the outbreak of the Russo-Ukrainian war, the adverse macroeconomic effects of the increase in energy and other commodity prices, resulting inflationary pressures and disruptions in the global supply chains, as well as of the rise in interest rates, measurement of the collective impairment allowance was associated with additional complexities and an increased estimation uncertainty. Among other things, the application of in-model and post-model adjustments was required from management in arriving at the year-end estimate of collective impairment losses. For individually significant stage 3 exposures, expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of any related collateral and minimum period for collateral disposal. Given the above factors and complexities, we considered impairment of loans and advances to be associated with a significant risk of material misstatement in the separate financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	classification of exposures into performing and non-performing, calculation of days past due, stage allocation and calculation of the ECL; — For a sample of loans, critically assessing, by reference to the underlying loan documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2022; For ECLs estimated on a collective basis: — Obtaining the Bank's relevant macroeconomic forecasts and critically assessing the forward-looking information and macroeconomic scenarios used in the calculation of the ECL, by means of corroborating inquiries of the Management Board and inspecting publicly available information; — Challenging the collective PD, LGD and EAD parameters for a sample of the Bank's portfolios, by reference to, among other things, our own analysis of the Bank's data on past default occurrence, realized losses on those defaults, contractual cash flows and contractual lifetime; — Testing in-model and post-model related adjustments to reflect the current market volatility not reflected in the original ECL models. As part of the procedure, we evaluated the data, assumptions and methods used in calculating the adjustments; — Recalculating the expected credit losses as of 31 December 2022 based on the Bank's ECL model for a sample of the Bank's portfolios; For ECLs estimated on an individual basis: — For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows in the impairment calculation, including time to sell and any realizable value of the collateral, by reference to the underlying collateral agreements and appraisals, whose relevance and reliability we independently assessed; For loan exposures in totality: — Examining whether the Bank's ECL-related disclosures in the separate financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework.

Other Matter relating to comparative information

The separate financial statements of the Bank as at and for the year ended 31 December 2021, excluding the adjustments described in Note 3 (u) to the separate financial statements, were audited jointly by Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD who expressed an unmodified opinion on those financial statements on 22 February 2022.

As part of our audit of the separate financial statements as at and for the year ended 31 December 2022, we also audited the retrospective adjustments described in Note 3 (u) to the separate financial statements that were applied to restate the comparative information as at and for the year ended 31 December 2021.

KPMG Audit OOD was not engaged to audit, review, or apply any procedures to the separate financial statements for the year ended 31 December 2021, other than with respect to the retrospective adjustments described in Note 3 (u) to the separate financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 3 (u) to the separate financial statements are appropriate and have been properly applied.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate annual report, the corporate governance declaration and the non-financial declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' 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.

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.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate annual report, the corporate governance declaration and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the separate annual report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- The separate annual report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The corporate governance declaration for the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the

Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.

- The non-financial declaration referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with IFRS Standards 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' 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 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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 auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional reporting in relation to Ordinance No 58/2018 issued by the Financial Supervision Commission

Statement in relation Art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity (Investment intermediary), in the course and context of our audit of the separate financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of Art. 3 – 10 of Ordinance No 58 of the FSC and Art. 92-95 of the Markets of financial instruments Act in relation to the activities as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- KPMG Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2022 by the general meeting of shareholders held on 7 April 2022 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2022 represents first uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and sixth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

Independent Auditors' Report (continued)

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Sofia, 24 February 2023

For KPMG Audit OOD:

Ivan Andonov
Authorised representative

Sevdalina Dimova
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

For Baker Tilly Klitou and Partners EOOD:

Galina Lokmadjieva
Registered auditor, responsible for the audit and Authorised representative

5 Stara Planina Str. 5th floor
Sofia 1000, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

Separate Income Statement

In thousands of BGN

	Notes	2022	2021
Interest income calculated using the effective interest method		462 652	406 485
Other interest income		6	71
Interest expense		(38 126)	(46 356)
Net interest income	8	**424 532**	**360 200**
Dividend income	10	**113 209**	**65 278**
Fee and commission income		322 585	275 886
Fee and commission expense		(50 912)	(38 147)
Net fee and commission income	9	**271 673**	**237 739**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	11	104 920	79 250
Net gains/(losses) from financial assets mandatory at fair value	12	(159)	1 243
Net income from financial assets measured at FVTOCI	13	5 197	16 831
Other operating income	14a	7 471	9 340
Other operating expenses	14b	(27 757)	(24 054)
TOTAL OPERATING INCOME		**899 086**	**745 927**
Net income related to property, plant and equipment	15	15 240	2 488
Personnel expenses	16	(159 606)	(148 806)
General and administrative expenses	17	(111 020)	(105 149)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	18	(48 392)	(42 680)
Provisions for risk and charges	19	(1 980)	(2 816)
Net impairment loss	20	(87 912)	(107 570)
PROFIT BEFORE INCOME TAX		**505 416**	**341 394**
Income tax expense	21	(39 531)	(27 568)
PROFIT FOR THE YEAR		**465 885**	**313 826**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 15, 2023.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Officer

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Sevdalina Dimova
Registered auditor, Responsible for the audit

KPMG Audit OOD

Ivan Andonov
Authorized representative

KPMG Audit OOD

Galina Lokmadjieva
Registered auditor, Responsible for the audit and Authorized representative
Baker Tilly Klitou and Partners EOOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ЕООД

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Comprehensive Income

	Notes	2022	2021
		In thousands of BGN	
Profit for the year		**465 885**	**313 826**
Other comprehensive income – items that will not be reclassified subsequently to profit or loss			
Actuarial gains	40	4 259	978
Revaluation reserve on tangible assets	30	2 173	2 603
Revaluation reserve on equity investments recycled at equity		206	-
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(664)	(359)
		5 974	**3 222**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities		(274 213)	(44 231)
Cash flow hedge		(45 990)	4 780
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		32 445	3 523
		(287 758)	**(35 928)**
Total other comprehensive income net of tax for the year		**(281 784)**	**(32 706)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**184 101**	**281 120**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 15, 2023.

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Registered auditor, Responsible for the audit and Authorized representative
Baker Tilly Klitou and Partners EOOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и Партньори ЕООД

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Financial Position

In thousands of BGN

	Notes	31.12.2022	31.12.2021
ASSETS			
Cash and balances with Central Bank	22	7 070 403	6 677 436
Non-derivative financial assets held for trading	23	2 828	4 901
Derivatives held for trading	24	116 097	87 039
Derivatives held for hedging	25	131 469	11 976
Loans and advances to banks and debt securities at amortised cost	26	1 282 131	697 985
Loans and advances to customers and debt securities at amortised cost	27	17 087 441	13 519 451
Pledged debt securities at amortised cost	27	180 384	-
Investment securities	28	1 471 686	2 882 706
Pledged investment securities	28	1 062 591	612 656
Investments in subsidiaries and associates	29	52 479	55 479
Property, plant, equipment, right of use assets and investment properties	30	238 781	236 916
Intangible assets	31	95 130	88 138
Current tax assets	32	1 679	-
Non-current assets and disposal groups classified as held for sale	34	-	12 292
Other assets	35	96 032	81 401
TOTAL ASSETS		**28 889 110**	**24 948 376**
LIABILITIES			
Financial liabilities held for trading	36	159 306	47 148
Derivatives used for hedging	25	132 160	65 287
Deposits from banks	37	1 577 699	1 128 576
Deposits from customers and other financial liabilities at amortized cost	38	23 214 919	19 795 330
Debt securities issued	39	313 701	313 104
Provisions	40	129 683	111 964
Current tax liabilities	32	-	4 125
Deferred tax liabilities	33	8 459	5 855
Other liabilities	41	101 190	119 289
TOTAL LIABILITIES		**25 637 117**	**21 590 677**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		-146 921	139 245
Retained earnings		2 647 252	2 618 851
Profit for the year		465 885	313 826
TOTAL EQUITY	42	**3 251 993**	**3 357 699**
TOTAL LIABILITIES AND EQUITY		**28 889 110**	**24 948 376**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 15, 2023.

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KPMG Audit OOD

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Authorized representative

KPMG Audit OOD

Galina Lokmadjieva
Registered auditor, Responsible for the audit and Authorized representative

Baker Tilly Klitou and Partners EOOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve on PPE	Total
Balance as of January 1, 2021	285 777	342 378	2 276 881	146 236	(34 598)	(6 318)	66 073	3 076 429
Profit for the year	-	-	313 826	-	-	-	-	313 826
Actuarial gains	-	-	-	-	-	975	-	975
Change of revaluation reserve on investment securities	-	-	-	(44 231)	-	-	-	(44 231)
Change of revaluation reserve on cash flow hedges	-	-	-	-	4 780	-	-	4 780
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	2 603	2 603
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 603	-	-	-	(1 603)	-
Income tax related to components of other comprehensive income	-	-	(161)	4 001	(478)	(95)	(100)	3 167
Total other comprehensive income for the year net of tax	-	-	1 442	(40 230)	4 302	880	900	(32 706)
Total comprehensive income for the year net of tax	-	-	315 268	(40 230)	4 302	880	900	281 120
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2021	285 777	342 378	2 592 149	106 006	(30 296)	(5 438)	66 973	3 357 549

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve on PPE	Total
Balance as of January 1, 2022	285 777	342 378	2 592 149	106 006	(30 296)	(5 438)	66 973	3 357 549
Profit for the year	-	-	465 875	-	-	-	-	465 875
Actuarial gains	-	-	-	-	-	4 259	-	4 259
Change of revaluation reserve on investment securities	-	-	-	(274 007)	-	-	-	(274 007)
Change of revaluation reserve on cash flow hedges	-	-	-		(45 990)	-	-	(45 990)
Change of revaluation reserve on tangible assets	-	-	-		-	-	2 173	2 173
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	4 858		-	-	(4 858)	-
Income tax related to components of other comprehensive income	-	-	(476)	27 825	4 599	(426)	259	31 781
Total other comprehensive income for the year net of tax	-	-	4 382	(246 182)	(41 391)	3 833	(2 426)	(281 784)
Total comprehensive income for the year net of tax	-	-	470 257	(246 182)	(41 391)	3 833	(2 426)	184 091
Dividends paid	-	-	(313 826)	-	-	-	-	(313 826)
Merger with UniCredit Factoring	-	-	24 019	-	-	-	-	24 019
Balance as of December 31, 2022	285 777	342 378	2 772 599	(140 176)	(71 687)	(1 605)	64 547	3 251 833

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 15, 2023.

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ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Cash Flows

In thousands of BGN

	Notes	2022	2021 Restated*
Net profit		465 885	313 826
Current and deferred tax, recognized in income statement	21	39 531	27 568
Adjustments for non-cash items			
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	18	48 392	42 680
Impairment of financial assets	20	77 812	120 003
Impairment of foreclosed properties	14	-	36
Provisions, net	40	30 414	4 075
Unrealized fair value losses through profit or loss, net		23 289	3 976
Unrealized fair value loss on FX revaluation		152 636	97 301
Net gains from sale of property, plant and equipment		(15 849)	(8 850)
Net interest income	8	(424 532)	(360 200)
Dividend income	10	(113 209)	(65 278)
Increase in other accruals		27 173	4 227
Cash flows from profits before changes in operating assets and liabilities		311 342	179 584
Operating activities			
Change in operating assets			
Decrease/(Increase) in loans and advances to banks		(21 655)	207 156
Increase in loans and advances to customers		(3 799 304)	(1 787 481)
Increase in financial instruments held for trading and hedging derivatives		(97 095)	(35 352)
Decrease in non-current assets held for sale		14 881	8 711
Increase in other assets		(11 064)	(366)
Change in operating liabilities			
Increase/(Decrease) in deposits from banks		438 861	(804 557)
Increase in deposits from customers		3 338 891	992 770
Provisions utilization		(8 994)	728
Decrease in other liabilities		(54 766)	(87 100)
Interest received		447 829	406 760
Interest paid		(38 246)	(46 168)
Dividends received		113 209	65 278
Taxes paid		(6 000)	(19 800)
Net cash flow from/(used in) operating activities		625 887	(879 857)

Separate Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2022	2021 Restated*
Cash flow from investing activities			
Cash payments to acquire PPE		(18 281)	(27 083)
Cash receipt from sale of PPE		15 849	8 650
Cash payments to acquire intangible assets	31	(26 739)	(29 636)
Cash receipt from sale of FVOCI assets		821 168	884 823
Cash payments to acquire FVOCI assets		(137 756)	(726 620)
Net cash flow from investing activities		**654 241**	**110 134**
Cash flow from financial activities			
Dividends paid		(313 826)	-
Cash payments related to lease liabilities		(7 543)	(5 507)
Increase in debt securities issued		-	312 933
Net cash flows from/(used in) financial activities		**(321 369)**	**307 426**
Effect of exchange rate changes on cash and cash equivalents		**(3 886)**	**23 020**
Impairment of cash equivalents	20	**137**	**(2)**
Net increase/(decrease) in cash and cash equivalents		**955 010**	**(439 079)**
Cash and cash equivalents at the beginning of period	46	**7 117 691**	**7 556 770**
Cash and cash equivalents at the end of period	46	**8 072 701**	**7 117 691**

*See Note 3(u)

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 15, 2023.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Officer

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

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Baker Tilly Klitou and Partners EOOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

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 license 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, 2022 the Bank operates through its network comprising of 133 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 (EU).

These separate financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act.

These separate financial statements are approved by the Management Board of UniCredit Bulbank AD on February 15, 2023. They should be read in conjunction with the consolidated financial statements which are also subject to Management Board approval.

(b) Basis of measurement

These separate financial statements of the Bank have been prepared on the historical cost basis except for financial instruments measured at fair value or at amortized cost depending on asset classification, and Property, plant, equipment and investment properties that are measured at fair value.

(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 recognized 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 recognized 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. In principal, 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.

(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/effective interest rate 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.

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) 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;
- excess liquidity interest based fees for accounts maintenance.

(b) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in the income statement as the entity satisfies the performance obligation embedded in the contract, according to "IFRS 15 Revenue from Contracts with Customers" rules.

In particular:

- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in the income statement when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in the income statement in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized over the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or defers it in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, revenue has to be booked based on the most probable amount that the Bank expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, depending on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Nevertheless, for the services provided by the Bank such a variability is not usually foreseen.

Finally, if a contract relates to different goods/services whose performance obligations are not satisfied at the same time, revenue is allocated among the different performance obligations proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

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 including FX revaluation

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 derivative deals with customers which represents 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 derivative related to customers’ business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains (losses) on financial assets and liabilities held for trading.

(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 are translated at the foreign exchange rate effective at the date of the transaction. FX revaluation of equity investments classified in FVTOCI portfolio should be presented in FVTOCI revaluation reserve. As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in 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 realized and unrealized 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 recognized when the right to receive the income is established. Usually this is the ex-dividend date for equity securities.

(g) Leases

The Bank as a lessee applies the requirements of IFRS 16, and assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (under EUR 5 000). For these leases, as permitted by IFRS 16, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lessor transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

(h) Financial instruments

(i) Recognition

The Bank initially recognizes 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 recognized 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 recognized in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized 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.

Classification of the financial assets is based on business model and characteristics of the contractual cash flows. The analysis of the business model was conducted by mapping the business areas that make up the Bank's portfolios and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyze the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortized cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyze the contract features with respect to IFRS9 requirements, or by using external data providers.

In application of the aforementioned rules, the Bank's financial assets and liabilities have been classified as follows:

(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 amortized 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.

After initial recognition these financial instruments are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HFT) financial asset is recognized in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognized as "Financial liabilities held for trading".

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.

A non-derivative financial asset can be designated at fair value if the abovementioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

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

d) Financial assets mandatorily at fair value

The portfolio Mandatorily at fair value through profit or loss (MFV) is introduced according to IFRS 9 principles. A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realized or unrealized, are recognized in profit or loss as "Financial assets mandatorily at fair value".

e) Fair value through other comprehensive income (FVTOCI) assets

Financial asset, which is a debt instrument, is classified at FVTOCI if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

FVTOCI investments are non-derivative investments whose objective is achieved by both collecting contractual cash flow and selling financial assets.

All FVTOCI investments are carried at fair value.

On initial recognition, at settlement date, a financial asset is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and fees directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortized cost criterion as Interest income and similar revenues.

The gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves.

These instruments are tested for impairment as illustrated in the specific section. Impairment losses are recorded in the income statement.

In the event of disposal, the accumulated profits and losses are recorded in the income statement.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers cost as the best estimate of fair value.

(f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

UniCredit Group considers cost as a best estimate of fair value in case of Equity instruments for which all the following conditions are met: the instrument is not listed; the percentage of interests held by the Bank does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss. No reclassification of gains and losses to profit or loss on derecognition is allowed.

g) Financial assets at amortized cost

A financial asset is classified as financial asset measured at amortized cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect 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.

On initial recognition, at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and fees directly attributable to the instrument.

After initial recognition assets are measured at amortized cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Such interest is recognized in profit or loss as Interest income and similar revenues.

The carrying amount of financial assets at amortized cost is adjusted to take into account the reductions/ write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in profit or loss. In the event of disposal, the accumulated profits and losses are recorded in the income statement as Gains/ (Losses) on disposal.

Amounts derived from adjustment of carrying amount of financial assets, gross of cumulated write-downs, are recognized in profit or loss as Gains/Losses from contractual changes with no cancellations of the contracts in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition.

Sales are usually not compatible with this business model. Several kinds of sales however do not jeopardize the business model held to collect. These are sales that occur as a result of deterioration in the credit standing of the financial assets, which are not significant in value (not greater than 10% of the carrying value of the relevant portfolio) or sales that are made close to the maturity. In any cases sales should be infrequent.

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. They are carried at amortized cost using the effective interest rate method.

(iii) Derecognition

The Bank derecognizes 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 recognized as a separate asset or liability. The Bank derecognizes a financial asset also in case of substantial modification of the terms and conditions of the asset. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized 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 derecognizes the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognize 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 derecognized in its entirety if it meets the derecognition criteria. An asset or liability is recognized 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.

(iv) Amortized cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) 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 a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note 6).

(vi) 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.

(vii) 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 recognized on an accrual basis over agreed term of the deal and is included in net interest income.

(i) Impairment

The Bank recognizes a loss allowance for ***expected credit losses*** on: a debt financial asset that is measured at **Amortized cost and Fair value through Other Comprehensive income,** a lease receivable, a contract asset or a loan commitment and a financial guarantee contracts.

For this purpose debt instruments have to be classified in one of the following stages:

- **Stage 1:** which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- **Stage 2:** which comprises financial assets whose credit risk has significantly increased since initial recognition;
- **Stage 3**: which comprises credit impaired financial assets.

In order to provide consistency between IFRS and regulatory definitions, it is assumed that all instruments classified as "Non-performing" according to regulatory framework are considered to be instruments with an objective evidence of impairment (credit impaired). In order to meet the requirements of the standard, the Bank has developed specific models to calculate expected loss based on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. For Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank, the Stage Allocation model is based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group and the Bank opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Bank's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

a) Impairment of assets carried at amortized cost

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 Financial and Credit Risk Committee – Credit Risk Session 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.

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in profit or loss.

b) Impairment of 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 Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in profit or loss.

FVTOCI financial assets 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 Financial and Credit Risk Committee – Credit Risk Session (formerly Provisioning and Restructuring Committee) which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(j) Derivatives held/used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD". 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.

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 macro Cash Flow Hedge accounting. Since 2015 the Bank has started to apply micro 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 function 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 limits for intragroup deals are to be reduced respectively to 90% and 111.8%). 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 Fair value at other comprehensive income, 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 amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortization 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 recognized 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) 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 to power to over 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, 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.

The Bank regularly performs and assessment for impairment indicators of the investments in subsidiaries and associates, based on the following impairment triggers:

Quantitative Impairment Triggers	Qualitative Impairment Triggers
Individual net equity lower than cost	Acquisition/sale by the holder of the stake at a price lower than the cost
Distribution of dividends higher than the sum of the profit for the period and the other comprehensive income components in the period to which the dividends refer	Listing price lower than cost
Distribution of dividends while consolidated shareholders' equity lower than the individual book value	Evidence, on the basis of the plans and budgets, of the existence of future losses
	Adverse changes that imply revision of the plans and budget

(l) Property, plant, equipment and investment property

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

- properties used in business (regulated by IAS 16 "Property, plant and equipment"), for which the revaluation model for the measurement subsequent to initial recognition is applied;
- investment properties (regulated by IAS 40 "Investment property"), for which the fair value model is applied.

Starting from December 31, 2019 the Bank has adopted a policy to carry its items of property at revalued amount under the allowed alternative approach in IAS 16 Property, plant and equipment. Items of property are stated at fair value determined periodically by independent registered appraisers.

Positive changes in value are recognized in other comprehensive income reserve; if in previous periods negative changes were accounted for in the income statement, then subsequent positive changes will be recognized in the income statement up to the amount of negative change previously recognized.

Negative changes in value recognized in the income statement; if in previous periods positive changes in value were accounted for in other comprehensive income reserve, then subsequent negative changes will be recognized in other comprehensive income reserve (which can never be negative).

Depreciation is calculated based on revalued values and the revised remaining useful life.

Other comprehensive income reserve generated from revaluation (including the one, generated at First Time Adoption) is "reclassified" to retained earnings across the residual useful life of the asset. In case of disposal of the asset the entire other comprehensive income reserve is reclassified to retained earnings (with no impacts in the income statements).

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

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Starting from December 31, 2019 the Bank has adopted a policy to carry its items of investment property at fair value determined periodically by independent registered appraisers. In periods after the first comparative period, the changes in fair value over the previous period is recognized in the income statement. No depreciation charges or impairment adjustments is to be recognized.

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.

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 (except investment property for which no depreciation charges are accrued) 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	2-4	25-50
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 amortization and any impairment losses. As of December 31, 2022 and December 31, 2021 intangible assets include primarily investments in software and related licenses.

Amortization 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 amortization rate. For core system software and related applications estimated useful life is 10 years, which is an equivalent of approximately 10% annual amortization 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 to 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. 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, 2022 and December 31, 2021 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

a. 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.

b. Defined benefit obligation

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

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

c. 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 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, 2022 and December 31, 2021 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 made in 2022 and 2021.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on investments at FVTOCI, revaluation of property, plant and equipment (properties used in business), cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2022 and December 31, 2021 the reserves include 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 recognized 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, 2022 and December 31, 2021 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.

(s) Segment reporting

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. 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) Standards issued but not yet effective

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2022, and have not been applied in preparing these separate financial statements. The Bank plans to adopt these pronouncements when they become effective.

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

(a) IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)

The standard is effective for annual periods beginning on or after 1 January 2023 and early application is permitted. The Bank expects that the standard, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Bank because the Bank does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
- and the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.
- In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

The Bank does not expect the amendment to have a material impact on its separate financial statements when initially applied.

(c) Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The Bank does not expect the amendment to have a material impact on its separate financial statements when initially applied.

(d) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

The Bank does not expect the amendment to have a material impact on its separate financial statements when initially applied.

(e) Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)

IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

The Bank does not expect the amendment to have a material impact on its separate financial statements when initially applied.

Standards and interpretations not yet endorsed by the EC

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

The following amendments and improvements to standards are not expected to have a material impact on the separate financial statements of the Bank.

- *Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022);*
- *Amendments to IAS 1 Presentation of Financial Statements;*
  - *Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020);*
  - *Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and*
  - *Non-current Liabilities with Covenants (issued on 31 October 2022).*

(u) Change in presentation of comparative information

In 2022 the management reclassified certain amounts (shown in the table below) in the statement of cash flows in order to achieve comparability with the performance in 2022, which it considers more informative for users of financial statement. Management has followed the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Statement of Cash flows

In thousands of BGN	As presented before	correction (1)	correction (2)	correction (3)	Recalculated amount
Net cash (used in)/ from operating activities	(406 661)	(158 203)	(312 933)	(1 860)	(879 657)
Net cash (used in)/ from investing activities	(48 069)	158 203	-		110 134
Net cash (used in)/ from financing activities	(7 367)	-	312 933	1 860	307 426

(1) Cash receipts and payments as a result of purchases and sales of debt securities FVOCI are presented gross in net cash from investing activities for the year ended 31.12.2021 due to their nature.

(2) Cash receipts as a result of debt securities issued for the year ended 31.12.2021 are presented in net cash from financing activities due to their nature.

(3) Cash payments included as lease liabilities payments for the year ended 31.12.2021 are presented in net cash used in operating activities due to their nature.

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;

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 Group Risk Management Standards as well as all respective requirements set by the Bulgarian and European banking legislations. The Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

Financial and Credit Risk Committee – ALCO Session (FCRC – ALCO) is a decisional committee in the area of the financial risk management that is directly accountable to the Management Board of the Bank (MB). It is responsible for developing and employing the liquidity management system of the Bank. The Committee is responsible for approving strategies, policies and methodologies for market risk, counterparty credit risk, liquidity risk, FX risk and banking book interest rate risk, fund transfer pricing, setting limits (where applicable) accordingly.

Credit risk in the Bank is specifically monitored through Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation, approval of changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes. 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 large exposures – above 10% of Tier 1 capital of the Bank (requirement of Law on Credit Institutions). There is a procedure established in the Bank for limits monitoring, including early warning in case of limits breaches.

(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by the Market Risk function within Financial Risk and Modeling. Market risk control function is organized independently from the trading and sales or any other risk taking activities structure. Market risk management policies and limits are explicitly defined in the Market Risk Strategy of UniCredit Bulbank, which is reviewed at least annually. A product development process is established in which risk managers play a decisive role in approving a new product, especially in the field of financial markets products.

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 function and compared with the risk limits set by the Management Board and FCRC-ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily analysis of Client Risk Management & Treasury (CMR&T) and Assets and Liabilities Management and Funding (ALM)'s 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 restrictions applied to cumulative results for a specific period, the stress test warning metrics and various limitations for granular sensitivities.

For internal risk management and Group compliant risk measurement of Value at Risk (VaR), the Bank applies UniCredit Group's internal model for market risks. It is based on historical simulation with a 250-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible risk taking structures. 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. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2022, VaR of FVOCI positions (measured with one day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between BGN 2.31 million and BGN 19.10 million, averaging BGN 10.50 million, with credit spreads and interest rate curves' movements being main drivers. VaR of FVPL positions fluctuated in a range between BGN 0.22 million and BGN 3.24 million, averaging BGN 1.01 million.

VaR of UniCredit Bulbank AD by portfolio in BGN million for 2022 on stand-alone basis is as follows:

Portfolio	Minimum	Maximum	Average	Year-end
FVPL	0.22	3.24	1.01	0.22
FVOCI	2.31	19.10	10.50	17.34

In terms of different risk factors contributing to the overall VaR of both FVPL and FVOCI portfolios, the spit by end-2022 is as follows:

31.12.2022 (BGN)	FVOCI	FVPL
Total	(17 344 881)	(244 244)
o/w SP marginal VaR	2 155 854	-
o/w IR marginal VaR	(19 444 729)	(207 454)
o/w FX marginal VaR	-	(16 353)
o/w EQ marginal VaR	-	(20 202)
o/w Vega marginal VaR	-	-

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point value (interest rate 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 rates area, the Basis-Point-Value (BP01) 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 a summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2022 (change in value due to 1 basis point shift, amounts in BGN) for the trading and banking books):

IR Basis point shift, Banking book (BGN)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(51 801)	(3 767)	(43 720)	155 672	13 886	70 270
BGN	(43 439)	53 697	(150 642)	680 285	(62 157)	477 744
USD	1 192	4 902	799	(176)	-	6 717
CHF	135	441	10	(8)	-	578
GBP	166	632	66	-	-	864
Other	-	-	-	-	-	-
Total	**(93 747)**	**55 905**	**(193 487)**	**835 773**	**(48 271)**	**556 173**

IR Basis point shift, Trading book (BGN)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	13 640	2 617	(681)	(507)	-	15 069
BGN	(6 039)	20	-	-	-	(6 019)
USD	(7 258)	(3 395)	-	-	-	(10 653)
CHF	(335)	-	-	-	-	(335)
GBP	(17)	(99)	-	-	-	(116)
Other	217	442	-	-	-	659
Total	**208**	**(415)**	**(681)**	**(507)**	**-**	**(1 395)**

In terms of the impact on P&L and equity of interest rate sensitivity, the distribution of BP01 sensitivity between FVPL and FVOCI positions at the end of 2022 is the following:

BP01 (BGN)	FVOCI	FVPL
BP01, total ccy	(430 756)	899
BP01 EUR	(104 098)	89 139
BP01 BGN	(326 658)	(77 796)
BP01 USD	-	(10 653)
Other	-	209

The sensitivity above is indicative of the effect the bank will undergo through its PNL (FVPL) and equity (FVOCI) upon a one basis point changes in the respective interest rate levels.

UniCredit Bulbank measures the interest rate sensitivity towards the regulatory-prescribed shocks (EBA guidelines on interest rate risk arising from non-trading book activities impact Pillar 2 financial risk) in terms of change in the Economic Value of Equity (EVE). Values with reference date 31.12.2022:

SOT SCENARIOS	200*	-200*	Flattening	Parallel down	Parallel up	Short rates down	Short rates up	Steepening
Economic Value (BGN)	37 579 261	(145 446 739)	(46 935 149)	(169 447 714)	45 862 066	(5 288 532)	(11 889 793)	38 209 558
As percentage of Tier 1*	**1.34%**	**(5.17%)**	**(1.70%)**	**(6.14%)**	**(1.66%)**	**(0.19%)**	**(0.43%)**	**1.39%**

**Sensitivity to +/- 200 bps shock scenarios is calculated as a percentage of Own funds*

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2022 amounted to BGN 1 794 195. Instruments issued by governments account for the largest part of credit spread exposure.

SP Basis point shift (BGN)

Issuer	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(7 616)	(8 458)	(344 954)	(1 218 645)	(195 241)	(1 774 914)
Regional governments	-	-	(164)	-	-	(164)
Corporates	(48)	(1 329)	(15 740)	-	-	(17 117)
Total Absolute	**7 664**	**9 787**	**360 858**	**1 218 645**	**195 241**	**1 792 195**

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 a daily basis and are restricted by volume overnight limits. FX sensitivities describe the relation of an instrument fair value to FX rates or FX rates volatility. FX rate sensitivities are calculated by proportionally shifting the corresponding FX rate by 1%.

The FX sensitivity for UniCredit Bulbank AD as of December 31, 2022 is as follows:

CCY	FX delta, BGN eq.
BGN	(516 916 576)
EUR	646 136 686
USD	2 681 895
GBP	1 082 183
RON	(1 108 676)
PLN	(407 661)
Other	(339 704)

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 are reported at least monthly to FCRC-ALCO.

The impacts of the Covid-19 pandemic, complemented by the Russian-Ukrainian conflict on Bank's liquidity profile are evaluated as minor due to the strong funding profile largely independent from wholesale markets. UniCredit Bulbank AD continued to closely monitor its liquidity and market risk position, in order to ensure regular execution of its Treasury activities, strict compliance with the set risk appetite and proper information flows to the Senior Management and the Supervisor.

The behavioral model of non-maturing deposits (NMDs), introduced in Q2 2020 in compliance with the respective EBA Guidelines, has been recalibrated twice (in June 2022 and November 2022), extending the data series behind the model's output up to September 2022. The model estimates the liquidity and interest rate characteristics of the customer positions following the real behavior, instead of the contractual/explicit profile. The modelling of NMDs (Sight and Saving deposits) aims to identify their stability (stickiness) defined as the tendency to be a permanent source of funding.

As of December 31, 2022 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	7 050 660	19 743	**7 070 403**
Non-derivative financial assets held for trading	2 828	-	**2 828**
Derivatives held for trading	85 550	30 547	**116 097**
Derivatives held for hedging	131 468	-	**131 468**
Loans and advances to banks and debt securities at amortised cost	1 071 678	210 453	**1 282 131**
Loans and advances to customers and debt securities at amortised cost	16 941 216	146 225	**17 087 441**
Pledged debt securities at amortised cost	180 384	-	**180 384**
Investment securities	1 455 762	15 904	**1 471 666**
Pledged investment securities	1 062 591	-	**1 062 591**
Investments in subsidiaries and associates	52 479	-	**52 479**
Property, plant, equipment, right of use assets and investment properties	238 781	-	**238 781**
Intangible assets	95 130	-	**95 130**
Current tax assets	1 679	-	**1 679**
Other assets	95 445	587	**96 032**
TOTAL ASSETS	**28 465 651**	**423 459**	**28 889 110**
LIABILITIES			
Financial liabilities held for trading	129 168	30 138	**159 306**
Derivatives used for hedging	132 160	-	**132 160**
Deposits from banks	1 408 645	169 054	**1 577 699**
Deposits from customers and other financial liabilities at amortized cost	21 520 444	1 694 475	**23 214 919**
Debt securities issued	313 701	-	**313 701**
Provisions	115 488	14 195	**129 683**
Current tax liabilities	-	-	**-**
Deferred tax liabilities	8 459	-	8 459
Other liabilities	95 803	5 387	101 190
TOTAL LIABILITIES	**23 723 868**	**1 913 249**	**25 637 117**
EQUITY	**3 251 993**	**-**	**3 251 993**
Net off-balance sheet spot and forward position	**(1 589 361)**	**1 496 405**	**(92 956)**
Net position	**(99 571)**	**6 615**	**(92 956)**

As of December 31, 2021 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	6 654 508	22 928	**6 677 436**
Non-derivative financial assets held for trading	4 901	-	**4 901**
Derivatives held for trading	55 485	31 554	**87 039**
Derivatives held for hedging	11 976	-	**11 976**
Loans and advances to banks and debt securities at amortised cost	390 117	307 868	**697 985**
Loans and advances to customers and debt securities at amortised cost	13 382 236	137 215	**13 519 451**
Investment securities	2 847 157	15 549	**2 862 706**
Pledged investment securities	612 656	-	**612 656**
Investments in subsidiaries and associates	55 479	-	**55 479**
Property, plant, equipment, right of use assets and investment properties	236 916	-	**236 916**
Intangible assets	88 138	-	**88 138**
Current tax assets	-	-	**-**
Non-current assets and disposal groups classified as held for sale	12 292	-	**12 292**
Other assets	80 972	429	81 401
TOTAL ASSETS	**24 432 833**	**515 543**	**24 948 376**
LIABILITIES			
Financial liabilities held for trading	15 813	31 335	**47 148**
Derivatives used for hedging	65 287	-	**65 287**
Deposits from banks	903 372	225 203	**1 128 575**
Deposits from customers and other financial liabilities at amortized cost	18 170 396	1 624 934	**19 795 330**
Debt securities issued	313 104	-	**313 104**
Provisions	105 165	6 799	**111 964**
Current tax liabilities	4 125	-	**4 125**
Deferred tax liabilities	5 855	-	**5 855**
Other liabilities	114 510	4 779	**119 289**
TOTAL LIABILITIES	**19 697 627**	**1 893 050**	**21 590 677**
EQUITY	**3 357 699**	**-**	**3 357 699**
Net off-balance sheet spot and forward position	**(1 380 560)**	**1 378 011**	**(2 549)**
Net position	**(3 053)**	**504**	**(2 549)**

(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 analyzed 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 Policies.

Liquidity management is the operational responsibility of "Asset-Liability Management and Funding" (within Finance Division) and "Treasury" (within Corporate Division) while the risk control functions is assigned to "Financial Risk and Modelling" (within Risk Management Division). The bank steers liquidity risk through a set of metrics and monitoring systems (managerial and regulatory) within a framework of limits and/or trigger warning levels.

For the purposes of management of the short-term liquidity limit exposures, defined as the primary liquidity gap and the liquidity stress-test results, short-term liquidity indicators are monitored daily and monthly respectively. Structural liquidity limits define minimum required coverage of long-term assets with coherent liabilities and are monitored monthly.

Integral part of liquidity management process is the contingency planning and stress testing. Financial risk management function performs liquidity stress tests on regular basis, using standardized Group-wide scenarios. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behavior of different customer groups/segments. 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 two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown sufficient coverage during 2022, meaning that under 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 2022	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	2 828	-	**2 828**
Loans and advances to banks and debt securities at amortised cost	1 247 132	34 999	**1 282 131**
Loans and advances to customers and debt securities at amortised cost	5 258 180	11 829 261	**17 087 441**
Pledged debt securities at amortised cost	-	180 384	**180 384**
Investment securities	70 082	1 401 584	**1 471 666**
Pledged investment securities	536 756	525 835	**1 062 591**
Other assets	74 917	21 115	**96 032**
TOTAL FINANCIAL ASSETS	**7 189 895**	**13 993 178**	**21 183 073**

In thousands of BGN

Maturity table as at 31 December 2021	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	4 901	-	**4 901**
Loans and advances to banks and debt securities at amortised cost	657 234	40 751	**697 985**
Loans and advances to customers and debt securities at amortised cost	5 306 044	8 213 407	**13 519 451**
Investment securities	190 266	2 672 440	**2 862 706**
Pledged investment securities	219 680	392 976	**612 656**
Other assets	59 253	22 148	**81 401**
TOTAL FINANCIAL ASSETS	**6 437 378**	**11 341 722**	**17 779 100**

In thousands of BGN

Maturity table as at 31 December 2022	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	**1 577 699**	**(1 578 077)**	(1 576 963)	-	-	(1 114)
Deposits from customers and other financial liabilities at amortized cost	**23 214 919**	**(23 214 921)**	(21 359 857)	(670 242)	(1 079 222)	(105 600)
Unutilized credit lines and financial guarantees	**-**	**(8 469 485)**	(6 443 158)	(288 221)	(640 071)	(1 098 035)
Total non-derivative instruments	**24 792 618**	**(33 262 483)**	**(29 379 978)**	**(958 463)**	**(1 719 293)**	**(1 204 749)**
Derivatives held for trading, net	**(43 209)**					
Outflow		**(5 724 105)**	(4 797 493)	(481 108)	(237 545)	(207 959)
Inflow		**5 667 398**	4 764 463	472 323	236 490	194 122
Derivatives used for hedging, net	**(692)**					
Outflow		**(359 044)**	(1 464)	(9 102)	(50 016)	(298 462)
Inflow		**358 533**	35	11 389	48 059	299 050
Total derivatives	**(43 901)**	**(57 218)**	**(34 459)**	**(6 498)**	**(3 012)**	**(13 249)**
Total financial liabilities	**24 748 717**	**(33 319 701)**	**(29 414 437)**	**(964 961)**	**(1 722 305)**	**(1 217 998)**

In thousands of BGN

Maturity table as at 31 December 2021	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	**1 128 575**	**(1 128 544)**	(1 126 378)	-	-	(2 166)
Deposits from customers and other financial liabilities at amortized cost	**19 795 330**	**(19 792 919)**	(17 368 350)	(796 897)	(1 231 848)	(395 824)
Unutilized credit lines and financial guarantees	**-**	**(7 266 221)**	(5 247 069)	(400 513)	(891 410)	(727 229)
Total non-derivative instruments	**20 923 905**	**(28 187 684)**	**(23 741 797)**	**(1 197 410)**	**(2 123 258)**	**(1 125 219)**
Derivatives held for trading, net	**39 891**					
Outflow		**(4 312 900)**	(2 802 799)	(1 037 011)	(434 676)	(38 414)
Inflow		**4 354 568**	2 835 067	1 040 003	433 711	45 787
Derivatives used for hedging, net	**(53 311)**					
Outflow		**(79 851)**	(10 005)	(41 642)	(11 078)	(17 126)
Inflow		**26 545**	789	10 545	3 867	11 344
Total derivatives	**(13 420)**	**(11 638)**	**23 052**	**(28 105)**	**(8 176)**	**1 591**
Total financial liabilities	**20 910 485**	**(28 199 322)**	**(23 718 745)**	**(1 225 515)**	**(2 131 434)**	**(1 123 628)**

(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.

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

The 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 AD uses the group internal counterparty risk model based on Monte Carlo simulations by estimating the potential future exposure at portfolio level for each counterparty. 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 AD limits the credit risk arising from its derivatives and repo-based business through use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

The analysis based on client credit quality and rating (where available) as of December 31, 2022 and December 31, 2021 is as shown in the next table:

In thousands of BGN

	31.12.2022	31.12.2021
Government bonds		
Rated BBB-	-	2 269
Equities		
Unrated	2 828	2 632
Derivatives (net)		
Banks and financial institution counterparties	50 633	(52 691)
Corporate counterparties	(94 534)	39 271
Total trading assets and liabilities	**(41 073)**	**(8 519)**

Government bonds presented as of December 31, 2021 include 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, the 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 Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS) 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 of 2 million BGN.

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 – Definition of default according to EBA guidelines.

Classification criteria envisages the materiality thresholds of past due and articulated structures of Unlikely-To-Pay triggers (it is worth mentioning the one related to the Distressed Restructuring for forborne exposures, where a maximum threshold for diminished Net Present Value of 1% has been set), including additional requirements on default contagions effects in case of connected clients (Group of related companies and joint credit obligations). Furthermore, a minimum probation period of 3 months before returning in a non-defaulted status has been set as mandatory.

Exposures with objective evidence of impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

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.

Credit Risk Models and Systems team has performed precise impact assessment on Expected Credit Loss related to the implementation of new PD-model for Private Individuals in 2023. The overall estimated impact on Expected Credit Loss is in the amount of 3.1 million BGN.

Estimated Overlay with regards to new introduced evaluation methodology for Bullet and Balloon payment transactions in the amount of 1.2 million BGN. Base for this estimation was simulation with condition that Bullet and Balloon transactions portfolio will reach the current level of share in Stage 2 transactions of the Bank portfolio.

Integration of forward looking information into the ECL model

UniCredit Bulbank leverages on the Stress Test Models for including macro-economic effects into the expected credit losses. The decision to leverage on Satellite models (developed by the Group) is aimed at ensuring a proper alignment between the various processes that within the Group foresee the usage of macro-economic forecasts[1] (e.g. portfolio strategy, budgeting, stress testing). Moreover Satellite models are based on internal estimates of macro-economic indicators' forecasts and developed according to well-known econometric models, thus ensuring the fulfillment of the requirements set out in par. 22 of EBA/GL/2017/06: "*In order to ensure a timely recognition of credit losses, credit institutions should consider forward-looking information, including macroeconomic factors. When considering forward-looking information, credit institutions should apply sound judgement consistent with generally accepted methods for economic analysis and forecasting, and supported by a sufficient set of data."* and 39: *"Forward-looking information, including economic forecasts and related credit risk factors used for ECL estimates, should be consistent with inputs to other relevant estimates within the financial statements, budgets, strategic and capital plans, and other information used in managing and reporting within a credit institution."*.

The stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD)[2]. Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD under the Adverse Scenarios adopted for the stress test purposes and they are used both for regulatory (EBA, ICAAP) and managerial Stress Test exercises[3].

With regards to the modeling methodology the current framework envisages two different approaches for High and Low default portfolios. Notably for high default portfolios (Retail, SME and Mid corporate) the internal historical data on Default and Recovery rates have been used to estimate, at cluster level (Country/Asset Class) direct relationship between default and recovery rates and macro-economic factors. Where possible, panel dimensions such as lifecycle (loans/default's age) and vintage quality (loan's origination/default time) have been also included within the model structure aiming at better isolate the impact of macro-economic conditions from other portfolio effects on the default/recovery rate evolution.

However, with regard to the low default portfolios for which no enough internal data were available the selected approach provides for modelling the PD/LGD model rating drivers (e.g. financial ratios) against the macro-economic variables. The resulting rating drivers conditioned to the macro-economic factors are then used as input of the Rating System in order to recalculate at granular level the projected PD/LGD for each counterpart.

Multiple scenarios

The paragraph B5.5.42 of the IFRS 9 standard requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. This section provides the description of

[1] As requested by par. 39 of EBA/GL/2017/06: "While a credit institution does not need to identify or model every possible scenario through scenario simulations, it should consider all reasonable and supportable information that is relevant to the product, borrower, business model or economic and regulatory environment when developing estimates of ECL. In developing such estimates for financial reporting purposes**, credit institutions should consider the experience and lessons from similar exercises it has conducted for regulatory purposes (although stressed scenarios are not intended to be used directly for accounting purposes). Forward-looking information, including economic forecasts and related credit risk factors used for ECL estimates, should be consistent with inputs to other relevant estimates within the financial statements, budgets, strategic and capital plans, and other information used in managing and reporting within a credit institution**." and as suggested in the " *In depth IFRS9 impairment: how to include multiple forward-looking scenario*", August 2017, Pwc: "In particular, some or all of the following information may be available without undue cost and effort, and can be used to assist an entity in determining appropriate weightings:

- The entity's default and losshistory;
- Peer or industry data on historic defaults and losses; and
- The entity's own modelling of possible impacts of future scenario on credit risk e.g. **regulatory stress test modelling**."

And as reported in the "IFRS 9 Impairment, IFRS Newsletter", December 2015, KPMG: "It is important that the scenarios used to estimate ECLs are consistent with information used *by the entity for other purposes – e.g. capital models, budgeting […]"*.

[2] It is important to underline that it is not necessary to perform a reconciliation between PD IFRS and PD used by Stress Test function, since the integration of forward looking information is carried out by a multiplicative factor that maintains the same variation regardless the application point.

[3] Baseline macroeconomic scenario, to be used for IFRS 9 as far as for regulatory and managerial exercises, is provided by UniCredit Research, which represent an independent research firm providing analyses and forecasts macroeconomic developments and trends to both external Clients and Internal functions. For more details please go to: https://www.unicreditresearch.eu/

the methodology adopted to address the probability weighted ECL using multiple macroeconomic scenarios.

The selected approach implied the use of three[4] different macro-economic scenarios and probability weights for each one. More in particular a baseline, one downside and one upside scenarios have been considered. UniCredit Research department produces semiannually macroeconomic forecasts under baseline and alternative downside and upside scenarios.

Each scenario envisages three years of forecasts including all the relevant macro-economic factors considered in the satellite models. A probability of occurrence, judgmentally defined by UniCredit Research department, is assigned to each scenario, ensuring that the upside and downside scenarios' probability are not biased to extreme scenarios, otherwise the range and weighting of scenarios would be not representative. The table below contains current and historical weights:

	Weights (probabilities)		
Scenario	Dec 21	Jun 22	Dec 22
Baseline	55%	60%	60%
Positive	5%	0%	0%
Negative	40%	40%	40%

The Group Credit Stress Test Framework provides a suitable set of models (Satellite Models) for IFRS 9 compliance that are used in order to forecast the conditioned PD/LGD for any scenario.

An "average" scenario is defined as **the weighted average of delta DRs (default rates) provided under each of the scenarios previously mentioned**. This "average" scenario must be used to define the Staging under each of the multiple scenario; indeed, according to ITG instructions, "*one financial instrument cannot exist in stage 1 and in stage 2 at the same time*".

Probability weighted ECL and Overlay Factor

Consideration of multiple scenarios is relevant in case a non-linear relationship between key components of ECL and the relevant economic parameter exists.

Fulfill the requirement set out by the paragraph B5.5.42 would require calculating the ECL under multiple scenarios and deriving a weighted average ECL based on the probability of each scenario to happen. Alternatively, banks are allowed to derive an overlay factor to account for the non-linearity of the ECL risk components and relevant economic parameters.

Running more scenarios under the LLP production process would not fit the LLP production timeline and has been considered to be an undue cost and effort for the Banks. It was therefore decided to account for multiple macroeconomic scenarios by estimating a yearly overlay factor to be applied to the ECL calculated under the baseline scenario.

An interesting question is how to define the staging under the multiple scenario approach and whether it would really make sense to assume that an asset can be in stage 1 and stage 2 at the same time. At this regard, it was observed in the ITG discussion that, where the range of possible forward-looking economic scenarios is mutually exclusive, a scenario cannot apply to part of an asset, while other scenarios apply to different parts of an asset. Accordingly, one financial instrument cannot exist in stage 1 and in stage 2 at the same time. In compliance with the position taken by the ITG, the overlay factor must be determined assuming that the staging will not change under different scenario but will be kept constant and calculated under the "average" scenario (obtained as described above averaging the deltas under each scenario) such that an unbiased estimate will be used in each scenario.

Constant Overlay Factor

A simple and straightforward approach to derive the overlay factor consists in determining the ratio between the probability weighted ECL and the ECL under the baseline scenario as shown below:

$$Overlay\ factor = \frac{\sum_k ECL_k^{Weighted|avg}}{\sum_k ECL_k^{bl|bl}}$$

(1)

Where:

- ***i/j*** = indicates that *i* is the scenario used to calculate ECL, while *j* is the scenario used to assign the Stage (e.g., $ECL^{bl|avg}$ means that the baseline scenario is used to calculate ECL, while the average one is the scenario used to assign the Stage)
- $$ECL_k^{Weighted|avg} = p_{cont} \cdot ECL_k^{cont|avg} + p_{bl} \cdot ECL_k^{bl|avg} + p_{pos} \cdot ECL_k^{pos|avg}$$

for transaction *k*

(2)

The table below contains the list with macro variables which have been considered for each econometric model that forecasts IFRS FLI:

[4] The IFRS 9 standard does not explicitly define the number of macroeconomic scenarios that should be used for impairment calculations but leave it up to the Banks this definition.

Macroeconomic indicator	Country	Scenario	Transformation	t_2	t_1	t0	t_1	t_2	t_3
Real GDP, yoy % change	Bulgaria	bl		-4.39	4.18	3.2	0.5	2.9	3.2
Inflation (CPI) yoy, eop	Bulgaria	bl		0.14	7.75	18.02	6.68	4.33	2.9
Inflation (CPI) yoy, average	Bulgaria	bl		1.68	3.31	15.41	11.25	5.31	3
Monthly wage, nominal EUR	Bulgaria	bl		709.08	792.84	832.47	883.04	946.14	1 026.56
Unemployment rate, %	Bulgaria	bl		5.13	5.27	4.7	4.8	4.3	3.9
Exchange rate /euro, eop	Bulgaria	bl		1.96	1.96	1.96	1.96	1.96	1.96
Exchange rate /euro, average	Bulgaria	bl		1.96	1.96	1.96	1.96	1.96	1.96
Short team rate, eop	Bulgaria	bl		-0.7	-0.73	2.25	2.5	2.25	2.25
Short term, average	Bulgaria	bl		-0.65	-0.78	2.25	2.5	2.25	2.25
House price Index, yoy % change	Bulgaria	bl		4.56	8.67	13.28	9.88	7	6.5
Long-term interest rate 10y (%)	Bulgaria	bl		0.28	0.56	4.4	4	3.5	3.25

According to an analysis performed by the ICAAP & Stress Testing Division at the Holding, GDP forecast (over 3 years) is assumed to be the most relevant economic factor as indicator of scenario severity.

Macroeconomic and ECL sensitivity in 2022

The analysis below shows that for 1 point GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +1.12% or EUR 3.83m:

Scenario	Weight	Macroeconomic variable	2023	2024	2025	3yr cum	Unweighted ECL (mln EUR)	Weighted ECL (mln EUR)
Positive	0%	GDP growth %	-	-	-	-	-	
Baseline	40%	GDP growth %	0.5	2.9	3.2	6.72	343	351
Negative	60%	GDP growth %	-4.57	4.26	3.8	3.27	356	
					Delta	**(3.45)**	**13.23**	
					Absolute ECL Sensitivity vs 3-yr GDP		**3.83**	
					% ECL Sensitivity vs 3-year cum GDP		**1.12%**	

The table below contains the local figures under each scenario as at Dec 2022:

ECL amount (in mEUR)

	Baseline				**Negative**				**Final**			
Portfolio	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate	24	46	177	**248**	29	51	177	**257**	26	49	188	**263**
Small Business	3	18	25	**45**	4	19	25	**48**	3	18	26	**47**
Retail - Mortgages	1	6	27	**35**	1	7	27	**35**	1	6	28	**36**
Retail - Others	-	2	7	**9**	-	2	7	**10**	-	2	8	**10**

The difference of EUR 85.6m between the total ECL (BL) of EUR 343.25m and ECL (EOY) DEC 2022 of EUR 428.85m is due to Macro-scenario OF and Geo-political OF.

Here below the steps to be performed under the Constant Overlay Factor approach are described:

1. As a first step, the Stress Test team that have to provide forecasts (DR – default rate, RR – recovery rate, etc) under each of the three selected scenarios ().

2. Afterward, the staging under the "average" scenario must be calculated once and kept constant for each scenario ().

3. Finally, the must be calculated for the *i*-th scenario ($i = 1,...,3$) and the probability weighted has to be determined averaging the derived under each scenario, multiplied for the probability of each scenario () to happens.

During the monthly LLP process, the overlay factor must be multiplied to the ECL calculated under the baseline scenario for each transaction k in order to adjust it for the non-linearity effect as shown below:

$$ECL_k^{Final} = ECL_k^{bl} \times Overlay\ factor$$

(3)

The table below contains the locally computed OF values as at Dec 2022 (GW OFs are provided on Holding level):

Rating system[1]	Overlay Factors as of Dec 2022
CRP	1.0616
FI	1.0472
IND	1.0277
MNC	1.0476
PFR	1.0616
SME	1.0467
SOV	1.3536

(CRP – Corporates, FI – Financial Institutions, IND – Individuals, MNC – Multinationals, SME – Small and Medium Enterprises, PFR – Project Financing Rating Model, SOV – Sovereigns)

It worth to be underlying that IFRS 9 does not necessarily require to be conservative but to fairly represent the riskiness of the bank's portfolios, this imply that the Overlay factor can be both above or below the par value.

The overlay factor has to be calculated following the rating system group granularity or they aggregation as used for IFRS 9 purposes in case of shared credit risk characteristics.

The overlay factor must be recalibrated semiannually as soon as the new forecasts and weights under multiple scenarios are available.

The overlay factors on GW portfolios will be estimated centrally and shared with the LEs on time for the local application in the monthly LLPs run.

Finally, it is underlined that the **overlay factor does not represent an estimated parameter**, but a multiplicative factor to be applied on top of the Baseline ECL to produce a final ECL that is *a probability-weighted amount determined by evaluating a range of possible outcomes.* Due to the impossibility to calculate the final monthly LLPs as the average of monthly LLPs under several scenario the overlay factor is introduced as a workaround. A plausibility analysis of the ECL results under the positive and negative scenario should be performed, to ensure that under such scenarios extremely low or high values of ECL are not outputted. However, no outlier's treatments are deemed necessary, since the final values of ECL are to be computed considering *all the range of possible outcomes* and as a consequence any floor/cap or removal of observations would entail a deviation from the IFRS requirements.

Geopolitical overlay resulting from Russia-Ukraine crisis

During 2022, the uncertainties on the economic activities arising from Covid-19 pandemics progressively faded away as demonstrated by the lifting of the restrictive measures put in place by the governments to counteract the pandemic. As well, also the supply chain risk has started to decrease in relevance, given the evolving new geo-political context. Indeed, the start of the Russian-Ukraine conflict acted as a headwind to the economic growth. Indeed, the spill-over effects of Russian and Ukraine crises continued leading to revise the outlook for the euro area economy, also pushing up inflationary pressures and interest rates.

In order to factor-in into the risks underlying the sharp rise in energy costs, inflation and interest rates for both Corporate and private individuals, the geopolitical overlay were adopted during 2022.

In this regard the adoption of this overlay is a complementary measure to the IFRS9 models that, by their structure, have been already properly and directly proving to recognize the effect of geo-political crises. In this context while IFRS 9 models and in particular satellite models are able to capture the effect of macro-economic scenario at portfolio level, the geopolitical overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions

Indeed as of 31 December 2022 geopolitical overlay amount to 157.4 mln and is broken-down according to the following components:

- Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russia - Ukraine crisis, specifically impacting the energy supply and related price soaring
- Retail clients, for: (i) floating rate mortgages (not having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment on their exposures, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.
- additional stress for the delta default rates up to a level of 150% for Corporates, 170% for Small Business and 85% for Private Individual, due to continuing unstable economic situation, affected by the somewhat higher than average dependency of the Bulgarian energy sector from Russia, exacerbated by an on-going political crisis in the country

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying - as macro-economic conditions - the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate. Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose LLPs are then calculated according to the average coverage rate applied to Unlikely to Pay.

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 Tier 1 capital are treated as large 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 Tier 1 capital of the Bank.

The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups (excluding related parties) of customers as of December 31, 2022 and December 31, 2021.

In thousands of BGN

	Credit risk exposure before risk transfer		**Credit risk exposure after risk transfer**		**% of own funds**	
	2022	2021	2022	2021	2022	2021
Biggest credit risk exposure to customers' group	546 398	538 143	246 647	482 408	8.8%	16.0%
Credit risk exposure to top five biggest customers' groups	1 584 514	1 257 743	1 003 206	994 222	35.9%	33.0%

The table below analyses the breakdown of loss allowances as of December 31, 2022 and December 31, 2021 on different classes:

In thousands of BGN

Loss allowance by classes	2022	2021
Balances with Central Bank	30	167
Loans and advances to banks at amortized cost	178	116
Debt securities from banks at amortized cost	4	155
Loans and advances to customers at amortized cost	761 820	715 334
Debt securities from customers at amortized cost	294	956
Debt investment securities at FVTOCI	7 309	3 070
Loan commitments, Financial guarantee contracts and other commitments	82 526	58 883
Total Loss allowance by classes	**852 161**	**778 681**

The tables below analyze the movement of the loss allowance during the year per class of assets:

In thousands of BGN

Loss allowance - Balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(165)**	**-**	**-**	**-**	**(165)**
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(6)	-	-	-	(6)
Financial assets that have been repaid during the year	4	-	-	-	4
Loss allowance as at 31.12.2021	**(167)**	**-**	**-**	**-**	**(167)**

In thousands of BGN

Loss allowance - Balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	(167)	-	-	-	(167)
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(15)	-	-	-	(15)
Financial assets that have been repaid during the year	152	-	-	-	152
Loss allowance as at 31.12.2022	**(30)**	**-**	**-**	**-**	**(30)**

In thousands of BGN

Loss allowance - Loans and advances to banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	(218)	-	-	-	(218)
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	157	-	-	-	157
Financial assets that have been repaid during the year	(55)	-	-	-	(55)
Loss allowance as at 31.12.2021	**(116)**	**-**	**-**	**-**	**(116)**

In thousands of BGN

Loss allowance - Loans and advances to banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(116)**	**-**	**-**	**-**	**(116)**
Changes in the loss allowance					
Changes due to modifications that did not result in derecognition	(5)	-	-	-	(5)
New financial assets originated/purchased or disbursed during the year	(167)	-	-	-	(167)
Financial assets that have been repaid during the year	110	-	-	-	110
Loss allowance as at 31.12.2022	**(178)**	**-**	**-**	**-**	**(178)**

In thousands of BGN

Loss allowance -Debt securities from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(156)**	**-**	**-**	**-**	**(156)**
Changes in the loss allowance					
Decreases due to change in credit risk	1	-	-	-	1
Loss allowance as at 31.12.2021	**(155)**	**-**	**-**	**-**	**(155)**

In thousands of BGN

Loss allowance -Debt securities from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(155)**	**-**	**-**	**-**	**(155)**
Changes in the loss allowance					
Decreases due to change in credit risk	151	-	-	-	151
Loss allowance as at 31.12.2022	**(4)**	**-**	**-**	**-**	**(4)**

In thousands of BGN

Loss allowance -Debt securities from customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(117)**	**-**	**-**	**-**	**(117)**
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(883)	-	-	-	(883)
Financial assets that have been repaid during the year	44	-	-	-	44
Loss allowance as at 31.12.2021	**(956)**	**-**	**-**	**-**	**(956)**

In thousands of BGN

Loss allowance -Debt securities from customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(956)**	**-**	**-**	**-**	**(956)**
Changes in the loss allowance					
Decreases due to change in credit risk	782	-	-	-	782
New financial assets originated/purchased or disbursed during the year	(120)	-	-	-	(120)
Loss allowance as at 31.12.2022	**(294)**	**-**	**-**	**-**	**(294)**

In thousands of BGN

Loss allowance - Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 31.12.2020	**(57 176)**	**(86 353)**	**(550 424)**	**(737)**	**(694 690)**
Changes in the loss allowance					
Transfer to stage 1	(7 652)	7 619	33	-	**-**
Transfer to stage 2	66 749	(70 154)	3 405	-	**-**
Transfer to stage 3	12 110	26 952	(39 062)	-	**-**
Increases due to change in credit risk	(87 486)	(73 191)	(57 119)	-	**(217 796)**
Decreases due to change in credit risk	12 752	21 995	92 803	472	**128 022**
Write-offs	-	-	103 044	-	**103 044**
New financial assets originated/purchased or disbursed during the year	(28 953)	(26 184)	(27 386)	-	**(82 523)**
Financial assets that have been repaid during the year	10 085	8 558	29 388	-	**48 031**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(79 571)**	**(190 758)**	**(444 740)**	**(265)**	**(715 334)**

In thousands of BGN

Loss allowance - Loans and advances to corporate customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 31.12.2020	**(50 577)**	**(56 925)**	**(418 066)**	**(737)**	**(526 305)**
Changes in the loss allowance					
Transfer to stage 1	(7 026)	7 003	23	-	**-**
Transfer to stage 2	47 157	(49 228)	2 071	-	**-**
Transfer to stage 3	5 070	4 558	(9 628)	-	**-**
Increases due to change in credit risk	(61 607)	(50 712)	(42 515)	-	**(154 834)**
Decreases due to change in credit risk	11 513	11 095	71 657	472	**94 737**
Write-offs	-	-	84 582	-	**84 582**
New financial assets originated/purchased or disbursed during the year	(26 451)	(16 570)	(24 075)	-	**(67 096)**
Financial assets that have been repaid during the year	9 269	5 166	16 276	-	**30 711**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(72 652)**	**(145 613)**	**(319 097)**	**(265)**	**(537 627)**

In thousands of BGN

Loss allowance - Loans and advances to retail customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(6 599)**	**(29 428)**	**(132 358)**	**-**	**(168 385)**
Changes in the loss allowance					
Transfer to stage 1	(626)	616	10	-	**-**
Transfer to stage 2	19 592	(20 926)	1 334	-	**-**
Transfer to stage 3	7 040	22 394	(29 434)	-	**-**
Increases due to change in credit risk	(25 879)	(22 479)	(14 604)	-	**(62 962)**
Decreases due to change in credit risk	1 239	10 900	21 146	-	**33 285**
Write-offs	-	-	18 462	-	**18 462**
New financial assets originated/purchased or disbursed during the year	(2 502)	(9 614)	(3 311)	-	**(15 427)**
Financial assets that have been repaid during the year	816	3 392	13 112	-	**17 320**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2021	**(6 919)**	**(45 145)**	**(125 643)**	**-**	**(177 707)**

In thousands of BGN

Loss allowance - Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(79 571)**	**(190 758)**	**(444 740)**	**(265)**	**(715 334)**
Changes in the loss allowance					
Transfer to stage 1	(3 410)	3 313	97	-	**-**
Transfer to stage 2	100 374	(102 639)	2 265	-	**-**
Transfer to stage 3	8 288	79 806	(88 094)	-	**-**
Increases due to change in credit risk	(113 384)	(86 138)	(40 622)	-	**(240 144)**
Decreases due to change in credit risk	41 063	97 654	15 613	-	**154 330**
Write-offs	-	-	36 142	-	**36 142**
Changes due to modifications that did not result in derecognition	(1 210)	(1 664)	(2 039)	-	**(4 913)**
New financial assets originated/purchased or disbursed during the year	(26 239)	(52 359)	(53 449)	-	**(132 047)**
Financial assets that have been repaid during the year	9 239	21 414	109 090	265	**140 008**
Changes in segmentation	-	-	-	-	**-**
Foreign exchange and other movements	-	-	138	-	**138**
Loss allowance as at 31.12.2022	**(64 850)**	**(231 371)**	**(465 599)**	**-**	**(761 820)**

In thousands of BGN

Loss allowance - Loans and advances to corporate customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(72 652)**	**(145 613)**	**(319 097)**	**(265)**	**(537 627)**
Changes in the loss allowance					
Transfer to stage 1	(2 646)	2 553	93	-	**-**
Transfer to stage 2	77 536	(79 559)	2 023	-	**-**
Transfer to stage 3	2 359	58 890	(61 249)	-	**-**
Increases due to change in credit risk	(85 296)	(54 287)	(35 418)	-	**(175 001)**
Decreases due to change in credit risk	38 807	83 814	11 325	-	**133 946**
Write-offs	-	-	23 609	-	**23 609**
Changes due to modifications that did not result in derecognition	(1 199)	(1 664)	(1 474)	-	**(4 337)**
New financial assets originated/purchased or disbursed during the year	(23 383)	(35 764)	(40 717)	-	**(99 864)**
Financial assets that have been repaid during the year	9 189	20 944	107 596	265	**137 994**
Changes in segmentation	(1 154)	(8 494)	(35 608)	-	**(45 256)**
Foreign exchange and other movements	-	-	138	-	**138**
Loss allowance as at 31.12.2022	**(58 439)**	**(159 180)**	**(348 779)**	**-**	**(566 398)**

In thousands of BGN

Loss allowance - Loans and advances to retail customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(6 919)**	**(45 145)**	**(125 643)**	**-**	**(177 707)**
Changes in the loss allowance					
Transfer to stage 1	(764)	760	4	-	**-**
Transfer to stage 2	22 838	(23 080)	242	-	**-**
Transfer to stage 3	5 929	20 916	(26 845)	-	**-**
Increases due to change in credit risk	(28 088)	(31 851)	(5 204)	-	**(65 143)**
Decreases due to change in credit risk	2 256	13 840	4 288	-	**20 384**
Write-offs	-	-	12 533	-	**12 533**
Changes due to modifications that did not result in derecognition	(11)	-	(565)	-	**(576)**
New financial assets originated/purchased or disbursed during the year	(2 856)	(16 595)	(12 732)	-	**(32 183)**
Financial assets that have been repaid during the year	50	470	1 494	-	**2 014**
Changes in segmentation	1 154	8 494	35 608	-	**45 256**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2022	**(6 411)**	**(72 191)**	**(116 820)**	**-**	**(195 422)**

In thousands of BGN

Loss allowance - Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(7 288)**	**-**	**-**	**-**	**(7 288)**
Changes in the loss allowance					
Increases due to change in credit risk	(203)	-	-	-	**(203)**
Decreases due to change in credit risk	4 243	-	-	-	**4 243**
New financial assets originated/purchased or disbursed during the year	(380)	-	-	-	**(380)**
Financial assets that have been repaid during the year	558	-	-	-	**558**
Loss allowance as at 31.12.2021	**(3 070)**	**-**	**-**	**-**	**(3 070)**

In thousands of BGN

Loss allowance - Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(3 070)**	**-**	**-**	**-**	**(3 070)**
Changes in the loss allowance					
Transfer to stage 2	5 894	(5 894)	-	-	**-**
Increases due to change in credit risk	(6 490)	-	-	-	**(6 490)**
Decreases due to change in credit risk	2 165	-	-	-	**2 165**
New financial assets originated/purchased or disbursed during the year	(16)	-	-	-	**(16)**
Financial assets that have been repaid during the year	102	-	-	-	**102**
Loss allowance as at 31.12.2022	**(1 415)**	**(5 894)**	**-**	**-**	**(7 309)**

In thousands of BGN

Loss allowance - Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(13 684)**	**(5 612)**	**(39 770)**	**-**	**(59 066)**
Changes in the loss allowance					
Transfer to stage 1	(362)	362	-		**-**
Transfer to stage 2	1 770	(1 911)	141		**-**
Transfer to stage 3	9 012	286	(9 298)		**-**
Increases due to change in credit risk	(13 196)	(835)	(3 793)		**(17 824)**
Decreases due to change in credit risk	4 851	2 031	17 918		**24 800**
Changes due to modifications that did not result in derecognition	-	-	-		**-**
New financial assets originated/purchased or disbursed during the year	(8 206)	(2 991)	(10 648)		**(21 845)**
Financial assets that have been repaid during the year	2 596	2 843	9 613		**15 052**
Loss allowance as at 31.12.2021	**(17 219)**	**(5 827)**	**(35 837)**	**-**	**(58 883)**

In thousands of BGN

Loss allowance - Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(17 219)**	**(5 827)**	**(35 837)**	**-**	**(58 883)**
Changes in the loss allowance					
Transfer to stage 1	(419)	417	2		**-**
Transfer to stage 2	15 344	(15 348)	4		**-**
Transfer to stage 3	2 258	1 511	(3 769)		**-**
Increases due to change in credit risk	(21 824)	(3 056)	(2 828)		**(27 708)**
Decreases due to change in credit risk	8 098	3 071	10 096		**21 265**
Changes due to modifications that did not result in derecognition	(335)	(76)	-		**(411)**
New financial assets originated/purchased or disbursed during the year	(13 149)	(5 808)	(13 142)		**(32 099)**
Financial assets that have been repaid during the year	4 357	1 729	9 224		**15 310**
Loss allowance as at 31.12.2022	**(22 889)**	**(23 387)**	**(36 250)**	**-**	**(82 526)**

The tables below analyses the movement of the customers portfolio at amortized cost in terms of quality and respective movements of the gross carrying amounts during 2022 as per IFRS 9 requirements:

In thousands of BGN

	31.12.2022					31.12.2021				
Balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	6 622 086	-	-	-	6 622 086	6 230 875	-	-	-	**6 230 875**
Total gross carrying amount	**6 622 086**	**-**	**-**	**-**	**6 622 086**	**6 230 875**	**-**	**-**	**-**	**6 230 875**
Loss allowance	**(30)**	**-**	**-**	**-**	**(30)**	**(167)**	-	-	-	**(167)**
Carrying amount	**6 622 056**	**-**	**-**	**-**	**6 622 056**	**6 230 708**	**-**	**-**	**-**	**6 230 708**

In thousands of BGN

	31.12.2022					31.12.2021				
Loans and advances to banks at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	1 118 011	-	-	-	1 118 011	579 867	-	-	-	**579 867**
Grades 4-6: Monitoring	66 326	-	-	-	66 326	19 337	-	-	-	**19 337**
Grades 7-8: Substandard	155	-	-	-	155	984	-	-	-	**984**
Total gross carrying amount	**1 184 492**	**-**	**-**	**-**	**1 184 492**	**600 188**	**-**	**-**	**-**	**600 188**
Loss allowance	**(178)**	**-**	**-**	**-**	**(178)**	**(116)**	-	-	-	**(116)**
Carrying amount	**1 184 314**	**-**	**-**	**-**	**1 184 314**	**600 072**	**-**	**-**	**-**	**600 072**

In thousands of BGN

	31.12.2022					31.12.2021				
Debt securities from banks at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	97 821	-	-	-	97 821	98 068	-	-	-	**98 068**
Total gross carrying amount	**97 821**	**-**	**-**	**-**	**97 821**	**98 068**	**-**	**-**	**-**	**98 068**
Loss allowance	**(4)**	**-**	**-**	**-**	**(4)**	**(155)**	-	-	-	**(155)**
Carrying amount	**97 817**	**-**	**-**	**-**	**97 817**	**97 913**	**-**	**-**	**-**	**97 913**

In thousands of BGN

Debt securities from customers at amortized cost	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	2 141 024	-	-	-	2 141 024	1 072 177	-	-	-	**1 072 177**
Grades 4-6: Monitoring	1 432	-	-	-	1 432	2 029	-	-	-	**2 029**
Total gross carrying amount	**2 142 456**	**-**	**-**	**-**	**2 142 456**	**1 074 206**	**-**	**-**	**-**	**1 074 206**
Loss allowance	(294)	-	-	-	(294)	(956)	-	-	-	**(956)**
Carrying amount	**2 142 162**	**-**	**-**	**-**	**2 142 162**	**1 073 250**	**-**	**-**	**-**	**1 073 250**

In thousands of BGN

Loans and advances to customers at amortized cost	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	4 130 720	323 657	-	-	4 454 377	2 259 637	119 807	-	-	**2 379 444**
Grades 4-6: Monitoring	8 541 816	1 501 058	-	-	10 042 874	8 357 557	1 141 645	-	-	**9 499 202**
Grades 7-8: Substandard	168 418	653 442	-	-	821 860	83 719	631 239	-	-	**714 958**
Grade 9: Doubtful	-	-	383 863	-	383 863	-	-	364 203	-	**364 203**
Grade 10: Impaired	-	-	182 765	-	182 765	-	-	201 393	265	**201 658**
Total gross carrying amount	**12 840 954**	**2 478 157**	**566 628**	**-**	**15 885 739**	**10 700 913**	**1 892 691**	**565 596**	**265**	**13 159 465**
Loss allowance	**(64 850)**	**(231 371)**	**(465 599)**	**-**	**(761 820)**	**(79 571)**	**(190 758)**	**(444 740)**	**(265)**	**(715 334)**
Carrying amount	**12 776 104**	**2 246 786**	**101 029**	**-**	**15 123 919**	**10 621 342**	**1 701 933**	**120 856**	**-**	**12 444 131**

In thousands of BGN

Loans and advances to corporate customers at amortized cost	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	3 226 013	27 991	-	-	3 254 004	1 414 505	14 206	-	-	**1 428 711**
Grades 4-6: Monitoring	6 651 421	777 520	-	-	7 428 941	6 613 786	548 581	-	-	**7 162 367**
Grades 7-8: Substandard	123 902	358 150	-	-	482 052	23 921	322 233	-	-	**346 154**
Grade 9: Doubtful	-	-	319 968	-	319 968	-	-	320 658	-	**320 658**
Grade 10: Impaired	-	-	98 317	-	98 317	-	-	94 908	265	**95 173**
Total gross carrying amount	**10 001 336**	**1 163 661**	**418 285**	**-**	**11 583 282**	**8 052 212**	**885 020**	**415 566**	**265**	**9 353 063**
Loss allowance	**(58 439)**	**(159 180)**	**(348 779)**	**-**	**(566 398)**	**(72 652)**	**(145 613)**	**(319 097)**	**(265)**	**(537 627)**
Carrying amount	**9 942 897**	**1 004 481**	**69 506**	**-**	**11 016 884**	**7 979 560**	**739 407**	**96 469**	**-**	**8 815 436**

In thousands of BGN

Loans and advances to retail customers at amortized cost	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	904 707	295 666	-	-	1 200 373	845 132	105 601	-	-	**950 733**
Grades 4-6: Monitoring	1 890 395	723 538	-	-	2 613 933	1 743 771	593 064	-	-	**2 336 835**
Grades 7-8: Substandard	44 516	295 292	-	-	339 808	59 798	309 006	-	-	**368 804**
Grade 9: Doubtful	-	-	63 895	-	63 895	-	-	43 545	-	**43 545**
Grade 10: Impaired	-	-	84 448	-	84 448	-	-	106 485	-	**106 485**
Total gross carrying amount	**2 839 618**	**1 314 496**	**148 343**	**-**	**4 302 457**	**2 648 701**	**1 007 671**	**150 030**	**-**	**3 806 402**
Loss allowance	**(6 411)**	**(72 191)**	**(116 820)**	**-**	**(195 422)**	**(6 919)**	**(45 145)**	**(125 643)**	**-**	**(177 707)**
Carrying amount	**2 833 207**	**1 242 305**	**31 523**	**-**	**4 107 035**	**2 641 782**	**962 526**	**24 387**	**-**	**3 628 695**

In thousands of BGN

Debt investment securities at FVTOCI	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	2 329 163	-	-	-	2 329 163	3 259 286	-	-	-	**3 259 286**
Grades 4-6: Monitoring	174 283	9 145	-	-	183 428	190 859	-	-	-	**190 859**
Total gross carrying amount	**2 503 446**	**9 145**	**-**	**-**	**2 512 591**	**3 450 145**	**-**	**-**	**-**	**3 450 145**
Loss allowance	**(1 415)**	**(5 894)**	**-**	**-**	**(7 309)**	**(3 070)**	**-**	**-**	**-**	**(3 070)**
Carrying amount	**2 502 031**	**3 251**	**-**	**-**	**2 505 282**	**3 447 075**	**-**	**-**	**-**	**3 447 075**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	2 591 010	198 943	-	-	2 789 953	3 268 466	42 956	-	-	**3 311 422**
Grades 4-6: Monitoring	4 487 128	500 497	-	-	4 987 625	3 626 893	323 423	-	-	**3 950 316**
Grades 7-8: Substandard	119 741	614 890	-	-	734 631	45 854	59 917	-	-	**105 771**
Grade 9: Doubtful	-	-	35 490	-	35 490	-	-	37 660	-	**37 660**
Grade 10: Impaired	-	-	8 020	-	8 020	-	-	21 148	-	**21 148**
Total nominal amount	**7 197 879**	**1 314 330**	**43 510**	**-**	**8 555 719**	**6 941 213**	**426 296**	**58 808**	**-**	**7 426 317**
Loss allowance	**(22 889)**	**(23 387)**	**(36 250)**	**-**	**(82 526)**	**(17 219)**	**(5 826)**	**(35 838)**	**-**	**(58 883)**
Carrying amount	**7 174 990**	**1 290 943**	**7 260**	**-**	**8 473 193**	**6 923 994**	**420 470**	**22 970**	**-**	**7 367 434**

In thousands of BGN

Loans and advances to banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**1 328 897**	**-**	**-**	**-**	**1 328 897**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	423 601	-	-	-	**423 601**
Financial assets that have been repaid during the year	(1 152 310)	-	-	-	**(1 152 310)**
Gross carrying amount as at 31.12.2021	**600 188**	**-**	**-**	**-**	**600 188**

In thousands of BGN

Loans and advances to banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**600 188**	**-**	**-**	**-**	**600 188**
Changes in the gross carrying amount					
Changes due to modifications that did not result in derecognition	2 808	-	-	-	**2 808**
New financial assets originated/purchased or disbursed during the year	1 086 472	-	-	-	**1 086 472**
Financial assets that have been repaid during the year	(504 976)	-	-	-	**(504 976)**
Gross carrying amount as at 31.12.2022	**1 184 492**	**-**	**-**	**-**	**1 184 492**

In thousands of BGN

Debt securities from banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**98 315**	**-**	**-**	**-**	**98 315**
Changes in the gross carrying amount					
Financial assets that have been repaid during the year	(247)	-	-	-	**(247)**
Gross carrying amount as at 31.12.2021	**98 068**	**-**	**-**	**-**	**98 068**

In thousands of BGN

Debt securities from banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**98 068**	**-**	**-**	**-**	**98 068**
Changes in the gross carrying amount					
Financial assets that have been repaid during the year	(247)	-	-	-	**(247)**
Gross carrying amount as at 31.12.2022	**97 821**	**-**	**-**	**-**	**97 821**

In thousands of BGN

Debt securities from customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**84 454**	**-**	**-**	**-**	**84 454**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	991 986	-	-	-	**991 986**
Financial assets that have been repaid during the year	(2 234)	-	-	-	**(2 234)**
Gross carrying amount as at 31.12.2021	**1 074 206**	**-**	**-**	**-**	**1 074 206**

In thousands of BGN

Debt securities from customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**1 074 206**	**-**	**-**	**-**	**1 074 206**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	1 069 106	-	-	-	**1 069 106**
Financial assets that have been repaid during the year	(856)	-	-	-	**(856)**
Gross carrying amount as at 31.12.2022	**2 142 456**	**-**	**-**	**-**	**2 142 456**

In thousands of BGN

Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**10 300 757**	**1 419 619**	**747 210**	**737**	**12 468 323**
Changes in the gross carrying amount					
Transfer to stage 1	418 693	(414 352)	(4 341)	-	**-**
Transfer to stage 2	(825 952)	854 835	(28 883)	-	**-**
Transfer to stage 3	(21 636)	(37 563)	59 199	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	3 937 371	367 771	45 845	-	**4 350 987**
Financial assets that have been repaid during the year	(3 108 320)	(297 619)	(150 390)	(472)	**(3 556 801)**
Write-offs	-	-	(103 044)	-	**(103 044)**
Gross carrying amount as at 31.12.2021	**10 700 913**	**1 892 691**	**565 596**	**265**	**13 159 465**

In thousands of BGN

Loans and advances to corporate customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**7 633 428**	**871 204**	**571 233**	**737**	**9 076 602**
Changes in the gross carrying amount					
Transfer to stage 1	275 758	(272 792)	(2 966)	-	**-**
Transfer to stage 2	(306 940)	319 977	(13 037)	-	**-**
Transfer to stage 3	(11 134)	(7 080)	18 214	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	3 046 780	160 316	36 782	-	**3 243 878**
Financial assets that have been repaid during the year	(2 587 854)	(187 336)	(110 078)	(472)	**(2 885 740)**
Write-offs	-	-	(84 582)	-	**(84 582)**
Other changes	2 174	731	-	-	**2 905**
Gross carrying amount as at 31.12.2021	**8 052 212**	**885 020**	**415 566**	**265**	**9 353 063**

In thousands of BGN

Loans and advances to retail customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**2 667 329**	**548 415**	**175 977**	**-**	**3 391 721**
Changes in the gross carrying amount					
Transfer to stage 1	142 935	(141 560)	(1 375)	-	**-**
Transfer to stage 2	(519 012)	534 858	(15 846)	-	**-**
Transfer to stage 3	(10 502)	(30 483)	40 985	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	890 591	207 455	9 063	-	**1 107 109**
Financial assets that have been repaid during the year	(520 466)	(110 283)	(40 312)	-	**(671 061)**
Write-offs	-	-	(18 462)	-	**(18 462)**
Other changes	(2 174)	(731)	-	-	**(2 905)**
Gross carrying amount as at 31.12.2021	**2 648 701**	**1 007 671**	**150 030**	**-**	**3 806 402**

In thousands of BGN

Loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**10 700 913**	**1 892 691**	**565 596**	**265**	**13 159 465**
Changes in the gross carrying amount					
Transfer to stage 1	551 185	(545 780)	(5 405)	-	**-**
Transfer to stage 2	(1 046 642)	1 062 289	(15 647)	-	**-**
Transfer to stage 3	(14 649)	(111 837)	126 486	-	**-**
Changes due to modifications that did not result in derecognition	233 788	32 697	7 282	-	**273 767**
New financial assets originated/purchased or disbursed during the year	5 476 410	620 800	66 961	-	**6 164 171**
Financial assets that have been repaid during the year	(3 060 051)	(472 703)	(142 503)	(265)	**(3 675 522)**
Write-offs	-	-	(36 142)	-	**(36 142)**
Gross carrying amount as at 31.12.2022	**12 840 954**	**2 478 157**	**566 628**	**-**	**15 885 739**

In thousands of BGN

Loans and advances to corporate customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**8 052 212**	**885 020**	**415 566**	**265**	**9 353 063**
Changes in the gross carrying amount					
Transfer to stage 1	323 569	(319 027)	(4 542)	-	**-**
Transfer to stage 2	(554 394)	567 131	(12 737)	-	**-**
Transfer to stage 3	(5 109)	(78 116)	83 225	-	**-**
Changes due to modifications that did not result in derecognition	231 404	32 309	6 710	-	**270 423**
New financial assets originated/purchased or disbursed during the year	4 470 487	275 553	49 713	-	**4 795 753**
Financial assets that have been repaid during the year	(2 572 482)	(246 063)	(97 337)	(265)	**(2 916 147)**
Write-offs	-	-	(23 609)	-	**(23 609)**
Other changes	55 649	46 854	1 296	-	**103 799**
Gross carrying amount as at 31.12.2022	**10 001 336**	**1 163 661**	**418 285**	**-**	**11 583 282**

In thousands of BGN

Loans and advances to retail customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**2 648 701**	**1 007 671**	**150 030**	**-**	**3 806 402**
Changes in the gross carrying amount					
Transfer to stage 1	227 616	(226 753)	(863)	-	**-**
Transfer to stage 2	(492 248)	495 158	(2 910)	-	**-**
Transfer to stage 3	(9 540)	(33 721)	43 261	-	**-**
Changes due to modifications that did not result in derecognition	2 384	388	572	-	**3 344**
New financial assets originated/purchased or disbursed during the year	1 005 923	345 247	17 248	-	**1 368 418**
Financial assets that have been repaid during the year	(487 569)	(226 640)	(45 166)	-	**(759 375)**
Write-offs	-	-	(12 533)	-	**(12 533)**
Other changes	(55 649)	(46 854)	(1 296)	-	**(103 799)**
Gross carrying amount as at 31.12.2022	**2 839 618**	**1 314 496**	**148 343**	**-**	**4 302 457**

In thousands of BGN

Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	3 657 036	-	-	-	**3 657 036**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	737 595	-	-	-	**737 595**
Financial assets that have been repaid during the year	(944 486)	-	-	-	**(944 486)**
Gross carrying amount as at 31.12.2021	**3 450 145**	**-**	**-**	**-**	**3 450 145**

In thousands of BGN

Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**3 450 145**	**-**	**-**	**-**	**3 450 145**
Changes in the gross carrying amount	**-**	**-**	**-**	**-**	**-**
Transfer to stage 2	(9 145)	9 145	-	-	**-**
New financial assets originated/purchased or disbursed during the year	139 131	-	-	-	**139 131**
Financial assets that have been repaid during the year	(1 076 685)	-	-	-	**(1 076 685)**
Gross carrying amount as at 31.12.2022	**2 503 446**	**9 145**	**-**	**-**	**2 512 591**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**6 411 883**	**289 374**	**86 919**	**-**	**6 788 176**
Changes in the gross carrying amount	**-**	**-**	**-**	**-**	**-**
Transfer to stage 1	86 992	(86 821)	(171)	-	**-**
Transfer to stage 2	(216 806)	218 337	(1 531)	-	**-**
Transfer to stage 3	(9 905)	(309)	10 214	-	**-**
New financial assets originated/purchased or disbursed during the year	3 541 597	183 967	33 209	-	**3 758 773**
Financial assets that have been repaid during the year	(2 872 548)	(178 252)	(69 832)	-	**(3 120 632)**
Gross carrying amount as at 31.12.2021	**6 941 213**	**426 296**	**58 808**	**-**	**7 426 317**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**6 941 213**	**426 296**	**58 808**	**-**	**7 426 317**
Changes in the gross carrying amount	**-**	**-**	**-**	**-**	**-**
Transfer to stage 1	239 036	(238 958)	(78)	-	**-**
Transfer to stage 2	(766 767)	768 474	(1 707)	-	**-**
Transfer to stage 3	(3 045)	(1 517)	4 562	-	**-**
Changes due to modifications that did not result in derecognition	211 706	24 736	4 653	-	**241 095**
New financial assets originated/purchased or disbursed during the year	3 786 250	505 478	21 400	-	**4 313 128**
Financial assets that have been repaid during the year	(3 210 514)	(170 179)	(44 129)	-	**(3 424 822)**
Gross carrying amount as at 31.12.2022	**7 197 879**	**1 314 330**	**43 509**	**-**	**8 555 718**

Pursuant to prescriptions provided on IFRS 9 principle as well as EBA Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), a Low Credit Risk Exemption (LCRE) is applied to financial instruments (including Loans) presenting a "low level of risk" at reporting date where the "low risk" is set out relying primarily on internal credit risk measures, keeping in the same time a reconciliation with Investment (IG) and Non-Investment Grade (NIG) classification. Therefore, according to the rationale described in the Group IFRS 9 Model Concept, an internal estimated PD threshold has been set equal to 0.3%. Therefore, all financial instruments belonging to client having a 1-year IFRS PD at reporting date lower than 0,3% would be then subject to LCRE and kept under Stage 1.

In thousands of BGN

	31.12.2022	31.12.2021
Central banks	6 622 086	6 230 875
General governments	313 732	315 883
Credit institutions	1 118 011	579 854
Other financial corporations	70	19 103
Non-financial corporations	139 044	598 356
Households	2 935	672 651
Total loans and advances at amortized cost	**8 195 878**	**8 416 722**

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

In thousands of BGN

	Loans and advances to customers	
	31.12.2022	**31.12.2021**
Defaulted exposures		
Cash collateral	5 032	4 364
Property	827 327	856 382
Debt securities	432	463
Other collateral	577 187	619 390
Performing exposures		
Cash collateral	115 093	117 872
Property	13 873 066	12 003 684
Debt securities	16 468	13 310
Other collateral	8 972 310	7 842 670
Total	24 386 915	21 458 135

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

Residential mortgage lending - LTV ratio	31.12.2022	31.12.2021
Less than 50 %	197 515	163 792
51-70%	636 826	515 818
71-90%	2 198 693	1 863 805
91-100%	187 551	134 322
More than 100%	92 938	96 310
Total loans and advances at amortized cost	**3 313 523**	**2 774 047**
Credit impaired - LTV ratio	31.12.2022	31.12.2021
Less than 50 %	5 031	5 813
51-70%	19 377	17 721
More than 70%	50 654	39 031
Total loans and advances at amortized cost	**75 062**	**62 565**

In thousands of BGN

Carrying amount and collateral value held against loans to corporate customers measured at amortised cost	31.12.2022		31.12.2021	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Financial pledge	308 271	100 312	360 660	93 818
Guarantees received	2 349 101	1 773 489	640 709	392 580
Real Estate	3 901 934	2 465 910	4 206 201	2 431 687
Insurance	100 288	92 405	15 508	4 827

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, 2022 and December 31, 2021:

In thousands of BGN

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Concentration by sectors						
Sovereign	2 496 637	1 425 221	-	-	2 391 053	3 305 109
Manufacturing	2 694 948	2 260 524	-	-	40 743	47 430
Commerce	2 684 298	1 909 119	-	-	-	-
Construction and real estate	1 653 985	1 389 386	-	-	67	67
Agriculture and forestry	492 013	408 231	-	-	-	-
Transport and communication	686 410	636 308	-	-	313	107
Tourism	288 239	273 674	-	-	-	-
Services	352 816	221 886	-	-	655	655
Financial services	3 167 175	2 712 349	1 282 304	698 256	153 905	177 473
Retail (individuals)						
Housing loans	3 300 749	2 760 459	-	-	-	-
Consumer loans	161 110	174 752	-	-	-	-
Other	53 197	65 020	-	-	-	-
	18 031 577	**14 236 929**	**1 282 304**	**698 256**	**2 586 736**	**3 530 841**
Impairment allowances	(763 752)	(717 478)	(173)	(271)	-	-
Total	**17 267 825**	**13 519 451**	**1 282 131**	**697 985**	**2 586 736**	**3 530 841**
Concentration by geographic location						
Europe	17 933 354	14 207 760	1 170 729	670 760	2 570 832	3 515 292
North America	32 699	17 329	25 432	9 902	15 904	15 549
Asia	65 410	11 727	40 202	17 060	-	-
Africa	1	1	45 761	241	-	-
South America	7	11	-	-	-	-
Australia	106	101	180	293	-	-
	18 031 577	**14 236 929**	**1 282 304**	**698 256**	**2 586 736**	**3 530 841**
Impairment allowances and accumulated negative changes in fair value due to credit risk on non-performing exposures	(763 752)	(717 478)	(173)	(271)	-	-
Total	**17 267 825**	**13 519 451**	**1 282 131**	**697 985**	**2 586 736**	**3 530 841**

(iii) Significant increase in credit risk

A new IFRS PD and Transfer Logic model was developed and integrated in 2022:

- The Quantitative threshold (under Approach 3 which incorporates Forward Lifetime PD) for staging is used in the new model (as before) and has been updated with most recent data. The percentage in Stage 2 for Corporate is 10%, Small Business is 12.5% and Private Individuals is 10%.
- All other triggers for Qualitative stating (Watch list, Forbearance and more than 30 days delinquency in payments) remain unchanged.

(e) Basel III disclosures

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.

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 remain 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 (STA). 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% and from 2018 capital buffer for other systemic important institution with levels for 2022 and 2021 of 1% (or combined buffers additional capital requirement of 7.5% for 2022 and 7% for 2021). In addition to those starting from 2019 also Countercyclical capital buffer has been introduced with levels as of 2022 and 2021 1% and 0.5% respectively. 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, 2022 are 12%, 13.5%, 15.5% (as of December 31, 2021 - 11.5%, 13%, 15%), 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).

The development of the own funds and capital requirements as of December 31, 2022 and December 31, 2021 are as follows:

In thousands of BGN

	31.12.2022	31.12.2021
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 796 522	3 015 956
Tier 1 capital	2 796 522	3 015 956
Tier 2 capital	48 091	45 097
Total regulatory own funds	**2 844 613**	**3 061 053**
Risk Weighted Assets (RWA)		
RWA for credit risk	11 344 889	10 233 640
RWA for market risk	8 376	91 651
RWA for operational risk	829 113	822 450
RWA for credit valuation adjustments	33 600	3 788
Total Risk Weighted Assets (RWA)	**12 215 978**	**11 151 529**
CET 1 ratio	**22.89%**	**27.05%**
Tier 1 ratio	**22.89%**	**27.05%**
Total capital adequacy ratio	**23.29%**	**27.45%**
Minimum CET 1 capital requirements (4.5%)	**549 719**	**501 819**
Minimum Tier 1 capital requirements (6%)	**732 959**	**669 092**
Minimum total capital requirements (8%)	**977 278**	**892 122**
Additional capital requirements for conservation buffer (2.5%)	305 399	278 788
Additional capital requirements for systemic risk buffer (3%)	335 876	311 574
Additional capital requirements for other systemic important institution (1%)	122 160	111 515
Additional capital requirements for countercyclical capital buffer (2022-1%, 2021-0.5%)	117 273	54 642
Combined buffers additional capital requirements (2022-7.50%, 2021-7%)	**880 708**	**756 519**
Adjusted minimum CET 1 capital requirements after buffers (12% - 2022, 11.50% - 2021)	1 430 427	1 258 338
Adjusted minimum Tier 1 capital requirements, including buffers (13.50% - 2022; 13% - 2021)	1 613 667	1 425 611
Adjusted minimum total capital requirements after buffers (15.50% - 2022; 15% - 2021)	1 857 986	1 648 642
Free equity, after buffers	**986 627**	**1 412 411**

(f) Securitizasions

i. Synthetic Securitisation deal - Silver

Overview - Recognition of significant credit risk transfer pursuant to Article 245 of Regulation (EU) No 575/2013, as amended starting from 1st January 2019 by the Regulation (EU) 2017/2401

UniCredit Bulbank AD (the "Bank" or the "Originator") implemented a synthetic securitisation program to improve its capital optimization strategy and benefit in terms of new lending capabilities by structuring a synthetic securitization ("Project Silver" or the "transaction") to achieve significant risk transfer with respect to a portfolio of SME and corporate exposures originated by the Bank in its usual course of business. The risk transfer under the synthetic securitisation was achieved using a credit risk mitigation instrument, the securitised exposures remained exposures of the Originator.

On June 29th, 2022 the "Financial Guarantee" between the Bank and the European Investment Fund ("EIF") was signed whereas the Effective Date was November 30th, 2022. The Financial Guarantee was executed under the Pan-European Guarantee Fund ("EGF") scheme. Under this scheme, the EGF provides guarantees to free up capital for national promotional banks, local banks and other financial intermediaries in order to make more financing available for small and medium companies, mid-caps and corporates in participating countries within the European Union.

The Financial Guarantee between the Bank and the EIF has been entered into on 29th June 2022 and sets out the terms and conditions of junior-tranche credit protection to be provided by EIF. EIF has carried out its due diligence on the Bank and an Initial Reference Obligation Portfolio. The Financial Guarantee became effective on 30th November 2022 after an Updated Reference Obligation Portfolio was confirmed and accepted by the EIF. For the avoidance of doubt, no guarantee fee has been paid and no release of regulatory capital has been recognised until the Financial Guarantee became effective. The structure of the transaction encompasses a senior and a junior tranche, the latter being fully covered by an unfunded Financial Guarantee provided by the EIF (being a 0% risk-weighted entity, no cash or collateral is required under the Financial Guarantee).

The transaction provides first-loss protection over the securitized portfolio and is designed to achieve Significant Risk Transfer (SRT) as per EU Regulation 2401/2017 and to be compliant with relevant prescriptions of EU Regulation 2402/2017 as amended from time to time (together, the "Securitisations Regulation").

The transaction achieved designation as a simple, transparent and standardized securitization within the meaning of article 18 of Regulation (EU) 2402/2017.

The transaction represents a bespoke private securitisation where no prospectus had to be drawn up in compliance with Regulation (EU) 2017/1129 and no information had to be made available via a securitisation repository according to Regulation (EU) 2017/2402.

Role	Party
Originator	UniCredit Bulbank AD
Junior Tranche Guarantor	European Investment Fund
Originator Legal Counsel	Clifford Chance LLP & Wolf Theiss Attorney Company
Guarantor Legal Counsel	Linklaters LLP
STS Verification Agent	Prime Collateralised Securities (PCS) EU SAS
Credit Event Verification Agent	Deloitte Audit OOD

Portfolio characteristics

The assets pooled in the securitization exclusively consist of performing secured and unsecured loans originated by, owned by and carried as an asset of the Bank, being all such loans granted to SME and Corporate customers located in Bulgaria and denominated in EUR and BGN.

For Regulatory purposes, all loans are classified as Advanced-IRB / RWA method internal rating models.

In accordance with the Financial Guarantee, the underlying portfolio includes in whole or in part also loans arising under revolving credit and/or overdraft facilities whereby the reference obligation notional amount refers to the sum of (a) the maximum undrawn commitment granted by the originator under such facilities and (b) all drawn amounts under such facilities.

For the purposes of the Regulatory Requirements, the Bank is the Originator of the Reference Portfolio. As such, the Bank will retain, on an unhedged and unguaranteed basis, an exposure to each loan in the Reference Portfolio which will be at all times at least 5% of the notional amount of the Initial portfolio and which will not benefit from any of the Guarantee (the "Retained Exposure Amount") in compliance with Art. 6(3)(a) of Regulation (EU) 2017/2402.

The main characteristics of the Updated Reference Obligation Portfolio with reference to 31st December

2022 are the following:

- Outstanding securitized amount (Reference Portfolio Notional Amount) BGN 1 866 812 962;
- RWA without securitization: BGN 1 158 888 175 (62.08% of the securitized portfolio);
- Expected Loss without securitization: BGN 9 890 576 (0.53% of the securitized portfolio);
- RWA after application of securitization framework: BGN 169 879 979 (9.1% of the securitized portfolio);
- Expected Loss after application of securitization framework: BGN 0;
- Weighted average PD of 1.21%;
- Weighted average LGD of 49.68%.

In order to select the portfolio, the following main eligibility criteria were applied:

- the Reference Obligation has been originated in accordance with the Credit and Collection Policies applicable from time to time to the Beneficiary;
- the relevant Reference Entity is resident and has its registered office in an Eligible Country (Bulgaria);
- the relevant Reference Entity has a maximum probability of default rating class of 6 and above attributed to it in accordance with the Beneficiary's internal credit classification system (or the equivalent rating from time to time;
- the Reference Obligation is not classified "in arrears";
- the Beneficiary or any of its Affiliates has had an ongoing business relationship with the relevant Reference Entity for at least one (1) year;
- the Reference Obligation has a final maturity date falling no later than the earlier of (i) one (1) year prior to the Scheduled Maturity Date and (ii) in case of an Excluded Reference Obligation Substitution, five (5) years after the Reference Obligation has been included in the Reference Portfolio;
- no Credit Event, or event which would, with the passing of time or giving of notice, be a Credit Event, has occurred in respect of the Reference Obligation;
- the Reference Obligation is classified as "Stage 1" in the Beneficiary's accounting system (i.e. no significant increase in credit risk with respect to the Reference Obligation has been determined by the Beneficiary applying its standard applicable accounting procedures in accordance with IFRS 9.5.5.9);
- SME and Corporate Loans;
- performing loans only;
- the Reference Obligation is not a transferable security;
- the Reference Obligation has been originated as part of core business activity;
- the Beneficiary applies the internal ratings based (IRB) approach to determine the applicable regulatory capital requirements in respect of the relevant Reference Obligation;
- the relevant Reference Obligation is classified as an "INVESTMENT", an "OVERDRAFT", a "REVOLVING" or a "WORKING CAPITAL" under the Beneficiary's internal classification system;
- loans denominated in BGN or EUR only.

Transaction structure

The Financial guarantee has following structure with Pro-Rata Amortisation with relevant switches to Sequential Amortisation. The triggers for switches to Sequential Amortisation were set by the Guarantor in a Confirmation Letter dd. 30th November 2022. The switch is expected to happen after 12 months at the latest.

As of 31.12.2022

Tranche	BGN Nominal Amount	Thickness	Attach	Detach	Guaranteed	Retained %	Amortisation Typology
Senior	1 698 799 795	91.00%	9%	100%	0%	100%	Pro-Rata +
Junior (Commitment)	168 013 167	9.00%	0%	9%	100%	0%	Sequential

The Guarantee Fee will be paid by the Bank to the Investor on a quarterly basis, according to a regular schedule, in an amount equal to the product of the Fee Rate, the available Commitment (i.e., the outstanding amount of the Guarantee/Junior Tranche nominal amount) and the number of days in the relevant accrual period. The transaction does not envisage the payment of non-contingent or upfront premia or the usage of synthetic excess spread.

The transaction encompasses, inter alia, the following customary call options in favour of the Originator:

- the Clean-Up Call meets the requirements of Art. 245(4)(f) of the Regulation (EU) 2017/2401;
- the "Time Call" can be exercised just after a period of time (measured from the Closing Date) equal to the initial portfolio weighted average life without considering any prepayment rate or default rate ("Early Termination Threshold Date");
- Regulatory Change, being a change of law or regulation which leads to a less favourable regulatory capital treatment for the Originator;
- Significant Risk Transfer Failure;
- Tax Event.

The Credit Events that qualify a loan as a defaulted exposure and hence trigger a payment under the Financial Guarantee are the following (in accordance with the Financial Guarantee):

- Failure to Pay >= 90 days past due;
- Bankruptcy of the reference obligor;
- Restructuring;
- Default.

Currency Structure

In accordance with Art. 29, par. 2 of the Law on the Bulgarian National Bank, the BGN operates under a fixed exchange rate of 1.95583 levs per euro (the "Fixed Exchange Rate"). This has been the same fixed rate since the adoption of the EUR by the Federal Republic of Germany in 2000. Given the Fixed Exchange Rate, no currency hedging between BGN and EUR is required in the transaction.

A change in the Fixed Exchange Rate would require a change of law and an amendment to the Law on the Bulgarian National Bank. Should this happen, the Originator will be able to rely on the regulatory change/ change of law wording in the Financial Guarantee and have a right to call the transaction. Given the longstanding and stable nature of the Fixed Exchange Rate, such change of law is not expected.

Recognition of SRT (Significant Risk Transfer)

The transaction achieved Significant Risk Transfer starting from November 2022, by complying with Article 245(2)(b) of Regulation (EU) 2017/2401, since the transaction was structured to transfer the whole Junior tranche to third parties and complying with risk retention requirements set forth in Article 6 of Regulation (EU) 2017/2402 through the retention of not less than 5% of the nominal value of each securitized exposure. The regulatory treatment applied to the transaction is that for STS transactions envisaged by the article 260 of the Regulation (EU) 2017/2401.

ii. Other securitization deals

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, 2022 is presented in the table below:

NAME	EIF JEREMIE
Type of securitization:	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, 2022	Performing loans
Agreed maximum portfolio volume:	EUR 85,000 thousand
Nominal Value of reference portfolio:	BGN 1 359 thousand
Issued guarantees by third parties:	First loss cash coverage by EIF
Amount and Condition of tranching:	
Reference Position Junior Tranche as of December 31, 2022	BGN 538 thousand

(g) Climate-related and environmental risks (ESG)

The climate-related and environmental risks and the accompanying shift towards sustainable finance are mounting challenges to the financial sector. In the context of an evolving regulatory framework that since 2020 have been putting even stronger emphasis on the climate risk topic, the Bank, in line with the Group's strategy, continued to proactively address these challenges by means of increased commitment to sustainability and tangible initiatives aimed at improving the management of risks to anticipate the possible increases in the riskiness of specific sectors and to analyze the impact on the overall Bank's business and risk profile.

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards.

UniCredit defines the Climate related and environmental risks as the sources of structural changes that might affect the economic activities and led by the following risk drivers:

- Transition risk refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower carbon and more environmentally sustainable economy;
- Physical risk refers to the financial impact of extreme weather events and gradual changes in climate, as well as of environmental degradation (e.g. water and land pollution, water stress, biodiversity loss and deforestation). Physical risk can directly result in damage to property or reduced productivity.

We proceed with the integration of Climate & Environmental risks within Risk Management framework through several concrete actions and in line with the defined Group Roadmap, as part of the "Risk and Credit" stream of the implemented in 2021 UniCredit Bulbank's ESG Governance Framework. In 2022 we continued working on achieving the three main objectives:

- meeting regulatory expectations on banks business strategy and risk management processes;
- mitigating climate-related and environmental risks;
- identifying potential opportunities for financing the climate and environmental transition.

We carefully manage Transition Risk, ensuring proper origination, monitoring and management of the portfolios, following holistic approach including:

- Portfolio steering through Risk Appetite Framework, Credit strategies cascading and sector policies issuing;
- Portfolio analysis and monitoring;
- Single counterparty risk assessment (starting from Large Corporate).

Regarding Physical Risk, we are focused on the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Preliminary assessment of the collaterals portfolio has been performed by Collateral Management Unit on physical risk caused by sea-level rise and by flooding in line with the Group's methodology on the matter.

We continue to streamline data gathering and analytics, in order to further identify sources of climate related risks. Initiative has been launched for storage of the information for collaterals' Energy efficiency - new requirement for providing of issued Energy efficiency certificate of real estate properties proposed for collaterals has been implemented in 2022 with the respective proper flagging in the internal core banking system of the Energy class of the real estate properties. While this will be applied for all new business flows, the Bank explores possibilities for collaboration with third-party vendors on the assessment of the stock.

In line with the entered into force EBA Guidelines for Loan Origination and Monitoring, the Bank uses ESG information in its underwriting process. We have adopted Groupwide questionnaire for climate risk assessment and diligently apply it for transactions with economic groups above predefined exposure threshold. The Climate & Environmental (C&E) Risk Assessment.

Questionnaire aims to determine the customers' position on the transition pathway. The approach comprises:

- filling in of the above-mentioned questionnaire addressing both high and low emissive customers in line with regulatory expectations;

- generation of a Climate & Environmental (C&E) Risk Scorecard summarizing the main KPIs and identifying the counterparty's positioning in one of the four risk areas (low, medium-low, medium-high, high) of the Transition Assessment matrix;
- the inclusion of the environmental scoring in the credit valuation process.

C&E assessment methodology is based on 3 key dimensions:

- the climate and environmental exposure considers the actual level of Green House Gas (GHG) emissions of corporate customers as well as other environmental metrics such as water and energy consumption, waste production and recycling;
- the climate and environmental vulnerability evaluates the climate change management maturity level of corporate customers, considering the company's plan to shift to a lower emission level business model, the transition investment plan, the GHG emissions reduction target as well as products and services associated with positive climate impact. This dimension considers cross-industry emission targets and ESG ratings together with management and industry specific environmental strategy;
- the economic impact on corporate customers' financial and industrial performance takes into account the effects on stranded assets, the decrease in market shares or revenues due to market shift, the increase in investment costs, constraints in accessing financing and indirect effects related to their supply chain or partner industries.

The bank intends to further enhance the heatmap approach to better understand the impact across sectors as well as to cover the positions below the defined thresholds.

UniCredit Bulbank has approved, implemented and follows several Group policies regarding sensitive sector that may have significant implication on the environment and the society. Strict monitoring and evaluation is being performed on counterparties and deals within the Coal Sector, Defense / Weapons Industry, Mining Industry, Water Infrastructure/Dams, Nuclear energy, Non-Conventional Oil & Gas and Arctic region Oil & Gas industry sector. The analysis is performed in line with all ESG criteria, requirements, standards and best practices, and ensures that all such standards and local and international regulations are met.

In 2021 UniCredit joined the Net-Zero Banking Alliance (NZBA). In line with the Group commitment to a climate-positive future, UniCredit Bulbank has put the foundations of its Carbon Footprint Reduction Program also in 2022.

In 2023 the Bank will continue to develop the activities in these areas in line with the Group approach and all applicable regulations, standards and best practices. The Bank aims to further progress with its efforts regarding climate-related risks and opportunities by refining the methodologies, working towards standard setting and expanding the scope. For instance, it's intended to expand the scope of our physical risk assessment for real estate and investigate the impact of transition risk on various sectors, as well as to include such assessments in the stress test scenarios for the Bank.

5. Non-financial risk management

UniCredit Bulbank AD is exposed to the following Non-financial risks - Operational and Reputational risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes strategic and reputational risk. Examples of operational risk events include internal or external frauds, employment practices and workplace issues / incidents, client claims, products distribution, fines and penalties due to regulation breaches, damage to company's physical assets, business disruption and IT systems failures, cyber-attacks, execution, delivery and process management. Such events are subject to consolidated risk monitoring, 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 represents a combined set of policies and procedures for controlling, measuring and mitigating the operational risk exposure, which includes the guidelines of UniCredit Group and local documents. The Non-Financial Risk (NFR) function is the Bank's structure dedicated to operational risk management, which is independent from business and risk taking functions. The responsibilities of the NFR are consisting of ensuring adequate Operational Risk Management Governance in line with the set and applied by UniCredit Group and in compliance with external regulation and with international practices.

Appointed 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.

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 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 sensitive economic sectors and transactions, such as Coal, Defense, Nuclear energy, Water Infrastructure, Oil and Gas and Mining.

The main activities of the NFR in 2022 were focused in managing the operational and reputational risks, as well as assessment and mitigation of risks in the bank processes and activities, participation in dedicated bank projects and initiatives.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; ICT Project Risk Assessment; Operational Risk Oversight and Second level controls on Third Party Risk ; Risk and Controls Self-Assessment ; Operational and Reputational Risk Strategies Definition and Monitoring; Operational Risk Oversight Model on UniCredit Bulbank Subsidiaries; Insurance Analysis – Insurance recoveries, Annual evaluation on local insurances.

In 2022 the Operational Risk Permanent WorkGroup (PWG) was established, following the Group regulations, as an expert work group to ensure structured and continuous cooperation among business, support and control functions, enabling a joint and widespread identification of the sources of Operational Risks aiming at reduction of the Operational Risk exposure of the Legal Entity. The main outcomes (the mitigation actions) and escalation topics in case of delays or deviations from the expected outcomes regarding the implementation of the mitigation actions, planned and approved by the competent functions are reported to Non-Financial Risk and Control Committee - General Session – Operational Risk stream for information or for decision.

Second level controls on ICT and Security processes was developed and regularly performed in 2022. This is a set of second level controls, implemented upon a Group NFR request, aiming to strengthen the management of ICT and Cyber risks. These controls cover some processes in the ICT and Security areas like Change Management and ICT Incident Management Processes.

The following existing processes have been enhanced aimed at implementing extending criteria in 2022:

- ICT Project Risk Assessment – enlargement of the scope of the ICT projects on which an additional analysis is performed including the projects assessed as not containing material risks.
- Risk and Controls Self-Assessment (RCSA) - the activity is now directly integrated with IT evaluations on ICT Assets servicing the business Processes. A detailed set of dedicated ICT and Cyber risks have been added to the already existing process risks bundle. The number of risks per E2E process has doubled to about 40 risks per a process. The number of mandatory assessed end-to-end (E2E) processes is increased from 18 to 24.
- New Key Risk indicators (KRIs) in several areas were created:
  - 9 KRIs related to credit processes and 3 KRIs related to card fraud monitoring have been implemented aiming at second level controls enhancement and harmonization throughout UniCredit Group.
  - 19 ICT and Cyber Risk indicators for monitoring was introduced covering various ICT and Cyber Risk areas, reported separately for UniCredit Bulbank, UniCredit Consumer Financing, UniCredit Leasing and UniCredit Fleet Management.
- New framework on Outsourcing and Third Party Risk arrangements was implemented with enhanced several steps on second level controls. NFR performs several evaluation checks such as correct assessment of the service inherent risk, adequacy of the identified corrective measures, correct assessment of the residual risk, integrity checks on cyber inherent risk, review of cyber security risk assessment. In the event that, as a consequence of the review, the overall residual risk of the Outsourcing initiative or the residual risk of a single scenario is reclassified as medium-high or high, the escalation process must be activated.

All activities regarding operational and reputational risk management included in the annual plan of activities, defined by the Group, were performed following the Group methodology and executed with no delay.

All key activities and results of the Operational Risk Identification (Internal losses, External data, Scenario analysis), the Assessment Measurement activities (KRI, RCSA) and the Addressing – Mitigation activities (Operational Risk priorities and Strategies) were reported for information/approval to the Non-Financial Risk and Controls Committee – General Session (NFRC-GS). The Committee meetings are held quarterly and attended by the Bank's top management.

The Reputational Risk Management is implemented in UniCredit Bulbank through a dedicated set of policies with aim to:

- Identify sources of reputational risk (e.g., when entering new markets, products or lines of activities);
- Give guidelines for reputational risk assessment and measurement, monitoring and reporting to the competent corporate Bodies (e.g., Local and Group NFRC Committee);
- Rule the necessary escalation / decision-making processes.

The overall Reputational Risk Management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies through Non-Financial Risk and Control Committee – Reputational Risk Session, in specific decisions regarding the Reputational Risk management (i.e., escalation mechanisms and high risk cases);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- System of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model).

6. 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) (v)** 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 2022 and 2021 see also Note **11**).

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 2022, whenever risk-free FV deviates by more than 2% 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. Both as of December 31, 2022 and December 31, 2021 all loans and advances to customers at amortized cost are mapped to Level 3 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, 2022 and December 31, 2021 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by fair value hierarchy applied by the Bank as of December 31, 2022 and December 31, 2021.

In thousands of BGN

Instrument category	Level 1	Level 2	Level 3	Total	
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2021
Non-derivative financial assets held for trading	2 828	-	-	**2 828**	**4 901**
Derivatives held for trading	-	115 735	362	**116 097**	**87 039**
Derivatives held for hedging	-	131 468	-	**131 468**	**11 976**
Loans and advances to banks and debt securities at amortized cost	-	1 278 341	2 445	**1 280 786**	**698 514**
Loans and advances to customers and debt securities at amortized cost	390 377	1 261 912	14 068 923	**15 721 212**	**12 619 037**
Pledged debt securities at amortised cost	135 832	39 964	-	**175 796**	**-**
Investment securities	531 807	899 200	40 659	**1 471 666**	**2 862 706**
Pledged Investment securities	1 039 329	23 262	-	**1 062 591**	**612 656**
	2 100 173	**3 749 882**	**14 112 389**	**19 962 444**	**16 896 829**
Financial liabilities held for trading	-	142 220	17 086	**159 306**	**47 148**
Derivatives used for hedging	-	132 160	-	**132 160**	**65 287**
Deposits from banks	-	-	1 584 622	**1 584 622**	**1 128 933**
Deposits from customers and other financial liabilities at amortized cost	-	-	23 210 653	**23 210 653**	**19 795 273**
Debt securities issued	-	312 933	-	**312 933**	**312 933**
	-	**587 313**	**24 812 361**	**25 399 674**	**21 349 574**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2022 is as follows:

In thousands of BGN

	Derivatives held for trading	Loans mandatory at FV	Equity Investments	Debt securities	Property measured at FV
Opening balance (January 1, 2022)	**-**	**2 070**	**19 283**	**43 380**	**135 358**
Increases	**362**	**-**	**507**	**41**	**6 437**
Purchase	362	-	114	-	-
Profit recognized in income statement	-	-	206	-	105
Profit recognized in equity	-	-	-	-	4 476
Transfer from other levels	-	-	-	-	-
Other increases	-	-	187	41	1 856
Decreases	**-**	**(1 881)**	**(3 835)**	**(18 717)**	**(9 081)**
Sales	-	-	-	-	(913)
Redemption	-	-	-	(750)	-
Loses recognized in income statement	-	(326)	(3 835)	-	(3 464)
Loses recognized in equity	-	-	-	(17 967)	(2 303)
Transfer to other levels	-	(1 555)	-	-	-
Other decreases	-	-	-	-	(2 401)
Closing balance (December 31, 2022)	**362**	**189**	**15 955**	**24 704**	**132 714**

The table below analyses information about significant unobservable inputs used as at 31 December 2022 in measuring financial instruments categorised as level 3 in the fair value hierarchy.

Type of instrument	Fair value as at 31.12.2022	Valuation technique	Significant unobservable input	Range of estimates (wighted evarage) for unobservable input	Fair value as measurement sensitivity to unobservable inputs
Derivatives held for trading	362	Discounted Cashflows	Relevant interest rate risk curve for in the respective currency used for discounting	Rates of -1% to 2% (average 0) (2021 -1% to -1%, average -1%)	significant increase in the relevant interest rate curve used for discounting would result in a lower fair value
Debt securities	24 704	Mark-to-model (Discounted Cashflows)	Relevant interest rate risk and credit spread curves for comparable instruments and comparable issuer in the respective currency	Rates of -1% to 2% (average 0) (2021 -1% to -1%, average -1%) Credit spread of 2% to 20%[1] (average 12%) (2021 2% to 3%, average 2%), over the risk-free rate	Significant increase in the relevant interest rate or credit spread curve used for discounting would result in a lower fair value

[1] Maximum average values reflect the increased credit spread curve used for discounting IBECO bond that peaked in 2022

The tables below analyses the fair value of financial instruments by classification as of December 31, 2022 and December 31, 2021.

In thousands of BGN

December 2022	Fair value through profit or loss	Loans and receivables	Investment securities	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	7 070 403	**7 070 403**	**7 070 403**
Non-derivative financial assets held for trading	2 828	-	-	-	-	**2 828**	**2 828**
Derivatives held for trading	116 097	-	-	-	-	**116 097**	**116 097**
Derivatives held for hedging	-	-	-	131 468	-	**131 468**	**131 468**
Loans and advances to banks and debt securities at amortized cost	-	1 282 131	-	-	-	**1 282 131**	**1 280 786**
Loans and advances to customers and debt securities at amortized cost	-	17 087 441	-	-	-	**17 087 441**	**15 721 212**
Pledged debt securities at amortised cost	-	180 384	-	-	-	**180 384**	**175 796**
Investment securities	-	-	1 471 666	-	-	**1 471 666**	**1 471 666**
Pledged Investment securities	-	-	1 062 591	-	-	**1 062 591**	**1 062 591**
TOTAL ASSETS	**118 925**	**18 549 956**	**2 534 257**	**131 468**	**7 070 403**	**28 405 009**	**27 032 847**
LIABILITIES							
Financial liabilities held for trading	159 306	-	-	-	-	**159 306**	**159 306**
Derivatives used for hedging	-	-	-	132 160	-	**132 160**	**132 160**
Deposits from banks	-	-	-	-	1 577 699	**1 577 699**	**1 584 622**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	23 214 919	**23 214 919**	**23 210 653**
Debt securities issued	-	-	-	-	313 701	**313 701**	**312 933**
TOTAL LIABILITIES	**159 306**	**-**	**-**	**132 160**	**25 106 319**	**25 397 785**	**25 399 674**

In thousands of BGN

December 2021	Fair value through profit or loss	Loans and receivables	Investment securities	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 677 436	**6 677 436**	**6 596 933**
Non-derivative financial assets held for trading	4 901	-	-	-	-	**4 901**	**4 901**
Derivatives held for trading	87 039	-	-	-	-	**87 039**	**87 039**
Derivatives held for hedging	-	-	-	11 976	-	**11 976**	**11 976**
Loans and advances to banks and debt securities at amortized cost	-	697 985	-	-	-	**697 985**	**698 514**
Loans and advances to customers and debt securities at amortized cost	-	13 519 451	-	-	-	**13 519 451**	**12 619 037**
Investment securities	-	-	2 862 706	-	-	**2 862 706**	**2 862 706**
Pledged investment securities	-	-	612 656	-	-	**612 656**	**612 656**
TOTAL ASSETS	**91 940**	**14 217 436**	**3 475 362**	**11 976**	**6 677 436**	**24 474 150**	**23 493 762**
LIABILITIES							
Financial liabilities held for trading	47 148	-	-	-	-	**47 148**	**47 148**
Derivatives used for hedging	-	-	-	65 287	-	**65 287**	**65 287**
Deposits from banks	-	-	-	-	1 128 575	**1 128 575**	**1 128 933**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	19 795 330	**19 795 330**	**19 795 273**
Debt securities issued	-	-	-	-	313 104	**313 104**	**312 933**
TOTAL LIABILITIES	**47 148**	**-**	**-**	**65 287**	**21 237 009**	**21 349 444**	**21 349 574**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is applied when measuring fair value of investment properties. Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2022 and December 31, 2021 all investment properties have undergone external fair valuation (see also Note **30**).

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortized cost and at FVTOCI and in order to meet the requirements of IFRS 9, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for “regulatory” purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Bank continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(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.

7. 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 risk-weighted assets (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 2022	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	187 383	216 073	21 076	**424 532**
Dividend income	-	-	113 209	**113 209**
Net fee and commission income	181 056	91 187	(570)	**271 673**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	30 534	42 541	31 845	**104 920**
Net gains/(losses) from financial assets mandatory at fair value	-	-	(159)	**(159)**
Net income from financial assets measured at FVTOCI	-	-	5 197	**5 197**
Other operating income	1 247	-	6 224	**7 471**
Other operating expenses	(24 324)	(2 667)	(766)	**(27 757)**
TOTAL OPERATING INCOME	**375 896**	**347 134**	**176 056**	**899 086**
Personnel expenses	(66 670)	(24 523)	(68 413)	**(159 606)**
General and administrative expenses	(15 753)	(3 900)	(91 367)	**(111 020)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	-	-	(48 392)	**(48 392)**
Total direct expenses	**(82 423)**	**(28 423)**	**(208 172)**	**(319 018)**
Allocation of indirect and overhead expenses	(142 130)	(59 745)	201 875	**-**
TOTAL OPERATING EXPENSES	**(224 553)**	**(88 168)**	**(6 297)**	**(319 018)**
Provisions for risk and charges	-	-	(1 980)	**(1 980)**
Net impairment loss on financial assets	(35 855)	(57 379)	5 322	**(87 912)**
Net income related to property, plant and equipment	-	-	15 240	**15 240**
PROFIT BEFORE INCOME TAX	**115 488**	**201 587**	**188 341**	**505 416**
Income tax expense	(9 033)	(15 767)	(14 731)	**(39 531)**
PROFIT FOR THE YEAR	**106 457**	**185 819**	**173 609**	**465 885**
ASSETS	**4 456 701**	**8 603 123**	**15 829 286**	**28 889 110**
LIABILITIES	**14 110 804**	**9 155 921**	**2 370 392**	**25 637 117**

In thousands of BGN

December 2021	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	141 969	188 881	29 350	**360 200**
Dividend income	-	-	65 278	**65 278**
Net fee and commission income	158 058	85 622	(5 941)	**237 739**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	22 282	50 495	6 473	**79 250**
Net gains/(losses) from financial assets mandatory at fair value	-	-	1 243	**1 243**
Net income from financial assets measured at FVTOCI	-	-	16 931	**16 931**
Other operating income	399	-	8 941	**9 340**
Other operating expenses	(21 842)	(1 718)	(494)	**(24 054)**
TOTAL OPERATING INCOME	**300 866**	**323 280**	**121 781**	**745 927**
Personnel expenses	(65 680)	(22 300)	(60 826)	**(148 806)**
General and administrative expenses	(16 708)	(4 027)	(84 414)	**(105 149)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	-	-	(42 680)	**(42 680)**
Total direct expenses	**(82 388)**	**(26 327)**	**(187 920)**	**(296 635)**
Allocation of indirect and overhead expenses	(131 871)	(54 394)	186 265	**-**
TOTAL OPERATING EXPENSES	**(214 259)**	**(80 721)**	**(1 655)**	**(296 635)**
Provisions for risk and charges	-	-	(2 816)	**(2 816)**
Net impairment loss on financial assets	(20 397)	(83 555)	(3 618)	**(107 570)**
Net income related to property, plant and equipment	-	-	2 488	**2 488**
PROFIT BEFORE INCOME TAX	**66 210**	**159 004**	**116 180**	**341 394**
Income tax expense	(5 347)	(12 840)	(9 381)	**(27 568)**
PROFIT FOR THE YEAR	**60 863**	**146 164**	**106 799**	**313 826**
ASSETS	**3 870 949**	**7 083 984**	**13 993 443**	**24 948 376**
LIABILITIES	**13 219 503**	**6 771 122**	**1 600 052**	**21 590 677**

In the following tables, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major service lines:

In thousands of BGN

December 2022	Retail Banking	CIB and Private Banking	ALM and other	Total
Fee and commission income				
Collection and payment services	96 411	67 347	(73)	**163 685**
Lending business	8 957	13 128	(1)	**22 084**
Account services	26 928	5 487	-	**32 415**
Management, brokerage and securities trading	13 191	4 825	126	**18 142**
Documentary business	573	20 860	32	**21 465**
Package accounts	23 941	1 719	-	**25 660**
Other	36 389	2 745	-	**39 134**
-	206 390	116 111	84	**322 585**
Fee and commission expense				
Collection and payment services	(23 662)	(20 223)	44	**(43 841)**
Management, brokerage and securities trading	(106)	(1 728)	(594)	**(2 428)**
Lending business	(5)	(38)	-	**(43)**
Other	(1 561)	(2 935)	(104)	**(4 600)**
-	(25 334)	(24 924)	(654)	**(50 912)**
Net fee and commission income	**181 056**	**91 187**	**(570)**	**271 673**

In thousands of BGN

December 2021	Retail Banking	CIB and Private Banking	ALM and other	Total
Fee and commission income				
Collection and payment services	82 165	55 182	(91)	**137 256**
Lending business	7 285	11 514	(4 505)	**14 294**
Account services	24 200	5 505	-	**29 705**
Management, brokerage and securities trading	10 868	7 518	107	**18 493**
Documentary business	521	17 660	20	**18 201**
Package accounts	21 990	1 642	-	**23 632**
Other	31 542	2 760	3	**34 305**
-	178 571	101 781	(4 466)	**275 886**
Fee and commission expense				
Collection and payment services	(20 434)	(14 339)	541	**(34 232)**
Management, brokerage and securities trading	13	(132)	(2 209)	**(2 328)**
Lending business	-	-	(310)	**(310)**
Other	(92)	(1 688)	503	**(1 277)**
-	(20 513)	(16 159)	(1 475)	**(38 147)**
Net fee and commission income	**158 058**	**85 622**	**(5 941)**	**237 739**

8. Net interest income

In thousands of BGN

	2022	2021
Interest income calculated using the effective interest method		
Loans and advances to banks	17 705	2 232
Loans and advances to customers	374 682	330 972
Investment securities	43 210	50 958
Interest income on liabilities	27 055	22 323
	462 652	**406 485**
Other interest income		
Non-derivative financial assets held for trading	6	71
	6	**71**
Interest expense		
Derivatives used for hedging	(12 508)	(19 301)
Deposits from banks	(4 992)	(323)
Deposits from customers	(1 694)	(744)
Debt securities issued	(5 231)	(239)
Interest expense on assets	(13 701)	(25 749)
	(38 126)	(46 356)
Net interest income	**424 532**	**360 200**

For the financial years ended December 31, 2022 and December 31, 2021 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 14 460 thousand and BGN 16 793 thousand, respectively.

Interest income on liabilities and interest expenses on assets have been presented in separate positions due to materiality of the amounts.

9. Net fee and commission income

In thousands of BGN

	2022	2021
Fee and commission income		
Collection and payment services	163 685	137 256
Lending business	22 084	14 294
Account services	32 415	29 705
Management, brokerage and securities trading	18 142	18 493
Documentary business	21 465	18 201
Package accounts	25 660	23 632
Other	39 134	34 305
	322 585	**275 886**
Fee and commission expense		
Collection and payment services	(43 841)	(34 232)
Management, brokerage and securities trading	(2 428)	(2 328)
Lending business	(43)	(310)
Other	(4 600)	(1 277)
	(50 912)	(38 147)
Net fee and commission income	**271 673**	**237 739**

10. Dividend income

In thousands of BGN

	2022	2021
Dividend income from subsidiaries	112 187	64 051
Dividend income from other equity participations	1 022	1 227
Dividend income	**113 209**	**65 278**

11. Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

In thousands of BGN

	2022	2021
Realized and unrealized FX trading income, net	113 498	76 588
Net income from debt instruments	639	483
Net income/(loss) from equity instruments	195	(242)
Net income/(loss) from derivative instruments	(9 769)	157
Net income from other trading instruments	-	1 792
Net income from hedging derivative instruments	357	472
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	**104 920**	**79 250**

The total CVA (net of DVA) for the years ended December 31, 2022 and December 31, 2021, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 464 thousand and BGN 609 thousand, respectively.

12. Net gains/(losses) from financial assets mandatorily at fair value

In thousands of BGN

	2022	2021
Equity securities	367	1 415
Loans and advances	(526)	(172)
Net gains/(losses) from financial assets mandatory at fair value	**(159)**	**1 243**

13. Net income from financial assets measured at FVTOCI

Net income related to financial assets measured at FVTOCI according to IFRS 9 represents the net gain the Bank has realized upon disposal of debt securities. For the years ended December 31, 2022 and December 31, 2021 the gains are in the amount of BGN 5 197 thousand and BGN 16 931 thousand, respectively.

14. Other operating income and expenses

14.a Other operating income

In thousands of BGN

	2022	2021
Income from non-financial services	869	840
Rental income	303	1 464
Other income	6 299	7 036
Other operating income	**7 471**	**9 340**

14.b Other operating expenses

In thousands of BGN

	2022	2021
Deposit guarantee fund and RR fund annual contribution	(26 797)	(23 561)
Impairment of foreclosed properties	-	(36)
Losses on tangible assets measured at fair value	(178)	(52)
Other operating expenses	(782)	(405)
Other operating expenses	**(27 757)**	**(24 054)**

15. 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 fixed assets. For the years ended December 31, 2022 and December 31, 2021 the gains are in the amount of BGN 15 240 thousand and BGN 2 488 thousand respectively.

16. Personnel expenses

In thousands of BGN

	2022	2021
Wages and salaries	(132 038)	(124 469)
Social security charges	(18 667)	(17 551)
Pension and similar expenses	(1 415)	(1 521)
Temporary staff expenses	(1 829)	(1 707)
Share-based payments	(718)	(971)
Other	(4 939)	(2 587)
Personnel expenses	**(159 606)**	**(148 806)**

As of December 31, 2022 the total number of employees, expressed in full time employee equivalent is 3 443 (December 31, 2021 - 3 565).

As described in note **3 (p) c.** the 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:

Pension and similar expenses comprise 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 **40**.

17. General and administrative expenses

In thousands of BGN

	2022	2021
Advertising, marketing and communication	(6 046)	(6 443)
Credit information and searches	(546)	(616)
Information, communication and technology expenses	(54 758)	(49 456)
Consulting, audit and other professional services	(1 923)	(2 149)
Real estate expenses	(14 809)	(15 642)
Rents	(4 954)	(6 312)
Travel expenses and car rentals	(2 816)	(2 111)
Insurance	(1 423)	(1 396)
Supply and miscellaneous services rendered by third parties	(14 751)	(13 071)
Other costs	(8 994)	(7 953)
General and administrative expenses	**(111 020)**	**(105 149)**

The amounts accrued in 2022 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD: BGN 180 thousand including VAT, for Baker Tilly Klitou and Partners EOOD: BGN 198 thousand including VAT. In 2022 the bank was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 284 thousand including VAT and by Baker Tilly Klitou and Partners EOOD: BGN 25 thousand including VAT.

For 2021 the accrued amount for the provided audit and non-audit services by the external auditors were BGN 975 thousand including VAT.

In thousands of BGN

	Economic value at December 31, 2021	2022 Cost (Gains)	Settled in 2022	Economic value at December 31, 2022
Deferred Short Term Incentive (ordinary shares)	5 612	718	(3 412)	2 918
ESOP and shares for Talents	64	-	(64)	-
Total Options and Shares	**5 676**	**718**	**(3 476)**	**2 918**

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

In thousands of BGN

	2022	2021
Depreciation charge	(48 392)	(41 109)
Impairment	-	(1 571)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(48 392)**	**(42 680)**

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.

19. Provisions for risk and charges

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

In thousands of BGN

	2022	2021
Additions of provisions		
Restructuring provisions	-	(1 971)
Legal cases provisions	(2 267)	(5 325)
Other provisions	(108)	(314)
	(2 375)	**(7 610)**
Reversal of provisions		
Legal cases provisions	395	4 794
	395	**4 794**
Provisions for risk and charges	**(1 980)**	**(2 816)**

20. Net impairment loss on financial assets

In thousands of BGN

	2022	2021
Net impairment losses on Loans and advances to customers	(57 536)	(111 315)
Net impairment losses on debt securities from customers at AC	662	(839)
Net impairment losses on Loans and advances to Banks	(68)	105
Net impairment losses on debt securities from banks at AC	151	1
Net impairment losses on Balances with Central Bank	137	(2)
Net impairment losses on Financial assets at fair value through OCI	(4 239)	4 218
Loss allowance of financial guarantee contracts and other commitments	(27 019)	262
Total net impairment loss	**(87 912)**	**(107 570)**

For detailed movement of ECL related to financial instruments please refer to **4(d)** credit risk.

21. 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 2022.

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

In thousands of BGN

	2022	2021
Current tax	(36 960)	(27 407)
Deferred tax income (expense) related to origination and reversal of temporary differences	(1 982)	56
Overprovided prior year current tax	(589)	(217)
Income tax expense	**(39 531)**	**(27 568)**

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

	2022	2021
Accounting profit before tax	505 416	341 394
Corporate tax at applicable tax rate (10% for 2022 and 2021)	(50 542)	(34 139)
Tax effect of non-taxable revenue	11 298	6 716
Tax effect of non-deductible tax expenses	(438)	(401)
Overprovided prior year income tax	151	256
Income tax expense	**(39 531)**	**(27 568)**
Effective tax rate	**7.82%**	**8.08%**

22. Cash and balances with Central Bank

In thousands of BGN

	31.12.2022	31.12.2021
Cash in hand and in ATM	280 640	263 345
Cash in transit	167 707	183 383
Current account with Central Bank	6 622 056	6 230 708
Cash and balances with Central Bank	**7 070 403**	**6 677 436**

23. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Government bonds	-	2 269
Equities	2 828	2 632
Non-derivative financial assets held for trading	**2 828**	**4 901**

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.

24. Derivatives held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Interest rate swaps	66 731	18 320
FX forward contracts	5 568	919
FX options	50	-
Other options	197	-
FX swaps	13 565	36 924
Commodity swaps	29 986	16 319
Commodity options	-	14 557
Derivatives held for trading	**116 097**	**87 039**

Derivatives consist of trading instruments that have positive market value as of December 31, 2022 and December 31, 2021. 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 position.

25. Derivatives held for hedging

As described in Note **3 (j)** in 2009 the 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 financial assets at FVTOCI and deposits from customers.

In thousands of BGN

	2022		2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Risk exposure				
Interest rate				
Designated in FV hedges	101 009	16 424	11 976	31 047
Designated in CF hedges	30 459	115 736	-	34 240
Total interest rate derivatives	**131 468**	**132 160**	**11 976**	**65 287**

Fair value hedge

In thousands of BGN

	Maturity 2022			Maturity 2021		
	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Risk exposure						
Interest rate						
Micro FV hedges of FVOCI						
Nominal amount	154 511	336 051	546 607	230 299	390 286	760 614
Average fixed interest rate	0.19%	0.73%	0.72%	0.37%	0.46%	0.36%
Macro FV hedges of deposits						
Nominal amount	80 950	-	306 874	-	-	-
Average fixed interest rate	0.07%	0.00%	2.33%			

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that include hedge Ineffectiveness
	Notional	Assets	Liabilities				
Micro FV hedges of FVOCI	1 037 169	100 992	-	Derivatives assets(liabilities) held for hedging	52 129	574	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation
Macro FV hedges of deposits	387 824	17	16 424	Derivatives assets(liabilities) held for hedging	(8 333)	(217)	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

In thousands of BGN

As of 31.12.2021	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that include hedge Ineffectiveness
	Notional	Assets	Liabilities				
Micro FV hedges of FVOCI	1 381 199	11 884	31 047	Derivatives assets(liabilities) held for hedging	(6 746)	472	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation
Macro FV hedges of deposits	-	-	-	Derivatives assets(liabilities) held for hedging	-	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

The amounts related to items designated as hedged items were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		line item in the statement of financial position in which the hedged item is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	**Liabilities**	**Assets**	**Liabilities**			
Debt securities FVOCI	973 011		(1 139)		Investment securities	(52 289)	-
Deposits	-	387 824	-	(16 331)	Deposits from customers and other financial liabilities at amortized cost	8 350	-

In thousands of BGN

As of 31.12.2021	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		line item in the statement of financial position in which the hedged item is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	**Liabilities**	**Assets**	**Liabilities**			
Debt securities FVOCI	1 483 312	-	(414)	-	Investment securities	6 535	-
Deposits	-	-		-	Deposits from customers and other financial liabilities at amortized cost	-	-

Cash flow hedge

In thousands of BGN

	Maturity 2022			Maturity 2021		
	Less than 1 year	**1 to 5 years**	**More than 5 years**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Interest rate risk						
Interest rate swaps						
Nominal amount	172 657	447 238	1 014 428	-	464 078	642 170
Average fixed interest rate	1.69%	-0.11%	1.53%	0.00%	0.50%	1.59%

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognized in OCI	Hedge ineffectiveness recognized in profit or loss	Line item of profit or loss that include hedge Ineffectiveness	Amount reclassified from hedge reserve to profit or loss	Line item of profit or loss affected by the reclassification
	Notional	**Assets**	**Liabilities**							
Interest rate swaps	1 634 323	30 459	115 737	Derivatives assets (liabilities) held for hedging	-	(45 990)	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	-	Other interest income(expense)

In thousands of BGN

As of 31.12.2021	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognized in OCI	Hedge ineffectiveness recognized in profit or loss	Line item of profit or loss that include hedge Ineffectiveness	Amount reclassified from hedge reserve to profit or loss	Line item of profit or loss affected by the reclassification
	Notional	**Assets**	**Liabilities**							
Interest rate swaps	1 106 248	91	34 240	Derivatives assets (liabilities) held for hedging	-	4 780	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	-	Other interest income(expense)

The amounts related to items designated as hedged items were as follows:

In thousands of BGN

As of 31.12.2022	line item in the statement of financial position where the hedged instrument is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
EUR deposits from customers	Deposits from customers and other financial liabilities at amortized cost	-	30 487	-
EUR loans to customers	Loans and advances to customers and debt securities at amortised cost	-	(102 176)	-

In thousands of BGN

As of 31.12.2021	line item in the statement of financial position where the hedged instrument is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
EUR deposits from customers	Deposits from customers and other financial liabilities at amortized cost	-	(22 798)	-
EUR loans to customers	Loans and advances to customers and debt securities at amortised cost	-	(7 500)	-

26. Loans and advances to banks and debt securities at amortised cost

In thousands of BGN

	31.12.2022	31.12.2021
Loans and advances to banks at amortized cost:		
Loans and advances to banks	1 099 729	429 290
Current accounts with banks	84 763	170 898
Debt securities	97 821	98 068
Loans and advances to banks and debt securities at amortized cost	**1 282 313**	**698 256**
Less impairment allowances of loans and advances	(4)	(155)
Less impairment allowances of bonds	(178)	(116)
Less impairment allowances of loans and advances and debt securities at amortised cost	**(182)**	**(271)**
Loans and advances to banks and debt securities at amortised cost	**1 282 131**	**697 985**

27. Loans and advances to customers and debt securities at amortised cost

In thousands of BGN

	31.12.2022	31.12.2021
Loans and advances to customers at amortized cost:		
Companies	12 016 502	9 808 219
Individuals		
Housing loans	3 300 749	2 760 459
Consumer loans	161 110	174 752
Other loans	53 197	65 020
Central and local governments	354 181	351 015
Government bonds classified at amortized cost:		
Non-pledged government bonds	1 962 072	1 074 206
Pledged government bonds	180 384	-
	18 028 195	**14 233 671**
Less impairment allowances of loans and advances	(761 820)	(715 334)
Less impairment allowances of securities at amortised cost	(294)	(956)
Less impairment allowances	**(762 114)**	**(716 290)**
Financial assets to customers at amortized cost	**17 266 081**	**13 517 381**
Loans and advances to customers mandatory at fair value	**1 744**	**2 070**
thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures	(1 638)	(1 188)
Loans and advances to customers and debt securities at amortised cost	**17 267 825**	**13 519 451**

28. Investment securities

In thousands of BGN

	31.12.2022		31.12.2021	
	Non-Pledged Investment securities	Pledged Investment securities	Non-Pledged Investment securities	Pledged Investment securities
Securities measured at FVTOCI				
Government bonds	1 328 462	1 062 591	2 692 454	612 656
Bonds of banks and other financial institutions	73 485	-	94 535	-
Corporate bonds	40 744	-	47 430	-
Equities	11 981	-	11 660	-
Securities mandatory measured at FV				
Equities	16 994	-	16 627	-
Investment securities	**1 471 666**	**1 062 591**	**2 862 706**	**612 656**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2022 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 comprise 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.

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2022 is BGN 1 037 169 thousand and as of 31.12.2021 is BGN 1 381 199 thousand.

As of December 31, 2022 and as of December 31, 2021 there are pledged investments amounting to BGN 1 781 660 thousand and BGN 842 625 thousand respectively (see also Note **44**).

29. Investments in subsidiaries and associates

Company	Activity	Share in capital December 2022	Share in capital December 2021	Carrying value in thousands of BGN Dec 2022	Carrying value in thousands of BGN Dec 2021
UniCredit Factoring EAD	Factoring activities		100%		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 the applicable 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	25%	25%	2 975	2 975
Total				**52 479**	**55 479**

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

All investments in subsidiaries and associates are accounted for in the separate financial statements of UniCredit Bulbank AD at cost. 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.

As of December, 31st 2021, UniCredit Bulbank AD owned 100% of the share capital of UniCredit Factoring EAD. On January 18, 2022, the merger of UniCredit Factoring EAD into UniCredit Bulbank AD had been officially registered in the Commercial Register. The accounting date of the merger was January 1st 2022.

As of December, 31st 2021, the carrying amount of the assets and liabilities of UniCredit Factoring EAD were as follows:

In thousands of BGN

	31.12.2021
Assets	
Cash and cash equivalents	3
Receivables under factoring agreements	271 657
Tangible and intangible assets	1 400
Current tax assets	-
Deferred tax assets	21
Other short-term receivables	458
Total assets	**273 539**
Liabilities	
Liabilities to banks	223 250
Payables under factoring agreements	21 373
Lease liabilities	993
Current tax liabilities	74
Provision for credit risk of commitments	412
Other short-term liabilities	418
Total liabilities	**246 520**
Net assets at the accounting merger date	**27 019**
Investment as at the accounting merger date	3 000
Effect from the merger credited to equity (retained earnings)	**24 019**

The transaction had no effect on the shareholder's structure of the Bank.

The merger of UniCredit Factoring EAD was carried out in a tax neutral way, whereby all assets and liabilities of UniCredit Factoring EAD were transferred to the Bank without change (accounting and tax values). All taxable/deductible temporary tax differences that existed within UniCredit Factoring EAD were also transferred to UniCredit Bulbank AD.

After the merger, UniCredit Bulbank AD offers factoring deals with or without recourse, applicable for receivables from customers in domestic and international markets. It is based on the assignment of ownership (cession) of receivables from a supplier to UniCredit Bulbank AD and does not require any additional collateral.

As of December 31 2022, all subsidiaries of the Bank conduct their business operations on the territory of Bulgaria with no branches outside of the country and their activities are summarized below:

- UniCredit Fleet Management EOOD – purchase and sale of motor vehicles, provision of transport services and fleet management, operating leases, as well as all additional and servicing activities of the leases;
- UniCredit Consumer Financing EAD – performs consumer lending activities in line with the applicable law and regulations.
- UniCredit Leasing EAD – acquisition of machinery, equipment, vehicles and real estate through purchase or lease agreements for the purpose of providing these assets under financial or operating leases, concluding lease agreements, as well as any other transactions accompanying those activities.

30. Property, plant, equipment, right of use assets and investment properties

In thousands of BGN

	Lands	Buildings	Buildings - Right of use	Furniture	Electronic equipment	Other	Total
Cost or revalued amount							
As of December 31, 2021	**11 398**	**227 065**	**59 673**	**11 426**	**92 878**	**55 852**	**458 292**
Merger effect	-	110	1 282	89	152	79	**1 712**
Additions	-	3 148	12 618	496	8 527	6 110	**30 899**
Transfers	(114)	(2 475)	-	-	-	-	**(2 589)**
Write offs	-	(841)	(336)	(866)	(5 793)	(1 879)	**(9 715)**
Disposals	(353)	(901)	-	-	(1 405)	(4 150)	**(6 809)**
As of December 31, 2022 before revaluation	**10 931**	**226 106**	**73 237**	**11 145**	**94 359**	**56 012**	**471 790**
Increase in value via revaluation reserve upon new revaluation	382	4 094	-	-	-	-	**4 476**
Decrease in value via revaluation reserve upon new revaluation	(133)	(2 170)	-	-	-	-	**(2 303)**
Decrease in value in profit or loss upon new revaluation	-	(283)	-	-	-	-	**(283)**
Revaluation adjustment	**249**	**1 641**	**-**	**-**	**-**	**-**	**1 890**
As of December 31, 2022 after revaluation	**11 180**	**227 747**	**73 237**	**11 145**	**94 359**	**56 012**	**473 680**
-							
Depreciation							
As of December 31, 2021	**-**	**95 978**	**17 089**	**8 815**	**62 549**	**37 540**	**221 971**
Merger effect	-	97	317	78	136	79	**707**
Depreciation charge	-	5 743	8 437	697	9 576	4 225	**28 678**
Write offs	-	(841)	(336)	(866)	(5 793)	(1 879)	**(9 715)**
On disposals	-	(338)	-	-	(1 366)	(4 150)	**(5 854)**
Transfers	-	(888)	-	-	-	-	**(888)**
As of December 31, 2022	**-**	**99 751**	**25 507**	**8 724**	**65 102**	**35 815**	**234 899**
Net book value as of December 31, 2022	**11 180**	**127 996**	**47 730**	**2 421**	**29 257**	**20 197**	**238 781**
Net book value as of December 31, 2021	**11 398**	**131 087**	**42 584**	**2 611**	**30 329**	**18 312**	**236 321**

In thousands of BGN

	Lands	Buildings	Buildings - Right of use	Furniture	Electronic equipment	Other	Total
Cost or revalued amount							
As of December 31, 2020	**12 117**	**223 746**	**51 048**	**11 549**	**85 987**	**48 160**	**432 607**
Additions	-	2 928	8 625	624	12 729	10 802	**35 708**
Transfers	-	(1 646)	-	-	-	-	**(1 646)**
Write offs	-	(1 233)	-	(747)	(3 914)	(916)	**(6 810)**
Disposals	-	-	-	-	(1 924)	(2 194)	**(4 118)**
As of December 31, 2021 before revaluation	**12 117**	**223 795**	**59 673**	**11 426**	**92 878**	**55 852**	**455 741**
Increase in value via revaluation reserve upon new revaluation	113	6 363	-	-	-	-	**6 476**
Decrease in value via revaluation reserve upon new revaluation	(809)	(3 064)	-	-	-	-	**(3 873)**
Decrease in value in profit or loss upon new revaluation	(23)	(29)	-	-	-	-	**(52)**
Revaluation adjustment	**(719)**	**3 270**	**-**	**-**	**-**	**-**	**2 551**
As of December 31, 2021 after revaluation	**11 398**	**227 065**	**59 673**	**11 426**	**92 878**	**55 852**	**458 292**
Depreciation							
As of December 31, 2020	**-**	**91 433**	**10 543**	**8 899**	**60 597**	**36 666**	**208 138**
Depreciation charge	-	5 778	6 546	663	7 704	3 982	**24 673**
Impairment	-	-	-	-	81	-	**81**
Write offs	-	(1 233)	-	(747)	(3 914)	(916)	**(6 810)**
On disposals	-	-	-	-	(1 919)	(2 192)	**(4 111)**
Transfers	-	-	-	-	-	-	**-**
As of December 31, 2021	**-**	**95 978**	**17 089**	**8 815**	**62 549**	**37 540**	**221 971**
Net book value as of December 31, 2021	**11 398**	**131 087**	**42 584**	**2 611**	**30 329**	**18 312**	**236 321**
Net book value as of December 31, 2020	**12 117**	**132 313**	**40 505**	**2 650**	**25 390**	**11 494**	**224 469**

In thousands of BGN

	Investment property
Net book value as of December 31, 2020	**657**
Additions	-
Transfers	-
Write offs	-
Disposals	(62)
Increase in fair value	-
Net book value as of December 31, 2021	**595**
Additions	-
Transfers	(700)
Write offs	-
Disposals	-
Increase in fair value	105
Net book value as of December 31, 2022	**-**

Items of plant, equipment, right of use assets and other are carried at cost less any accumulated depreciation and adjusted for impairment, if any, while land and buildings used in business and investment properties are revalued to their fair value.

As part of the year-end closing procedure, the Bank has assessed all items of, property, plant and equipment and 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.

Type of instrument	Fair value as at 31.12.2022	Significant unobservable input	Range (BGN) (weighted average) 2022 in BGN	Range (BGN) (weighted average) 2021 in BGN
Land	11 180	price per m²	163.13 - 428.15 (267.79)	199.14 - 430.97 (287.67)
Buildings	74 074	rent per m²	6.35 - 14.37 (9.08)	6.91 - 14.81 (9.53)
Buildings	46 737	rent per m²	11.64 - 17.60 (14.52)	9.05 - 25.43 (16.71)
Buildings	723	price per m²	847 - 1 049 (963.77)	877 - 1 018 (961.79)
Total Property measured at FV	**132 714**			

Starting from January 01, 2019, in accordance with the IFRS 16 requirements, whenever the Bank acts as the lessee under contracts meeting the definition of the standard, there is recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

The following table represent existing right of use assets as of December 31, 2022, while liabilities under lease contracts are presented in Note **38**:

Right of use assets- Buildings	***In thousands of BGN***
Cost	
As of December 31, 2021	**59 673**
Merger effect	1 282
Additions	12 618
Write offs	-
As of December 31, 2022	**73 573**
As of December 31, 2021	**17 089**
Merger effect	317
Depreciation charge	8 437
Impairment	-
Write offs	-
As of December 31, 2022	**25 843**
Net book value as of December 31, 2022	**47 730**
Net book value as of December 31, 2021	**42 584**

31. Intangible assets

In thousands of BGN

Cost	
As of December 31,2021	**172 793**
Merger effect	947
Additions	26 739
Write offs	(5 001)
As of December 31,2022	**195 478**
-	
Depreciation	
As of December 31,2021	**84 655**
Merger effect	541
Depreciation charge	20 153
Write offs	(5 001)
As of December 31,2022	**100 348**
Net book value as of December 31, 2022	**95 130**
Net book value as of December 31, 2021	**88 138**

In thousands of BGN

Cost	
As of December 31, 2020	**149 230**
Additions	29 636
Write offs	(6 073)
As of December 31,2021	**172 793**
-	
Depreciation	
As of December 31, 2020	**71 574**
Depreciation charge	17 664
Impairment due to obsolescence	1 490
Write offs	(6 073)
As of December 31,2021	**84 655**
Net book value as of December 31, 2021	**88 138**
Net book value as of December 31, 2020	**77 656**

32. Current tax assets/liabilities

The current tax assets comprise 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, 2022 current tax assets amount to BGN 1 679 thousand. As of December 31, 2021 the bank reports current tax liabilities for the amount of BGN 4 125 thousand.

33. Deferred tax liabilities

The origination breakdown of the deferred tax liabilities as of December 31, 2022 and December 31, 2021 is as outlined below:

In thousands of BGN

	31.12.2022	31.12.2021
Property, plant, equipment, investment properties and intangible assets	15 250	14 316
Provisions	(4 125)	(4 303)
Actuarial losses	(178)	(604)
Other liabilities/Other assets	(2 488)	(3 554)
Deferred tax (assets)/liabilities	**8 459**	**5 855**

The movements of deferred tax liabilities on net basis throughout 2022 are as outlined below:

In thousands of BGN

	Balance 31.12.2021	Recognized in P&L	Recognized in equity	Merger with UniCredit Factoring	Balance 31.12.2022
Property, plant, equipment, investment properties and intangible assets	14 316	710	217	7	15 250
Provisions	(4 303)	178	-	-	(4 125)
Actuarial losses	(604)	-	426	-	(178)
Other liabilities	(3 554)	1 094	-	(28)	(2 488)
Deferred tax (assets)/ liabilities	**5 855**	**1 982**	**643**	**(21)**	**8 459**

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

In these separate financial statements 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.

In thousands of BGN

	31.12.2022	31.12.2021
Land	-	5 558
Buildings	-	6 734
Non-current assets and disposal groups, classified as held for sale	**-**	**12 292**

35. Other assets

In thousands of BGN

	31.12.2022	31.12.2021
Receivables and prepayments	65 227	52 334
Receivables from the State Budget	-	62
Materials, spare parts and consumables	756	693
Other assets	8 934	6 164
Foreclosed properties	21 115	22 148
Other assets	**96 032**	**81 401**

36. Financial liabilities held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Interest rate swaps	74 191	6 652
FX forward contracts	1 562	5 478
Equity options	-	-
Other options	94	-
FX options	50	-
FX swaps	53 650	4 121
Commodity swaps	29 759	16 314
Commodity options	-	14 583
Financial liabilities held for trading	**159 306**	**47 148**

37. Deposits from banks

In thousands of BGN

	31.12.2022	31.12.2021
Current accounts and overnight deposits		
Local banks	51 993	127 574
Foreign banks	1 283 024	792 499
	1 335 017	**920 073**
Deposits		
Local banks	174 729	142 367
Foreign banks	14 300	15 345
	189 029	**157 712**
Other	**53 653**	**50 790**
Deposits from banks	**1 577 699**	**1 128 575**

38. Deposits from customers and other financial liabilities at amortized cost

Deposits from customers comprise 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, 2022 and December 31, 2021 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 process.

In thousands of BGN

	31.12.2022	31.12.2021
Current accounts		
Individuals	6 997 869	5 643 251
Corporate	10 065 336	7 778 284
Budget and State companies	740 287	429 133
	17 803 492	**13 850 668**
Term deposits		
Individuals	3 214 244	3 919 555
Corporate	237 629	246 346
Budget and State companies	19 572	26 551
	3 471 445	**4 192 452**
Saving accounts	**1 732 276**	**1 644 908**
Lease liabilities	**49 893**	**44 266**
Factoring related liabilities	**26 717**	**-**
Transfers in execution process	**131 096**	**63 036**
Total deposits from customers and other financial liabilities at amortized cost	**23 214 919**	**19 795 330**

The following table represent liabilities under lease contracts as of December 31, 2022, while existing right of use assets are presented in Note **30**:

In thousands of BGN

Lease liabilities	
As of January 01, 2022	**44 266**
Additions	12 177
Merger effect	993
Repayments	(7 543)
Interest accrued	442
Interest paid	(442)
As of December 31, 2022	**49 893**
-	
Up to one year	9 139
From beyond 1 year to 2 years	9 242
From beyond 2 years to 3 years	8 428
From beyond 3 years to 4 years	6 308
From beyond 4 years to 5 years	5 578
Beyond five years	13 165
Total lease payments to be made for finance leases	**51 860**
Unearned finance expenses (Discounting effect)	(1 967)
Net book value as of December 31, 2022	**49 893**
Net book value as of December 31, 2021	**44 266**

In thousands of BGN

Lease liabilities	
As of January 01, 2021	**41 550**
Additions	8 223
Repayments	(5 507)
Interest accrued	421
Interest paid	(421)
As of December 31, 2021	**44 266**
Up to one year	7 472
From beyond 1 year to 2 years	7 344
From beyond 2 years to 3 years	7 305
From beyond 3 years to 4 years	6 454
From beyond 4 years to 5 years	4 477
Beyond five years	12 693
Total lease payments to be made for finance leases	**45 745**
Unearned finance expenses (Discounting effect)	(1 479)
Net book value as of December 31, 2021	**44 266**
Net book value as of December 31, 2020	**41 550**

39. Debt securities issued

In the last quarter of 2021, the Bank issued an own MREL bond (senior non-preferred), with a nominal amount of EUR 160 Mio, floating interest rate, maturity date in December 2027 and a call option exercisable in December 2026. The call option is with the issuer who can redeem the notes in whole in case he determines that the note is not anymore eligible for recognition in eligible liabilities for purposes of meeting MREL requirements (i.e. due to the reason of remaining maturity being less than the regulatory prescribed period).As part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", the Bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

40. Provisions

The movement in provisions for the years ended December 31, 2022 and December 31, 2021 is as follows:

In thousands of BGN

	Off-balance sheet commitments and financial guarantees	Legal cases	Retirement benefits	Constructive obligations	Other	Restructuring provisions	Total
	(a)	(b)	(c)	(d)	(e)	(f)	
Balance as of December 31, 2020	**59 066**	**28 350**	**13 357**	**302**	**548**	**6 023**	**107 646**
Allocations	40 541	5 325	1 521	-	314	1 971	**49 672**
Releases	(40 803)	(4 794)	-	-	-	-	**(45 597)**
Additions due to FX revaluation	382	1 856	-	-	-	-	**2 238**
Releases due to FX revaluation	(303)	(1 443)	-	-	-	-	**(1 746)**
Actuarial gains recognized in OCI	-	-	(978)	-	-	-	**(978)**
Other changes	-	2 685	-	-	-	-	**2 685**
Utilization	-	(478)	(755)	-	(253)	(470)	**(1 956)**
Balance as of December 31, 2021	**58 883**	**31 501**	**13 145**	**302**	**609**	**7 524**	**111 964**
Allocations	61 058	2 267	1 415	-	108	-	**64 848**
Releases	(34 039)	(395)	-	-	-	-	**(34 434)**
Additions due to FX revaluation	6 556	3 649	-	-	-	-	**10 205**
Releases due to FX revaluation	(6 754)	(3 320)	-	-	-	-	**(10 074)**
Actuarial gains recognized in OCI	-	-	(4 259)	-	-	-	**(4 259)**
Other changes	-	-	-	-	-	-	**-**
Merger effect	(3 178)	-	-	-	-	-	**(3 178)**
Utilization	-	(123)	(1 121)	-	(560)	(3 585)	**(5 389)**
Balance as of December 31, 2022	**82 526**	**33 579**	**9 180**	**302**	**157**	**3 939**	**129 683**

(a) Provisions on letters of guarantees and credit commitments

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2022 accumulated provisions are in the amount of BGN 82 526 thousand (as at December 31, 2021 - BGN 58 883 thousand).

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Bank would most likely have to settle the obligation in the near future. As of December 31, 2022 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 33 579 thousand has been recognized (BGN 31 501 as of December 31, 2021).

(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 2022 defined benefit obligation are as follows:

- Discount rate – 5.75%;
- Salary increase – 4,00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2021 and increase by 2 months for women and 1 month for men each year thereafter until the age of 65 years for men and for women is reached.

The pension plan specified and required by the BG Labor Code has not changed in 2021. The Bank has approved additional payments (2 or 4 monthly salaries) on top of the obligations by law depending on service time within the company:

- Six times the gross monthly remuneration, when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 10 years and until 19 years and 11 months;
- Eight times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 20 years and until 29 years and 11 months;
- Ten times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 30 years and above;
- 2 + (0.4 x N), where N shall be the number of full years, but not less than the gross labor remuneration thereof for a period of two month in the cases where the employee has not completed ten years of employment service for UniCredit Bulbank AD or its subsidiaries in Bulgaria – no change, i.e. less than six;
- For termination of the labor relation upon disability: 2,4 monthly salaries without connection with length of service;
- For termination of the labor relation upon death: 4 monthly salaries - without connection with length of service.

The movement of the defined benefit obligation for the year ended December 31, 2022 and expected services cost, interest costs and amortization of actuarial gains for the following year are outlined in the table below:

In thousands of BGN

	Total
Recognized defined benefit obligation as of December 31, 2021	**13 145**
Current service costs for 2022	1 297
Interest cost for 2022	18
Past Service Cost	100
Actuarial gains recognized in OCI	(4 259)
Benefits paid	(1 121)
Recognized defined benefit obligation as of December 31, 2022	**9 180**
Interest rate beginning of the year	0.15%
Interest rate end of the year	5.75%
Future increase of salaries	4.00%
Expected 2023 service costs	633
Expected 2023 interest costs	479
Expected 2023 benefit payments	(1 820)

Current service cost and interest cost are presented under Personnel expenses (See note **16**).

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

	2022	2021
Sensitivity - Discount rate +/- %	0.25%	0.20%
DBO Discount rate -	9 332	13 499
DBO Discount rate +	9 033	12 807
Sensitivity - Salary increase rate +/- %	0.25%	0.20%
DBO Salary increase rate -	9 030	12 818
DBO Salary increase rate +	9 335	13 485

(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.

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, 2022 and December 31, 2021 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates with regards to energy efficiency of owned buildings.

(e) Other provision

Other provisions in the amount of BGN 157 thousand as of December 31, 2022 (BGN 609 thousand as of December 31, 2021) relates to coverage of claims related to credit cards business as well as other claims.

(f) Restructuring provisions

As of December 31, 2020 the Bank has allocated restructuring provisions for the amount of BGN 6 023 thousand following the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. In December 2020 the Management Board has approved restructuring plan where the key restructuring rationale is to ensure efficient operations so that UniCredit Bulbank AD fits to the new competitive landscape shaped by digitalization trends and changed preferences of the customers.

The plan implies a review and improvement in the way of working and influences the Bank's business model in terms of customer experience, employee experience, digitalization and ethical and sustainable business. It includes network optimization through centralization, automation and simplification of branch processes, as well as envisages also to affect employees, who on voluntary basis and consistent with the business priorities, will have the opportunity to access the early retirement also getting an additional exit package. During 2021 out of restructuring provisions, BGN 470 thousand were utilized majorly for network optimization, brand management and other HR activities.

In 2021 the restructuring plan was updated following the Strategic plan of UniCredit Group. The key elements of the Strategic Plan aiming at unlocking the Group potential are as follows:

- Unified client segments
- Harmonised service model
- Simplified processes
- Common organisational structure
- Best-in-class factories delivering for our clients

Additional BGN 1 971 thousand were allocated with regard to new organizational model and change management activities.

As per the requirements of IAS 37 the Bank has duly communicated the approved restructuring plan to all employees in order to create a valid expectation.

During 2022 the restructuring plan was not revised and updated and the amount of restructuring provisions as of December 31st 2022 is TBGN 3 939.

41. Other liabilities

In thousands of BGN

	31.12.2022	31.12.2021
Liabilities to the State budget	2 485	2 399
Liabilities to personnel	20 274	20 688
Liabilities for unused paid leave	6 297	6 185
Dividends	1 161	959
Incentive plan liabilities	2 918	5 676
Other liabilities	68 055	83 382
Total other liabilities	**101 190**	**119 289**

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

Liabilities to personnel include accrued but not paid liabilities to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2022 and 2021 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) (c)** 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 16**.

42. Equity

a) Share capital

As of December 31, 2022 and December 31, 2021 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 Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years. 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 FVOCI 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 FVOCI 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, 2022 and December 31, 2021 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 5 197 thousand and BGN 16 931 thousand, respectively.

43. Contingent liabilities

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.

In thousands of BGN

	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	Stage 1		Stage 2		Stage 3		Total	
Letters of credit and letters of guarantee	1 714 841	2 217 673	450 672	651	18 097	22 299	**2 183 610**	**2 240 623**
Credit commitments	5 483 038	4 723 540	863 658	425 645	25 412	36 509	**6 372 108**	**5 185 694**
Total contingent liabilities	**7 197 879**	**6 941 213**	**1 314 330**	**426 296**	**43 509**	**58 808**	**8 555 718**	**7 426 317**

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are subject to expected losses calculation for impairment.

b) Litigation

As of December 31, 2022 and December 31, 2021 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 provisions provided for in these separate financial statements as of December 31, 2022 are in the amount of BGN 33 579 thousand (BGN 31 501 thousand in 2021), (see also Note **40**).

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, 2022 and December 31, 2021 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

	31.12.2022	31.12.2021
Securities pledged for budget holders’ account service	538 685	229 969
Securities pledged on REPO deals	1 242 975	612 656
Loans pledged for budget holders’ account service	254 864	254 864
Loans pledged on other deals	11 714	20 253
Total assets and collaterals received encumbered	**2 048 238**	**1 117 742**
Pledged assets include:		
Securities received for reverse REPO	-	-
Investment securities	1 781 660	842 625
Loans and advances	266 578	275 117
	2 048 238	**1 117 742**

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

45. 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 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.

In addition the Bank has relatedness with its subsidiaries and associates (see also Note 29) 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, 2022 and December 31, 2021 and Income statement items for the years ended then are as follows:

In thousands of BGN

As of December 31, 2022	Parent company	Subsidiaries	Other related parties	Total
ASSETS				
Derivatives held for trading	26 473	-	80 709	**107 182**
Derivatives held for hedging	31 203	-	100 265	**131 468**
Current accounts and deposits placed	945 172	-	16 322	**961 494**
Debt securities	97 817	-	-	**97 817**
Extended loans	-	2 848 319	2 163	**2 850 482**
Other assets	1 728	17 043	1 613	**20 384**
LIABILITIES				
Financial liabilities held for trading	1 549	-	43 797	**45 346**
Derivatives used for hedging	-	-	132 160	**132 160**
Current accounts and deposits taken	1 176 256	34 044	25 594	**1 235 894**
Debt securities issued	313 701	-	-	**313 701**
Other liabilities	3 934	49	3 023	**7 006**
Guarantees received by the Group	**9 562**	**-**	**107 740**	**117 302**

In thousands of BGN

As of December 31, 2021	Parent company	Subsidiaries	Other related parties	Total
ASSETS				
Derivatives held for trading	1 272	-	29 068	**30 340**
Derivatives held for hedging	414	-	11 562	**11 976**
Current accounts and deposits placed	341 751	-	148 737	**490 488**
Debt securities	97 913	-	-	**97 913**
Extended loans	-	2 467 703	1 319	**2 469 022**
Other assets	2 342	13 975	1 396	**17 713**
LIABILITIES				
Financial liabilities held for trading	3 622	-	35 780	**39 402**
Derivatives used for hedging	34 897	-	30 389	**65 287**
Current accounts and deposits taken	611 524	50 791	7 953	**670 268**
Debt securities issued	313 104			**313 104**
Other liabilities	6 806	71	1 837	**8 714**
Guarantees received by the Group	**10 196**	**-**	**108 338**	**118 534**

In thousands of BGN

As of December 31, 2022	Parent company	Subsidiaries	Associates	Other related parties	Total Income (Expense)
Interest incomes	12 874	18 817	-	216	**31 907**
Interest expenses	(18 774)	(3)	-	(6 009)	**(24 786)**
Dividend income	-	112 187	-	-	**112 187**
Fee and commissions income	992	17 361	-	922	**19 275**
Fee and commissions expenses	(3)	-	-	(140)	**(143)**
Net gains (losses) on financial assets and liabilities held for trading	24 342	-	-	180 957	**205 299**
Other operating income	-	570	-	79	**649**
Administrative and personnel expenses	(3 057)	(1 715)	(1 228)	(15 161)	**(21 161)**
Total	**16 374**	**147 217**	**(1 228)**	**160 864**	**323 227**

In thousands of BGN

As of December 31, 2021	Parent company	Subsidiaries	Associates	Other related parties	Total Income (Expense)
Interest incomes	1 468	14 053	-	281	**15 802**
Interest expenses	(13 567)	-	-	(9 690)	**(23 257)**
Dividend income	-	64 051	300	-	**64 351**
Fee and commissions income	758	14 468	-	992	**16 218**
Fee and commissions expenses	(8)	-	-	(85)	**(93)**
Net gains (losses) on financial assets and liabilities held for trading	4 830	-	-	577	**5 407**
Other operating income	-	616	-	44	**660**
Administrative and personnel expenses	(2 735)	(1 415)	(1 105)	(13 737)	**(18 992)**
Total	**(9 254)**	**91 773**	**(805)**	**(21 618)**	**60 096**

Compensation paid to key management personnel is as follows:

In thousands of BGN

Paid benefits	31.12.2022	31.12.2021
Short-term employee benefits	2 532	2 036
Other long-term benefits	108	-
Share-based payments	56	121
Non-monetary benefits	440	344
Total benefits paid	**3 136**	**2 501**

46. Cash and cash equivalents

In thousands of BGN

	31.12.2022	31.12.2021
Cash in hand and in ATM	280 640	263 345
Cash in transit	167 707	183 383
Current account with the Central Bank	6 622 056	6 230 708
Current accounts with banks	84 763	170 898
Placements with banks with original maturity less than 3 months	917 535	269 357
Cash and cash equivalents	**8 072 701**	**7 117 691**

47. Leasing

The 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.

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

IFRS16, effective starting from January 01, 2019 introduced a new definition for leases. For all the leasing typologies, the recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract. The amount of right of use assets and lease liabilities respectively are presented in **Note 30** and respectively **Note 38**.

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

Summary of non-cancellable minimum lease payments as of December 31, 2022 and December 31, 2021 are presented in the tables below:

In thousands of BGN

Residual maturity	Total future minimum lease payment 31.12.2022	31.12.2021
Up to one year	28	30
Total	**28**	**30**

48. 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, 2022 and December 31, 2021 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of separate quantitative 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

	2022	2021	Reference to other notes and reports
Total operating income	899 086	746 478	Separate Income Statement and details in Notes 8,9,10,11,12,13 and 14
Profit before income tax	505 416	341 394	Separate Income Statement
Income tax expense	(39 531)	(27 568)	Separate Income Statement and details in Note 21
Return on average assets (%)	1.7%	1.3%	2021 Annual Report on Activity
Annual Turnover	926 843	770 532	Separate Income Statement
Full time equivalent number of personnel as of December 31	3 443	3 533	Note 16

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

49. IBOR Reform

The cases of attempted market manipulation and false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets, undermined confidence in the reliability and robustness of existing interbank benchmark interest rates. Uncertainty surrounding the integrity of these reference rates represents a potentially serious source of vulnerability and systemic risk.

Against this background, in 2013 the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans were consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

In the case of LIBOR, the UK Financial Conduct Authority (FCA) announced that it will not compel or persuade LIBOR panel banks to submit to LIBOR after the end of 2021. Cessation dates for LIBORs were defined: 31-Dec-2021 for all EUR, CHF, GBP, JPY tenors as well as USD 1-week and 2-month, and 30-Jun-2023 for all other USD settings.

The currencies affected in the case of UniCredit Bulbank were USD and CHF. Starting from the beginning of 2022, the Bank duly replaced respective LIBORs applied on customer business, as follows:

- In USD, through CME Term SOFR Reference Rates (forward-looking);
- In CHF, through SARON Compound Rate, in line with Regulation (EU) 2021/1847.

The change was reflected in the Bank's Cessation Plan. The General Terms & Conditions were duly updated and customers were notified about the change.

No impact is expected due to this change, either for customers or for the Bank, because the all-in customer rates remained unchanged. In particular:

- In USD, all LIBOR-linked transactions outstanding at the end of 2021 are based on tenors (1, 3, 6 months) for which USD LIBOR will be quoted until end of June 2023. From the beginning of 2022, all new USD-denominated floating-rate transactions are made at market prices, using the SOFR and SOFR-linked indices as benchmarks. Starting from 01.07.2023, as per cessation plan approved by the MB, term SOFR Reference Rates administered by CME Group Benchmark Administration Limited shall be applied to the non-matured loans which were based on LIBOR-linked indices
- In CHF, the only type of exposures outstanding at the end of 2021 are mortgage loans to private individuals – a remaining part of a legacy portfolio, with no new loans added for more than 10 years. The total amount is considered immaterial (less than 0.01% from total loans to customers). On these loans, in compliance with Regulation (EU) 2021/1847, starting from the beginning of 2022, CHF LIBOR was replaced by 3-month SARON Compound Rate (incl. statutory spread adjustment) and the customer margin was adjusted to ensure the same all-in customer rate being applied going forward. Currently, no new business has been planned in CHF but if any floating-rate transactions are entered into, they will be based on SARON or SARON Compound Rates.

50. Events after the reporting period

MREL Issuance

As part of UniCredit Group, whose resolution strategy is of the type “Single Point of Entry”, UniCredit Bubank is subject to internal Minimum Requirement for Own Funds and Eligible Liabilities (iMREL).

On 1st of Jun 2022, UniCredit Bulbank has received the Single Resolution Board decision on the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). It defines the fully loaded requirement to be fulfilled since 1st of January 2024 at 15.46% plus the Combined Buffer Requirement (CBR) of the Risk weighted assets (iMREL RWAs) and 5.90% of the Leverage Ratios Exposures (LRE). In addition, intermediate targets valid since 1st of January 2022 and set during the 2021 resolution cycle were confirmed: 15.16% +CBR of and 5.90% RWAs.

In 2023, based on the projected development, business volumes will continue to grow increasing the absolute amount of the Risk Weighted Assets of the bank. Besides, Bulgarian National Bank already announced increase in countercyclical buffer to 1.5% from 1st of January 2023 and 2.0% since 1st of October 2023. In addition, SRB indicated that during the 2023 resolution cycle it will revise the 2024 fully loaded requirement and will move it from stand-alone to sub-consolidated level.

Thus in order to keep compliance with iMREL requirement in 2023, UniCredit Bulbank issued in January 2023 a second own senior non-preferred bond, MREL eligible and subscribed by UniCredit Spa in line with single point of entry resolution Strategy. The nominal amount of the bond is EUR 250 Mio, interest rate is floating one, linked to 3Mo Euribor, maturity date is in January 2029 and a call option exercisable in January 2028. The details for the first issued MREL bond are presented in note 39.

There are no other significant events after the reporting period with effect on the financial statements as of December 31, 2022.

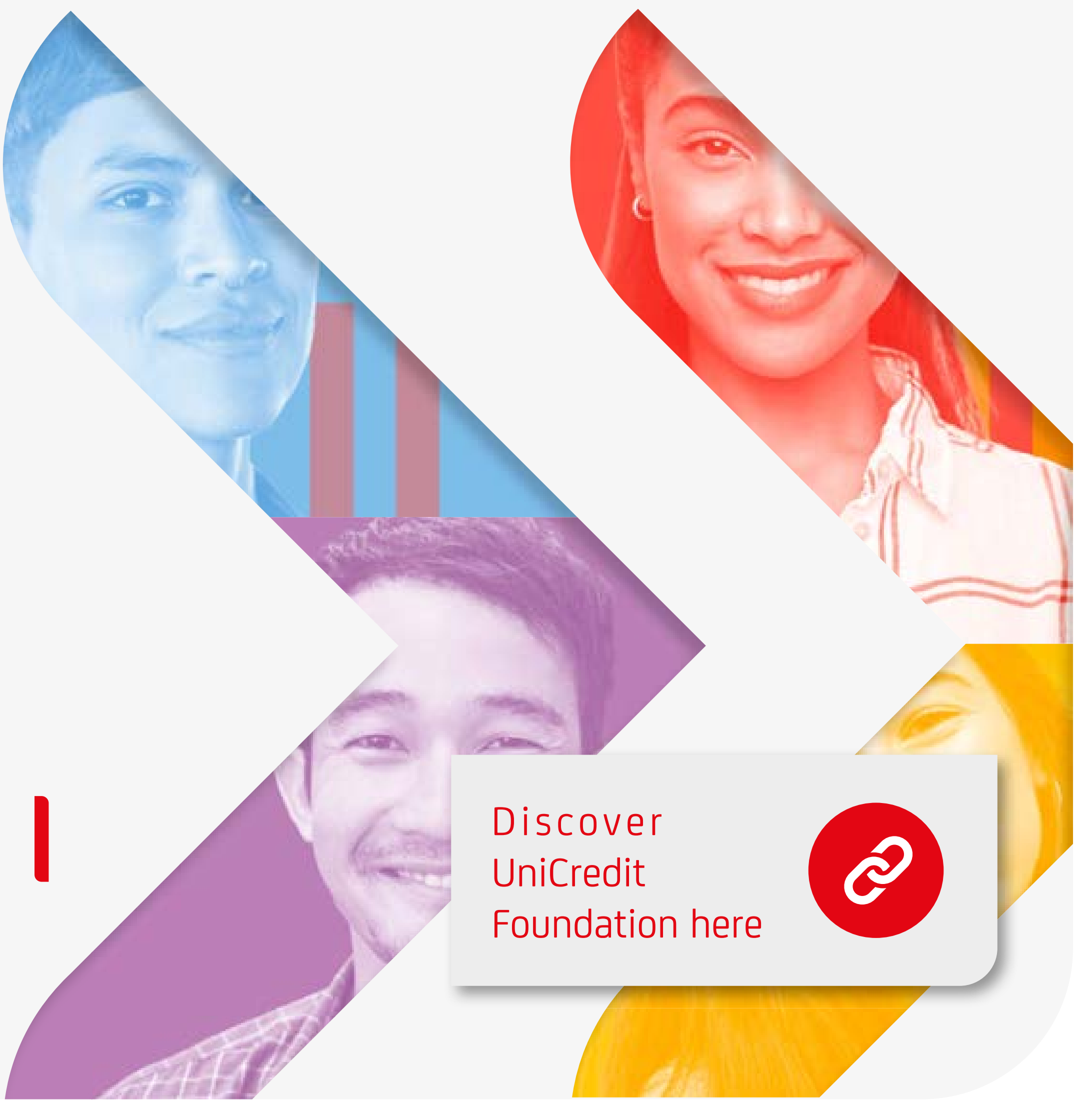
Unlocking...

A better bank

A better world

A better future

UniCredit Foundation



Discover
UniCredit
Foundation here

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Independent Auditors' Report

To the shareholders of UniCredit Bulbank AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of UniCredit Bulbank AD (the Bank) and its subsidiaries (together the "Group") as set out on pages 2 to 107, which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated 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 "Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the 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 requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG *INDEPENDENT AUDITORS' REPORT* bakertilly

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the following key audit matters:

Impairment of loans and advances to customers at amortised cost and finance leases

As at 31 December 2022, the consolidated financial statements include:

- Gross loans and advances to customers at amortised cost and finance leases of BGN 16,363,669 thousand (31 December 2021: BGN 13,732,714 thousand) and related impairment allowance of BGN 899,253 thousand (31 December 2021: BGN 862,032 thousand), as disclosed in notes 26 and 26a to the consolidated financial statements.
- Net impairment credit losses recognized in the consolidated income statement of BGN 80,911 thousand (2021: BGN 126,668 thousand), as disclosed in note 19 to the consolidated financial statements.

Also refer to the following notes to the consolidated financial statements:

- 3 (j) Impairment
- 4 (d) Credit risk

Key audit matter	How this key audit matter was addressed in our audit
Impairment allowances for loans and advances to customers and finance leases (collectively, "loans", "exposures") represent the Group's best estimate of expected credit losses ("ECL") associated with these exposures at the reporting date. Measurement thereof requires the Group to make complex judgements and assumptions. As described in note 3 (j), the expected credit losses have been determined in accordance with the Group's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Group estimates the expected credit losses considering a stage allocation of the loan exposures. For performing exposures (stage 1 and stage 2 loans in the IFRS 9 hierarchy), as well as individually non-significant stage 3 (non-performing) exposures, the expected credit losses are determined based on statistical models using the Group's historical debt service data and also forward-looking information and macroeconomic scenarios. The key assumptions in this area are, among other things, the probability of borrower's default ("PD"), the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default", "LGD") and of the amount of exposure	Our audit procedures performed, where applicable, with the assistance of our financial risk management, valuation and IT audit specialists, included among others: — Evaluating the appropriateness of the loan impairment accounting policies and related methods and models against the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Group's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL estimation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Group's IT control environment for access and program change; — Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the appropriateness of the

at default ("EAD"). In the wake of the geopolitical volatility following the outbreak of the Russo-Ukrainian war, the adverse macroeconomic effects of the increase in energy and other commodity prices, resulting inflationary pressures and disruptions in the global supply chains, as well as of the rise in interest rates, measurement of the collective impairment allowance was associated with additional complexities and an increased estimation uncertainty. Among other things, the application of in-model and post-model adjustments was required from management in arriving at the year-end estimate of collective impairment losses. For individually significant stage 3 exposures, expected credit losses are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the sale of any related collateral and minimum period for collateral disposal. Given the above factors and complexities, we considered Impairment of loans and advances and finance leases to be associated with a significant risk of material misstatement in the consolidated financial statements, which required our increased attention in the audit and as such was determined to be a key audit matter.	classification of exposures into performing and non-performing, calculation of days past due, stage allocation and calculation of the ECL; — For a sample of loans, critically assessing, by reference to the underlying loan documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2022; For ECLs estimated on a collective basis: — Obtaining the Group's relevant macroeconomic forecasts and critically assessing the forward-looking information and macroeconomic scenarios used in the calculation of the ECL, by means of corroborating inquiries of the Management Board and inspecting publicly available information; — Challenging the collective PD, LGD and EAD parameters for a sample of the Group's portfolios, by reference to, among other things, our own analysis of the Group's data on past default occurrence, realized losses on those defaults, contractual cash flows and contractual lifetime; — Testing in-model and post-model related adjustments to reflect the current market volatility not reflected in the original ECL models. As part of the procedure, we evaluated the data, assumptions and methods used in calculating the adjustments; — Recalculating the expected credit losses as of 31 December 2022 based on the Group's ECL model for a sample of the Group's portfolios; For ECLs estimated on an individual basis: — For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows in the impairment calculation, including time to sell and any realizable value of the collateral, by reference to the underlying collateral agreements and appraisals, whose relevance and reliability we independently assessed; For loan exposures in totality: — Examining whether the Group's ECL-related disclosures in the consolidated financial statements appropriately address the relevant

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	quantitative and qualitative requirements of the applicable financial reporting framework.

Other Matter relating to comparative information

The consolidated financial statements of the Group as at and for the year ended 31 December 2021, excluding the adjustments described in Note 3 (u) to the consolidated financial statements, were audited jointly by Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD who expressed an unmodified opinion on those financial statements on 4 March 2022.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2022, we also audited the retrospective adjustments described in Note 3 (u) to the consolidated financial statements that were applied to restate the comparative information as at and for the year ended 31 December 2021.

KPMG Audit OOD was not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended 31 December 2021, other than with respect to the retrospective adjustments described in Note 3 (u) to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 3 (u) to the consolidated financial statements are appropriate and have been properly applied.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the consolidated annual report, the corporate governance declaration and the consolidated non-financial declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' 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.

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.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the consolidated annual report, the corporate governance declaration and the consolidated non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- The information included in the consolidated annual report for the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.

KPMG *INDEPENDENT AUDITORS' REPORT* bakertilly

- The consolidated annual report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The corporate governance declaration for the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.
- The consolidated non-financial declaration referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Standards 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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

KPMG *INDEPENDENT AUDITORS' REPORT* bakertilly

to the date of our auditors' 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- KPMG Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2022 by the general meeting of shareholders of the Bank held on 7 April 2022 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2022 represents first uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and sixth total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

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- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Sofia, 13 March 2023

For KPMG Audit OOD:

Ivan Andonov
Authorised representative

Sevdalina Dimova
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

For Baker Tilly Klitou and Partners EOOD:

Galina Lokmadjieva
Registered auditor, responsible for the audit and Authorised representative

5 Stara Planina Str., 5th floor
Sofia 1000, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

Consolidate Income Statement

CONSOLIDATED INCOME STATEMENT

In thousands of BGN

	Notes	2022	2021
Interest income calculated using the effective interest method		625 487	568 795
Other interest income		6	71
Interest expense		(41 165)	(49 784)
Net interest income	8	**584 328**	**519 082**
Dividend income		**1 023**	**927**
Fee and commission income		333 796	293 931
Fee and commission expense		(52 492)	(38 459)
Net fee and commission income	9	**281 304**	**255 472**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	10	104 920	79 259
Net gains/(losses) from financial assets mandatory at fair value	11	(159)	1 243
Net income from financial assets measured at FVTOCI	12	5 664	17 174
Other operating income	13a	34 287	31 354
Other operating expenses	13b	(30 737)	(26 128)
TOTAL OPERATING INCOME		**980 630**	**878 383**
Net income related to property, plant and equipment	14	15 196	2 858
Personnel expenses	15	(181 793)	(169 721)
General and administrative expenses	16	(118 782)	(113 810)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	(71 841)	(63 245)
Provisions for risk and charges	18	243	(3 087)
Net impairment loss	19	(112 465)	(120 863)
PROFIT BEFORE INCOME TAX		**511 188**	**410 515**
Income tax expense	20	(50 757)	(40 483)
PROFIT FOR THE YEAR		**460 431**	**370 032**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Officer

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Sevdalina Dimova
Registered auditor, Responsible for the audit
KPMG Audit OOD

Ivan Andonov
Authorized representative
KPMG Audit OOD

Galina Lokmadjieva
Registered auditor, Responsible for the audit and Authorized representative
Baker Tilly Klitou and Partners EOOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

Consolidate Statement of Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of BGN

	Notes	2022	2021
Profit for the year		**460 431**	**370 032**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains	39	4 261	975
Revaluation reserve on tangible assets	29	2 173	2 603
Revaluation reserve on equity investments recycled at equity		206	-
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(664)	(359)
		5 976	**3 219**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities		(274 213)	(44 231)
Cash flow hedge		(45 990)	4 780
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		32 445	3 523
		(287 758)	**(35 928)**
Total other comprehensive income net of tax for the year		**(281 782)**	**(32 709)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**178 649**	**337 323**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

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

Consolidate Statement of Financial Position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Notes	31.12.2022	31.12.2021
ASSETS			
Cash and balances with Central Bank	21	7 070 405	6 677 438
Non-derivative financial assets held for trading	22	2 828	4 601
Derivatives held for trading	23	116 097	87 039
Derivatives held for hedging	24	131 468	11 876
Loans and advances to banks and debt securities at amortized cost	25	1 282 131	700 789
Loans and advances to customers and debt securities at amortized cost	26	16 491 066	13 118 639
Pledged debt securities at amortized cost	26	180 384	-
Finance leases	26a	936 872	827 383
Investment securities	27	1 471 666	2 862 708
Pledged investment securities	27	1 062 591	612 856
Investments in associates	28	3 885	3 426
Property, plant, equipment, right of use assets and investment properties	29	339 770	328 737
Intangible assets	30	98 671	91 343
Current tax assets	31	1 687	8
Deferred tax assets	32	3 686	3 940
Non-current assets and disposal groups classified as held for sale	33	-	12 262
Other assets	34	108 793	85 970
TOTAL ASSETS		**29 302 000**	**25 429 222**
LIABILITIES			
Financial liabilities held for trading	35	159 306	47 148
Derivatives used for hedging	24	132 160	85 287
Deposits from banks	36	1 613 792	1 211 620
Deposits from customers and other financial liabilities at amortized cost	37	23 222 863	19 800 871
Debt securities issued	38	313 701	313 104
Provisions	39	139 984	120 253
Current tax liabilities	31	618	5 647
Deferred tax liabilities	32	9 420	6 192
Other liabilities	40	133 550	147 317
TOTAL LIABILITIES		**25 725 394**	**21 717 439**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		(146 957)	139 207
Retained earnings		2 977 355	2 916 767
Profit for the year		460 431	370 032
TOTAL EQUITY	41	**3 576 606**	**3 711 783**
TOTAL LIABILITIES AND EQUITY		**29 302 000**	**25 429 222**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

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

4

Consolidate Statement of Changes in Equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve tangible assets	Total
Balance as of January 1, 2021	285 777	342 378	2 572 947	148 236	(34 600)	(6 353)	65 973	3 374 460
Profit for the year	-	-	370 032	-	-	-	-	370 032
Actuarial gains	-	-	-	-	-	975	-	975
Change of revaluation reserve on investment securities	-	-	-	(44 231)	-	-	-	(44 231)
Change of revaluation reserve on cash flow hedges	-	-	-	-	4 780	-	-	4 780
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	2 603	2 603
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 603	-	-	-	(1 603)	-
Income tax related to components of other comprehensive income	-	-	(161)	4 001	(478)	(98)	(100)	3 164
Total other comprehensive income for the year net of tax	-	-	1 442	(40 230)	4 302	877	900	(32 709)
Total comprehensive income for the year net of tax	-	-	371 474	(40 230)	4 302	877	900	337 323
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2021	285 777	342 378	2 944 421	108 006	(30 298)	(5 476)	66 873	3 711 783

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve tangible assets	Total
Balance as of January 1, 2022	285 777	342 378	2 944 421	108 006	(30 298)	(5 476)	66 873	3 711 783
Profit for the year	-	-	460 431	-	-	-	-	460 431
Actuarial gains	-	-	-	-	-	4 261	-	4 261
Change of revaluation reserve on investment securities	-	-	-	(274 007)	-	-	-	(274 007)
Change of revaluation reserve on cash flow hedges	-	-	-	-	(45 990)	-	-	(45 990)
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	2 173	2 173
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	4 868	-	-	-	(4 868)	-
Income tax related to components of other comprehensive income	-	-	(486)	27 825	4 599	(426)	269	31 781
Total other comprehensive income for the year net of tax	-	-	4 382	(246 182)	(41 391)	3 835	(2 426)	(281 782)
Total comprehensive income for the year net of tax	-	-	464 813	(246 182)	(41 391)	3 835	(2 426)	178 649
Dividends paid	-	-	(313 826)	-	-	-	-	(313 826)
Balance as of December 31, 2022	285 777	342 378	3 095 408	(138 176)	(71 689)	(1 641)	64 447	3 576 606

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

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

Consolidate Statement of Cash Flows

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of BGN

	Notes	2022	2021 Restated*
Net profit		**460 431**	**370 032**
Current and deferred tax, recognized in income statement	20	50 757	40 463
Adjustments for non-cash items			
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	71 841	63 245
Impairment of financial assets		101 645	135 526
Impairment of foreclosed properties	13	-	36
Provisions, net	39	29 369	2 281
Unrealized fair value losses through profit or loss, net		23 289	3 976
Unrealized fair value losses on FX revaluation		152 638	97 301
Net (gains)/losses for associates under equity method		(459)	56
Net gains from sale of property, plant and equipment		(15 196)	(9 021)
Net interest income	5	(584 326)	(519 082)
Dividend income		(1 023)	(927)
Increase in other accruals		16 350	6 385
Cash flows from profits before changes in operating assets and liabilities		**305 313**	**190 291**
Operating activities			
Change in operating assets			
(Increase)/Decrease in loans and advances to banks		(18 852)	206 142
Increase in loans and advances to customers		(3 738 478)	(1 742 685)
Increase in financial instruments held for trading and hedging derivatives		(97 095)	(35 352)
Decrease in non-current assets held for sale		12 292	8 711
(Increase)/Decrease in other assets		(19 302)	4 028
Increase in non-current assets from operating lease		(26 241)	(23 108)
Change in operating liabilities			
Increase/(Decrease) in deposits from banks		391 910	(851 364)
Increase in deposits from customers		3 335 090	849 306
Provisions utilization		(5 837)	694
Decrease in other liabilities		(50 840)	(62 358)
Interest received		610 348	569 831
Interest paid		(41 287)	(49 596)
Dividends received		1 023	927
Taxes paid		(15 801)	(30 905)
Net cash flow from/(used in) operating activities		**642 043**	**(565 438)**

Consolidate Statement of Cash Flows (continued)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

In thousands of BGN

	Notes	2022	2021
Cash flow from investing activities			Restated*
Cash payments to acquire PPE		(31 422)	(39 094)
Cash receipt from sale of PPE		15 196	9 022
Cash payments to acquire intangible assets	30	(28 222)	(31 271)
Cash receipt from sale of FVOCI assets		821 168	884 823
Cash payments to acquire FVOCI assets		(137 756)	(726 620)
Net cash flow from investing activities		**638 964**	**96 860**
Cash flow from financial activities			
Dividends paid		(313 826)	-
Cash payments related to lease liabilities		(8 422)	(6 451)
Increase in debt securities issued		-	312 933
Net cash flows from/(used in) in financial activities		**(322 248)**	**306 482**
Effect of exchange rate changes on cash and cash equivalents		**(3 886)**	**23 015**
Impairment of cash equivalents	19	**137**	**(2)**
Net increase/(decrease) in cash and cash equivalents		**955 010**	**(439 079)**
Cash and cash equivalents at the beginning of period	45	**7 117 693**	**7 556 772**
Cash and cash equivalents at the end of period	45	**8 072 703**	**7 117 693**

*See Note 3(u)

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Officer

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Sevdalina Dimova
Registered auditor, Responsible for the audit
KPMG Audit OOD

Ivan Andonov
Authorized representative

KPMG Audit OOD

Galina Lokmadjieva
Registered auditor, Responsible for the audit and Authorized representative
Baker Tilly Klitou and Partners EOOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

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

Notes to the Consolidate 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, the Bank or the Group).

UniCredit Bulbank AD possesses a full-scope banking license 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, 2022 the Bank operates through its network comprising of 133 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 (EU).

These financial statements have been prepared on consolidated basis as required by Bulgarian Accountancy Act.

These consolidated financial statements are approved by the Management Board of UniCredit Bulbank AD on March 8, 2023.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value or at amortized cost depending on asset classification, as well as property, plant, equipment and investment properties that are measured at fair value.

(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 the Group.

(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 recognized 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 recognized 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 consolidated financial statements. In principal, 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 Group, prior period information is also recalculated for comparative reasons.

(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 as well as special purpose entities (SPE) in the customer portfolio. 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 as well as loans and advances to SPEs 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, 2022 and December 31, 2021.

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, 2022 and December 31, 2021 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.

After the merge between UniCredit Factoring EAD and UniCredit Bulbank, the consolidation scope as of December 31, 2022 has changed to the one applied as of December 31, 2021 and it covers the following entities:

Company	Participation in equity as of 31.12.2022	Direct/ Indirect participation	Consolidation method
UniCredit Fleet Management EOOD	100%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100%	Direct	Full consolidation
UniCredit Leasing EAD	100%	Direct	Full consolidation
Cash Service Company AD	25%	Direct	Equity method

3. Significant accounting policies (continued)

(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/effective interest rate 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.

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) 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;
- unrealized finance income (interest) representing the difference between the gross investment in the finance lease contract and the net investment therein. The gross investment in the finance lease contract is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the lessor. The interest income (finance charge) is allocated over the lease term on a pattern reflecting a constant periodic return on the lessor's net investment.
- excess liquidity interest based fees for accounts maintenance.

(c) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in the income statement as the entity satisfies the performance obligation embedded in the contract, according to "IFRS 15 Revenue from Contracts with Customers" rules.

In particular:

- if the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognized in the income statement when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in the income statement in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized over the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Group accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or defers it in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, revenue has to be booked based on the most probable amount that the Group expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, depending on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Nevertheless, for the services provided by the Group such a variability is not usually foreseen.

Finally, if a contract relates to different goods/services whose performance obligations are not satisfied at the same time, revenue is allocated among the different performance obligations proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

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 including FX revaluation

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 derivative deals with customers which represents 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 derivative related to customers' business and their respective back-to-back derivatives with banks are presented net and included as part of the net gains (losses) on financial assets and liabilities held for trading.

(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 are translated at the foreign exchange rate effective at the date of the transaction. FX revaluation of equity investments classified in FVTOCI portfolio should be presented in FVTOCI revaluation reserve. As of each reporting date, all foreign currency denominated monetary assets and liabilities are revaluated using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in 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 realized and unrealized 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 recognized when the right to receive the income is established. Usually this is the ex-dividend date for equity securities.

(h) Leases

The Group as a lessee applies the requirements of IFRS 16, and assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (under EUR 5 000). For these leases, as permitted by IFRS 16, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;

- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lessor transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

The Group as a lessor

Finance lease receivables

The Group’s lease activity is related to lease of transport vehicles, industrial machinery, real estate, etc. mainly under finance lease agreements.

A finance lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment. A lease is considered to be a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. At the start of a finance lease agreement a receivable is recognized as an asset at the amount of the net minimum lease payments. The payment by the lessee covers the principal and realizes finance income, which compensates the investment and the lease service. Following the change in the VAT Act, in force since 1 January 2007 – the date when Bulgaria joins the European Union, when the lease agreements explicitly states that there will be a transfer of the ownership rights, VAT is booked by the real hand over of the goods and can be paid by the lessor and included in the gross investment in finance lease.

Typical indicators that the Group assesses to determine whether substantially all of the risks and rewards are transferred include: the present value of the minimum lease payments that the lessee is required to make in relation to the fair value of the leased asset at the inception of the lease; the duration of the lease in relation to the economic life of the leased asset; and whether the lessee will obtain ownership of the leased asset at the end of the financial lease agreement term.

Lease agreements whereby the risks and rewards incidental to ownership of the leased asset are not transferred from the lessor to the lessee, are classified as operating lease agreements.

Minimum lease payments

Minimum lease payments are those payments that the lessee is, or can be required to make to the lessor over the lease term. From the Group’s point of view, minimum lease payments also include residual value guarantees by any third party unrelated to the Group provided that party is financially capable of fulfilling the obligations under the guarantee or repurchase agreement. The Group also includes in minimum lease payments the exercise price of a purchase option over the leased asset held by the lessee if it is reasonably certain at inception of the lease that the purchase option will be exercised. Minimum lease payments do not include contingent rent amounts, costs for services and taxes to be paid by and reimbursed to the Group.

Inception and commencement date of the lease

A distinction is made between the inception and commencement of the lease. The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal terms of the lease. At this date:

- a lease is classified as either an operating or a finance lease; and
- in the case of a finance lease, the amounts to be recognized at the commencement of the lease are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. This is the date when the Group initially recognizes the lease.

Initial and subsequent measurement

Initially the Group records a finance lease receivable at the amount of its net investment, which comprises the present value of the minimum lease payments and any unguaranteed residual accruing to the Group. The present value is calculated by discounting the minimum lease payments due, at the interest rate implicit in the lease. Over the lease term the Group accrues financial income (interest income under finance lease) on the net investment. The receipts under the lease are allocated between reducing the net investment (repayment of principal) and recognizing finance income, so as to produce a constant rate of return on the net investment.

Subsequently the net investment in finance lease contracts is presented net of specific and general allowances for uncollectibility.

Operating lease

The payments under the operating lease contracts concluded are recognized as income by applying the linear method to the term of the specific contract.

(i) Financial instruments

(i) Recognition

The Group initially recognizes 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 recognized 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 recognized in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group 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.

Classification of the financial assets is based on business model and characteristics of the contractual cash flows.

The analysis of the business model was conducted by mapping the business areas that make up the Group's portfolios and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyze the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortized cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyze the contract features with respect to IFRS 9 requirements, or by using external data providers.

In application of the aforementioned rules, the Group 's financial assets and liabilities have been classified as follows:

(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 amortized 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. After initial recognition these financial assets are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HFT) financial asset is recognized in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognized as "Financial liabilities held for trading".

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.

A non-derivative financial asset can be designated at fair value if the abovementioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

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

d) Financial assets mandatorily at fair value

The portfolio Mandatorily at fair value through profit or loss (MFV) is introduced according to IFRS 9 principles. A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realized or unrealized, are recognized in profit or loss as "Financial assets mandatorily at fair value".

e) Fair value through other comprehensive income (FVTOCI) assets

Financial asset, which is a debt instrument, is classified at FVTOCI if:

- its business model is held to collect and sell;
- its cash flows are solely the payment of principal and interest.

FVTOCI investments are non-derivative investments whose objective is achieved by both collecting contractual cash flow and selling financial assets.

All FVTOCI investments are carried at fair value.

On initial recognition, at settlement date, a financial asset is measured at fair value, which is usually equal to the consideration paid, plus transaction costs and fees directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortized cost criterion as Interest income and similar revenues. The gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves.

These instruments are tested for impairment as illustrated in the specific section. Impairment losses are recorded in the income statement.

In the event of disposal, the accumulated profits and losses are recorded in the income statement.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers cost as the best estimate of fair value.

f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The Bank considers cost as a best estimate of fair value in case of Equity instruments for which all the following conditions are met: the instrument is not listed; the percentage of interests held by the Bank does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss. No reclassification of gains and losses to profit or loss on derecognition is allowed.

g) Financial assets at amortized cost

A financial asset is classified as financial asset measured at amortized cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

On initial recognition, at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and fees directly attributable to the instrument.

After initial recognition assets are measured at amortized cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Such interest is recognized in profit or loss as Interest income and similar revenues.

The carrying amount of financial assets at amortized cost is adjusted to take into account the reductions/write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in profit or loss.

In the event of disposal, the accumulated profits and losses are recorded in the income statement as Gains (Losses) on disposal.

Amounts deriving from financial assets carrying amount adjustment, gross of cumulated write-downs, in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition, are recognized in profit or loss as Gains/Losses from contractual changes with no cancellations of the contracts.

Sales are usually not compatible with this business model. Several kinds of sales however do not jeopardize the business model held to collect. These are sales that occur as a result of deterioration in the credit standing of the financial assets, which are not significant in value (not greater than 10% of the carrying value of the relevant portfolio) or sales that are made close to the maturity. In any cases sales should be infrequent.

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 amortized cost using the effective interest rate method.

(iii) Derecognition

The Group derecognizes 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 Group is recognized as a separate asset or liability. The Group derecognizes a financial asset also in case of substantial modification of the terms and conditions of the asset.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognized 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 derecognized 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 Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Group continues to recognize 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 Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized in its entirety if it meets the derecognition criteria. An asset or liability is recognized 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.

(iv) Amortized cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) 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 Group applies a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note 5).

(vi) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when both the Group 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.

(vii) 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 recognized on an accrual basis over agreed term of the deal and is included in net interest income.

(j) Impairment

The Group recognizes a loss allowance for expected credit losses on: a debt financial asset that is measured at Amortized cost and Fair value through Other Comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contracts.

For this purpose debt instruments have to be classified in one of the following stages:

- Stage 1: which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- Stage 2: which comprises financial assets whose credit risk has significantly increased since initial recognition;
- Stage 3: which comprises credit impaired financial assets.

In order to provide consistency between IFRS and regulatory definitions, it is assumed that all instruments classified as "Non-performing" according to regulatory framework are considered to be instruments with an objective evidence of impairment (credit impaired).

In order to meet the requirements of the standard, the Group has developed specific models to calculate expected loss based on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on PD, LGD and EAD parameters to compound the Expected Credit Loss (ECL), and a model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. For Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

3. Significant accounting policies (continued)

(j) Impairment (continued)

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date. In the Group, the Stage Allocation model is based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the Group's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group and the Bank opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Group's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

a) Impairment of assets carried at amortized cost

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 Group. Review is performed and decisions are taken by Financial and Credit Risk Committee – Credit Risk Session 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.

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in profit or loss.

b) Impairment of 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 Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in profit or loss.

FVTOCI financial assets 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 Financial and Credit Risk Committee – Credit Risk Session (formerly Provisioning and Restructuring Committee) which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(k) Derivatives held/used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD".

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.

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 function 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 limits for intragroup deals are to be reduced respectively to 90% and 111.8%). 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 Fair value at other comprehensive income, 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 amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortization 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 recognized 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, except for:

- properties used in business (regulated by IAS 16 "Property, plant and equipment"), for which the revaluation model for the measurement subsequent to initial recognition is applied;
- investment properties (regulated by IAS 40 "Investment property"), for which the fair value model is applied.

Starting from December 31, 2019 the Group has adopted a policy to carry its items of property at revalued amount under the allowed alternative approach in IAS 16 Property, plant and equipment. Items of property are stated at fair value determined periodically by independent registered appraisers.

Positive changes in value are recognized in other comprehensive income reserve; if in previous periods negative changes were accounted for in the income statement, then subsequent positive changes will be recognized in the income statement up to the amount of negative change previously recognized.

Negative changes in value recognized in the income statement; if in previous periods positive changes in value were accounted for in other comprehensive income reserve, then subsequent negative changes will be recognized in other comprehensive income reserve (which can never be negative).

Depreciation is calculated based on revalued values and the revised remaining useful life.

Other comprehensive income reserve generated from revaluation (including the one, generated at First Time Adoption) is "reclassified" to retained earnings across the residual useful life of the asset. In case of disposal of the asset the entire other comprehensive income reserve is reclassified to retained earnings (with no impacts in the income statements).

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

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Starting from December 31, 2019 the Bank has adopted a policy to carry its items of investment property at fair value determined periodically by independent registered appraisers. In periods after the first comparative period, the changes in fair value over the previous period is recognized in the income statement. No depreciation charges or impairment adjustments is to be recognized.

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.

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 (except investment property for which no depreciation charges are accrued) 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	2-4	25-50
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 amortization and any impairment losses. As of December 31, 2022 and December 31, 2021 intangible assets include primarily investments in software and related licenses.

Amortization 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 Group is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortization rate. For core system software and related applications estimated useful life is 10 years, which is an equivalent of approximately 10% annual amortization 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 to 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. 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 Group 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, 2022 and December 31, 2021 Management has reviewed Group'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 Group has to settle should the employment contract is terminated as of the reporting date. Short-term employees' benefits are presented as other liabilities and disclosed separately in the Notes.

(ii) Defined benefit obligation

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value. The discount rate used is those of Bulgarian local currency government bonds at the reporting date. The calculation is performed by a qualified actuary. 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 granted by the ultimate parent UniCredit S.p.A. They are allocated to selected group of top and senior managers of the Group.

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, 2022 and December 31, 2021 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 made in 2022 and 2021.

(ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Group as well as reserves on investments at FVTOCI, revaluation of property, plant and equipment (properties used in business), cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2022 and December 31, 2021 the reserves include 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 recognized 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, 2022 and December 31, 2021 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.

(s) Segment reporting

The Group has adopted IFRS 8 "Operating Segments" which requires the Group to present operating segments based on the information that is internally provided to the Management. The business segments that have been previously determined and presented by the Group in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Group.

(t) Standards issued but not yet effective

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2022, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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

(a) IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)

The standard is effective for annual periods beginning on or after 1 January 2023 and early application is permitted. The Group expects that the standard, when initially applied, will not have a material impact on the presentation of the consolidated financial statements of the Group because the Group does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
- and the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.
- In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

The Group does not expect the amendment to have a material impact on its consolidated financial statements when initially applied.

(c) Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The Group does not expect the amendment to have a material impact on its consolidated financial statements when initially applied.

(d) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

The Group does not expect the amendment to have a material impact on its consolidated financial statements when initially applied.

(e) Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)

IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

The Group does not expect the amendment to have a material impact on its consolidated financial statements when initially applied.

Standards and interpretations not yet endorsed by the EC

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

The following amendments and improvements to standards are not expected to have a material impact on the consolidated financial statements of the Group.

- *Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022);*
- *Amendments to IAS 1 Presentation of Financial Statements;*
  - *Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020);*
  - *Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and*
  - *Non-current Liabilities with Covenants (issued on 31 October 2022).*

(u) Change in presentation of comparative information

In 2022 the management reclassified certain amounts (shown in the table below) in the statement of cash flows in order to achieve comparability with the performance in 2022, which it considers more informative for users of financial statement. Management has followed the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(1) Cash receipts and payments as a result of purchases and sales of debt securities FVOCI are presented gross in net cash from investing activities for the year ended 31.12.2021 due to their nature.

(2) Cash receipts as a result of debt securities issued for the year ended 31.12.2021 are presented in net cash from financing activities due to their nature.

(3) Cash payments included as lease liabilities payments for the year ended 31.12.2021 are presented in net cash used in operating activities due to their nature.

(4) Cash payments related to purchases of assets that are held for rental and are routinely sold in the course of ordinary activities for the year ended 31.12.2021 are presented in net cash used in operating activities due to their nature.

Statement of Cash flows

In thousands of BGN	As presented before	correction (1)	correction (2)	correction (3)	correction (4)	Recalculated amount
Net cash (used in)/from operating activities	(370 870)	(158 203)	(312 933)	(324)	(23 108)	(865 438)
Net cash (used in)/from investing activities	(84 451)	158 203	-		23 108	96 860
Net cash (used in)/from financing activities	(6 775)	-	312 933	324		306 482

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;

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 Group Risk Management Standards as well as all respective requirements set by the Bulgarian and European banking legislations. The Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

Financial and Credit Risk Committee – ALCO Session (FCRC – ALCO) is a decisional committee in the area of the financial risk management that is directly accountable to the Management Board of the Bank (MB). It is responsible for developing and employing the liquidity management system of the Bank. The Committee is responsible for approving strategies, policies and methodologies for market risk, counterparty credit risk, liquidity risk, FX risk and banking book interest rate risk, fund transfer pricing, setting limits (where applicable) accordingly.

Credit risk in the Bank is specifically monitored through Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation, approval of changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes. 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 large exposures – above 10% of Tier 1 capital of the Bank (requirement of Law on Credit Institutions). There is a procedure established in the Bank for limits monitoring, including early warning in case of limits breaches.

(b) Market risks

Risk monitoring and measurement in the area of market risks, along with trading activities control is performed by the Market Risk function within Financial Risk and Modeling. Market risk control function is organized independently from the trading and sales or any other risk taking activities structure. Market risk management policies and limits are explicitly defined in the Market Risk Strategy of UniCredit Bulbank, which is reviewed at least annually. A product development process is established in which risk managers play a decisive role in approving a new product, especially in the field of financial markets products.

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 function and compared with the risk limits set by the Management Board and FCRC-ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily analysis of Client Risk Management & Treasury (CMR&T) and Assets and Liabilities Management and Funding (ALM)'s 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 restrictions applied to cumulative results for a specific period, the stress test warning metrics and various limitations for granular sensitivities.

For internal risk management and Group compliant risk measurement of Value at Risk (VaR), the Bank applies UniCredit Group's internal model for market risks. It is based on historical simulation with a 250-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible risk taking structures. 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. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2022, VaR of FVOCI positions (measured with one day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between BGN 2.31 million and BGN 19.10 million, averaging BGN 10.50 million, with credit spreads and interest rate curves' movements being main drivers. VaR of FVPL positions fluctuated in a range between BGN 0.22 million and BGN 3.24 million, averaging BGN 1.01 million.

VaR of UniCredit Bulbank AD by portfolio in EUR million for 2022 on consolidated basis is as follows:

Portfolio	Minimum	Maximum	Average	Year-end
FVPL	0.22	3.24	1.01	0.22
FVOCI	2.31	19.10	10.50	17.34

In terms of different risk factors contributing to the overall VaR of both FVPL and FVOCI portfolios, the spit by end-2022 is as follows:

31.12.2022 (BGN)	FVOCI	FVPL
Total	(17 344 881)	(244 244)
o/w SP marginal VaR	2 155 854	-
o/w IR marginal VaR	(19 444 729)	(207 454)
o/w FX marginal VaR	-	(16 353)
o/w EQ marginal VaR	-	(20 202)
o/w Vega marginal VaR	-	-

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point value (interest rate 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 rates area, the Basis-Point-Value (BP01) 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 a summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2022 (change in value due to 1 basis point shift, amounts in BGN) for the trading and banking books):

IR Basis point shift, Banking book (BGN)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(51 801)	(3 767)	(43 720)	155 672	13 886	70 270
BGN	(43 439)	53 697	(150 642)	680 285	(62 157)	477 744
USD	1 192	4 902	799	(176)	-	6 717
CHF	135	441	10	(8)	-	578
GBP	166	632	66	-	-	864
Other	-	-	-	-	-	-
Total	**(93 747)**	**55 905**	**(193 487)**	**835 773**	**(48 271)**	**556 173**

IR Basis point shift, Trading book (BGN)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	13 640	2 617	(681)	(507)	-	15 069
BGN	(6 039)	20	-	-	-	(6 019)
USD	(7 258)	(3 395)	-	-	-	(10 653)
CHF	(335)	-	-	-	-	(335)
GBP	(17)	(99)	-	-	-	(116)
Other	217	442	-	-	-	659
Total	**208**	**(415)**	**(681)**	**(507)**	**-**	**(1 395)**

In terms of the impact on P&L and equity of interest rate sensitivity, the distribution of BP01 sensitivity between FVPL and FVOCI positions at the end of 2022 is the following:

BP01 (BGN)	FVOCI	FVPL
BP01, total ccy	(430 756)	899
BP01 EUR	(104 098)	89 139
BP01 BGN	(326 658)	(77 796)
BP01 USD	-	(10 653)
Other	-	209

The sensitivity above is indicative of the effect the bank will undergo through its PnL (FVPL) and equity (FVOCI) upon a one basis point changes in the respective interest rate levels.
UniCredit Bulbank measures the interest rate sensitivity towards the regulatory-prescribed shocks (EBA guidelines on interest rate risk arising from non-trading book activities impact Pillar 2 financial risk) in terms of change in the Economic Value of Equity (EVE). Values with reference date 31.12.2022:

SOT SCENARIOS	200*	-200*	Flattening	Parallel down	Parallel up	Short rates down	Short rates up	Steepening
Economic Value (BGN)	37 579 261	(145 446 739)	(46 935 149)	(169 447 714)	45 862 066	(5 288 532)	(11 889 793)	38 209 558
As percentage of Tier 1*	**1.34%**	**(5.17%)**	**(1.70%)**	**(6.14%)**	**(1.66%)**	**(0.19%)**	**(0.43%)**	**1.39%**

**Sensitivity to +/- 200 bps shock scenarios is calculated as a percentage of Own funds*

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2022 amounted to BGN 1 794 195. Instruments issued by governments account for the largest part of credit spread exposure.

SP Basis point shift (BGN)

Issuer	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(7 616)	(8 458)	(344 954)	(1 218 645)	(195 241)	(1 774 914)
Regional governments	-	-	(164)	-	-	(164)
Corporates	(48)	(1 329)	(15 740)	-	-	(17 117)
Total Absolute	**7 664**	**9 787**	**360 858**	**1 218 645**	**195 241**	**1 792 195**

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 a daily basis and are restricted by volume overnight limits. FX sensitivities describe the relation of an instrument fair value to FX rates or FX rates volatility. FX rate sensitivities are calculated by proportionally shifting the corresponding FX rate by 1%.

The FX sensitivity for UniCredit Bulbank AD as of December 31, 2022 is as follows:

CCY	FX delta, BGN eq.
BGN	(516 916 576)
EUR	646 136 686
USD	2 681 895
GBP	1 082 183
RON	(1 108 676)
PLN	(407 661)
Other	(339 704)

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 are reported at least monthly to FCRC-ALCO.

The impacts of the Covid-19 pandemic, complemented by the Russian-Ukrainian conflict on Bank's liquidity profile are evaluated as minor due to the strong funding profile largely independent from wholesale markets. UniCredit Bulbank AD continued to closely monitor its liquidity and market risk position, in order to ensure regular execution of its Treasury activities, strict compliance with the set risk appetite and proper information flows to the Senior Management and the Supervisor.

The behavioral model of non-maturing deposits (NMDs), introduced in Q2 2020 in compliance with the respective EBA Guidelines, has been recalibrated twice (in June 2022 and November 2022), extending the data series behind the model's output up to September 2022. The model estimates the liquidity and interest rate characteristics of the customer positions following the real behavior, instead of the contractual/explicit profile. The modelling of NMDs (Sight and Saving deposits) aims to identify their stability (stickiness) defined as the tendency to be a permanent source of funding.

As of December 31, 2022 the FX balances of the Group are as outlined in the table below:

In thousands of BGN

	EUR and BGN	Other currencies	Total
ASSETS			
Cash and balances with Central Bank	7 050 662	19 743	**7 070 405**
Non-derivative financial assets held for trading	2 828	-	**2 828**
Derivatives held for trading	85 550	30 547	**116 097**
Derivatives held for hedging	131 468	-	**131 468**
Loans and advances to banks and debt securities at amortized cost	1 071 678	210 453	**1 282 131**
Loans and advances to customers and debt securities at amortized cost	16 344 841	146 225	**16 491 066**
Pledged debt securities at amortized cost	180 384	-	**180 384**
Finance leases	936 872	-	**936 872**
Investment securities	1 455 762	15 904	**1 471 666**
Pledged investment securities	1 062 591		**1 062 591**
Investments in associates	3 885	-	**3 885**
Property, plant, equipment, right of use assets and investment properties	339 770	-	**339 770**
Intangible assets	98 671	-	**98 671**
Current tax assets	1 687	-	**1 687**
Deferred tax assets	3 686	-	**3 686**
Non-current assets and disposal groups classified as held for sale	-	-	**-**
Other assets	108 206	587	**108 793**
TOTAL ASSETS	**28 878 541**	**423 459**	**29 302 000**
LIABILITIES			
Financial liabilities held for trading	129 168	30 138	**159 306**
Derivatives used for hedging	132 160	-	**132 160**
Deposits from banks	1 444 738	169 054	**1 613 792**
Deposits from customers and other financial liabilities at amortized cost	21 528 393	1 694 470	**23 222 863**
Debt securities issued	313 701		**313 701**
Provisions	125 789	14 195	**139 984**
Current tax liabilities	618	-	**618**
Deferred tax liabilities	9 420	-	9 420
Other liabilities	128 163	5 387	133 550
TOTAL LIABILITIES	**23 812 150**	**1 913 244**	**25 725 394**
EQUITY	**3 576 606**	**-**	**3 576 606**
Net off-balance sheet spot and forward position	**(1 589 361)**	**1 496 405**	**(92 956)**
Net position	**(99 576)**	**6 620**	**(92 956)**

As of December 31, 2021 the FX balances of the Group are outlined in the table below:

In thousands of BGN

	EUR and BGN	Other currencies	Total
ASSETS			
Cash and balances with Central Bank	6 654 510	22 928	**6 677 438**
Non-derivative financial assets held for trading	4 901	-	**4 901**
Derivatives held for trading	55 485	31 554	**87 039**
Derivatives held for hedging	11 976	-	**11 976**
Loans and advances to banks and debt securities at amortized cost	392 920	307 868	**700 788**
Loans and advances to customers and debt securities at amortized cost	12 981 012	137 627	**13 118 639**
Finance leases	827 363	-	**827 363**
Investment securities	2 847 157	15 549	**2 862 706**
Pledged investment securities	612 656	-	**612 656**
Investments in associates	3 426	-	**3 426**
Property, plant, equipment, right of use assets and investment properties	328 737	-	**328 737**
Intangible assets	91 343	-	**91 343**
Current tax assets	8	-	**8**
Deferred tax assets	3 940	-	**3 940**
Non-current assets and disposal groups classified as held for sale	12 292	-	**12 292**
Other assets	85 541	429	**85 970**
TOTAL ASSETS	**24 913 267**	**515 955**	**25 429 222**
LIABILITIES			
Financial liabilities held for trading	15 813	31 335	**47 148**
Derivatives used for hedging	65 287	-	**65 287**
Deposits from banks	986 417	225 203	**1 211 620**
Deposits from customers and other financial liabilities at amortized cost	18 175 705	1 625 166	**19 800 871**
Debt securities issued	313 104	-	**313 104**
Provisions	113 425	6 828	**120 253**
Current tax liabilities	5 647	-	**5 647**
Deferred tax liabilities	6 192	-	**6 192**
Other liabilities	142 538	4 779	**147 317**
TOTAL LIABILITIES	**19 824 128**	**1 893 311**	**21 717 439**
EQUITY	**3 711 783**	**-**	**3 711 783**
Net off-balance sheet spot and forward position	**(1 380 560)**	**1 378 011**	**(2 549)**
Net position	**(3 204)**	**655**	**(2 549)**

(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 analyzed 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 Policies.

Liquidity management is the operational responsibility of "Asset-Liability Management and Funding" (within Finance Division) and "Treasury" (within Corporate Division) while the risk control functions is assigned to "Financial Risk and Modelling" (within Risk Management Division). The bank steers liquidity risk through a set of metrics and monitoring systems (managerial and regulatory) within a framework of limits and/or trigger warning levels.

For the purposes of management of the short-term liquidity limit exposures, defined as the primary liquidity gap and the liquidity stress-test results, short-term liquidity indicators are monitored daily and monthly respectively. Structural liquidity limits define minimum required coverage of long-term assets with coherent liabilities and are monitored monthly.

Integral part of liquidity management process is the contingency planning and stress testing. Financial risk management function performs liquidity stress tests on regular basis, using standardized Group-wide scenarios. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behavior of different customer groups/segments. 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 two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown sufficient coverage during 2022, meaning that under 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 Group 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 2022	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	2 828	-	**2 828**
Loans and advances to banks and debt securities at amortized cost	1 247 132	34 999	**1 282 131**
Loans and advances to customers, debt securities at amortized cost and finance leases	5 344 969	12 082 969	**17 427 938**
Pledged debt securities at amortized cost	-	180 384	**180 384**
Investment securities	70 082	1 401 584	**1 471 666**
Pledged investment securities	536 756	525 835	**1 062 591**
Other assets	87 674	21 119	**108 793**
TOTAL FINANCIAL ASSETS	**7 289 441**	**14 246 890**	**21 536 331**

In thousands of BGN

Maturity table as at 31 December 2021	Up to 1 year	Over 1 year	Total
ASSETS			
Non-derivative financial assets held for trading	4 901	-	**4 901**
Loans and advances to banks and debt securities at amortized cost	660 037	40 751	**700 788**
Loans and advances to customers, debt securities at amortized cost and finance leases	5 296 533	8 649 469	**13 946 002**
Investment securities	190 266	2 672 440	**2 862 706**
Pledged investment securities	219 680	392 976	**612 656**
Other assets	63 822	22 148	**85 970**
TOTAL FINANCIAL ASSETS	**6 435 239**	**11 777 784**	**18 213 023**

In thousands of BGN

Maturity table as at 31 December 2022	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	**1 613 792**	**(1 623 644)**	(1 578 784)	(6 260)	(20 907)	(17 693)
Deposits from customers and other financial liabilities at amortized cost	**23 222 863**	**(23 222 865)**	(21 367 801)	(670 242)	(1 079 222)	(105 600)
Unutilized credit lines and financial guarantees	**-**	**(7 901 486)**	(5 827 081)	(288 221)	(688 149)	(1 098 035)
Total non-derivative instruments	**24 836 655**	**(32 747 995)**	**(28 773 666)**	**(964 723)**	**(1 788 278)**	**(1 221 328)**
Derivatives held for trading net	**(43 209)**					
Outflow		**(5 724 105)**	(4 797 493)	(481 108)	(237 545)	(207 959)
Inflow		**5 667 398**	4 764 463	472 323	236 490	194 122
Derivatives used for hedging, net	**(692)**					
Outflow		**(359 044)**	(1 464)	(9 102)	(50 016)	(298 462)
Inflow		**358 533**	35	11 389	48 059	299 050
Total derivatives	**(43 901)**	**(57 218)**	**(34 459)**	**(6 498)**	**(3 012)**	**(13 249)**
Total financial liabilities	**24 792 754**	**(32 805 213)**	**(28 808 125)**	**(971 221)**	**(1 791 290)**	**(1 234 577)**

In thousands of BGN

Maturity table as at 31 December 2021	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	**1 211 620**	**(1 213 531)**	(1 131 153)	(9 914)	(33 200)	(39 264)
Deposits from customers and other financial liabilities at amortized cost	**19 800 871**	**(19 798 003)**	(17 364 379)	(803 088)	(1 234 284)	(396 252)
Unutilized credit lines and financial guarantees	**-**	**(6 760 704)**	(4 741 552)	(400 513)	(891 410)	(727 229)
Total non-derivative instruments	**21 012 491**	**(27 772 238)**	**(23 237 084)**	**(1 213 515)**	**(2 158 894)**	**(1 162 745)**
Derivatives held for trading net	**39 891**					
Outflow		**(4 312 900)**	(2 802 799)	(1 037 011)	(434 676)	(38 414)
Inflow		**4 354 568**	2 835 067	1 040 003	433 711	45 787
Derivatives used for hedging, net	**(53 311)**					
Outflow		**(79 851)**	(10 005)	(41 642)	(11 078)	(17 126)
Inflow		**26 545**	789	10 545	3 867	11 344
Total derivatives	**(13 420)**	**(11 638)**	**23 052**	**(28 105)**	**(8 176)**	**1 591**
Total financial liabilities	**20 999 071**	**(27 783 876)**	**(23 214 032)**	**(1 241 620)**	**(2 167 070)**	**(1 161 154)**

(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.

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2022 and December 31, 2021 is as shown in the next table:

In thousands of BGN

	31.12.2022	31.12.2021
Government bonds		
Rated BBB-	-	2 269
Equities		
Unrated	2 828	2 632
Derivatives (net)		
Banks and financial institution counterparties	50 633	(52 691)
Corporate counterparties	(94 534)	39 271
Total trading assets and liabilities	**(41 073)**	**(8 519)**

Government bonds presented as of December 31, 2021 include 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, the 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 Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS) 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 of 2 million BGN.

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 – Definition of default according to EBA guidelines.

Classification criteria envisages the materiality thresholds of past due and articulated structures of Unlikely-To-Pay triggers (it is worth mentioning the one related to the Distressed Restructuring for forborne exposures, where a maximum threshold for diminished Net Present Value of 1% has been set), including additional requirements on default contagions effects in case of connected clients (Group of related companies and joint credit obligations). Furthermore, a minimum probation period of 3 months before returning in a non-defaulted status has been set as mandatory.

Exposures with objective evidence of impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

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.

Credit Risk Models and Systems team has performed precise impact assessment on Expected Credit Loss related to the implementation of new PD-model for Private

Individuals in 2023. The overall estimated impact on Expected Credit Loss is in the amount of 3.1 million BGN.

Estimated Overlay with regards to new introduced evaluation methodology for Bullet and Balloon payment transactions in the amount of 1.2 million BGN. Base for this estimation was simulation with condition that Bullet and Balloon transactions portfolio will reach the current level of share in Stage 2 transactions of the Bank portfolio.

Integration of forward looking information into the ECL model

UniCredit Bulbank leverages on the Stress Test Models for including macro-economic effects into the expected credit losses. The decision to leverage on Satellite models (developed by the Group) is aimed at ensuring a proper alignment between the various processes that within the Group foresee the usage of macro-economic forecasts[1] (e.g. portfolio strategy, budgeting, stress testing). Moreover Satellite models are based on internal estimates of macro-economic indicators' forecasts and developed according to well-known econometric models, thus ensuring the fulfillment of the requirements set out in par. 22 of EBA/GL/2017/06: "*In order to ensure a timely recognition of credit losses, credit institutions should consider forward-looking information, including macroeconomic factors. When considering forward-looking information, credit institutions should apply sound judgement consistent with generally accepted methods for economic analysis and forecasting, and supported by a sufficient set of data.*" and 39: "*Forward-looking information, including economic forecasts and related credit risk factors used for ECL estimates, should be consistent with inputs to other relevant estimates within the financial statements, budgets, strategic and capital plans, and other information used in managing and reporting within a credit institution*".

The stress test models (or satellite models) are set of models aimed at translating the macro-economic conditions into credit risk parameters (PD/LGD)[2]. Within the wider stress testing framework the models serve as basis for calculating the stressed PD/LGD under the Adverse Scenarios adopted for the stress test purposes and they are used both for regulatory (EBA, ICAAP) and managerial Stress Test exercises[3].

With regards to the modeling methodology the current framework envisages two different approaches for High and Low default portfolios. Notably for high default portfolios (Retail, SME and Mid corporate) the internal historical data on Default and Recovery rates have been used to estimate, at cluster level (Country/Asset Class) direct relationship between default and recovery rates and macro-economic factors. Where possible, panel dimensions such as lifecycle (loans/default's age) and vintage quality (loan's origination/default time) have been also included within the model structure aiming at better isolate the impact of macro-economic conditions from other portfolio effects on the default/recovery rate evolution.

However, with regard to the low default portfolios for which no enough internal data were available the selected approach provides for modelling the PD/LGD model rating drivers (e.g. financial ratios) against the macro-economic variables. The resulting rating drivers conditioned to the macro-economic factors are then used as input of the Rating System in order to recalculate at granular level the projected PD/LGD for each counterpart.

Multiple scenarios

The paragraph B5.5.42 of the IFRS 9 standard requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. This section provides the description of the methodology adopted to address the probability weighted ECL using multiple macroeconomic scenarios.

The selected approach implied the use of three[4] different macro-economic scenarios and probability weights for each one. More in particular a baseline,

[1] As requested by par. 39 of EBA/GL/2017/06: "While a credit institution does not need to identify or model every possible scenario through scenario simulations, it should consider all reasonable and supportable information that is relevant to the product, borrower, business model or economic and regulatory environment when developing estimates of ECL. In developing such estimates for financial reporting purposes, **credit institutions should consider the experience and lessons from similar exercises it has conducted for regulatory purposes (although stressed scenarios are not intended to be used directly for accounting purposes). Forward-looking information, including economic forecasts and related credit risk factors used for ECL estimates, should be consistent with inputs to other relevant estimates within the financial statements, budgets, strategic and capital plans, and other information used in managing and reporting within a credit institution."** and as suggested in the " In depth IFRS9 impairment: how to include multiple forward-looking scenario", August 2017, Pwc: "In particular, some or all of the following information may be available without undue cost and effort, and can be used to assist an entity in determining appropriate weightings:

- The entity's default and loss history;

- Peer or industry data on historic defaults and losses; and

- The entity's own modelling of possible impacts of future scenario on credit risk e.g. **regulatory stress test modelling."**

And as reported in the "IFRS 9 Impairment, IFRS Newsletter", December 2015, KPMG: "*It is important that the scenarios used to estimate ECLs are consistent with information used by the entity for other purposes – e.g. capital models, budgeting […]".*

[2] It is important to underline that it is not necessary to perform a reconciliation between PD IFRS and PD used by Stress Test function, since the integration of forward looking information is carried out by a multiplicative factor that maintains the same variation regardless the application point.

[3] Baseline macroeconomic scenario, to be used for IFRS 9 as far as for regulatory and managerial exercises, is provided by UniCredit Research, which represent an independent research firm providing analyses and forecasts macroeconomic developments and trends to both external Clients and Internal functions.
For more details please go to: **https://www.unicreditresearch.eu/**

[4] The IFRS 9 standard does not explicitly define the number of macroeconomic scenarios that should be used for impairment calculations but leave it up to the Banks this definition.

one downside and one upside scenarios have been considered. UniCredit Research department produces semiannually macroeconomic forecasts under baseline and alternative downside and upside scenarios.

Each scenario envisages three years of forecasts including all the relevant macro-economic factors considered in the satellite models. A probability of occurrence, judgmentally defined by UniCredit Research department, is assigned to each scenario, ensuring that the upside and downside scenarios' probability are not biased to extreme scenarios, otherwise the range and weighting of scenarios would be not representative. The table below contains current and historical weights:

	Weights (probabilities)		
Scenario	Dec 21	Jun 22	Dec 22
Baseline	55%	60%	60%
Positive	5%	0%	0%
Negative	40%	40%	40%

The Group Credit Stress Test Framework provides a suitable set of models (Satellite Models) for IFRS 9 compliance that are used in order to forecast the conditioned PD/LGD for any scenario.

An "average" scenario is defined as **the weighted average of delta DRs (default rates) provided under each of the scenarios previously mentioned**. This "average" scenario must be used to define the Staging under each of the multiple scenario; indeed, according to ITG instructions, "*one financial instrument cannot exist in stage 1 and in stage 2 at the same time*".

Probability weighted ECL and Overlay Factor

Consideration of multiple scenarios is relevant in case a non-linear relationship between key components of ECL and the relevant economic parameter exists.

Fulfill the requirement set out by the paragraph B5.5.42 would require calculating the ECL under multiple scenarios and deriving a weighted average ECL based on the probability of each scenario to happen. Alternatively, banks are allowed to derive an overlay factor to account for the non-linearity of the ECL risk components and relevant economic parameters.

Running more scenarios under the LLP production process would not fit the LLP production timeline and has been considered to be an undue cost and effort for the Banks. It was therefore decided to account for multiple macroeconomic scenarios by estimating a yearly overlay factor to be applied to the ECL calculated under the baseline scenario.

An interesting question is how to define the staging under the multiple scenario approach and whether it would really make sense to assume that an asset can be in stage 1 and stage 2 at the same time. At this regard, it was observed in the ITG discussion that, where the range of possible forward-looking economic scenarios is mutually exclusive, a scenario cannot apply to part of an asset, while other scenarios apply to different parts of an asset. Accordingly, one financial instrument cannot exist in stage 1 and in stage 2 at the same time. In compliance with the position taken by the ITG, the overlay factor must be determined assuming that the staging will not change under different scenario but will be kept constant and calculated under the "average" scenario (obtained as described above averaging the deltas under each scenario) such that an unbiased estimate will be used in each scenario.

Constant Overlay Factor

A simple and straightforward approach to derive the overlay factor consists in determining the ratio between the probability weighted ECL and the ECL under the baseline scenario as shown below:

$$Overlay\ factor = \frac{\sum_k ECL_k^{Weighted|avg}}{\sum_k ECL_k^{bl|bl}}$$

(1)

Where:

- ***i/j*** = indicates that *i* is the scenario used to calculate ECL, while *j* is the scenario used to assign the Stage (e.g., $ECL^{bl|avg}$ means that the baseline scenario is used to calculate ECL, while the average one is the scenario used to assign the Stage)
- $$ECL_k^{Weighted|avg} = p_{cont} \cdot ECL_k^{cont|avg} + p_{bl} \cdot ECL_k^{bl|avg} + p_{pos} \cdot ECL_k^{pos|avg}$$

  for transaction k

(2)

The table below contains the list with macro variables which have been considered for each econometric model that forecasts IFRS FLI:

Macroeconomic indicator	Country	Scenario	Transformation	t_2	t_1	t0	t_1	t_2	t_3
Real GDP, yoy % change	Bulgaria	Baseline		-4.39	4.18	3.20	0.50	2.90	3.20
Inflation (CPI) yoy, eop	Bulgaria	Baseline		0.14	7.75	18.02	6.68	4.33	2.90
Inflation (CPI) yoy, average	Bulgaria	Baseline		1.68	3.31	15.41	11.25	5.31	3.00
Monthly wage, nominal EUR	Bulgaria	Baseline		709.08	792.84	832.47	883.04	946.14	1 026.56
Unemployment rate, %	Bulgaria	Baseline		5.13	5.27	4.70	4.80	4.30	3.90
Exchange rate /euro, eop	Bulgaria	Baseline		1.96	1.96	1.96	1.96	1.96	1.96
Exchange rate /euro, average	Bulgaria	Baseline		1.96	1.96	1.96	1.96	1.96	1.96
Short team rate, eop	Bulgaria	Baseline		-0.70	-0.73	2.25	2.50	2.25	2.25
Short term, average	Bulgaria	Baseline		-0.65	-0.78	2.25	2.50	2.25	2.25
House price Index, yoy % change	Bulgaria	Baseline		4.56	8.67	13.28	9.88	7.00	6.50
Long-term interest rate 10y (%)	Bulgaria	Baseline		0.28	0.56	4.40	4.00	3.50	3.25

According to an analysis performed by the ICAAP & Stress Testing Division at the Holding, GDP forecast (over 3 years) is assumed to be the most relevant economic factor as indicator of scenario severity.

Macroeconomic and ECL sensitivity in 2022

The analysis below shows that for 1 point GDP drop (cumulated over 3 years) the ECL is estimated to increase by about +1.08% or EUR 4.35m:

							Unweighted ECL				(in mEUR)
Scenario	**Weight**	**Macroeconomic variable**	**2023**	**2024**	**2025**	**3yr cum**	**Bank (1)**	**UCFin (2)**	**Leasing (3)**	**1 + 2 + 3**	**Weighted ECL**
Positive	0%	GDP growth %	-	-	-	-	-	-	-	-	
Baseline	40%	GDP growth %	0.50	2.90	3.20	6.72	343	33	27	403	412
Negative	60%	GDP growth %	-4.57	4.26	3.80	3.27	356	34	28	418	
					Delta	**-3.45**				**15.00**	
						Absolute ECL Sensitivity vs 3-yr GDP				**4.35**	
						% ECL Sensitivity vs 3-year cum GDP				**1.08%**	

The table below contains the local figures under each scenario as at Dec 2022:

ECL amount (in mEUR)

	Baseline				Negative				Final			
Portfolio	**Of which Stage 1**	**Of which Stage 2**	**Of which Stage 3**	**Total**	**Of which Stage 1**	**Of which Stage 2**	**Of which Stage 3**	**Total**	**Of which Stage 1**	**Of which Stage 2**	**Of which Stage 3**	**Total**
Corporate	24	46	177	**248**	29	51	177	**257**	26	49	188	**263**
Small Business	3	18	25	**45**	4	19	25	**48**	3	18	26	**47**
Retail - Mortgages	1	6	27	**35**	1	7	27	**35**	1	6	28	**36**
Retail - Others	-	2	7	**9**	-	2	7	**10**	-	2	8	**10**

The difference between the total ECL (BL) and ECL (EOY)

DEC 2022 is due to Macro-scenario OF and Geo-political OF.

Here below the steps to be performed under the Constant Overlay Factor approach are described:

1. As a first step, the Stress Test team that have to provide forecasts (DR – default rate, RR – recovery rate, etc) under each of the three selected scenarios ().
2. Afterward, the staging under the "average" scenario must be calculated once and kept constant for each scenario ().
3. Finally, the must be calculated for the *i*-th scenario (*i* = 1,...,3) and the probability weighted has to be determined averaging the derived under each scenario, multiplied for the probability of each scenario () to happens.

During the monthly LLP process, the overlay factor must be multiplied to the ECL calculated under the baseline scenario for each transaction k in order to adjust it for the non-linearity effect as shown below:

$$ECL_k^{Final} = ECL_k^{bl} \times Overlay\ factor$$

(3)

The table below contains the locally computed OF values as at Dec 2022 (GW OFs are provided on Holding level):

Rating system[1]	Overlay Factors as of Dec 2022
CRP	1.0616
FI	1.0472
IND	1.0277
MNC	1.0476
PFR	1.0616
SME	1.0467
SOV	1.3536

It worth to be underlying that IFRS 9 does not necessarily require to be conservative but to fairly represent the riskiness of the bank's portfolios, this imply that the Overlay factor can be both above or below the par value.

The overlay factor has to be calculated following the rating system group granularity or they aggregation as used for IFRS 9 purposes in case of shared credit risk characteristics.

The overlay factor must be recalibrated semiannually as soon as the new forecasts and weights under multiple scenarios are available.

The overlay factors on GW portfolios will be estimated centrally and shared with the LEs on time for the local application in the monthly LLPs run.

Finally, it is underlined that the **overlay factor does not represent an estimated parameter**, but a multiplicative factor to be applied on top of the Baseline ECL to produce a final ECL that is *a probability-weighted amount determined by evaluating a range of possible outcomes.* Due to the impossibility to calculate the final monthly LLPs as the average of monthly LLPs under several scenario the overlay factor is introduced as a workaround. A plausibility analysis of the ECL results under the positive and negative scenario should be performed, to ensure that under such scenarios extremely low or high values of ECL are not outputted. However, no outlier's treatments are deemed necessary, since the final values of ECL are to be computed considering *all the range of possible outcomes* and as a consequence any floor/cap or removal of observations would entail a deviation from the IFRS requirements.

Geopolitical overlay resulting from Russia-Ukraine crisis

During 2022, the uncertainties on the economic activities arising from Covid-19 pandemics progressively faded away as demonstrated by the lifting of the restrictive measures put in place by the governments to counteract the pandemic. As well, also the supply chain risk has started to decrease in relevance, given the evolving new geo-political context. Indeed, the start of the Russian-Ukraine conflict acted as a headwind to the economic growth. Indeed, the spill-over effects of Russian and Ukraine crises continued leading to revise the outlook for the euro area economy, also pushing up inflationary pressures and interest rates.

In order to factor-in into the risks underlying the sharp rise in energy costs, inflation and interest rates for both Corporate and private individuals, the geopolitical overlay were adopted during 2022.

In this regard the adoption of this overlay is a complementary measure to the IFRS9 models that, by their structure, have been already properly and directly proving to recognize the effect of geo-political crises. In this context while IFRS 9 models and in particular satellite models are able to capture the effect of macro-economic scenario at portfolio level, the geopolitical overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions

Indeed as of 31 December 2022 geopolitical overlay amount to 157.4 mln and is broken-down according to the following components:

- Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russia - Ukraine crisis, specifically impacting the energy supply and related price soaring
- Retail clients, for: (i) floating rate mortgages (not

[1] (CRP – Corporates, FI – Financial Institutions, IND – Individuals, MNC – Multinationals, SME – Small and Medium Enterprises, PFR – Project Financing Rating Model, SOV – Sovereigns)

having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment on their exposures, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.

- additional stress for the delta default rates up to a level of 150% for Corporates, 170% for Small Business and 85% for Private Individual, due to continuing unstable economic situation, affected by the somewhat higher than average dependency of the Bulgarian energy sector from Russia, exacerbated by an on-going political crisis in the country

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying - as macro-economic conditions - the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate. Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose LLPs are then calculated according to the average coverage rate applied to Unlikely to Pay.

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 Tier 1 capital are treated as large 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 Tier 1 capital 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, 2022 and December 31, 2021:

In thousands of BGN

	Credit risk exposure before risk transfer		**Credit risk exposure after risk transfer**		**% of own funds**	
	2022	2021	2022	2021	2022	2021
Biggest credit risk exposure to customers' group	546 647	540 003	246 896	483 464	7.9%	14.6%
Credit risk exposure to top five biggest customers' groups	1 590 518	1 284 703	1 009 208	1 010 028	32.4%	30.6%

The table below analyses the breakdown of loss allowances as of December 31, 2022 and December 31, 2021 on different classes:

In thousands of BGN

Loss allowance by classes	2022	2021
Balances with Central Bank	30	167
Loans and advances to banks at amortized cost	178	116
Debt securities from banks at amortized cost	4	155
Loans and advances to customers at amortized cost	834 510	792 788
Finance leases	64 743	69 244
Debt securities from customers at amortized cost	294	956
Debt investment securities at FVTOCI	7 309	3 070
Loan commitments, Financial guarantee contracts and other commitments	83 206	55 207
Total Loss allowance by classes	**990 274**	**921 703**

The tables below analyze the movement of the loss allowance during the year per class of assets:

In thousands of BGN

Loss allowance - Balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(165)**	**-**	**-**	**-**	**(165)**
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(6)	-	-	-	(6)
Financial assets that have been repaid during the year	4	-	-	-	4
Loss allowance as at 31.12.2021	**(167)**	**-**	**-**	**-**	**(167)**

In thousands of BGN

Loss allowance - Balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	(167)	-	-	-	(167)
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(15)	-	-	-	(15)
Financial assets that have been repaid during the year	152	-	-	-	152
Loss allowance as at 31.12.2022	**(30)**	**-**	**-**	**-**	**(30)**

In thousands of BGN

Loss allowance - Loans and advances to banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	(218)	-	-	-	(218)
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	157	-	-	-	157
Financial assets that have been repaid during the year	(55)	-	-	-	(55)
Loss allowance as at 31.12.2021	**(116)**	**-**	**-**	**-**	**(116)**

Loss allowance - Loans and advances to banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total

In thousands of BGN

Loss allowance as at 31.12.2021	**(116)**	**-**	**-**	**-**	**(116)**
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(172)	-	-	-	(172)
Financial assets that have been repaid during the year	110	-	-	-	110
Loss allowance as at 31.12.2022	**(178)**	**-**	**-**	**-**	**(178)**

In thousands of BGN

Loss allowance -Debt securities from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(156)**	**-**	**-**	**-**	**(156)**
Changes in the loss allowance					
Decreases due to change in credit risk	1	-	-	-	1
Loss allowance as at 31.12.2021	**(155)**	**-**	**-**	**-**	**(155)**

In thousands of BGN

Loss allowance - Debt securities from banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(155)**	**-**	**-**	**-**	**(155)**
Changes in the loss allowance					
Decreases due to change in credit risk	151	-	-	-	151
Loss allowance as at 31.12.2022	**(4)**	**-**	**-**	**-**	**(4)**

In thousands of BGN

Loss allowance -Debt securities from customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(117)**	**-**	**-**	**-**	**(117)**
Changes in the loss allowance					
New financial assets originated/purchased or disbursed during the year	(883)	-	-	-	(883)
Financial assets that have been repaid during the year	44	-	-	-	44
Loss allowance as at 31.12.2021	**(956)**	**-**	**-**	**-**	**(956)**

In thousands of BGN

Loss allowance -Debt securities from customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(956)**	**-**	**-**	**-**	**(956)**
Changes in the loss allowance					
Decreases due to change in credit risk	782	-	-	-	782
New financial assets originated/purchased or disbursed during the year	(120)	-	-	-	(120)
Loss allowance as at 31.12.2022	**(294)**	**-**	**-**	**-**	**(294)**

In thousands of BGN

Loss allowance - Loans and advances to customers at amortized cost and finance leases	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(69 009)**	**(115 813)**	**(661 724)**	**(737)**	**(847 283)**
Changes in the loss allowance					
Transfer to stage 1	(18 111)	10 206	7 905	-	**-**
Transfer to stage 2	69 804	(82 612)	12 808	-	**-**
Transfer to stage 3	13 911	29 447	(43 358)	-	**-**
Increases due to change in credit risk	(89 628)	(78 688)	(87 175)	-	**(255 491)**
Decreases due to change in credit risk	30 292	37 763	111 659	472	**180 186**
Write-offs	-	-	105 963	-	**105 963**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(33 125)	(38 864)	(37 427)	-	**(109 416)**
Financial assets that have been repaid during the year	10 297	9 588	43 546	-	**63 431**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(85 569)**	**(228 973)**	**(547 225)**	**(265)**	**(862 032)**

In thousands of BGN

Loss allowance - Loans and advances at amortized cost and finance leases to corporate customers	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(49 342)**	**(78 649)**	**(445 229)**	**(737)**	**(573 957)**
Changes in the loss allowance					
Transfer to stage 1	(8 131)	8 071	60	-	**-**
Transfer to stage 2	48 274	(51 555)	3 281	-	**-**
Transfer to stage 3	6 479	5 798	(12 277)	-	**-**
Increases due to change in credit risk	(63 262)	(54 636)	(46 100)	-	**(163 998)**
Decreases due to change in credit risk	12 919	21 343	73 662	472	**108 396**
Write-offs	-	-	86 583	-	**86 583**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(23 371)	(19 589)	(29 317)	-	**(72 277)**
Financial assets that have been repaid during the year	9 374	5 704	18 684	-	**33 762**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(67 060)**	**(163 513)**	**(350 075)**	**(265)**	**(580 913)**

In thousands of BGN

Loss allowance - Loans and advances at amortized cost and finance leases to retail customers	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(19 667)**	**(37 164)**	**(216 495)**	**-**	**(273 326)**
Changes in the loss allowance					
Transfer to stage 1	(9 980)	2 135	7 845	-	**-**
Transfer to stage 2	21 530	(31 057)	9 527	-	**-**
Transfer to stage 3	7 432	23 649	(31 081)	-	**-**
Increases due to change in credit risk	(26 366)	(24 052)	(41 075)	-	**(91 493)**
Decreases due to change in credit risk	17 373	16 420	37 997	-	**71 790**
Write-offs	-	-	19 380	-	**19 380**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(9 754)	(19 275)	(8 110)	-	**(37 139)**
Financial assets that have been repaid during the year	923	3 884	24 862	-	**29 669**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2021	**(18 509)**	**(65 460)**	**(197 150)**	**-**	**(281 119)**

In thousands of BGN

Loss allowance - Loans and advances to customers at amortized cost and finance leases	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(85 569)**	**(228 973)**	**(547 225)**	**(265)**	**(862 032)**
Changes in the loss allowance					
Transfer to stage 1	(13 356)	8 294	5 062	-	**-**
Transfer to stage 2	101 905	(110 836)	8 931	-	**-**
Transfer to stage 3	8 460	82 027	(90 487)	-	**-**
Increases due to change in credit risk	(114 609)	(99 534)	(66 384)	-	**(280 527)**
Decreases due to change in credit risk	59 133	112 439	34 499	-	**206 071**
Write-offs	-	-	40 110	-	**40 110**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(37 027)	(70 291)	(56 898)	-	**(164 216)**
Financial assets that have been repaid during the year	8 537	25 015	127 386	265	**161 203**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	138	-	**138**
Loss allowance as at 31.12.2022	**(72 526)**	**(281 859)**	**(544 868)**	**-**	**(899 253)**

In thousands of BGN

Loss allowance - Loans and advances at amortized cost and finance leases to corporate customers	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(67 060)**	**(163 513)**	**(350 075)**	**(265)**	**(580 913)**
Changes in the loss allowance					
Transfer to stage 1	(5 935)	3 740	2 195	-	**-**
Transfer to stage 2	77 964	(83 064)	5 100	-	**-**
Transfer to stage 3	2 359	58 907	(61 266)	-	**-**
Increases due to change in credit risk	(86 138)	(65 837)	(37 057)	-	**(189 032)**
Decreases due to change in credit risk	43 185	89 454	14 303	-	**146 942**
Write-offs	-	-	23 836	-	**23 836**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(24 549)	(39 710)	(37 915)	-	**(102 174)**
Financial assets that have been repaid during the year	8 404	23 095	114 097	265	**145 861**
Changes in models/risk parameters	(1 154)	(8 494)	(35 608)	-	**(45 256)**
Foreign exchange and other movements	-	-	138	-	**138**
Loss allowance as at 31.12.2022	**(52 924)**	**(185 422)**	**(362 252)**	**-**	**(600 598)**

In thousands of BGN

Loss allowance - Loans and advances at amortized cost and finance leases to retail customers	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(18 509)**	**(65 460)**	**(197 150)**	**-**	**(281 119)**
Changes in the loss allowance					
Transfer to stage 1	(7 421)	4 554	2 867	-	**-**
Transfer to stage 2	23 941	(27 772)	3 831	-	**-**
Transfer to stage 3	6 101	23 120	(29 221)	-	**-**
Increases due to change in credit risk	(28 471)	(33 697)	(29 327)	-	**(91 495)**
Decreases due to change in credit risk	15 948	22 985	20 196	-	**59 129**
Write-offs	-	-	16 274	-	**16 274**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	(12 478)	(30 581)	(18 983)	-	**(62 042)**
Financial assets that have been repaid during the year	133	1 920	13 289	-	**15 342**
Changes in models/risk parameters	1 154	8 494	35 608	-	**45 256**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2022	**(19 602)**	**(96 437)**	**(182 616)**	**-**	**(298 655)**

In thousands of BGN

Loss allowance - Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(7 288)**	**-**	**-**	**-**	**(7 288)**
Changes in the loss allowance					
Increases due to change in credit risk	(203)	-	-	-	**(203)**
Decreases due to change in credit risk	4 243	-	-	-	**4 243**
New financial assets originated/purchased or disbursed during the year	(380)	-	-	-	**(380)**
Financial assets that have been repaid during the year	558	-	-	-	**558**
Loss allowance as at 31.12.2021	**(3 070)**	**-**	**-**	**-**	**(3 070)**

In thousands of BGN

Loss allowance - Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(3 070)**	**-**	**-**	**-**	**(3 070)**
Changes in the loss allowance					
Transfer to stage 2	5 894	(5 894)	-	-	**-**
Increases due to change in credit risk	(6 490)	-	-	-	**(6 490)**
Decreases due to change in credit risk	2 165	-	-	-	**2 165**
New financial assets originated/purchased or disbursed during the year	(16)	-	-	-	**(16)**
Financial assets that have been repaid during the year	102	-	-	-	**102**
Loss allowance as at 31.12.2022	**(1 415)**	**(5 894)**	**-**	**-**	**(7 309)**

In thousands of BGN

Loss allowance - Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2020	**(14 308)**	**(6 540)**	**(36 608)**	**-**	**(57 456)**
Changes in the loss allowance					
Transfer to stage 1	(379)	379	-	-	**-**
Transfer to stage 2	1 821	(1 962)	141	-	**-**
Transfer to stage 3	9 012	286	(9 298)	-	**-**
Increases due to change in credit risk	(13 894)	(857)	(3 834)	-	**(18 585)**
Decreases due to change in credit risk	4 961	2 132	18 367	-	**25 460**
New financial assets originated/purchased or disbursed during the year	(8 175)	(3 169)	(9 239)	-	**(20 583)**
Financial assets that have been repaid during the year	2 731	3 613	9 613	-	**15 957**
Loss allowance as at 31.12.2021	**(18 231)**	**(6 118)**	**(30 858)**	**-**	**(55 207)**

In thousands of BGN

Loss allowance - Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 31.12.2021	**(18 231)**	**(6 118)**	**(30 858)**	**-**	**(55 207)**
Changes in the loss allowance					**-**
Transfer to stage 1	(506)	500	6	-	**-**
Transfer to stage 2	15 368	(15 393)	25	-	**-**
Transfer to stage 3	2 258	1 514	(3 772)	-	**-**
Increases due to change in credit risk	(21 835)	(3 084)	(2 886)	-	**(27 805)**
Decreases due to change in credit risk	8 685	3 195	10 133	-	**22 013**
New financial assets originated/purchased or disbursed during the year	(13 513)	(6 244)	(13 182)	-	**(32 939)**
Financial assets that have been repaid during the year	4 074	1 738	4 920	-	**10 732**
Loss allowance as at 31.12.2022	**(23 700)**	**(23 892)**	**(35 614)**	**-**	**(83 206)**

The tables below analyses the movement of the customers portfolio at amortized cost in terms of quality and respective movements of the gross carrying amounts during 2022 as per IFRS 9 requirements:

In thousands of BGN

	31.12.2022					31.12.2021				
Balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	6 622 086	-	-	-	6 622 086	6 230 875	-	-	-	**6 230 875**
Total gross carrying amount	**6 622 086**	**-**	**-**	**-**	**6 622 086**	**6 230 875**	**-**	**-**	**-**	**6 230 875**
Loss allowance	**(30)**	**-**	**-**	**-**	**(30)**	**(167)**	-	-	-	**(167)**
Carrying amount	**6 622 056**	**-**	**-**	**-**	**6 622 056**	**6 230 708**	**-**	**-**	**-**	**6 230 708**

In thousands of BGN

	31.12.2022					31.12.2021				
Loans and advances to banks at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	1 118 011	-	-	-	1 118 011	582 670	-	-	-	**582 670**
Grades 4-6: Monitoring	66 326	-	-	-	66 326	19 337	-	-	-	**19 337**
Grades 7-8: Substandard	155	-	-	-	155	984	-	-	-	**984**
Total gross carrying amount	**1 184 492**	**-**	**-**	**-**	**1 184 492**	**602 991**	**-**	**-**	**-**	**602 991**
Loss allowance	**(178)**	**-**	**-**	**-**	**(178)**	**(116)**	-	-	-	**(116)**
Carrying amount	**1 184 314**	**-**	**-**	**-**	**1 184 314**	**602 875**	**-**	**-**	**-**	**602 875**

In thousands of BGN

	31.12.2022					31.12.2021				
Debt securities from banks at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Grades 1-3: Low to fair risk	97 821	-	-	-	97 821	98 068	-	-	-	**98 068**
Total gross carrying amount	**97 821**	**-**	**-**	**-**	**97 821**	**98 068**	**-**	**-**	**-**	**98 068**
Loss allowance	**(4)**	**-**	**-**	**-**	**(4)**	**(155)**	-	-	-	**(155)**
Carrying amount	**97 817**	**-**	**-**	**-**	**97 817**	**97 913**	**-**	**-**	**-**	**97 913**

In thousands of BGN

Debt securities from customers at amortized cost	31.12.2022 Stage 1	31.12.2022 Stage 2	31.12.2022 Stage 3	31.12.2022 POCI	Total	31.12.2021 Stage 1	31.12.2021 Stage 2	31.12.2021 Stage 3	31.12.2021 POCI	Total
Grades 1-3: Low to fair risk	2 141 024	-	-	-	2 141 024	1 072 177	-	-	-	**1 072 177**
Grades 4-6: Monitoring	1 432	-	-	-	1 432	2 029	-	-	-	**2 029**
Total gross carrying amount	**2 142 456**	**-**	**-**	**-**		**1 074 206**	**-**	**-**	**-**	
Loss allowance	(294)	-	-	-		(956)	-	-	-	
Carrying amount	**2 142 162**	**-**	**-**	**-**	**2 142 162**	**1 073 250**	**-**	**-**	**-**	**1 073 250**

In thousands of BGN

Loans and advances to customers at amortized cost and finance leases	31.12.2022 Stage 1	31.12.2022 Stage 2	31.12.2022 Stage 3	31.12.2022 POCI	Total	31.12.2021 Stage 1	31.12.2021 Stage 2	31.12.2021 Stage 3	31.12.2021 POCI	Total
Grades 1-3: Low to fair risk	3 178 684	633 808	-	-	3 812 492	3 864 656	388 453	-	-	**4 253 109**
Grades 4-6: Monitoring	9 089 822	1 756 922	-	-	10 846 744	6 407 962	1 462 259	-	-	**7 870 221**
Grades 7-8: Substandard	170 503	858 131	38 949	-	1 067 583	84 054	818 765	33 692	-	**936 511**
Grade 9: Doubtful	-	-	423 492	-	423 492	-	-	414 232	-	**414 232**
Grade 10: Impaired	-	-	213 357	-	213 357	-	-	258 376	265	**258 641**
Total gross carrying amount	**12 439 009**	**3 248 861**	**675 798**	**-**	**16 363 668**	**10 356 672**	**2 669 477**	**706 300**	**265**	**13 732 714**
Loss allowance	**(72 526)**	**(281 859)**	**(544 868)**	**-**	**(899 253)**	**(85 569)**	**(228 973)**	**(547 225)**	**(265)**	**(862 032)**
Carrying amount	**12 366 483**	**2 967 002**	**130 930**	**-**	**15 464 415**	**10 271 103**	**2 440 504**	**159 075**	**-**	**12 870 682**

In thousands of BGN

Loans and advances at amortized cost and finance leases to corporate customers	31.12.2022 Stage 1	31.12.2022 Stage 2	31.12.2022 Stage 3	31.12.2022 POCI	Total	31.12.2021 Stage 1	31.12.2021 Stage 2	31.12.2021 Stage 3	31.12.2021 POCI	Total
Grades 1-3: Low to fair risk	412 187	66 615	-	-	478 802	1 546 169	29 489	-	-	**1 575 658**
Grades 4-6: Monitoring	7 045 716	938 479	-	-	7 984 195	4 538 834	773 312	-	-	**5 312 146**
Grades 7-8: Substandard	124 566	448 890	-	-	573 456	24 160	381 884	-	-	**406 044**
Grade 9: Doubtful	-	-	322 395	-	322 395	-	-	327 679	-	**327 679**
Grade 10: Impaired	-	-	110 720	-	110 720	-	-	122 969	265	**123 234**
Total gross carrying amount	**7 582 469**	**1 453 984**	**433 115**	**-**	**9 469 568**	**6 109 163**	**1 184 685**	**450 648**	**265**	**7 744 761**
Loss allowance	**(52 924)**	**(185 422)**	**(362 252)**	**-**	**(600 598)**	**(67 060)**	**(163 513)**	**(350 075)**	**(265)**	**(580 913)**
Carrying amount	**7 529 545**	**1 268 562**	**70 863**	**-**	**8 868 970**	**6 042 103**	**1 021 172**	**100 573**	**-**	**7 163 848**

In thousands of BGN

Loans and advances at amortized cost and finance leases to retail customers	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	2 766 497	567 193	-	-	3 333 690	2 318 487	358 964	-	-	**2 677 451**
Grades 4-6: Monitoring	2 044 106	818 443	-	-	2 862 549	1 869 128	688 947	-	-	**2 558 075**
Grades 7-8: Substandard	45 937	409 241	38 949	-	494 127	59 894	436 881	33 692	-	**530 467**
Grade 9: Doubtful	-	-	101 097	-	101 097	-	-	86 553	-	**86 553**
Grade 10: Impaired	-	-	102 637	-	102 637	-	-	135 407	-	**135 407**
Total gross carrying amount	**4 856 540**	**1 794 877**	**242 683**	**-**	**6 894 100**	**4 247 509**	**1 484 792**	**255 652**	**-**	**5 987 953**
Loss allowance	**(19 602)**	**(96 437)**	**(182 616)**	**-**	**(298 655)**	**(18 509)**	**(65 460)**	**(197 150)**	**-**	**(281 119)**
Carrying amount	**4 836 938**	**1 698 440**	**60 067**	**-**	**6 595 445**	**4 229 000**	**1 419 332**	**58 502**	**-**	**5 706 834**

In thousands of BGN

Debt investment securities at FVTOCI	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	2 329 163	-	-	-	2 329 163	3 259 286	-	-	-	**3 259 286**
Grades 4-6: Monitoring	174 283	9 145	-	-	183 428	190 859	-	-	-	**190 859**
Grades 7-8: Substandard	-	-	-	-	-	-	-	-	-	**-**
Grade 9: Doubtful	-	-	-	-	-	-	-	-	-	**-**
Grade 10: Impaired	-	-	-	-	-	-	-	-	-	**-**
Total gross carrying amount	**2 503 446**	**9 145**	**-**	**-**	**2 512 591**	**3 450 145**	**-**	**-**	**-**	**3 450 145**
Loss allowance	**(1 415)**	**(5 894)**	**-**	**-**	**(7 309)**	**(3 070)**	**-**	**-**	**-**	**(3 070)**
Carrying amount	**2 502 031**	**3 251**	**-**	**-**	**2 505 282**	**3 447 075**	**-**	**-**	**-**	**3 447 075**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	31.12.2022 Stage 1	Stage 2	Stage 3	POCI	Total	31.12.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Grades 1-3: Low to fair risk	1 968 541	206 191	-	-	2 174 732	2 470 893	45 808	-	-	**2 516 701**
Grades 4-6: Monitoring	4 532 934	506 172	-	-	5 039 106	3 879 375	356 529	-	-	**4 235 904**
Grades 7-8: Substandard	119 741	617 129	49	-	736 919	45 854	60 058	55	-	**105 967**
Grade 9: Doubtful	-	-	34 892	-	34 892	-	-	37 299	-	**37 299**
Grade 10: Impaired	-	-	8 056	-	8 056	-	-	21 538	-	**21 538**
Total gross carrying amount	**6 621 216**	**1 329 492**	**42 997**	**-**	**7 993 705**	**6 396 122**	**462 395**	**58 892**	**-**	**6 917 409**
Loss allowance	**(23 700)**	**(23 892)**	**(35 614)**	**-**	**(83 206)**	**(18 231)**	**(6 118)**	**(30 858)**	**-**	**(55 207)**
Carrying amount	**6 597 516**	**1 305 600**	**7 383**	**-**	**7 910 499**	**6 377 891**	**456 277**	**28 034**	**-**	**6 862 202**

In thousands of BGN

Loans and advances to banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**1 330 691**	**-**	**-**	**-**	**1 330 691**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	423 601	-	-	-	**423 601**
Financial assets that have been repaid during the year	(1 151 301)	-	-	-	**(1 151 301)**
Gross carrying amount as at 31.12.2021	**602 991**	**-**	**-**	**-**	**602 991**

In thousands of BGN

Loans and advances to banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**602 991**	**-**	**-**	**-**	**602 991**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	1 086 477	-	-	-	**1 086 477**
Financial assets that have been repaid during the year	(504 976)	-	-	-	**(504 976)**
Gross carrying amount as at 31.12.2022	**1 184 492**	**-**	**-**	**-**	**1 184 492**

In thousands of BGN

Debt securities from banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**98 315**	**-**	**-**	**-**	**98 315**
Changes in the gross carrying amount					
Financial assets that have been repaid during the year	(247)	-	-	-	**(247)**
Gross carrying amount as at 31.12.2021	**98 068**	**-**	**-**	**-**	**98 068**

In thousands of BGN

Debt securities from banks at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**98 068**	**-**	**-**	**-**	**98 068**
Changes in the gross carrying amount					
Financial assets that have been repaid during the year	(247)	-	-	-	**(247)**
Gross carrying amount as at 31.12.2022	**97 821**	**-**	**-**	**-**	**97 821**

In thousands of BGN

Debt securities from customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**84 454**	**-**	**-**	**-**	**84 454**
Changes in the gross carrying amount					
New financial assets originated/purchased or disbursed during the year	991 986	-	-	-	**991 986**
Financial assets that have been repaid during the year	(2 234)	-	-	-	**(2 234)**
Gross carrying amount as at 31.12.2021	**1 074 206**	**-**	**-**	**-**	**1 074 206**

In thousands of BGN

Debt securities from customers at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**1 074 206**	**-**	**-**	**-**	**1 074 206**
Changes in the gross carrying amount					
New financial assets originated or purchased	1 069 106	-	-	-	**1 069 106**
Financial assets that have been derecognized	(856)	-	-	-	**(856)**
Gross carrying amount as at 31.12.2022	**2 142 456**	**-**	**-**	**-**	**2 142 456**

In thousands of BGN

Loans and advances to customers at amortized cost and finance leases	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**10 405 267**	**1 758 878**	**923 636**	**737**	**13 088 518**
Changes in the gross carrying amount:					
Transfer to stage 1	194 415	(172 993)	(21 422)	-	**-**
Transfer to stage 2	(997 752)	993 522	4 230	-	**-**
Transfer to stage 3	(25 844)	(40 717)	66 561	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	4 654 486	666 153	54 404	-	**5 375 043**
Financial assets that have been repaid during the year	(3 882 988)	(535 306)	(196 529)	(472)	**(4 615 295)**
Write-offs	-	(60)	(124 580)	-	**(124 640)**
Other changes	9 088	-	-	-	**9 088**
Gross carrying amount as at 31.12.2021	**10 356 672**	**2 669 477**	**706 300**	**265**	**13 732 714**

In thousands of BGN

Loans and advances at amortized cost and finance leases to corporate customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**6 054 897**	**1 099 368**	**611 161**	**737**	**7 766 163**
Changes in the gross carrying amount					
Transfer to stage 1	304 703	(301 635)	(3 068)	-	**-**
Transfer to stage 2	(454 302)	470 314	(16 012)	-	**-**
Transfer to stage 3	(15 342)	(10 234)	25 576	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	2 905 410	237 401	42 916	-	**3 185 727**
Financial assets that have been repaid during the year	(2 697 465)	(311 260)	(123 137)	(472)	**(3 132 334)**
Write-offs	-	-	(86 788)	-	**(86 788)**
Other changes	11 262	731	-	-	**11 993**
Gross carrying amount as at 31.12.2021	**6 109 163**	**1 184 685**	**450 648**	**265**	**7 744 761**

In thousands of BGN

Loans and advances at amortized cost and finance leases to retail customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**4 350 370**	**659 510**	**312 475**	**-**	**5 322 355**
Changes in the gross carrying amount					
Transfer to stage 1	(110 288)	128 642	(18 354)	-	**-**
Transfer to stage 2	(543 450)	523 208	20 242	-	**-**
Transfer to stage 3	(10 502)	(30 483)	40 985	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	1 749 076	428 752	11 488	-	**2 189 316**
Financial assets that have been repaid during the year	(1 185 523)	(224 046)	(73 392)	-	**(1 482 961)**
Write-offs	-	(60)	(37 792)	-	**(37 852)**
Other changes	(2 174)	(731)	-	-	**(2 905)**
Gross carrying amount as at 31.12.2021	**4 247 509**	**1 484 792**	**255 652**	**-**	**5 987 953**

In thousands of BGN

Loans and advances to customers at amortized cost and finance leases	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**10 356 672**	**2 669 477**	**706 300**	**265**	**13 732 714**
Changes in the gross carrying amount					
Transfer to stage 1	884 500	(865 468)	(19 032)	-	**-**
Transfer to stage 2	(1 545 015)	1 572 334	(27 319)	-	**-**
Transfer to stage 3	(25 170)	(159 263)	184 433	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	6 949 582	887 884	74 583	-	**7 912 049**
Financial assets that have been repaid during the year	(4 181 560)	(855 865)	(175 167)	(265)	**(5 212 857)**
Write-offs	-	(238)	(68 000)	-	**(68 238)**
Gross carrying amount as at 31.12.2022	**12 439 009**	**3 248 861**	**675 798**	**-**	**16 363 668**

In thousands of BGN

Loans and advances at amortized cost and finance leases to corporate customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**6 109 163**	**1 184 685**	**450 648**	**265**	**7 744 761**
Changes in the gross carrying amount					
Transfer to stage 1	417 729	(410 934)	(6 795)	-	**-**
Transfer to stage 2	(678 587)	694 421	(15 834)	-	**-**
Transfer to stage 3	(5 112)	(78 931)	84 043	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	4 350 735	391 645	52 385	-	**4 794 765**
Financial assets that have been repaid during the year	(2 667 108)	(373 756)	(107 382)	(265)	**(3 148 511)**
Write-offs	-	-	(25 246)	-	**(25 246)**
Other changes	55 649	46 854	1 296	-	**103 799**
Gross carrying amount as at 31.12.2022	**7 582 469**	**1 453 984**	**433 115**	**-**	**9 469 568**

In thousands of BGN

Loans and advances at amortized cost and finance leases to retail customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**4 247 509**	**1 484 792**	**255 652**	**-**	**5 987 953**
Changes in the gross carrying amount					
Transfer to stage 1	466 771	(454 534)	(12 237)	-	**-**
Transfer to stage 2	(866 428)	877 913	(11 485)	-	**-**
Transfer to stage 3	(20 058)	(80 332)	100 390	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated/purchased or disbursed during the year	2 598 847	496 239	22 197	-	**3 117 283**
Financial assets that have been repaid during the year	(1 514 451)	(482 109)	(67 785)	-	**(2 064 345)**
Write-offs	-	(237)	(42 754)	-	**(42 991)**
Other changes	(55 650)	(46 855)	(1 295)	-	**(103 800)**
Gross carrying amount as at 31.12.2022	**4 856 540**	**1 794 877**	**242 683**	**-**	**6 894 100**

In thousands of BGN

Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	3 657 036	-	-	-	**3 657 036**
Changes in the gross carrying amount					
Financial assets that have been derecognized	737 595	-	-	-	**737 595**
Write-offs	(944 486)	-	-	-	**(944 486)**
Gross carrying amount as at 31.12.2021	**3 450 145**	**-**	**-**	**-**	**3 450 145**

In thousands of BGN

Debt investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**3 450 145**	**-**	**-**	**-**	**3 450 145**
Changes in the gross carrying amount					
Transfer to stage 2	(9 145)	9 145	-	-	**-**
New financial assets originated or purchased	139 131	-	-	-	**139 131**
Financial assets that have been derecognized	(1 076 685)	-	-	-	**(1 076 685)**
Gross carrying amount as at 31.12.2022	**2 503 446**	**9 145**	**-**	**-**	**2 512 591**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2020	**5 573 982**	**342 855**	**81 247**	**-**	**5 998 084**
Changes in the gross carrying amount					
Transfer to stage 1	87 454	(87 283)	(171)	-	**-**
Transfer to stage 2	(222 250)	223 781	(1 531)	-	**-**
Transfer to stage 3	(9 919)	(309)	10 228	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	3 624 960	194 802	33 644	-	**3 853 406**
Financial assets that have been derecognized	(2 657 066)	(211 065)	(64 556)	-	**(2 932 687)**
Write-offs	-	-	-	-	**-**
Other changes	(1 039)	(386)	31	-	**(1 394)**
Gross carrying amount as at 31.12.2021	**6 396 122**	**462 395**	**58 892**	**-**	**6 917 409**

In thousands of BGN

Loan commitments, Financial guarantee contracts and other commitments	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2021	**6 396 122**	**462 395**	**58 892**	**-**	**6 917 409**
Changes in the gross carrying amount					
Transfer to stage 1	233 669	(233 728)	59	-	**-**
Transfer to stage 2	(770 332)	771 821	(1 489)	-	**-**
Transfer to stage 3	(3 095)	(1 544)	4 639	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	3 807 850	500 952	21 449	-	**4 330 251**
Financial assets that have been derecognized	(3 038 578)	(168 620)	(40 496)	-	**(3 247 694)**
Write-offs	-	-	-	-	**-**
Other changes	(4 420)	(1 784)	(57)	-	**(6 261)**
Gross carrying amount as at 31.12.2022	**6 621 216**	**1 329 492**	**42 997**	**-**	**7 993 705**

Pursuant to prescriptions provided on IFRS 9 principle as well as EBA Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), a Low Credit Risk Exemption (LCRE) is applied to financial instruments (including Loans) presenting a "low level of risk" at reporting date where the "low risk" is set out relying primarily on internal credit risk measures, keeping in the same time a reconciliation with Investment (IG) and Non-Investment Grade (NIG) classification. Therefore, according to the rationale described in the Group IFRS 9 Model Concept, an internal estimated PD threshold has been set equal to 0.3%. Therefore, all financial instruments belonging to client having a 1-year IFRS PD at reporting date lower than 0,3% would be then subject to LCRE and kept under Stage 1.

In thousands of BGN

	31.12.2022	31.12.2021
Central banks	6 622 056	6 230 875
General governments	312 299	315 883
Credit institutions	1 118 012	581 581
Other financial corporations	70	24 819
Non-financial corporations	151 827	697 681
Of which: Small and Medium-sized Enterprises	51 995	226 644
Households	6 734	672 781
Total loans and advances to customers at amortized cost and finance leases	**8 210 998**	**8 523 620**

ThThe breakdown of the fair value of physical and cash collaterals pledged in favor of the Bank on loans and advances to customers and finance leases is as follows:

In thousands of BGN

	Loans and advances to customers and finance leases	
	31.12.2022	**31.12.2021**
Defaulted exposures		
Cash collateral	5 032	4 364
Property	827 327	856 382
Debt securities	432	463
Other collateral	612 794	675 960
Performing exposures		
Cash collateral	115 093	117 872
Property	13 873 066	12 003 684
Debt securities	16 468	13 310
Other collateral	9 919 322	8 763 448
Total	25 369 534	22 435 483

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

Residential mortgage lending - LTV ratio	31.12.2022	31.12.2021
Less than 50 %	197 515	163 792
51-70%	636 826	515 818
71-90%	2 198 693	1 863 805
91-100%	187 551	134 322
More than 100%	92 938	96 310
Total loans and advances at amortized cost	**3 313 523**	**2 774 047**
Credit impaired - LTV ratio	**31.12.2022**	**31.12.2021**
Less than 50 %	5 031	5 813
51-70%	19 377	17 721
More than 70%	50 654	39 031
Total loans and advances at amortized cost	**75 062**	**62 565**

In thousands of BGN

Carrying amount and collateral value held against loans to corporate customers measured at amortized cost	31.12.2022		31.12.2021	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Financial pledge	308 271	100 312	360 660	93 818
Guarantees received	2 349 101	1 773 489	640 709	392 580
Real Estate	3 901 934	2 465 910	4 206 201	2 431 687
Insurance	100 288	92 405	15 508	4 827

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, 2022 and December 31, 2021:

In thousands of BGN

	Loans and advances to customers and finance leases		Loans and advances to banks		Investment securities	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Concentration by sectors						
Sovereign	2 496 637	1 425 221	-	-	2 391 053	3 305 109
Manufacturing	2 914 224	2 587 054	-	-	40 743	47 430
Commerce	2 931 359	2 205 828	-	-	-	-
Construction and real estate	1 743 062	1 502 476	-	-	67	67
Agriculture and forestry	655 844	552 517	-	-	-	-
Transport and communication	862 832	797 163	-	-	313	107
Tourism	294 807	278 911	-	-	-	-
Services	403 220	266 100	-	-	655	-
Financial services	313 834	245 200	1 282 313	701 059	105 311	126 075
Retail (individuals)	-	-	-	-	-	-
Housing loans	3 300 749	2 760 459	-	-	-	-
Consumer loans	2 373 054	1 978 802	-	-	-	-
Other loans	219 885	210 447	-	-	-	-
	18 509 507	**14 810 178**	**1 282 313**	**701 059**	**2 538 142**	**3 478 788**
Impairment allowances	(899 547)	(862 988)	(182)	(271)	-	-
Total	**17 609 960**	**13 947 190**	**1 282 131**	**700 788**	**2 538 142**	**3 478 788**
Concentration by geographic location						
Europe	18 411 284	14 735 672	1 170 729	673 568	2 522 238	3 463 239
North America	32 699	18 506	25 432	9 902	15 904	15 549
Asia	65 410	55 038	40 202	17 060	-	-
Africa	1	442	45 761	241	-	-
South America	7	419	-	-	-	-
Australia	106	101	189	293	-	-
	18 509 507	**14 810 178**	**1 282 313**	**701 064**	**2 538 142**	**3 478 788**
Impairment allowances	(899 547)	(862 988)	(182)	(276)	-	-
Total	**17 609 960**	**13 947 190**	**1 282 131**	**700 788**	**2 538 142**	**3 478 788**

(iii) Significant increase in credit risk

A new IFRS PD and Transfer Logic model was developed and integrated in 2022:

- The Quantitative threshold (under Approach 3 which incorporates Forward Lifetime PD) for staging is used in the new model (as before) and has been updated with most recent data. The percentage in Stage 2 for Corporate is 10%, Small Business is 12.5% and Private Individuals is 10%.

- All other triggers for Qualitative staging (Watch list, Forbearance and more than 30 days delinquency in payments) remain unchanged.

(e) Basel III disclosures

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.

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 remain 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 (STA). 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% and from 2018 capital buffer for other systemic important institution with levels for 2022 and 2021 of 1% (or combined buffers additional capital requirement of 7.5% for 2022 and 7% for 2021). In addition to those starting from 2019 also Countercyclical capital buffer has been introduced with levels as of 2022 and 2021 1% and 0.5% respectively. 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, 2022 are 12%, 13.5%, 15.5% (as of December 31, 2021 - 11.5%, 13%, 15%), 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).

The development of the own funds and capital requirements as of December 31, 2022 and December 31, 2021 are as follows:

In thousands of BGN

	31.12.2022	31.12.2021
Regulatory own funds		
Core Equity Tier 1 (CET 1)	3 111 187	3 301 187
Tier 1 capital	3 111 187	3 301 187
Tier 2 capital	47 692	44 515
Total regulatory own funds	**3 158 879**	**3 345 702**
Risk Weighted Assets (RWA)		
RWA for credit risk	11 078 308	10 056 725
RWA for market risk	8 376	91 651
RWA for operational risk	1 116 163	1 110 063
RWA for credit valuation adjustments	33 600	3 788
Total Risk Weighted Assets (RWA)	**12 236 447**	**11 262 227**
CET 1 ratio	**25.43%**	**29.31%**
Tier 1 ratio	**25.43%**	**29.31%**
Total capital adequacy ratio	**25.82%**	**29.71%**
Minimum CET 1 capital requirements (4.5%)	**550 640**	**506 800**
Minimum Tier 1 capital requirements (6%)	**734 187**	**675 734**
Minimum total capital requirements (8%)	**978 916**	**900 978**
Additional capital requirements for conservation buffer (2.5%)	305 911	281 556
Additional capital requirements for systemic risk buffer (3%)	336 208	312 385
Additional capital requirements for other systemic important institution (1%)	122 364	112 622
Additional capital requirements for countercyclical capital buffer (2022-1%, 2021-0.5%)	117 470	55 185
Combined buffers additional capital requirements (7%)	**881 953**	**761 748**
Adjusted minimum CET 1 capital requirements after buffers (12% - 2022, 11.50% - 2021)	1 432 593	1 268 548
Adjusted minimum Tier 1 capital requirements, including buffers (13.50% - 2022; 13% - 2021)	1 616 140	1 437 482
Adjusted minimum total capital requirements after buffers (15.50% - 2022; 15% - 2021)	1 860 869	1 662 726
Free equity, after buffers	**1 298 010**	**1 682 976**

(f) Securitizations

i. Synthetic Securitization deal - Silver

Overview - Recognition of significant credit risk transfer pursuant to Article 245 of Regulation (EU) No 575/2013, as amended starting from 1st January 2019 by the Regulation (EU) 2017/2401

UniCredit Bulbank AD (the “Bank” or the “Originator”) implemented a synthetic securitization program to improve its capital optimization strategy and benefit in terms of new lending capabilities by structuring a synthetic securitization (“Project Silver” or the “transaction”) to achieve significant risk transfer with respect to a portfolio of SME and corporate exposures originated by the Bank in its usual course of business. The risk transfer under the synthetic securitization was achieved using a credit risk mitigation instrument, the securitized exposures remained exposures of the Originator.

On June 29th, 2022 the “Financial Guarantee” between the Bank and the European Investment Fund (“EIF”) was signed whereas the Effective Date was November 30th, 2022. The Financial Guarantee was executed under the Pan-European Guarantee Fund (“EGF”) scheme. Under this scheme, the EGF provides guarantees to free up capital for national promotional banks, local banks and other financial intermediaries in order to make more financing available for small and medium companies, mid-caps and corporates in participating countries within the European Union.

The Financial Guarantee between the Bank and the EIF has been entered into on 29th June 2022 and sets out the terms and conditions of junior-tranche credit protection to be provided by EIF. EIF has carried out its due diligence on the Bank and an Initial Reference Obligation Portfolio. The Financial Guarantee became effective on 30th November 2022 after an Updated Reference Obligation Portfolio was confirmed and accepted by the EIF. For the avoidance of doubt, no guarantee fee has been paid and no release of regulatory capital has been recognized until the Financial Guarantee became effective. The structure of the transaction encompasses a senior and a junior tranche, the latter being fully covered by an unfunded Financial Guarantee provided by the EIF (being a 0% risk-weighted entity, no cash or collateral is required under the Financial Guarantee).

The transaction provides first-loss protection over the securitized portfolio and is designed to achieve Significant Risk Transfer (SRT) as per EU Regulation 2401/2017 and to be compliant with relevant prescriptions of EU Regulation 2402/2017 as amended from time to time (together, the “Securitisations Regulation”).

The transaction achieved designation as a simple, transparent and standardized securitization within the meaning of article 18 of Regulation (EU) 2402/2017.

The transaction represents a bespoke private securitisation where no prospectus had to be drawn up in compliance with Regulation (EU) 2017/1129 and no information had to be made available via a securitisation repository according to Regulation (EU) 2017/2402.

Role	Party
Originator	UniCredit Bulbank AD
Junior Tranche Guarantor	European Investment Fund
Originator Legal Counsel	Clifford Chance LLP & Wolf Theiss Attorney Company
Guarantor Legal Counsel	Linklaters LLP
STS Verification Agent	Prime Collateralised Securities (PCS) EU SAS
Credit Event Verification Agent	Deloitte Audit OOD

Portfolio characteristics

The assets pooled in the securitization exclusively consist of performing secured and unsecured loans originated by, owned by and carried as an asset of the Bank, being all such loans granted to SME and Corporate customers located in Bulgaria and denominated in EUR and BGN.

For Regulatory purposes, all loans are classified as Advanced-IRB / RWA method internal rating models.

In accordance with the Financial Guarantee, the underlying portfolio includes in whole or in part also loans arising under revolving credit and/or overdraft facilities whereby the reference obligation notional amount refers to the sum of (a) the maximum undrawn commitment granted by the originator under such facilities and (b) all drawn amounts under such facilities.

For the purposes of the Regulatory Requirements, the Bank is the Originator of the Reference Portfolio. As such, the Bank will retain, on an unhedged and unguaranteed basis, an exposure to each loan in the Reference Portfolio which will be at all times at least 5% of the notional amount of the Initial portfolio and which will not benefit from any of the Guarantee (the “Retained Exposure Amount”) in compliance with Art. 6(3)(a) of Regulation (EU) 2017/2402.

The main characteristics of the Updated Reference Obligation Portfolio with reference to 31st December 2022 are the following:

- Outstanding securitized amount (Reference Portfolio Notional Amount) BGN 1 866 812 962;

- RWA without securitization: BGN 1 158 888 175 (62.08% of the securitized portfolio);
- Expected Loss without securitization: BGN 9 890 576 (0.53% of the securitized portfolio);
- RWA after application of securitization framework: BGN 169 879 979 (9.1% of the securitized portfolio);
- Expected Loss after application of securitization framework: BGN 0;
- Weighted average PD of 1.21%;
- Weighted average LGD of 49.68%.

In order to select the portfolio, the following main eligibility criteria were applied:

- the Reference Obligation has been originated in accordance with the Credit and Collection Policies applicable from time to time to the Beneficiary;
- the relevant Reference Entity is resident and has its registered office in an Eligible Country (Bulgaria);
- the relevant Reference Entity has a maximum probability of default rating class of 6 and above attributed to it in accordance with the Beneficiary's internal credit classification system (or the equivalent rating from time to time;
- the Reference Obligation is not classified "in arrears";
- the Beneficiary or any of its Affiliates has had an ongoing business relationship with the relevant Reference Entity for at least one (1) year;
- the Reference Obligation has a final maturity date falling no later than the earlier of (i) one (1) year prior to the Scheduled Maturity Date and (ii) in case of an Excluded Reference Obligation Substitution, five (5) years after the Reference Obligation has been included in the Reference Portfolio;
- no Credit Event, or event which would, with the passing of time or giving of notice, be a Credit Event, has occurred in respect of the Reference Obligation;
- the Reference Obligation is classified as "Stage 1" in the Beneficiary's accounting system (i.e. no significant increase in credit risk with respect to the Reference Obligation has been determined by the Beneficiary applying its standard applicable accounting procedures in accordance with IFRS 9.5.5.9);
- SME and Corporate Loans;
- performing loans only;
- the Reference Obligation is not a transferable security;
- the Reference Obligation has been originated as part of core business activity;
- the Beneficiary applies the internal ratings based (IRB) approach to determine the applicable regulatory capital requirements in respect of the relevant Reference Obligation;
- the relevant Reference Obligation is classified as an "INVESTMENT", an "OVERDRAFT", a "REVOLVING" or a "WORKING CAPITAL" under the Beneficiary's internal classification system;
- loans denominated in BGN or EUR only.

Transaction structure

The Financial guarantee has following structure with Pro-Rata Amortization with relevant switches to Sequential Amortization. The triggers for switches to Sequential Amortization were set by the Guarantor in a Confirmation Letter dd. 30th November 2022. The switch is expected to happen after 12 months at the latest.

As of 31.12.2022

Tranche	BGN Nominal Amount	Thickness	Attach	Detach	Guaranteed	Retained %	Amortization Typology
Senior	1 698 799 795	91.00%	9%	100%	0%	100%	Pro-Rata +
Junior (Commitment)	168 013 167	9.00%	0%	9%	100%	0%	Sequential

The Guarantee Fee will be paid by the Bank to the Investor on a quarterly basis, according to a regular schedule, in an amount equal to the product of the Fee Rate, the available Commitment (i.e., the outstanding amount of the Guarantee/Junior Tranche nominal amount) and the number of days in the relevant accrual period. The transaction does not envisage the payment of non-contingent or upfront premia or the usage of synthetic excess spread.

The transaction encompasses, inter alia, the following customary call options in favour of the Originator:

- the Clean-Up Call meets the requirements of Art. 245(4)(f) of the Regulation (EU) 2017/2401;
- the "Time Call" can be exercised just after a period of time (measured from the Closing Date) equal to the initial portfolio weighted average life without considering any prepayment rate or default rate ("Early Termination Threshold Date");
- Regulatory Change, being a change of law or regulation which leads to a less favourable regulatory capital treatment for the Originator;
- Significant Risk Transfer Failure;
- Tax Event.

The Credit Events that qualify a loan as a defaulted exposure and hence trigger a payment under the Financial Guarantee are the following (in accordance with the Financial Guarantee):

- Failure to Pay >= 90 days past due;
- Bankruptcy of the reference obligor;
- Restructuring;
- Default.

Currency Structure

In accordance with Art. 29, par. 2 of the Law on the Bulgarian National Bank, the BGN operates under a fixed exchange rate of 1.95583 levs per euro (the "Fixed Exchange Rate"). This has been the same fixed rate since the adoption of the EUR by the Federal Republic of Germany in 2000. Given the Fixed Exchange Rate, no currency hedging between BGN and EUR is required in the transaction.

A change in the Fixed Exchange Rate would require a change of law and an amendment to the Law on the Bulgarian National Bank. Should this happen, the Originator will be able to rely on the regulatory change/ change of law wording in the Financial Guarantee and have a right to call the transaction. Given the longstanding and stable nature of the Fixed Exchange Rate, such change of law is not expected.

Recognition of SRT (Significant Risk Transfer)

The transaction achieved Significant Risk Transfer starting from November 2022, by complying with Article 245(2)(b) of Regulation (EU) 2017/2401, since the transaction was structured to transfer the whole Junior tranche to third parties and complying with risk retention requirements set forth in Article 6 of Regulation (EU) 2017/2402 through the retention of not less than 5% of the nominal value of each securitized exposure. The regulatory treatment applied to the transaction is that for STS transactions envisaged by the article 260 of the Regulation (EU) 2017/2401.

ii. Other securitization deals

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, 2022 is presented in the table below:

NAME	EIF JEREMIE
Type of securitization:	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, 2022	Performing loans
Agreed maximum portfolio volume:	EUR 85,000 thousand
Nominal Value of reference portfolio:	BGN 1 359 thousand
Issued guarantees by third parties:	First loss cash coverage by EIF
Amount and Condition of tranching:	
Reference Position Junior Tranche as of December 31, 2022	BGN 538 thousand

(g) Climate-related and environmental risks (ESG)

The climate-related and environmental risks and the accompanying shift towards sustainable finance are mounting challenges to the financial sector. In the context of an evolving regulatory framework that since 2020 have been putting even stronger emphasis on the climate risk topic, the Bank, in line with the Group's strategy, continued to proactively address these challenges by means of increased commitment to sustainability and tangible initiatives aimed at improving the management of risks to anticipate the possible increases in the riskiness of specific sectors and to analyze the impact on the overall Bank's business and risk profile.

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards.

UniCredit defines the Climate related and environmental risks as the sources of structural changes that might affect the economic activities and led by the following risk drivers:

- Transition risk refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower carbon and more environmentally sustainable economy;
- Physical risk refers to the financial impact of extreme weather events and gradual changes in climate, as well as of environmental degradation (e.g. water and land pollution, water stress, biodiversity loss and deforestation). Physical risk can directly result in damage to property or reduced productivity.

We proceed with the integration of Climate & Environmental risks within Risk Management framework through several concrete actions and in line with the defined Group Roadmap, as part of the "Risk and Credit" stream of the implemented in 2021 UniCredit Bulbank's ESG Governance Framework. In 2022 we continued working on achieving the three main objectives:

- meeting regulatory expectations on banks business strategy and risk management processes;
- mitigating climate-related and environmental risks;
- identifying potential opportunities for financing the climate and environmental transition.

We carefully manage Transition Risk, ensuring proper origination, monitoring and management of the portfolios, following holistic approach including:

- Portfolio steering through Risk Appetite Framework, Credit strategies cascading and sector policies issuing;
- Portfolio analysis and monitoring;
- Single counterparty risk assessment (starting from Large Corporate).

Regarding Physical Risk, we are focused on the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Preliminary assessment of the collaterals portfolio has been performed by Collateral Management Unit on physical risk caused by sea-level rise and by flooding in line with the Group's methodology on the matter.

We continue to streamline data gathering and analytics, in order to further identify sources of climate related risks. Initiative has been launched for storage of the information for collaterals' Energy efficiency - new requirement for providing of issued Energy efficiency certificate of real estate properties proposed for collaterals has been implemented in 2022 with the respective proper flagging in the internal core banking system of the Energy class of the real estate properties. While this will be applied for all new business flows, the Bank explores possibilities for collaboration with third-party vendors on the assessment of the stock.

In line with the entered into force EBA Guidelines for Loan Origination and Monitoring, the Bank uses ESG information in its underwriting process. We have adopted Groupwide questionnaire for climate risk assessment and diligently apply it for transactions with economic groups above predefined exposure threshold. The Climate & Environmental (C&E) Risk Assessment.

Questionnaire aims to determine the customers' position on the transition pathway. The approach comprises:

- filling in of the above-mentioned questionnaire addressing both high and low emissive customers in line with regulatory expectations;

- generation of a Climate & Environmental (C&E) Risk Scorecard summarizing the main KPIs and identifying the counterparty's positioning in one of the four risk areas (low, medium-low, medium-high, high) of the Transition Assessment matrix;
- the inclusion of the environmental scoring in the credit valuation process.

C&E assessment methodology is based on 3 key dimensions:

- the climate and environmental exposure considers the actual level of Green House Gas (GHG) emissions of corporate customers as well as other environmental metrics such as water and energy consumption, waste production and recycling;
- the climate and environmental vulnerability evaluates the climate change management maturity level of corporate customers, considering the company's plan to shift to a lower emission level business model, the transition investment plan, the GHG emissions reduction target as well as products and services associated with positive climate impact. This dimension considers cross-industry emission targets and ESG ratings together with management and industry specific environmental strategy;
- the economic impact on corporate customers' financial and industrial performance takes into account the effects on stranded assets, the decrease in market shares or revenues due to market shift, the increase in investment costs, constraints in accessing financing and indirect effects related to their supply chain or partner industries.

The bank intends to further enhance the heatmap approach to better understand the impact across sectors as well as to cover the positions below the defined thresholds.

UniCredit Bulbank has approved, implemented and follows several Group policies regarding sensitive sector that may have significant implication on the environment and the society. Strict monitoring and evaluation is being performed on counterparties and deals within the Coal Sector, Defense / Weapons Industry, Mining Industry, Water Infrastructure/ Dams, Nuclear energy, Non-Conventional Oil & Gas and Arctic region Oil & Gas industry sector. The analysis is performed in line with all ESG criteria, requirements, standards and best practices, and ensures that all such standards and local and international regulations are met.

In 2021 UniCredit joined the Net-Zero Banking Alliance (NZBA). In line with the Group commitment to a climate-positive future, UniCredit Bulbank has put the foundations of its Carbon Footprint Reduction Program also in 2022.

In 2023 the Bank will continue to develop the activities in these areas in line with the Group approach and all applicable regulations, standards and best practices. The Bank aims to further progress with its efforts regarding climate-related risks and opportunities by refining the methodologies, working towards standard setting and expanding the scope. For instance, it's intended to expand the scope of our physical risk assessment for real estate and investigate the impact of transition risk on various sectors, as well as to include such assessments in the stress test scenarios for the Bank.

5. Non-financial risk management

UniCredit Bulbank AD is exposed to the following Non-financial risks - Operational and Reputational risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes strategic and reputational risk. Examples of operational risk events include internal or external frauds, employment practices and workplace issues / incidents, client claims, products distribution, fines and penalties due to regulation breaches, damage to company's physical assets, business disruption and IT systems failures, cyber-attacks, execution, delivery and process management. Such events are subject to consolidated risk monitoring, 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 represents a combined set of policies and procedures for controlling, measuring and mitigating the operational risk exposure, which includes the guidelines of UniCredit Group and local documents. The Non-Financial Risk (NFR) function is the Bank's structure dedicated to operational risk management, which is independent from business and risk taking functions. The responsibilities of the NFR are consisting of ensuring adequate Operational Risk Management Governance in line with the set and applied by UniCredit Group and in compliance with external regulation and with international practices.

Appointed 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.

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 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 sensitive economic sectors and transactions, such as Coal, Defense, Nuclear energy, Water Infrastructure, Oil and Gas and Mining.

The main activities of the NFR in 2022 were focused in managing the operational and reputational risks, as well as assessment and mitigation of risks in the bank processes and activities, participation in dedicated bank projects and initiatives.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; ICT Project Risk Assessment; Operational Risk Oversight and Second level controls on Third Party Risk ; Risk and Controls Self-Assessment ; Operational and Reputational Risk Strategies Definition and Monitoring; Operational Risk Oversight Model on UniCredit Bulbank Subsidiaries; Insurance Analysis – Insurance recoveries, Annual evaluation on local insurances.

In 2022 the Operational Risk Permanent WorkGroup (PWG) was established, following the Group regulations, as an expert work group to ensure structured and continuous cooperation among business, support and control functions, enabling a joint and widespread identification of the sources of Operational Risks aiming at reduction of the Operational Risk exposure of the Legal Entity. The main outcomes (the mitigation actions) and escalation topics in case of delays or deviations from the expected outcomes regarding the implementation of the mitigation actions, planned and approved by the competent functions are reported to Non-Financial Risk and Control Committee - General Session – Operational Risk stream for information or for decision.

Second level controls on ICT and Security processes was developed and regularly performed in 2022. This is a set of second level controls, implemented upon a Group NFR request, aiming to strengthen the management of ICT and Cyber risks. These controls cover some processes in the ICT and Security areas like Change Management and ICT Incident Management Processes.

The following existing processes have been enhanced aimed at implementing extending criteria in 2022:

- ICT Project Risk Assessment – enlargement of the scope of the ICT projects on which an additional analysis is performed including the projects assessed as not containing material risks.
- Risk and Controls Self-Assessment (RCSA) - the activity is now directly integrated with IT evaluations on ICT Assets servicing the business Processes. A detailed set of dedicated ICT and Cyber risks have been added to the already existing process risks bundle. The number of risks per E2E process has doubled to about 40 risks per a process. The number of mandatory assessed end-to-end (E2E) processes is increased from 18 to 24.
- New Key Risk indicators (KRIs) in several areas were created:
    - 9 KRIs related to credit processes and 3 KRIs related to card fraud monitoring have been implemented aiming at second level controls enhancement and harmonization throughout UniCredit Group.
    - 19 ICT and Cyber Risk indicators for monitoring was introduced covering various ICT and Cyber Risk areas, reported separately for UniCredit Bulbank, UniCredit Consumer Financing, UniCredit Leasing and UniCredit Fleet Management.
- New framework on Outsourcing and Third Party Risk arrangements was implemented with enhanced several steps on second level controls. NFR performs several evaluation checks such as correct assessment of the service inherent risk, adequacy of the identified corrective measures, correct assessment of the residual risk, integrity checks on cyber inherent risk, review of cyber security risk assessment. In the event that, as a consequence of the review, the overall residual risk of the Outsourcing initiative or the residual risk of a single scenario is reclassified as medium-high or high, the escalation process must be activated.

All activities regarding operational and reputational risk management included in the annual plan of activities, defined by the Group, were performed following the Group methodology and executed with no delay.

All key activities and results of the Operational Risk Identification (Internal losses, External data, Scenario analysis), the Assessment Measurement activities (KRI, RCSA) and the Addressing – Mitigation activities (Operational Risk priorities and Strategies) were reported for information/approval to the Non-Financial Risk and Controls Committee – General Session (NFRC-GS). The Committee meetings are held quarterly and attended by the Bank's top management.

The Reputational Risk Management is implemented in UniCredit Bulbank through a dedicated set of policies with aim to:

- Identify sources of reputational risk (e.g., when entering new markets, products or lines of activities);
- Give guidelines for reputational risk assessment and measurement, monitoring and reporting to the competent corporate Bodies (e.g., Local and Group NFRC Committee);
- Rule the necessary escalation / decision-making processes.

The overall Reputational Risk Management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies through Non-Financial Risk and Control Committee – Reputational Risk Session, in specific decisions regarding the Reputational Risk management (i.e., escalation mechanisms and high risk cases);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- System of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model).

6. 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 Group. These estimates and judgement require Management to use all information available in order to assess and where possible to quantify potential impact on the Group'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) (v)** the Group 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 Group 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 Group uses widely recognized 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 Group 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 Group 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 2022 and 2021 see also Note **10**).

Loans and advances to banks, customers and finance leases

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 Group for 2022, whenever risk-free FV deviates by more than 2% 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. Both as of December 31, 2022 and December 31, 2021 all loans and advances to customers at amortized cost are mapped to Level 3 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, 2022 and December 31, 2021 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by fair value hierarchy applied by the Group as of December 31, 2022 and December 31, 2021.

In thousands of BGN

Instrument category	Level 1	Level 2	Level 3	Total	
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2021
Non-derivative financial assets held for trading	2 828	-	-	**2 828**	**4 901**
Derivatives held for trading	-	115 735	362	**116 097**	**87 039**
Derivatives for hedging	-	131 468	-	**131 468**	**11 976**
Loans and advances to banks and debt securities at amortized cost	-	1 278 341	2 445	**1 280 786**	**701 317**
Loans and advances to customers, debt securities at amortized cost and finance leases	390 377	1 261 912	14 457 127	**16 109 416**	**12 961 412**
Pledged debt securities at amortized cost	135 832	39 964	-	**175 796**	**-**
Investment securities	531 807	899 200	40 659	**1 471 666**	**2 862 706**
Pledged investment securities	1 039 329	23 262	-	**1 062 591**	**612 656**
	2 100 173	**3 749 882**	**14 500 593**	**20 350 648**	**17 242 007**
Financial liabilities held for trading	-	142 220	17 086	**159 306**	**47 148**
Derivatives used for hedging	-	132 160	-	**132 160**	**65 287**
Deposits from banks	-	-	1 620 632	**1 620 632**	**1 231 194**
Deposits from customers and other financial liabilities at amortized cost	-	-	23 218 598	**23 218 598**	**19 783 605**
Debt securities issued	-	312 933	-	**312 933**	**312 933**
	-	**587 313**	**24 856 316**	**25 443 629**	**21 440 167**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2022 is as follows:

In thousands of BGN

	Derivatives held for trading	Loans mandatory at FV	Equity Investments	Debt securities
Opening balance (January 1, 2022)	**-**	**2 070**	**19 283**	**43 380**
Increases	**362**	**-**	**507**	**41**
Purchase	362	-	114	-
Profit recognized in income statement	-	-	206	-
Profit recognized in equity	-	-	-	-
Transfer from other levels	-	-	-	-
Other increases	-	-	187	41
Decreases	**-**	**(1 881)**	**(3 835)**	**(18 717)**
Sales	-	-	-	-
Redemption	-	-	-	(750)
Losses recognized in income statement	-	(326)	(3 835)	-
Loses recognized in equity	-	-	-	-
Transfers to other levels	-	-	-	(17 967)
Other decreases	-	(1 555)	-	-
Closing balance (December 31, 2022)	**362**	**189**	**15 955**	**24 704**

The table below analyses information about significant unobservable inputs used as at 31 December 2022 in measuring financial instruments categorised as level 3 in the fair value hierarchy.

Type of instrument	Fair value as at 31.12.2022	Valuation technique	Significant unobservable input	Range of estimates (wighted evarage) for unobservable input	Fair value as measurement sensitivity to unobservable inputs
Derivatives held for trading	362	Discounted Cashflows	Relevant interest rate risk curve for in the respective currency used for discounting	Rates of -1% to 2% (average 0) (2021 -1% to -1%, average -1%)	significant increase in the relevant interest rate curve used for discounting would result in a lower fair value
Debt securities	24 704	Mark-to-model (Discounted Cashflows)	Relevant interest rate risk and credit spread curves for comparable instruments and comparable issuer in the respective currency	Rates of -1% to 2% (average 0) (2021 -1% to -1%, average -1%) Credit spread of 2% to 20%[1] (average 12%) (2021 2% to 3%, average 2%), over the risk-free rate	Significant increase in the relevant interest rate or credit spread curve used for discounting would result in a lower fair value

1 Maximum average values reflect the increased credit spread curve used for discounting IBECO bond that peaked in 2022

The tables below analyze the fair value of financial instruments by classification as of December 31, 2022 and December 31, 2021.

In thousands of BGN

December 2022	Fair value through profit or loss	Loans and receivables	Investment securities	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	7 070 405	**7 070 405**	**7 070 405**
Non-derivative financial assets held for trading	2 828	-	-	-	-	**2 828**	**2 828**
Derivatives held for trading	116 097	-	-	-	-	**116 097**	**116 097**
Derivatives held for hedging	-	-	-	131 468	-	**131 468**	**131 468**
Loans and advances to banks and debt securities at amortized cost	-	1 282 131	-	-	-	**1 282 131**	**1 280 786**
Loans and advances to customers, debt securities at amortized cost and finance leases	-	17 427 938	-	-	-	**17 427 938**	**16 109 416**
Pledged debt securities at amortized cost	-	180 384	-	-	-	**180 384**	**175 796**
Investment securities	-	-	1 471 666	-	-	**1 471 666**	**1 471 666**
Pledged investment securities	-	-	1 062 591	-	-	**1 062 591**	**1 062 591**
TOTAL ASSETS	**118 925**	**18 890 453**	**2 534 257**	**131 468**	**7 070 405**	**28,745,508**	**27 421 053**
LIABILITIES							
Financial liabilities held for trading	159 306	-	-	-	-	**159 306**	**159 306**
Derivatives used for hedging	-	-	-	132 160	-	**132 160**	**132 160**
Deposits from banks	-	-	-	-	1 613 792	**1 613 792**	**1 620 632**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	23 222 863	**23 222 863**	**23 218 598**
Debt securities issued	-	-	-	-	313 701	**313 701**	**312 933**
TOTAL LIABILITIES	**159 306**	**-**	**-**	**132 160**	**25 150 356**	**25 441 822**	**25 443 629**

In thousands of BGN

December 2021	Fair value through profit or loss	Loans and receivables	Investment securities	CFH derivatives	Other amortized cost	Total carrying amount	Fair value
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 677 438	**6 677 438**	**6 596 935**
Non-derivative financial assets held for trading	4 901	-	-	-	-	**4 901**	**4 901**
Derivatives held for trading	87 039	-	-	-	-	**87 039**	**87 039**
Derivatives held for hedging	-	-	-	11 976	-	**11 976**	**11 976**
Loans and advances to banks and debt securities at amortized cost	-	700 788	-	-	-	**700 788**	**701 317**
Loans and advances to customers, debt securities at amortized cost and finance leases	-	13 946 002	-	-	-	**13 946 002**	**12 961 412**
Investment securities	-	-	2 862 706	-	-	**2 862 706**	**2 862 706**
Pledged investment securities	-	-	612 656	-	-	**612 656**	**612 656**
TOTAL ASSETS	**91 940**	**14 646 790**	**3 475 362**	**11 976**	**6 677 438**	**24 903 506**	**23 838 942**
LIABILITIES							
Financial liabilities held for trading	47 148	-	-	-	-	**47 148**	**47 148**
Derivatives used for hedging	-	-	-	65 287	-	**65 287**	**65 287**
Deposits from banks	-	-	-	-	1 211 620	**1 211 620**	**1 231 194**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	19 800 871	**19 800 871**	**19 783 605**
Debt securities issued	-	-	-	-	313 104	**313 104**	**312 933**
TOTAL LIABILITIES	**47 148**	**-**	**-**	**65 287**	**21 325 595**	**21 438 030**	**21 440 167**

(b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is applied when measuring fair value of investment properties. Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2022 and December 31, 2021 all investment properties have undergone external fair valuation (see also Note **29**).

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortized cost and at FVTOCI and in order to meet the requirements of IFRS 9, the Group has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Group continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(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 Group in case of adverse development of uncertain events.

7. 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 risk-weighted assets (RWA).

The Group 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

31.12.2022	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	339 104	240 470	4 754	**584 328**
Dividend income	-	-	1 023	**1 023**
Net fee and commission income	181 077	100 704	(477)	**281 304**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	30 534	42 541	31 845	**104 920**
Net gains/(losses) from financial assets mandatory at fair value	-	-	(159)	**(159)**
Net income from financial assets measured at FVTOCI	-	-	5 664	**5 664**
Other operating income	1 909	7 769	24 609	**34 287**
Other operating expenses	(24 967)	(5 132)	(638)	**(30 737)**
TOTAL OPERATING INCOME	**527 657**	**386 352**	**66 621**	**980 630**
Personnel expenses	(90 489)	(32 121)	(59 183)	**(181 793)**
General and administrative expenses	(21 669)	(7 587)	(89 526)	**(118 782)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(1 359)	(21 962)	(48 520)	**(71 841)**
Total direct expenses	**(113 517)**	**(61 670)**	**(197 229)**	**(372 416)**
Allocation of indirect and overhead expenses	(76 651)	(34 962)	111 613	**-**
TOTAL OPERATING EXPENSES	**(190 168)**	**(96 632)**	**(85 616)**	**(372 416)**
Provisions for risk and charges	(1 200)	(1 169)	2 612	**243**
Net impairment loss	(62 544)	(54 510)	4 589	**(112 465)**
Net income related to property, plant and equipment	-	4 222	10 974	**15 196**
PROFIT BEFORE INCOME TAX	**273 745**	**238 263**	**(820)**	**511 188**
Income tax expense	47 639	34 176	(132 572)	**(50 757)**
PROFIT FOR THE YEAR	**321 384**	**272 439**	**(133 392)**	**460 431**
ASSETS	**6 586 680**	**9 657 224**	**13 058 096**	**29 302 000**
LIABILITIES	**14 110 804**	**9 191 468**	**2 423 122**	**25 725 394**

In thousands of BGN

31.12.2021	Retail Banking	CIB and Private Banking	ALM and other	Total
Net interest income	283 946	214 923	20 213	**519 082**
Dividend income	-	-	927	**927**
Net fee and commission income	162 165	94 334	(1 027)	**255 472**
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	22 282	50 495	6 482	**79 259**
Net gains/(losses) from financial assets mandatory at fair value	-	-	1 243	**1 243**
Net income from financial assets measured at FVTOCI	-	-	17 174	**17 174**
Other operating income	6 456	17 077	7 821	**31 354**
Other operating expenses	(27 492)	(14 054)	15 418	**(26 128)**
TOTAL OPERATING INCOME	**447 357**	**362 775**	**68 251**	**878 383**
Personnel expenses	(86 511)	(28 823)	(54 387)	**(169 721)**
General and administrative expenses	(22 791)	(7 216)	(83 803)	**(113 810)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(1 347)	(18 871)	(43 027)	**(63 245)**
Total direct expenses	**(110 649)**	**(54 910)**	**(181 217)**	**(346 776)**
Allocation of indirect and overhead expenses	-	-	-	**-**
TOTAL OPERATING EXPENSES	**(110 649)**	**(54 910)**	**(181 217)**	**(346 776)**
Provisions for risk and charges	(3 029)	(1 530)	1 472	**(3 087)**
Net impairment loss	(31 030)	(90 053)	220	**(120 863)**
Net income related to property, plant and equipment	-	(3 323)	6 181	**2 858**
PROFIT BEFORE INCOME TAX	**302 649**	**212 959**	**(105 093)**	**410 515**
Income tax expense	41 328	28 746	(110 557)	**(40 483)**
PROFIT FOR THE YEAR	**343 977**	**241 705**	**(215 650)**	**370 032**
ASSETS	**5 602 101**	**7 982 585**	**11 844 536**	**25 429 222**
LIABILITIES	**13 219 503**	**6 800 192**	**1 697 744**	**21 717 439**

In the following tables, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major service lines:

In thousands of BGN

31.12.2022	Retail Banking	CIB and Private Banking	ALM and other	Total
Fee and commission income				
Collection and payment services	96 411	67 347	(73)	**163 685**
Lending business	10 549	22 747	(1)	**33 295**
Account services	26 928	5 487	-	**32 415**
Management, brokerage and securities trading	13 191	4 825	126	**18 142**
Documentary business	573	20 860	32	**21 465**
Package accounts	23 941	1 719	-	**25 660**
Other	36 389	2 745	-	**39 134**
	207 982	125 730	84	**333 796**
Fee and commission expense				
Collection and payment services	(25 233)	(20 223)	35	**(45 421)**
Management, brokerage and securities trading	(106)	(1 728)	(594)	**(2 428)**
Lending business	(5)	(47)	9	**(43)**
Other	(1 561)	(2 935)	(104)	**(4 600)**
	(26 905)	(24 933)	(654)	**(52 492)**
Net fee and commission income	**181 077**	**100 797**	**(570)**	**281 304**

In thousands of BGN

31.12.2021	Retail Banking	CIB and Private Banking	ALM and other	Total
Fee and commission income				
Collection and payment services	82 165	55 182	(91)	**137 256**
Lending business	11 443	25 401	(4 505)	**32 339**
Account services	24 200	5 505	-	**29 705**
Management, brokerage and securities trading	10 868	7 518	107	**18 493**
Documentary business	521	17 661	19	**18 201**
Package accounts	21 990	1 642	-	**23 632**
Other	31 542	2 760	3	**34 305**
	182 729	115 669	(4 467)	**293 931**
Fee and commission expense				
Collection and payment services	(20 485)	(14 601)	542	**(34 544)**
Management, brokerage and securities trading	13	(132)	(2 209)	**(2 328)**
Lending business	-	-	(310)	**(310)**
Other	(92)	(1 688)	503	**(1 277)**
	(20 564)	(16 421)	(1 474)	**(38 459)**
Net fee and commission income	**162 165**	**99 248**	**(5 941)**	**255 472**

8. Net interest income

In thousands of BGN

	2022	2021
Interest income calculated using the effective interest method		
Loans and advances to banks	17 699	2 229
Loans and advances and finance leases to customers	537 523	493 285
Investment securities	43 210	50 958
Interest income on liabilities	27 055	22 323
	625 487	**568 795**
Other interest income		
Non-derivative financial assets held for trading	6	71
	6	**71**
Interest expense		
Derivatives used for hedging	(12 508)	(19 301)
Deposits from banks	(6 624)	(2 600)
Deposits from customers	(3 101)	(1 895)
Debt securities issued	(5 231)	(239)
Interest expense on assets	(13 701)	(25 749)
	(41 165)	(49 784)
Net interest income	**584 328**	**519 082**

For the financial years ended December 31, 2022 and December 31, 2021 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 21 636 thousand and BGN 26 176 thousand, respectively.

Interest income on liabilities and interest expenses on assets have been presented in separate positions due to materiality of the amounts.

9. Net fee and commission income

In thousands of BGN

	2022	2021
Fee and commission income		
Collection and payment services	163 685	137 256
Lending business	33 295	32 339
Account services	32 415	29 705
Management, brokerage and securities trading	18 142	18 493
Documentary business	21 465	18 201
Package accounts	25 660	23 632
Other	39 134	34 305
	333 796	**293 931**
Fee and commission expense		
Collection and payment services	(45 421)	(34 544)
Management, brokerage and securities trading	(2 428)	(2 328)
Lending business	(43)	(310)
Other	(4 600)	(1 277)
	(52 492)	(38 459)
Net fee and commission income	**281 304**	**255 472**

10. Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

In thousands of BGN

	2022	2021
Realized and unrealized FX trading income, net	113 498	76 597
Net income from debt instruments	639	483
Net income/(loss) from equity instruments	195	(242)
Net income/(loss) from derivative instruments	(9 769)	157
Net income from other trading instruments	-	1 792
Net income from hedging derivative instruments	357	472
Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	**104 920**	**79 259**

The total CVA (net of DVA) for the years ended December 31, 2022 and December 31, 2021, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 464 thousand and BGN 609 thousand, respectively.

11. Net gains/(losses) from financial assets mandatory at fair value

In thousands of BGN

	2022	2021
Equity securities	367	1 415
Loans and advances	(526)	(172)
Net gains/(losses) from financial assets mandatory at fair value	**(159)**	**1 243**

12. Net income from financial assets measured at FVTOCI

Net income related to financial assets measured at FVTOCI according to IFRS 9 represents the net gain the Bank has realized upon disposal of debt securities. For the years ended December 31, 2022 and December 31, 2021 the gains are in the amount of BGN 5 664 thousand and BGN 17 174 thousand, respectively.

13. Other operating income and expenses

13.a Other operating income

In thousands of BGN

	2022	2021
Other operating income		
Income from non-financial services	7 808	6 678
Rental income	19 840	17 799
Other income	6 639	6 877
Other operating income	**34 287**	**31 354**

13.b Other operating expenses

In thousands of BGN

	2022	2021
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(26 797)	(23 561)
Impairment of foreclosed properties	-	(36)
Losses on tangible assets measured at fair value	(178)	(52)
Other operating expenses	(3 762)	(2 479)
Other operating expenses	**(30 737)**	**(26 128)**

14. 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 fixed assets. For the years ended December 31, 2022 and December 31, 2021 the gains are in the amount of BGN 15 196 thousand and BGN 2 858 thousand respectively.

15. Personnel expenses

In thousands of BGN

	2022	2021
Wages and salaries	(150 498)	(142 297)
Social security charges	(21 459)	(20 252)
Pension and similar expenses	(1 415)	(1 521)
Temporary staff expenses	(1 219)	(637)
Share-based payments	(730)	(1 062)
Other	(6 472)	(3 952)
Personnel expenses	**(181 793)**	**(169 721)**

As of December 31, 2022 the total number of employees, expressed in full time employee equivalent is 3 985 (December 31, 2021: 4 108).

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 Group 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 Group's liability by type of instruments granted:

In thousands of BGN

	Economic value at December 31, 2021	2022 Cost (Gains)	Settled in 2022	Economic value at December 31, 2022
Deferred Short Term Incentive (ordinary shares)	6 184	729	(3 758)	3 155
ESOP and shares for Talents	72	-	(72)	-
Total Options and Shares	**6 256**	**729**	**(3 830)**	**3 155**

Pension and similar expenses comprise current services costs and interest costs related to defined benefits obligation of the Group to its employees upon retirement. For more details about the pension scheme see note **39**.

16. General and administrative expenses

In thousands of BGN

	2022	2021
Advertising, marketing and communication	(7 603)	(7 635)
Credit information and searches	(1 023)	(1 861)
Information, communication and technology expenses	(56 912)	(51 453)
Consulting, audit and other professionals services	(2 247)	(2 468)
Real estate expenses	(15 115)	(15 866)
Rents	(5 053)	(6 411)
Travel expenses and car rentals	(3 643)	(1 349)
Insurance	(1 765)	(2 246)
Supply and miscellaneous services rendered by third parties	(14 751)	(13 071)
Other costs	(10 670)	(11 450)
General and administrative expenses	**(118 782)**	**(113 810)**

The amounts accrued in 2022 for the services provided by the registered auditors for statutory independent financial audit are as follows: for KPMG Audit OOD: BGN 283 thousand including VAT, for Baker Tilly Klitou and Partners EOOD: BGN 198 thousand including VAT. In 2022 the Group was charged with amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 352 thousand including VAT and by Baker Tilly Klitou and Partners EOOD: BGN 25 thousand including VAT.

For 2021 the accrued amount for the provided audit and non-audit services by the external auditors were BGN 1 280 thousand including VAT.

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

In thousands of BGN

	2022	2021
Depreciation charge	(71 841)	(61 674)
Impairment	-	(1 571)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(71 841)**	**(63 245)**

As part of the standard year-end closure procedures, the Group performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount.

18. Provisions for risk and charges

Provisions are allocated whenever based on Management's best estimates the Group 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 **39**).

In thousands of BGN

	2022	2021
Additions of provisions		
Restructuring provisions	-	(1 971)
Legal cases provisions	(2 449)	(5 325)
Other provisions	(108)	(585)
	(2 557)	**(7 881)**
Reversal of provisions		
Legal cases provisions	395	4 794
Other provisions	2 405	-
	2 800	**4 794**
Provisions for risk and charges	**243**	**(3 087)**

19. Net Impairment loss on financial assets

In thousands of BGN

	2022	2021
Net impairment losses on loans and advances to customers	(80 911)	(126 668)
Net impairment losses on debt securities from customers at AC	662	(839)
Net impairment losses on loans and advances to Banks	(68)	100
Net impairment losses on debt securities from banks at AC	151	1
Net impairment losses on balances with Central Bank	137	(2)
Net impairment losses on financial assets at fair value through OCI	(4 239)	4 218
Loss allowance of financial guarantee contracts and other commitments	(28 197)	2 327
Net impairment loss on financial assets	**(112 465)**	**(120 863)**

For detailed movement of ECL related to financial instruments please refer to 4(d) credit risk.

20. Income tax expense

Taxation is payable at a statutory rate of 10% on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10%, applicable for 2022.

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

In thousands of BGN

	2022	2021
Current tax	(47 329)	(36 138)
Deferred tax expense related to origination and reversal of temporary differences	(2 839)	(4 128)
Overprovided prior year current tax	(589)	(217)
Income tax expense	**(50 757)**	**(40 483)**

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

In thousands of BGN

	2022	2021
Accounting profit before tax	511 188	410 515
Corporate tax at applicable tax rate (10% for 2022 and 2021)	(51 119)	(41 052)
Tax effect of non-taxable revenue	79	320
Tax effect of non-deductible tax expenses	(569)	(7)
Underprovided prior year income tax	852	256
Income tax expense	**(50 757)**	**(40 483)**
Effective tax rate	**9.93%**	**9.86%**

21. Cash and balances with Central Bank

In thousands of BGN

	31.12.2022	31.12.2021
Cash in hand and in ATM	280 642	263 347
Cash in transit	167 707	183 383
Current account with Central Bank	6 622 056	6 230 708
Cash and balances with Central Bank	**7 070 405**	**6 677 438**

22. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Government bonds	-	2 269
Equities	2 828	2 632
Non-derivative financial assets held for trading	**2 828**	**4 901**

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.

23. Derivatives held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Interest rate swaps	66 731	18 320
FX forward contracts	5 568	919
FX options	50	-
Other options	197	-
FX swaps	13 565	36 924
Commodity swaps	29 986	16 319
Commodity options	-	14 557
Derivatives held for trading	**116 097**	**87 039**

Derivatives consist of trading instruments that have positive market value as of December 31, 2022 and December 31, 2021. 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 position.

24. Derivatives held for hedging

As described in Note **3 (k)** in 2009 the 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 financial assets at FVTOCI and deposits from customers.

In thousands of BGN

	2022		2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Risk exposure				
Interest rate				
Designated in FV hedges	101 009	16 424	11 976	31 047
Designated in CF hedges	30 459	115 736	-	34 240
Total interest rate derivatives	**131 468**	**132 160**	**11 976**	**65 287**

Fair value hedge

In thousands of BGN

	Maturity 2022			Maturity 2021		
	Less than 1 year	1 to 5 years	More than 5 years	Less than 1 year	1 to 5 years	More than 5 years
Risk exposure						
Interest rate						
Micro FV hedges of FVOCI						
Nominal amount	154 511	336 051	546 607	230 299	390 286	760 614
Average fixed interest rate	0.19%	0.73%	0.72%	0.37%	0.46%	0.36%
Macro FV hedges of deposits						
Nominal amount	80 950	-	306 874	-	-	-
Average fixed interest rate	0.07%	0.00%	2.33%			

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that include hedge Ineffectiveness
	Notional	Assets	Liabilities				
Micro FV hedges of FVOCI	1 037 169	100 992	-	Derivatives assets(liabilities) held for hedging	52 129	574	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation
Macro FV hedges of deposits	387 824	17	16 424	Derivatives assets(liabilities) held for hedging	(8 333)	(217)	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

In thousands of BGN

As of 31.12.2021	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that include hedge Ineffectiveness
	Notional	Assets	Liabilities				
Micro FV hedges of FVOCI	1 381 199	11 884	31 047	Derivatives assets(liabilities) held for hedging	(6 746)	472	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation
Macro FV hedges of deposits	-	-	-	Derivatives assets(liabilities) held for hedging	-	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation

The amounts related to items designated as hedged items were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		line item in the statement of financial position in which the hedged item is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	**Liabilities**	**Assets**	**Liabilities**			
Debt securities FVOCI	973 011	-	(1 139)	-	Investment securities	(52 289)	-
Deposits	-	387 824	-	(16 331)	Deposits from customers and other financial liabilities at amortized cost	8 350	-

In thousands of BGN

As of 31.12.2021	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		line item in the statement of financial position in which the hedged item is included	Change in FV used for the hedging instrument used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	**Liabilities**	**Assets**	**Liabilities**			
Debt securities FVOCI	1 483 312	-	(414)	-	Investment securities	6 535	-
Deposits	-	-	-	-	Deposits from customers and other financial liabilities at amortized cost	-	-

Cash flow hedge

In thousands of BGN

	Maturity 2022			Maturity 2021		
	Less than 1 year	**1 to 5 years**	**More than 5 years**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Interest rate risk						
Interest rate swaps						
Nominal amount	172 657	447 238	1 014 428	-	464 078	642 170
Average fixed interest rate	1.69%	-0.11%	1.53%	0.00%	0.50%	1.59%

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

In thousands of BGN

As of 31.12.2022	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognized in OCI	Hedge ineffectiveness recognized in profit or loss	Line item of profit or loss that include hedge Ineffectiveness	Amount reclassified from hedge reserve to profit or loss	Line item of profit or loss affected by the reclassification
	Notional	Assets	Liabilities							
Interest rate swaps	1 634 323	30 459	115 737	Derivatives assets(liabilities) held for hedging	-	(45 990)	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	-	Other interest income(expense)

In thousands of BGN

As of 31.12.2021	Carrying amount			line item in the statement of financial position where the hedging instrument is included	Change in FV used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognized in OCI	Hedge ineffectiveness recognized in profit or loss	Line item of profit or loss that include hedge Ineffectiveness	Amount reclassified from hedge reserve to profit or loss	Line item of profit or loss affected by the reclassification
	Notional	Assets	Liabilities							
Interest rate swaps	1 106 248	91	34 240	Derivatives assets (liabilities) held for hedging	-	4 780	-	Net gains on financial assets and liabilities held for trading and hedging derivatives, including FX revaluation	-	Other interest income(expense)

The amounts related to items designated as hedged items were as follows:

In thousands of BGN

As of 31.12.2022	line item in the statement of financial position where the hedged instrument is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
EUR deposits from customers	Deposits from customers and other financial liabilities at amortized cost	-	30 487	-
EUR loans to customers	Loans and advances to customers and debt securities at amortized cost	-	(102 176)	-

In thousands of BGN

As of 31.12.2021	line item in the statement of financial position where the hedged instrument is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
EUR deposits from customers	Deposits from customers and other financial liabilities at amortized cost	-	(22 798)	-
EUR loans to customers	Loans and advances to customers and debt securities at amortized cost	-	(7 500)	-

25. Loans and advances to banks and debt securities at amortized cost

In thousands of BGN

	31.12.2022	31.12.2021
Loans and advances to banks at amortized cost:		
Loans and advances to banks	1 099 729	432 093
Current accounts with banks	84 763	170 898
Debt securities	97 821	98 068
Loans and advances to banks and debt securities at amortized cost	**1 282 313**	**701 059**
Less impairment allowances of loans and advances	(178)	(116)
Less impairment allowances of bonds	(4)	(155)
Less impairment allowances of loans and advances and debt securities at amortized cost	**(182)**	**(271)**
Loans and advances to banks and debt securities at amortized cost	**1 282 131**	**700 788**

26. Loans and advances to customers and debt securities at amortized cost

In thousands of BGN

	31.12.2022	31.12.2021
Loans and advances to customers at amortized cost:		
Companies	9 269 855	7 676 779
Individuals		
Housing loans	3 300 749	2 760 459
Consumer loans	2 373 054	1 978 802
Other loans	64 215	69 052
Central and local governments	354 181	351 015
Government bonds classified at amortized cost:		
Non-pledged government bonds	1 962 072	1 074 206
Pledged government bonds	180 384	-
	17 504 510	**13 910 313**
Less impairment allowances of loans and advances	(834 510)	(792 788)
Less impairment allowances of securities at amortized cost	(294)	(956)
Loans and advances to customers at amortized cost	**(834 804)**	**(793 744)**
Loans and advances to customers mandatory at fair value	**1 744**	**2 070**
thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures	(1 638)	(1 188)
Loans and advances to customers and debt securities at amortized cost	**16 671 450**	**13 118 639**

26.a Finance leases

In thousands of BGN

	31.12.2022	31.12.2021
Finance leases:		
Companies	845 945	755 211
Individuals	155 670	141 396
	1 001 615	**896 607**
Less impairment allowances	(64 743)	(69 244)
Loans and advances to customers at amortized cost	**(64 743)**	**(69 244)**
Finance leases	**936 872**	**827 363**

27. Investment securities

In thousands of BGN

	31.12.2022		31.12.2021	
	Non-Pledged Investment securities	Pledged Investment securities	Non-Pledged Investment securities	Pledged Investment securities
Securities measured at FVTOCI				
Government bonds	1 328 462	1 062 591	2 692 454	612 656
Bonds of banks and other financial institutions	73 485	-	94 535	-
Corporate bonds	40 744	-	47 430	-
Equities	11 981	-	11 660	-
Securities mandatory measured at FV				
Equities	16 994	-	16 627	-
Investment securities	**1 471 666**	**1 062 591**	**2 862 706**	**612 656**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2022 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 comprise 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.

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2022 is BGN 1 037 169 thousand and as of 31.12.2021 is BGN 1 381 199 thousand.

As of December 31, 2022 and as of December 31, 2021 there are pledged investments amounting to BGN 1 781 660 thousand and BGN 842 625 thousand respectively (see also Note **43**).

28. Investments in associates

As of December 31, 2022 and December 31, 2021 there is only one associated company, where the Group exercises significant influence by holding 25% 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, 2022 and December 31, 2021 are as follows:

Company	Activity	Share in capital	Carrying value in thousands of BGN Dec 2022	Carrying value in thousands of BGN Dec 2021
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	25%	3 885	3 426
		Total	**3 885**	**3 426**

	2022	2021
Cash Service Company AD		
Total assets	17 838	16 117
Total liabilities	1 697	1 853
Revenue	9 170	7 989
Net profit for the year	1 869	973

29. Property, plant, equipment, rights of use assets and investment properties

In thousands of BGN

	Lands	Buildings	Buildings - Right of use	Furniture	Electronic equipment	Other	Other -Right of use	Total
Cost or revalued amount								
As of December 31, 2021	**11 398**	**227 065**	**69 910**	**12 713**	**95 733**	**173 173**	**7 518**	**597 510**
Additions	-	3 148	12 948	503	8 563	44 349	550	70 061
Transfers	(114)	(2 475)	-	1	116	(117)	-	(2 589)
Write offs	-	(841)	(336)	(881)	(6 078)	(17 568)	(2 080)	(27 784)
Disposals	(353)	(901)	-	-	(1 405)	(4 150)	-	(6 809)
As of December 31, 2022 before revaluation	**10 931**	**225 996**	**82 522**	**12 336**	**96 929**	**195 687**	**5 988**	**630 389**
Increase in revaluation reserve upon new revaluation	382	4 094	-	-	-	-	-	4 476
Decrease in revaluation reserve upon new revaluation	(133)	(2 170)	-	-	-	-	-	(2 303)
Decrease in value in profit or loss upon new revaluation	-	(283)	-	-	-	-	-	(283)
Revaluation adjustment	**249**	**1 641**	**-**	**-**	**-**	**-**	**-**	**1 890**
As of December 31, 2022 after revaluation	**11 180**	**227 637**	**82 522**	**12 336**	**96 929**	**195 687**	**5 988**	**632 279**
Depreciation								
As of December 31, 2021	**-**	**95 978**	**19 639**	**9 872**	**64 430**	**75 990**	**3 459**	**269 368**
Depreciation charge	-	5 743	9 315	798	10 045	30 155	1 611	57 667
Write offs	-	(841)	(336)	(881)	(6 078)	(17 568)	(2 080)	(27 784)
On disposals	-	(338)	-	-	(1 366)	(4 150)	-	(5 854)
Transfers	-	(888)	-	-	-	-	-	(888)
As of December 31, 2022	**-**	**99 654**	**28 618**	**9 789**	**67 031**	**84 427**	**2 990**	**292 509**
Net book value as of December 31, 2022	**11 180**	**127 983**	**53 904**	**2 547**	**29 898**	**111 260**	**2 998**	**339 770**
Net book value as of December 31, 2021	**11 398**	**131 087**	**50 271**	**2 841**	**31 303**	**97 183**	**4 059**	**328 142**

In thousands of BGN

	Lands	Buildings	Buildings - Right of use	Furniture	Electronic equipment	Other	Other -Right of use	Total
Cost or revalued amount								
As of December 31, 2020	**12 117**	**223 746**	**61 245**	**12 850**	**88 872**	**139 438**	**9 309**	**547 577**
Additions	-	2 928	8 665	625	12 758	44 941	452	70 369
Transfers	-	(1 646)	-	12	134	(146)	-	(1 646)
Write offs	-	(1 233)	-	(774)	(4 107)	(8 866)	(2 243)	(17 223)
Disposals	-	-	-	-	(1 924)	(2 194)	-	(4 118)
As of December 31, 2021 before revaluation	**12 117**	**223 795**	**69 910**	**12 713**	**95 733**	**173 173**	**7 518**	**594 959**
Increase in revaluation reserve upon new revaluation	113	6 363	-	-	-	-	-	6 476
Decrease in revaluation reserve upon new revaluation	(809)	(3 064)	-	-	-	-	-	(3 873)
Decrease in value in profit or loss upon new revaluation	(23)	(29)	-	-	-	-	-	(52)
Revaluation adjustment	**(719)**	**3 270**	**-**	**-**	**-**	**-**	**-**	**2 551**
As of December 31, 2021 after revaluation	**11 398**	**227 065**	**69 910**	**12 713**	**95 733**	**173 173**	**7 518**	**597 510**
Depreciation								
As of December 31, 2020	**-**	**91 433**	**12 244**	**9 861**	**62 179**	**62 463**	**3 727**	**241 907**
Depreciation charge	-	5 778	7 395	785	8 196	24 585	1 975	48 714
Impairment	-	-	-	-	81	-	-	81
Write offs	-	(1 233)	-	(774)	(4 107)	(8 866)	(2 243)	(17 223)
On disposals	-	-	-	-	(1 919)	(2 192)	-	(4 111)
Transfers	-	-	-	-	-	-	-	-
As of December 31, 2021	**-**	**95 978**	**19 639**	**9 872**	**64 430**	**75 990**	**3 459**	**269 368**
Net book value as of December 31, 2021	**11 398**	**131 087**	**50 271**	**2 841**	**31 303**	**97 183**	**4 059**	**328 142**
Net book value as of December 31, 2020	**12 117**	**132 313**	**49 001**	**2 989**	**26 693**	**76,975**	**5 582**	**305 670**

In thousands of BGN

	Investment property
Net book value as of December 31, 2020	**657**
Disposals	(62)
Net book value as of December 31, 2021	**595**
Transfers	(700)
Increase in fair value	105
Net book value as of December 31, 2022	**-**

Items of plant, equipment, right of use assets and other are carried at cost less any accumulated depreciation and adjusted for impairment, if any, while land and buildings used in business and investment properties are revalued to their fair value.

As part of the year-end closing procedure, the Group has assessed all items of property, plant and equipment and 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.

Type of instrument	Fair value as at 31.12.2022	Significant unobservable input	Range (BGN) (weighted average) 2022 in BGN	Range (BGN) (weighted average) 2021 in BGN
Land	11 180	price per m²	163.13 - 428.15 (267.79)	199.14 - 430.97 (287.67)
Buildings	74 074	price per m²	6.35 - 14.37 (9.08)	6.91 - 14.81 (9.53)
Buildings	46 737	price per m²	11.64 - 17.60 (14.52)	9.05 - 25.43 (16.71)
Buildings	723	price per m²	847 - 1 049 (963.77)	877 - 1 018 (961.79)
Property measured at FV	**132 714**			

Starting from January 01, 2019, in accordance with the IFRS 16 requirements, whenever the Group acts as the lessee under contracts meeting the definition of the standard, there is recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

The following table represent existing right of use assets as of December 31, 2022, while liabilities under lease contracts are presented in Note **37**:

Right of use assets- Buildings	***In thousands of BGN***	***In thousands of BGN***
Cost		
As of December 31, 2020	**61 245**	**9 309**
Additions	8 665	452
Write offs	-	(2 243)
As of December 31, 2021	**69 910**	**7 518**
As of December 31, 2020	**12 244**	**3 727**
Depreciation charge	7 395	1 975
Impairment		
Write offs		(2 243)
As of December 31, 2021	**19 639**	**3 459**
Net book value as of December 31, 2021	**50 271**	**4 059**
Net book value as of December 31, 2020	**49 001**	**5 582**

Right of use assets- Buildings	***In thousands of BGN***	***In thousands of BGN***
Cost		
As of December 31, 2021	**69 910**	**7 518**
Additions	12 948	550
Write offs	(336)	(2 080)
As of December 31, 2022	**82 522**	**5 988**
As of December 31, 2021	**19 639**	**3 459**
Depreciation charge	9 315	1 611
Write offs	(336)	(2 080)
As of December 31, 2022	**28 618**	**2 990**
Net book value as of December 31, 2022	**53 904**	**2 998**
Net book value as of December 31, 2021	**50 271**	**4 059**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2021	**181 829**
Additions	28 222
Write offs	(5 001)
As of December 31,2022	**205 050**
-	
Depreciation	
As of December 31, 2021	**90 486**
Depreciation charge	20 894
Write offs	(5 001)
Transfers	
As of December 31,2022	**106 379**
Net book value as of December 31, 2022	**98 671**
Net book value as of December 31, 2021	**91 343**

In thousands of BGN

Cost	
As of December 31, 2020	**156 860**
Additions	31 271
Write offs	(6 302)
Transfers	-
As of December 31,2021	**181 829**
-	
Depreciation	
As of December 31, 2020	**76 871**
Depreciation charge	18 427
Impairment due to obsolescence	1 490
Write offs	(6 302)
Transfers	-
As of December 31,2021	**90 486**
Net book value as of December 31, 2021	**91 343**
Net book value as of December 31, 2020	**79 989**

31. Current tax assets/liabilities

The current tax assets comprise Group'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, Group 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, 2022 reported current tax assets are in the amount of BGN 1 687 thousand (as of December 31, 2021: BGN 8 thousand), while current tax liabilities represent net payable current tax position for the years 2022 (BGN 618 thousand) and 2021 (BGN 5 647 thousand), respectively.

32. Deferred tax assets/liabilities

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2022 and December 31, 2021 is as outlined below:

In thousands of BGN

	31.12.2022	31.12.2021
Property, plant, equipment, investment property and intangible assets	17 296	16 540
Provisions	(4 327)	(4 436)
Actuarial losses	(179)	(605)
Other liabilities	(6 935)	(7 612)
Tax losses carried forward	(121)	(1 635)
Net tax liabilities	**5 734**	**2 252**

The movements of deferred tax liabilities on net basis throughout 2022 are as outlined below:

In thousands of BGN

	Balance 31.12.2021	Recognized in P&L	Recognized in equity	Merger with UniCredit Factoring	Balance 31.12.2022
Property, plant, equipment, investment property and intangible assets	16 540	539	217	17 296	15 250
Provisions	(4 436)	109	-	(4 327)	(4 125)
Actuarial (losses)	(605)	-	426	(179)	(178)
Other liabilities	(7 612)	677	-	(6 935)	(2 488)
Tax losses carried forward	(1 635)	1 514	-	(121)	(2 488)
Net tax liabilities	**2 252**	**2 839**	**643**	**5 734**	**8 459**

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

In these consolidated financial statements 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.

In thousands of BGN

	31.12.2022	31.12.2021
Land	-	5 558
Buildings	-	6 734
Non-current assets and disposal groups classified as held for sale	**-**	**12 292**

34. Other assets

In thousands of BGN

	31.12.2022	31.12.2021
Receivables and prepayments	66 019	52 274
Receivables from the State Budget	829	2 015
Materials, spare parts and consumables	11 130	2 762
Other assets	9 700	6 771
Foreclosed properties	21 115	22 148
Other assets	**108 793**	**85 970**

35. Financial liabilities held for trading

In thousands of BGN

	31.12.2022	31.12.2021
Interest rate swaps	74 191	6 652
FX forward contracts	1 562	5 478
Other options	94	-
FX options	50	-
FX swaps	53 650	4 121
Commodity swaps	29 759	16 314
Commodity options	-	14 583
Financial liabilities held for trading	**159 306**	**47 148**

36. Deposits from banks

In thousands of BGN

	31.12.2022	31.12.2021
Current accounts and overnight deposits		
Local banks	51 993	129 550
Foreign banks	1 283 024	792 499
	1 335 017	**922 049**
Deposits		
Local banks	174 729	142 367
Foreign banks	50 393	96 414
	225 122	**238 781**
Other	**53 653**	**50 790**
Deposits from banks	**1 613 792**	**1 211 620**

37. Deposits from customers and other financial liabilities at amortized cost

Deposits from customers comprise 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, 2022 and December 31, 2021 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 process.

In thousands of BGN

	31.12.2022	31.12.2021
Current accounts		
Individuals	6 997 869	5 643 251
Corporate	10 031 317	7 727 541
Budget and State companies	740 287	429 133
	17 769 473	**13 799 925**
Term deposits		
Individuals	3 214 244	3 919 555
Corporate	237 629	246 346
Budget and State companies	19 572	26 551
	3 471 445	**4 192 452**
Saving accounts	**1 732 276**	**1 644 908**
Lease liabilities	**56 333**	**52 130**
Factoring related liabilities	**26 717**	
Transfers in execution process	**131 096**	**63 036**
Other	**35 523**	**48 420**
Deposits from customers and other financial liabilities at amortized cost	**23 222 863**	**19 800 871**

The following table represent liabilities under lease contracts, while existing right of use assets are presented in Note **29**:

In thousands of BGN

Lease liabilities	
As of January 01, 2022	**52 130**
Additions	12 485
Repayments	(8 422)
Accrued interest	582
Interest paid	(442)
As of December 31,2022	**56 333**
-	
Up to one year	10 020
From beyond 1 year to 2 years	10 087
From beyond 2 years to 3 years	9 283
From beyond 3 years to 4 years	7 174
From beyond 4 years to 5 years	6 449
Beyond five years	15 844
Total lease payments to be made for finance leases	**58 857**
Unearned finance expenses (Discounting effect)	(2 524)
Net book value as of December 31, 2022	**56 333**
Net book value as of December 31, 2021	**52 130**

In thousands of BGN

Lease liabilities	
As of January 01, 2021	**50 239**
Additions	8 342
Repayments	(6 451)
Accrued interest	324
Interest paid	(324)
As of December 31,2021	**52 130**
Up to one year	8 312
From beyond 1 year to 2 years	8 186
From beyond 2 years to 3 years	8 112
From beyond 3 years to 4 years	7 272
From beyond 4 years to 5 years	5 306
Beyond five years	17 088
Total lease payments to be made for finance leases	**54 276**
Unearned finance expenses (Discounting effect)	(2 146)
Net book value as of December 31, 2021	**52 130**
Net book value as of December 31, 2020	**50 239**

38. Debt securities issued

In the last quarter of 2021, the Bank issued an own MREL bond (senior non-preferred), with a nominal amount of EUR 160 Mio, floating interest rate, maturity date in December 2027 and a call option exercisable in December 2026. The call option is with the issuer who can redeem the notes in whole in case he determines that the note is not anymore eligible for recognition in eligible liabilities for purposes of meeting MREL requirements (i.e. due to the reason of remaining maturity being less than the regulatory prescribed period).As part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", the Bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

39. Provisions

The movement in provisions for the years ended December 31, 2022 and December 31, 2021 is as follows:

In thousands of BGN

	Off-balance sheet commitments and financial guarantees	Legal cases	Retirement benefits	Constructive obligations	Other	Restructuring provisions	Total
	(a)	(b)	(c)	(d)	(e)	(f)	
Balance as of December 31, 2020	**57 456**	**29 771**	**13 357**	**302**	**10 856**	**6 023**	**117 765**
Allocations	38 476	5 325	1 521	-	585	1 971	**47 878**
Releases	(40 803)	(4 794)	-	-	-	-	**(45 597)**
Additions due to FX revaluation	382	1 856	-	-	-	-	**2 238**
Releases due to FX revaluation	(304)	(1 443)	-	-	-	-	**(1 747)**
Actuarial losses recognized in OCI	-	-	(975)	-	-	-	**(975)**
Other changes	-	2 685	-	-	-	-	**2 685**
Utilization	-	(478)	(758)	-	(288)	(470)	**(1 994)**
Balance as of December 31, 2021	**55 207**	**32 922**	**13 145**	**302**	**11 153**	**7 524**	**120 253**
Allocations	62 332	2 449	1 415	-	108	-	**66 304**
Releases	(34 135)	(395)	-	-	(2 405)	-	**(36 935)**
Additions due to FX revaluation	6 556	3 649	-	-	-	-	**10 205**
Releases due to FX revaluation	(6 754)	(3 320)	-	-	-	-	**(10 074)**
Actuarial gains recognized in OCI	-	-	(4 261)	-	-	-	**(4 261)**
Utilization	-	(243)	(1 119)	-	(561)	(3 585)	**(5 508)**
Balance as of December 31, 2022	83 206	35 062	9 180	302	8 295	3 939	**139 984**
Utilization	-	(123)	(1 121)	-	(560)	(3 585)	**(5 389)**
Balance as of December 31, 2022	**82 526**	**33 579**	**9 180**	**302**	**157**	**3 939**	**129 683**

(a) Provisions on letters of guarantees and credit commitment

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2022 accumulated provisions are in the amount of BGN 83 206 thousand (as of December 31, 2021: BGN 55 207 thousand).

(b) Provisions on legal cases

Provisions on legal cases are recognized when based on legal expertise the Group would most likely have to settle the obligation in the near future. As of December 31, 2022 Group has assessed its position in legal cases against it, and provision in the amount of BGN 35 062 thousand has been recognized (BGN 32 922 thousand as of December 31, 2021).

(c) Retirement benefit provision

Retirement benefit provision represents the present value of the Bank's liability in accordance with Collective Labor 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 2022 defined benefit obligation are as follows:

- Discount rate – 5.75%;
- Salary increase – 4,00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2021 and increase by 2 months for women and 1 month for men each year thereafter until the age of 65 years for men and for women is reached.

The pension plan specified and required by the BG Labor Code has not changed in 2022. The Bank has approved an additional plan to the BG Labor Code one, defining additional payments (2 or 4 monthly salaries) on top of the obligations by law depending on service time within the company:

- Six times the gross monthly remuneration, when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 10 years and until 19 years and 11 months;
- Eight times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 20 years and until 29 years and 11 months;
- Ten times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 30 years and above;
- 2 + (0.4 x N), where N shall be the number of full years, but not less than the gross labor remuneration thereof for a period of two month in the cases where the employee has not completed ten years of employment service for UniCredit Bulbank AD or its subsidiaries in Bulgaria – no change, i.e. less than six;
- For termination of the labor relation upon disability: 2,4 monthly salaries without connection with length of service;
- For termination of the labor relation upon death: 4 monthly salaries - without connection with length of service.

The movement of the defined benefit obligation for the year ended December 31, 2022 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

	Total
Recognized defined benefit obligation as of December 31, 2021	**13 145**
Current service costs for 2022	1 297
Interest cost for 2022	18
Past Service Cost	100
Actuarial gains recognized in OCI in 2022	(4 261)
Benefits paid	(1 119)
Recognized defined benefit obligation as of December 31, 2022	**9 180**
Interest rate beginning of the year	0.15%
Interest rate end of the year	5.75%
Future increase of salaries	4.00%
Expected 2023 service costs	633
Expected 2023 interest costs	479
Expected 2023 benefit payments	**(1 820)**

Current service cost and interest cost are presented under Personnel expenses (See note **15**).

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

	2022	2021
Sensitivity - Discount rate +/- %	0.25%	0.20%
DBO Discount rate -	9 332	13 499
DBO Discount rate +	9 033	12 807
Sensitivity - Salary increase rate +/- %	0.25%	0.20%
DBO Salary increase rate -	9 030	12 818
DBO Salary increase rate +	9 335	13 485

(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.

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, 2022 and December 31, 2021 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates with regards to energy efficiency of owned buildings.

(e) Other provisions

Other provisions in the amount of BGN 8 295 thousand as of December 31, 2022 (BGN 11 153 thousand as of December 31, 2021) relate to coverage of claims related to credit cards business as well as other claims.

(f) Restructuring provisions

As of December 31, 2020 the Bank has allocated restructuring provisions for the amount of BGN 6 023 thousand following the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. In December 2020 the Management Board has approved restructuring plan where the key restructuring rationale is to ensure efficient operations so that UniCredit Bulbank AD fits to the new competitive landscape shaped by digitalization trends and changed preferences of the customers.

At the end of planning horizon UniCredit Bulbank AD targets the Simple Banking Concept, being:

- # 1 in customer experience
- # 1 choice of employees
- # 1 in digitalization
- # 1 in ethical and sustainable business

The plan implies a review and improvement in the way of working and influences the Bank's business model in terms of customer experience, employee experience, digitalization and ethical and sustainable business. It includes network optimization through centralization, automation and simplification of branch processes, as well as envisages also to affect employees, who on voluntary basis and consistent with the business priorities, will have the opportunity to access the early retirement also getting an additional exit package.

During 2021 out of the restructuring provisions, BGN 470 thousand were utilized majorly for network optimization, brand management and other HR activities.

In 2021 the restructuring plan was updated following the Strategic plan of UniCredit Group. The key elements of the Strategic Plan aiming at unlocking the Group potential are as follows:

- Unified client segments
- Harmonized service model
- Simplified processes
- Common organizational structure
- Best-in-class factories delivering for our clients

Additional BGN 1 971 thousand were allocated with regard to new organizational model and change management activities.

As per the requirements of IAS 37 the Bank has duly communicated the approved restructuring plan to all employees in order to create a valid expectation.

During 2022 the restructuring plan was not revised and updated and the amount of restructuring provisions as of December 31st 2022 is TBGN 3 939.

40. Other liabilities

In thousands of BGN

	31.12.2022	31.12.2021
Liabilities to the State budget	2 503	2 524
Liabilities to personnel	21 727	22 764
Liabilities for unused paid leave	6 686	6 598
Dividends	1 161	959
Incentive plan liabilities	3 155	6 256
Other liabilities	98 318	108 216
Other liabilities	**133 550**	**147 317**

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

Liabilities to personnel include accrued but not paid liabilities to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2022 and 2021 in accordance with the defined target settings and adopted incentive programs.

Liabilities for unused paid leave represent quantification of Group'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 **15**.

41. Equity

a) Share capital

As of December 31, 2022 and December 31, 2021 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 Group has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Group. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years. The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

c) Retained earnings

Under Retained earnings the Group 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 Group 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 consolidated 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 FVOCI 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 FVOCI 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, 2022 and December 31, 2021 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 5 664 thousand and BGN 17 174 thousand, respectively.

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 per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are subject to expected losses calculation for impairment.

b) Litigation

As of December 31, 2022 and December 31, 2021 there are some open litigation proceedings against the Group. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Group cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Group would have to settle the obligation. Litigation claims provisions provided for in these consolidated financial statements as of December 31, 2022 are in the amount of BGN 35 062 thousand (BGN 32 922 thousand in 2021), (see also **Note 39**).

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, 2022 and December 31, 2021 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

42. Contingent liabilities

In thousands of BGN

	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	Stage 1		Stage 2		Stage 3		Total	
Letters of credit and letters of guarantee	1 714 821	2 214 262	450 672	651	17 386	17 247	**2 182 879**	**2 232 160**
Credit commitments	4 906 395	4 181 860	878 820	461 744	25 611	41 645	**5 810 826**	**4 685 249**
Contingent liabilities	**6 621 216**	**6 396 122**	**1 329 492**	**462 395**	**42 997**	**58 892**	**7 993 705**	**6 917 409**

43. Assets pledged as collateral

In thousands of BGN

	31.12.2022	31.12.2021
Securities pledged for budget holders' account service	538 685	229 969
Securities pledged on REPO deals	1 242 975	612 656
Loans pledged for budget holders' account service	254 864	254 864
Loans pledged on other deals	11 714	20 253
Total assets and collaterals received encumbered	**2 048 238**	**1 117 742**
Pledged assets include:		
Investment securities	1 781 660	842 625
Loans and advances	266 578	275 117
	2 048 238	**1 117 742**

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

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 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.

In addition the Group has relatedness with 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, 2022 and December 31, 2021 and Income statement items for the years then ended are as follows:

In thousands of BGN

As of December 31, 2022	Parent company	Other related parties	Total
ASSETS			
Derivatives held for trading	26 473	80 709	**107 182**
Derivatives held for hedging	31 203	100 265	**131 468**
Current accounts and deposits placed	945 172	16 322	**961 494**
Debt securities	97 817	-	**97 817**
Extended loans	-	2 904	**2 904**
Other assets	2 390	1 785	**4 175**
LIABILITIES			
Financial liabilities held for trading	1 549	43 797	**45 346**
Derivatives used for hedging	-	132 160	**132 160**
Current accounts and deposits taken	1 176 256	62 843	**1 239 099**
Debt securities issued	313 701	-	**313 701**
Other liabilities	4 221	3 023	**7 244**
Guarantees received by the Group	**9 562**	**107 740**	**117 302**

In thousands of BGN

As of December 31, 2021	Parent company	Other related parties	Total
ASSETS			
Derivatives held for trading	1 272	29 068	**30 340**
Derivatives held for hedging	414	11 562	**11 976**
Current accounts and deposits placed	341 751	149 814	**491 565**
Debt securities	97 913	-	**97 913**
Extended loans	-	3 484	**3 484**
Other assets	2 670	1 750	**4 420**
LIABILITIES			
Financial liabilities held for trading	3 622	35 780	**39 402**
Derivatives used for hedging	34 898	30 389	**65 287**
Current accounts and deposits taken	611 524	91 519	**703 043**
Debt securities issued	313 104	-	**313 104**
Other liabilities	7 448	1 837	**9 285**
Guarantees received by the Group	**10 196**	**108 338**	**118 534**

In thousands of BGN

Year ended December 31, 2022	Parent company	Associates	Other related parties	Total
Interest incomes	12 874	-	224	**13 098**
Interest expenses	(18 774)	-	(7 221)	**(25 995)**
Dividends	-	-	-	**-**
Fee and commissions income	992	-	928	**1 920**
Fee and commissions expenses	(3)	-	(141)	**(144)**
Net gains (losses) on financial assets and liabilities held for trading	24 342	-	180 957	**205 299**
Other operating income	789	-	-	**789**
Administrative and personnel expenses	(3 511)	(1 227)	(16 346)	**(21 084)**
Total	**16 709**	**(1 227)**	**158 401**	**173 883**

In thousands of BGN

Year ended December 31, 2021	Parent company	Associates	Other related parties	Total
Interest incomes	1 468	-	291	**1 759**
Interest expenses	(13 567)	-	(11 434)	**(25 001)**
Dividends	-	300	-	**300**
Fee and commissions income	758	-	1 026	**1 784**
Fee and commissions expenses	(8)	-	(134)	**(142)**
Net gains (losses) on financial assets and liabilities held for trading	4 830	-	578	**5 408**
Other operating income	624	-	44	**668**
Administrative and personnel expenses	(3 411)	(1 105)	(15 226)	**(19 742)**
Total	**(9 306)**	**(805)**	**(24 855)**	**(34 966)**

Compensation paid to key management personnel is as follows:

In thousands of BGN

Paid benefits	31.12.2022	31.12.2021
Short-term employee benefits	3 828	3 160
Other long-term benefits	233	-
Share-based payments	106	236
Non-monetary benefits	440	344
Total benefits paid	**4 607**	**3 740**

44. Cash and cash equivalents

In thousands of BGN

	31.12.2022	31.12.2021
Cash in hand and in ATM	280 642	263 347
Cash in transit	167 707	183 383
Current account with the Central Bank	6 622 056	6 230 708
Current accounts with banks	84 763	170 898
Placements with banks with original maturity less than 3 months	917 535	269 357
Cash and cash equivalents	**8 072 703**	**7 117 693**

45. Leasing

The Group has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Group acts both as a lessor and lessee in renting office buildings and cars.

IFRS16, effective starting from January 01, 2019 introduces a new definition for leases. For all the leasing typologies, the recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

As of December 31, 2022 the Group has recognized in these consolidated financial statements right of use assets and lease liabilities as disclosed in Notes **29** and **37**.

Summary of non-cancellable minimum lease payments as of December 31, 2022 and December 31, 2021 are presented in the tables below:

(a) Financial lease contracts, where the Group acts as a lessor

In thousands of BGN

Residual maturity	Total future minimum lease payment		NPV of total future minimum lease payment	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
Up to one year	462 869	380 865	444 548	336 628
Between one and five years	622 959	607 642	601 251	543 986
Beyond five years	15 510	20 730	14 953	18 744
Total	**1 101 338**	**1 009 237**	**1 060 752**	**899 358**

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

In thousands of BGN

Residual maturity	Total future minimum lease payment	
	31.12.2022	**31.12.2021**
Up to one year	21 711	17 291
Between one and five years	43 483	41 488
Total	**65 194**	**58 779**

47. 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 license for performing commercial banking activities. For the years ended December 31, 2022 and December 31, 2021 UniCredit Bulbank AD has no subsidiaries or branches established outside Republic of Bulgaria. Summary of consolidated quantitative mandatory disclosures required by Law on Credit Institutions and their respective reference to other Notes in these consolidated financial statements or other mandatory reports are as follows:

In thousands of BGN

	2022	2021	Reference to other notes and reports
Total operating income	980 630	878 383	Consolidated Income Statement and details in Notes 8,9,10,11,12 and 13
Profit before income tax	511 188	410 515	Consolidated Income Statement
Income tax expense	(50 757)	(40 483)	Consolidated Income Statement and details in Notes 20
Return on average assets (%)	1.7%	1.5%	2022 Annual Report on Activity
Annual Turnover	980 630	878 383	Consolidated Income Statement
Full time equivalent number of personnel as of December 31	3 985	4 108	Note 15

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

48. IBOR Reform

The cases of attempted market manipulation and false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets, undermined confidence in the reliability and robustness of existing interbank benchmark interest rates. Uncertainty surrounding the integrity of these reference rates represents a potentially serious source of vulnerability and systemic risk.

Against this background, in 2013 the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans were consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

In the case of LIBOR, the UK Financial Conduct Authority (FCA) announced that it will not compel or persuade LIBOR panel banks to submit to LIBOR after the end of 2021. Cessation dates for LIBORs were defined: 31-Dec-2021 for all EUR, CHF, GBP, JPY tenors as well as USD 1-week and 2-month, and 30-Jun-2023 for all other USD settings.

The currencies affected in the case of UniCredit Bulbank were USD and CHF. Starting from the beginning of 2022, the Bank duly replaced respective LIBORs applied on customer business, as follows:

- In USD, through CME Term SOFR Reference Rates (forward-looking);
- In CHF, through SARON Compound Rate, in line with Regulation (EU) 2021/1847.

The change was reflected in the Bank's Cessation Plan. The General Terms & Conditions were duly updated and customers were notified about the change.

No impact is expected due to this change, either for customers or for the Bank, because the all-in customer rates remained unchanged. In particular:

- In USD, all LIBOR-linked transactions outstanding at the end of 2021 are based on tenors (1, 3, 6 months) for which USD LIBOR will be quoted until end of June 2023. From the beginning of 2022, all new USD-denominated floating-rate transactions are made at market prices, using the SOFR and SOFR-linked indices as benchmarks. Starting from 01.07.2023, as per cessation plan approved by the MB, term SOFR Reference Rates administered by CME Group Benchmark Administration Limited shall be applied to the non-matured loans which were based on LIBOR-linked indices
- In CHF, the only type of exposures outstanding at the end of 2021 are mortgage loans to private individuals – a remaining part of a legacy portfolio, with no new loans added for more than 10 years. The total amount is considered immaterial (less than 0.01% from total loans to customers). On these loans, in compliance with Regulation (EU) 2021/1847, starting from the beginning of 2022, CHF LIBOR was replaced by 3-month SARON Compound Rate (incl. statutory spread adjustment) and the customer margin was adjusted to ensure the same all-in customer rate being applied going forward. Currently, no new business has been planned in CHF but if any floating-rate transactions are entered into, they will be based on SARON or SARON Compound Rates.

49. Events after the reporting period

MREL Issuance

As part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", UniCredit Bubank is subject to internal Minimum Requirement for Own Funds and Eligible Liabilities (iMREL).

On 1st of Jun 2022, UniCredit Bulbank has received the Single Resolution Board decision on the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). It defines the fully loaded requirement to be fulfilled since 1st of January 2024 at 15.46% plus the Combined Buffer Requirement (CBR) of the Risk weighted assets (iMREL RWAs) and 5.90% of the Leverage Ratios Exposures (LRE). In addition, intermediate targets valid since 1st of January 2022 and set during the 2021 resolution cycle were confirmed: 15.16% +CBR of and 5.90% RWAs.

In 2023, based on the projected development, business volumes will continue to grow increasing the absolute amount of the Risk Weighted Assets of the bank. Besides, Bulgarian National Bank already announced increase in countercyclical buffer to 1.5% from 1st of January 2023 and 2.0% since 1st of October 2023. In addition, SRB indicated that during the 2023 resolution cycle it will revise the 2024 fully loaded requirement and will move it from stand-alone to sub-consolidated level.

Thus in order to keep compliance with iMREL requirement in 2023, UniCredit Bulbank issued in January 2023 a second own senior non-preferred bond, MREL eligible and subscribed by UniCredit Spa in line with single point of entry resolution Strategy. The nominal amount of the bond is EUR 250 Mio, interest rate is floating one, linked to 3Mo Euribor, maturity date is in January 2029 and a call option exercisable in January 2028. The details for the first issued MREL bond are presented in note 38.

There are no other significant events after the reporting period with effect on the consolidated financial statements as of December 31, 2022.

BANK NETWORK (continued)

Aitos
27, Stancionna str. (0558) 296 00; (0558) 296 09; (0558) 296 07

Asenovgrad
8, Radi Ovcharov str. (0331) 228 22; (0331) 228 31; (0331) 228 34

Balchik
3, Ivan Vazov str. (0579) 740 61
34A, Cherno more str. (0579) 711 11; (0579) 711 12; (0579) 711 17

Bansko
3, Pirin str. (0749) 866 10; (0749) 866 13; (0749) 866 16

Berkovitsa
1, Yordan Radichkov sq. (0953) 887 87; (0953) 882 82

Blagoevgrad
1, Macedonia sq. (073) 867 028; (073) 867 016; (073) 867 017; (073) 867 027; (073) 867 025
17, Zelenopolsko shose str. (073) 867 049
18, St. Kiril and Metodius blvd. (073) 828 728; (073) 828 711; (073) 828 719
22, Ivan Shishman str. (073) 828 625; (073) 828 617; (073) 828 629
5, St. Dimitur Solunski str. (073) 867 048
57, Vasil Levski blvd. (073) 828 611; (073) 828 612

Bojurishte
85, Evropa blvd. (02) 993 8843; (02) 993 8845

Botevgrad
24, Saransk sq. (0723) 668 72; (0723) 668 71

Burgas
103, Stefan Stambolov blvd. (02) 926 4731
104, Democracia blvd. (056) 874 111; (056) 874 121; (056) 874 122; (056) 874 123
22, Alexandrovska str. (056) 877 231; (056) 877 184; (056) 877 155
22, Alexandrovska str. (056) 877 241; (056) 877 261; (056) 877 178; (056) 877 213
68-70, Hristo Botev str. (056) 806 811; (056) 806 813; (056) 806 817
94 block of Slaveikov District (056) 896 684
Burgas, Meden rudnik, 118 (056) 871 942; (056) 871 952; (056) 871 945 (056) 871 944; (056) 871 946
Burgas, zh.k. Izgrev, 187 (056) 598 281; (056) 598 282; (056) 598 283
Izgrev district, 53, Transportna str. (02) 926 4733
Slaveikov district, block 46 (056) 896 685; (056) 896 686

Chepelare
1, Han Asparuh str. (03051) 20 35; (03051) 31 95

Chirpan
2, Yavorov str. (0416) 901 00; (0416) 901 03; (0416) 901 04; (0416) 901 05

Damyanitsa
Damyanitsa Technopolis (0746) 348 30

Devnia
Devnia in the building of Solvei Sodi (05199) 971 23

Dimitrovgrad
4B, Bulgaria blvd. (0391) 686 23; (0391) 686 20; (0391) 686 15

Dobrich
3, Bulgaria str. (058) 655 717; (058) 655 729; (058) 655 735
54, Okolovrusten put Dobrotica (058) 655 713
7, Nezavisimost str. (058) 655 720

Dulovo
14, Vasil Levski str. (0864) 210 61; (0864) 210 62; (0864) 210 65;

Dupnitza
3, Ivan Vazov str. (0701) 599 14; (0701) 599 13; (0701) 599 15; (0701) 599 12

Elin Pelin
5, Nezavisimost sq. (0725) 688 16; (0725) 688 19; (0725) 688 18; (0725) 688 17

Etropole
18 A, M. Gavrailova str. (0720) 600 76; (0720) 623 11

Gabrovo
13, Radecki str. (066) 814 210; (066) 814 216; (066) 814 217

Galabovo
8, dr. Jekov str. (0418) 623 49; (0418) 623 80; (0418) 640 20

General Toshevo
5, Treti Mart str. (05731) 21 37

Godech
2, Svoboda sq. (0729) 223 06

Gorna Orjahovitsa
1A, M. Todorv str. (0618) 681 12; (0618) 681 13; (0618) 681 22

Gotse Delchev
11, Byalo More str. (0751) 696 12; (0751) 696 14; (0751) 696 27

Harmanli
1, Vazrajdane sq. (0373) 800 61; (0373) 800 63; (0373) 800 74

Haskovo
4, Han Kubrat str. (038) 602 711; (038) 602 715; (038) 602 728; (038) 602 735
Haskovo Tehnopolis (038) 602 738

Ihtiman
8, Polk. B. Drangov str. (0724) 87 720; (0724) 87 727; (0724) 87 733

Kardzhali
51, Bulgaria blvd. (0361) 670 12; (0361) 670 17; (0361) 670 10

Karlovo
2, Vodopad str. (0335) 905 15; (0335) 905 17; (0335) 905 28

Karnobat
14, Bulgaria blvd. (0559) 288 21; (0559) 288 19; (0559) 288 03

Kavarna
37, Dobrotica str. (0570) 811 11; (0570) 811 12; (0570) 811 16

Kazanlak
4, Rozova Dolina str. (0431) 681 20; (0431) 681 25; (0431) 681 35

Knezha
5, Nikola Petkov str. (09132) 67 50; (09132) 73 94

Kostenets
2, Belmeken str. (07142) 22 52; (07142) 35 58

Kostinbrod
7, Ohrid str. (0721) 681 16, (0721) 681 17; (0721) 681 18

Kozlodui
1, Kiril I Metodii str. (0973) 800 04
Kozlodui Nuclear Plant (0973) 802 30; (0973) 802 35

Kurdjali
51, Bulgaria blvd. (0361) 670 12; (0361) 670 17
4, Belomorski blvd. (0361) 670 10

Kyustendil
5, Gueshevo shosse str. (078) 559 626
39, Democracy str. (078) 559 613; (078) 559 611

Lom
14, Dunavska str. (0971) 687 62; (0971) 687 63; (0971) 687 67

Lovech
10, Akad Ishirkov str. (068) 689 913; (068) 689 921; (068) 689 927

Mezdra
8, Georgi Dimitrov str. (0910) 920 78; (0910) 924 86

Montana
216 Treti Mart blvd. (096) 383 169
72, Treti Mart blvd (096) 391 954; (096) 391 959; (096) 391 964

Nessebar
Nesebar, 38, Han Krum str. (0554) 219 21; (0554) 219 23; (0554) 219 25; (0554) 219 27; (0554) 219 28; (0554) 219 30

Nova Zagora
49, Vasil Levski str. (0457) 612 61; (0457) 612 63; (0457) 612 64

Novi Pazar
4, Rakovski sq. (0537) 258 52; (0537) 258 52 53; (0537) 258 52 54; (0537) 258 52 55

Panagiurishte
1, G. Benkovski str. (0357) 619 01; (0357) 619 14; (0357) 640 87

Parvomai
2 B, Hristo Botev str. (0336) 628 83; (0336) 620 54; (0336) 620 24

Pavlikeni
20, Svoboda sq. (0610) 511 80; (0610) 511 87

Pazardzhik
13, Stefan Stambolov blvd. (034) 441 225
5, Esperanto str. (034) 405 718; (034) 405 726
6, Bulgaria blvd. (034) 405 131; (034) 405 134; (034) 405 128

Pernik
21, St Kiril and Methodius blvd. (076) 688 975
41, Krakra str. (076) 688 983; (076) 688 988

Peshtera
19, Dimitar Gorov str. (0350) 621 07; (0350) 690 92; (0350) 641 60

Petrich
48, Rokfeler str. (0745) 695 21; (0745) 695 29; (0745) 695 17

Pirdop
Todor Vlaikov sq., block 2 (07181) 82 15; (07181) 82 12; (07181) 82 14

Pleven
1, Kosta Hadzhipakev str. (064) 880 204; (064) 880 208; (064) 880 209
11, Metro str. (064) 908 194
121, Vasil Levski str. (064) 890 732; (064) 890 732 37; (064) 890 732 38
13, Danail Popov str., block Volga (064) 892 178; (064) 892 177; (064) 892 174

Plovdiv
1, Asenovgradsko Shosse str. (032) 905 836
13, Kniaz Alexander Ist str. (032) 905 896; (032) 905 892; (032) 905 894
133, Sankt Peterburg blvd. (032) 680 220; (032) 680 250
135, Sankt Peterburg blvd. (032) 905 819; (032) 905 900
15 A, Vasil Aprilov blvd. (032) 905 837
24, Tsar Assen Str. (032) 905 844
31, Ivan Vazov str. (032) 905 832; (032) 905 925; (032) 905 839
4, Ivan Vazov str. (032) 601 615; (032) 601 697; (032) 601 626
41, Saedinenie str., Trakia (032) 905 911; (032) 905 912; (032) 905 919
51, Raiko Daskalov str. (032) 656 018; 021; 044; 045; 049
66, Pestersko Shosse str. (032) 905 841
73A, Makedonia blvd. (032) 271 923; (032) 271 924; (032) 271 926
8, Vasil Levski str. (032) 905 824; (032) 905 881; (032) 905 865
82, Hristo Botev blvd. (032) 656 012; (032) 656 013

Polski Trumbesh
55, Turgovska str. (06141) 67 16

Pomorie
2a, Graf Ignatiev str. (0596) 262 62; (0596) 262 63; (0596) 262 64; (0596) 262 65

Popovo
99, Bulgaria blvd. (0608) 409 51; (0608) 409 53; (0608) 409 54

Primorsko
1, Chavdar str. (0550) 337 82; (0550)337 83; (0550)337 86

BANK NETWORK (continued)

Radnevo

10A, G. Dimitrov str.	(0417) 810 11; (0417) 810 12; (0417) 810 13

Rakovski

Rakovski, 19 B, Moskva str.	(03151) 50 12; (03151) 60 37

Razgrad

1, Momina Cheshma sq.	(084) 612 463; (084) 612 466; (084) 612 477
66, Aprilsko vastanie blvd.	(084) 612 461

Razlog

1, Eksarh Iosif str.	(0747) 898 11; (0747) 898 15; (0747) 898 17

Russe

1, Kiril Starcev str.	(082) 818 331; (082) 818 341
123 Lipnik blvd.	(082) 280 810
38, Hristo Botev str.	(082) 241 492
5, Sveta Troica sq.	(082) 818 233 (082) 818 242; (082) 818 225
60, Treti Mart blvd.	(082) 818 206

Samokov

3, Prof V. Zahariev str.	(0722) 688 13; (0722) 688 16; (0722) 688 19; (0722) 688 24

Sandanski

52, Macedonia str.	(0746) 348 23; (0746) 348 28; (0746) 348 29

Sevlievo

21, Svoboda sq.	(0675) 345 86; (0675) 349 28

Shumen

5, Simeon Veliki blvd.	(054) 858 116
8, Slavianski blvd.	(054) 858 137; (054) 858 121; (054) 858 125

Silistra

33, 7mi septemvri blvd.	(086) 878 379
4, Georgi S. Rakovski str.	(086) 878 374; (086) 878 370; (086) 878 375

Slanchev Briag

Slanchev bryag, business building Sapfir	(0554) 280 23; (0554) 280 22; (0554) 280 34

Sliven

14, Tzar Osvoboditel blvd.	(044) 613 137; (044) 613 147; (044) 613 148
6, Stephan Karadzha str.	(044) 613 122

Slivnitsa

2, Saedinenie sq.	(0727) 489 35; (0727) 489 31; (0727) 489 34

Smolyan

59, Kolio Shishmanov str.	(0301) 673 14; (0301) 673 20

Sofia

1, Briuksel blvd.	(02) 923 2106
1, Madrid blvd.	(02) 948 0972; (02) 948 0980; (02) 948 0986
1, P.U. Todorov blvd. block 1	(02) 818 6722; (02) 818 6753; (02) 818 6727
1, Skopie blvd.	(02) 802 1992; (02)802 1993
1, Yanko Sakazov blvd.	(02) 814 5025; (02) 814 5011; (02) 814 5022
100, Cherni Vruh blvd.	(02) 9690 027; (02) 9690 018; (02) 9690 013; (02) 9690 025
105, Gotse Delchev blvd.	(02) 818 2721; (02) 818 2724; (02) 818 2726
115, Tsarigradsko shose blvd.	(02) 806 3741; (02) 806 3743; (02) 806 3744
127, Slivnica blvd.	(02) 802 1983; (02) 802 1987; (02) 802 1985
13, 202 str.	(02) 833 4174
133, Tsarigradsko Shosse blvd. – 7th km	(02) 817 8024; (02) 817 8029; (02) 817 8025; (02) 817 8028
14, Gueshevo str.	(02) 947 4560; (02) 9474 561
140, Georgi S. Rakovski str.	(02) 815 7023; (02) 815 7036; (02) 815 7032
145, Georgi S. Rakovski str.	(02) 805 3163; (02) 805 3165
182, Europa blvd.	(02) 926 4785
199A, Okolovrasten pat, Malinova dolina	(02) 965 8198
2, Buzludzha str.	(02) 895 1024; (02) 895 1025; (02) 895 1027
2, Ivan Asen IInd str.	(02) 942 3024; (02) 942 3028; (02) 942 3034
2, Lomsko shosse str.	(02) 890 4952; (02) 890 4951
2, Sofroniy Vrachanski str.	(02) 937 7071; (02) 937 7077
214, Okolovrusten put str.	
22, Ierusalim str., MLADOST, Sofia	(02) 817 4914; (02) 817 4921; (02) 817 4922
22, Zlaten rog, str.	(02) 926 4716; (02) 926 4717; (02) 926 4738
3, Filip Avramov str.	(02) 817 4918; (02) 817 4919
3, Todor Kableshkov blvd.	(02) 895 4037; (02) 895 4038
3, Tsar Kaloyan str.	(02) 890 2312; (02) 890 2314; (02) 890 2316
32, Zlatuvruh str.	(02) 819 0712; (02) 819 0715; (02) 819 0711
38, Liubliana str.	(02) 926 4745; (02) 926 4323
41, Tzar Boris III blvd.	(02) 895 4028; (02) 895 4027
444 A, Slivnica blvd.	(02) 892 6815; (02) 892 6817
52, Kosta Lulchev str.	(02) 817 2927; (02) 817 2912
56, Georgi Sofiiski str.	(02) 818 8773; (02) 818 8774; (02) 818 8778
62, G.M. Dimitrov blvd.	(02) 816 9072; (02) 816 9073; (02) 816 9075
65, Shipchenski prohod str.	(02) 817 2924; (02) 817 2925; (02) 817 2926; (02) 817 2927
69, Bulgaria blvd.	(02) 926 4741; (02) 818 6727
7, Sveta Nedelya Sq.	(02) 923 2145; (02) 923 2456; (02) 923 2169
7, Sveta Nedelya Sq.	(02) 923 2485; (02) 923 2107; (02) 923 2164
8, Vitosha blvd.	(02) 923 2235; (02) 923 2223
84, Veslec str.	(02) 923 2105
88, Yanko Sakuzov blvd.	(02) 948 0966; (02) 948 0960; (02) 948 0968
9, Dondukov blvd.	(02) 921 8964; (02) 921 8951; (02) 921 8963; (02) 921 8955
9, Julio Kiuri str.	(02) 817 3712; (02) 817 3713; (02) 817 3718
9, Shipchenski prohod blvd.	(02) 892 4565; (02) 892 4563
90, Al. Stamboliyski blvd.	(02) 8102 614; (02) 8102 620; (02) 8102 621; (02) 8102 615
90, Vitosha blvd.	(02) 9173 018; (02) 9173 015; (02) 9173 020
9A, Boris Stefanov str.	(02) 819 2872; (02) 819 2873; (02) 819 2874
Business park Sofia, 2nd building	(02) 817 3320; (02) 817 3323; (02) 817 3327
Hotel Trivia, Botunec	(02) 948 0971; (02) 948 0974
Iliyanci	(02) 892 0521; (02) 8920 525; (02) 8920 526
Lyulin 4, block 417	(02) 814 5275; (02) 814 5276; (02) 814 5277
Lyulin center, block 752A	(02) 802 4215; (02) 802 4214; (02) 802 4212
Mladost; 265, Okolovrusten put	(02) 923 2112; (02) 923 2113
Simeonovo, 14A Momina salza str.	(02) 819 2873
Sofia, 2 Pozitano Sq., Perform Business Center.	(02) 935 7830; (02) 935 7853
Tsarigradsko Shosse blvd. – 7th-11th km	(02) 817 8018
Tsaritsa Ioanna blvd.	(02) 825 8946

Sozopol

2, Parvi May str.	(0550) 263 20; (0550) 263 22; (0550) 263 23

Stamboliiski

2, Osmi Mart str.	(0339) 624 87; (0339) 652 39; (0339) 622 64

Stara Zagora

115, Tsar Simeon Veliki blvd.	(042) 615 132; (042) 615 138; (042) 615 139
126, Simeon Veliki blvd.	(042) 696 275; (042) 696 250; (042) 696 252
126, Simeon Veliki blvd.	(042) 696 229; (042) 696 283; (042) 696 264
157, Tzar Simeon str.	(042) 610 781; (042) 610 783; (042) 610 784
80, Tzar Simeon Veliki blvd.	(042) 692 110; (042) 692 116; (042) 692 124; (042) 692 129
Nikola Petkov str.	(042) 696 254

Sungurlare

15, Hristo Smirnenski str.	(05571) 52 50; (05571) 51 21

Svilengrad

60, Bulgaria blvd.	(0379) 707 26; (0379) 707 28; (0379) 707 12

Svishtov

16, Tzar Osvoboditel str.	(0631) 611 14;(0631) 611 26; (0631) 611 28

Svoge

35, Tsar Simeon str.	(0726) 223 49

Targovishte

23, Vasil Levski str.	(0601) 612 20; (0601) 612 21; (0601) 612 25 (0601) 612 10

Tervel

7, Sv. Sv Kiril I Metodii str.	(05751) 41 47

Troyan

1, Gen. Karzov str.	(0670) 688 66; (0670) 688 61; (0670) 688 62

Tzarevo

20, Kraimorska str.	(0590) 554 63; (0590) 554 65; (0590) 554 67

Varna

115, Osmi Primorski polk blvd.	(052) 785 711; (052) 785 712; (052) 785 713; (052) 785 715
117, Republika blvd.	(052) 739 506; (052) 739 513; (052) 739 504; (052) 739 507
13, Treti Mart str.	(05131) 24 07
2, Atanas Moskov str.	(052) 739 518
2, Gabrovo str.	(052) 689 803; (052) 689 809; (052) 689 812
20, Drujba str.	(052) 663 692; (052) 663 693; (052) 663 694
267, Tsar Osvoboditel blvd.	(052)739 517; (02) 926 4708
36-38, Vladislav Varnenchik str.	(052) 687 935; (052) 687 946; (052) 687 947
39, Maria Luiza str.	(052) 663 130; (052) 966 3140; (052) 663 135
43, Kniaz Boris str.	(052) 664 020; (052) 664 023; (052) 664 025; (052) 664 026
61, Pirin str.	(052) 661 342; (052) 661 344; (052) 661 346
9, P. Karavelov str.	(052) 662 128; (052) 662 127; (052) 662 142

Veliko Tarnovo

13, Vasil Levskli str.	(062) 611 070; (062) 611 089; (062) 611 049
2B, Krakov blvd.	(062) 611 078 (062) 611 035 (062) 611 040 (062) 611 092
4, Magistralna str.	(062) 611 019
78, Balgaria blvd.	(062) 611 018

Velingrad

5, Aleksandar Stamboliyski str.	(0359) 570 20; (0359) 570 23

Vidin

3, Tzar Simeon Veliki str.	(094) 690 212; (094) 690 226; (094)690 241

Vratsa

17a, Krastio Bulgariyata str.	(092) 668 237; (092) 668 233; (092) 668 259

Yambol

173-175, Graf Ignatiev blvd.	(046) 641-153
3, Gorg Papazov str.	(046) 685-122; (046) 685-116; (046) 685-111

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Varna

28, Slivnitsa blvd.	(052) 678 013; (052) 678 020

Stara Zagora

126 Tzar Simeon Veliki blvd.	(042) 696 246; (042) 696 268

Burgas

22 Alexandrovska str.	(056) 877 218; (056) 877 171

Russe

5 Sveta Troitsa str.	(082) 818 265; (082) 818 226

Veliko Tarnovo

13 Vassil Levski str.	(062) 611 017; (062) 611 056

Pleven

11 Tzar Simeon str.	(064) 890 335; (064) 890 332

Plovdiv

4 Ivan Vazov str.	(032) 601 615; (032) 601 697

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