
# Do the right thing!

# 2020

## Annual Report and Accounts

Banking that matters. | UniCredit Bulbank

# Contents

# Financial Highlights (Unconsolidated)

*Thousands of BGN, unless otherwise stated*

| Income Statement Figures | YEAR 2020 | 2019 | CHANGE |
|---|---|---|---|
| Net interest income | 347 995 | 383 961 | (9.4%) |
| Net fee and commission income | 212 224 | 236 986 | (10.4%) |
| Net income from financial assets at FT and dividends | 188 917 | 256 227 | (26.3%) |
| Other operating income/expenses, net | (69 053) | (64 065) | 7.8% |
| Operating income | 680 083 | 813 109 | (16.4%) |
| Operating expenses | (283 074) | (269 583) | 5.0% |
| Gross operating profit | 397 009 | 543 526 | (27.0%) |
| Impairment losses on financial assets | (153 143) | (79 557) | 92.5% |
| Provisions for risk and charges | (5 662) | (7 411) | (23.6%) |
| Income from PPE | 59 | 2 941 | (98.0%) |
| Profit before tax | 238 263 | 459 499 | (48.1%) |
| Net profit | 223 978 | 425 106 | (47.3%) |
| **Volume Figures** | **YEAR 2020** | **2019** | **CHANGE** |
| Total assets (eop) | 24 107 528 | 21 639 060 | 11.4% |
| Net customer loans (eop) | 11 860 343 | 11 643 963 | 1.9% |
| Customer deposits (eop) | 18 678 882 | 17 706 409 | 5.5% |
| Shareholders' equity (eop) | 3 076 579 | 2 894 932 | 6.3% |
| RWA (eop) | 11 089 113 | 12 594 018 | (11.9%) |
| **Key Performance Indicators (%)** | **YEAR 2020** | **2019** | **CHANGE** |
| Return on average assets (ROA) | 0.98 | 2.07 | (1.09 pp) |
| Return on average equity (ROE) | 7.5 | 14.9 | (7.4 pp) |
| Cost/Income ratio | 41.6 | 33.2 | 8.5 pp |
| Net profit margin | 32.9 | 52.3 | (19.3 pp) |
| Capital/Asset ratio (eop) | 12.8 | 13.4 | (0.6 pp) |
| Total capital adequacy ratio (eop) | 26.1 | 19.7 | 6.4 pp |
| Tier 1 capital ratio (eop) | 25.7 | 19.3 | 6.4 pp |
| CET 1 capital ratio (eop) | 25.7 | 19.3 | 6.4 pp |
| Risk weighted assets/Total assets ratio (eop) | 46.0 | 58.2 | (12.2 pp) |
| Non-performing loans/Gross loans | 6.0 | 4.5 | 1.4 pp |
| Net Loan/Deposit ratio | 63.5 | 65.8 | (2.3 pp) |
| **Resources (number) – (eop)** | **YEAR 2020** | **2019** | **CHANGE** |
| Employees | 3 612 | 3 555 | 57 |
| Branches | 152 | 161 | (9) |

# Financial Highlights (Consolidated)

*Thousands of BGN, unless otherwise stated*

| Income Statement Figures | YEAR 2020 | 2019 | CHANGE |
|---|---|---|---|
| Net interest income | 509 453 | 551 333 | (7.6%) |
| Net fee and commission income | 233 680 | 256 311 | (8.8%) |
| Net income from financial assets at FT and dividends | 89 953 | 137 351 | (34.5%) |
| Other operating income/expenses, net | (53 396) | (51 855) | 3.0% |
| Operating income | 779 690 | 893 140 | (12.7%) |
| Operating expenses | (329 448) | (311 481) | 5.8% |
| Gross operating profit | 450 242 | 581 659 | (22.6%) |
| Impairment losses on financial assets | (229 528) | (117 949) | 94.6% |
| Provisions for risk and charges | (4 308) | (17 554) | (75.5%) |
| Income from PPE | 479 | 3 220 | (85.1%) |
| Profit before tax | 216 885 | 449 376 | (51.7%) |
| Net profit | 195 106 | 404 007 | (51.7%) |
| **Volume Figures** | **YEAR 2020** | **2019** | **CHANGE** |
| Total assets (eop) | 24 619 517 | 22 246 642 | 10.7% |
| Net customer loans (eop) | 12 327 208 | 12 210 454 | 1.0% |
| Customer deposits (eop) | 18 728 712 | 17 747 580 | 5.5% |
| Shareholders' equity (eop) | 3 374 460 | 3 221 688 | 4.7% |
| RWA (eop) | 11 274 406 | 12 871 764 | (12.4%) |
| **Key Performance Indicators (%)** | **YEAR 2020** | **2019** | **CHANGE** |
| Return on average assets (ROA) | 0.8 | 1.9 | (1.1 pp) |
| Return on average equity (ROE) | 5.9 | 12.6 | (6.7 pp) |
| Cost/Income ratio | 42.3 | 34.9 | 7.4 pp |
| Net profit margin | 25.0 | 45.2 | (20.2 pp) |
| Capital/Asset ratio (eop) | 13.7 | 14.5 | (0.8 pp) |
| Total capital adequacy ratio (eop) | 28.3 | 25.0 | 3.3 pp |
| Tier 1 capital ratio (eop) | 27.9 | 24.5 | 3.4 pp |
| CET 1 capital ratio (eop) | 27.9 | 24.5 | 3.4 pp |
| Risk weighted assets/Total assets ratio (eop) | 45.8 | 57.9 | (12.1 pp) |
| Non-performing loans/Gross loans | 7.0 | 4.9 | 2.2 pp |
| Net Loan/Deposit ratio | 65.8 | 68.8 | (3.0 pp) |
| **Resources (number) – (eop)** | **YEAR 2020** | **2019** | **CHANGE** |
| Employees | 4 204 | 4 142 | 61 |
| Branches | 161 | 170 | (9) |

"We remained open for business and continued to serve and support our customers, while keeping them and our people safe."

# Chairman's message

**Teodora Petkova**
CHAIRMAN

# Letter to shareholders

**2020 was more than an extraordinary year** that profoundly impacted all areas of humans' life. The unprecedented health crisis caused by Covid-19 rapidly translated into economic slow-down and recession and at the same time led to pronounced changes in behaviours and needs of our clients, employees and the whole society.

**UniCredit Bulbank took the challenges as a test for its strength, courage and resilience.** It's response to Covid-19 evolved into development and implementation of various actions and initiatives with **focus on health, well-being and support of our clients, employees and communities.**

**UniCredit Bulbank turned the crisis into opportunity to speed up several pillars from its strategic goals,** especially in the area of customer experience, digitalization and care for employees. Throughout the year, we remained open for business and continued to serve and support our customers, while keeping them and our people safe. We did this by accelerating the switch to digital and remote banking. UniCredit Bulbank is a multi-channel bank and we have made strong progress in the areas of mobile banking, call centres, internet banking and self-service zones in branches. The Bank also rolled out numerous initiatives to support the real economy, rapidly implementing moratoriums and providing governments-backed loans.

The challenges coming from **macro-economic environment** were indicated by record-high contraction of Bulgarian economy, with a decline in GDP of 5.5%. **Fiscal policy provided critical support to the households and companies** from the real economy, thereby markedly dampening the negative socio-economic impact of the crisis. Government implemented various job retention schemes. The scale of fiscal support is estimated to have reached 3.2% from GDP.

Despite the Covid-19 crisis, the year 2020 marked two **strategic achievements** which will positively impact future trends in economy and financial sector: Bulgaria simultaneously joined **Exchange Rate Mechanism (ERMII) and the Banking Union** in July 2020. Country's integration into the euro area is likely to reduce transaction costs, improve banking supervision, and deepen the integration of local companies into the western European supply chains.

In the **Banking sector**, a number of measures were implemented to strengthen the local banking sector's resilience to shocks in the area of both capital through retention of 2020 Net Profit and liquidity through additional requirement to counterparts.

Despite pandemic situation, **local lenders maintained the flow of credit to real economy**, and loan growth reached 4.8%. The shift to **higher savings rate** in the non-governmental sector pushed deposit growth (9.7% in 2020) to its highest annual increase since 2011. Non-performing exposures remained still at low level (8.2%) strongly supported by **loan repayment moratorium and fiscal support measures** undertaken by the government. However, anticipating a drop in assets quality in 2021, the banks set aside BGN 911 mln in provisions, **pushing COR to 1.5%**, while **coverage with provisions of NPEs** overdue more than 30 days rose to 63% – its highest level ever. In terms of financial performance, the increase in risk costs together with declining revenues triggered by Covid-19 translated into 50% y/y drop in **Net profit**.

Although the ongoing consolidation of the banking sector in Bulgaria and fierce competition, **in 2020 UniCredit Bulbank preserved its leadership position** on the Bulgarian banking market closing the year as **Number One Bank** in terms of size (total assets)**.** The Bank **continues to be undisputable market leader in Corporate segment** where UniCredit Bulbank improved its positive variance vs the main peers and is **one of the key players in Retail segment**.

**Capitalization was confirmed at the very solid levels** well above the regulatory minimums: **UCB's CET1 capital ratio** remained much higher (25.7% as of Dec'20) than the minimum BNB requirement of 11.50% (including applicable capital buffers).

In an environment of lending margins compression, negative interest rates and new regulation on fees on cross border transfers, UniCredit Bulbank **continues to be the most efficient bank in Bulgaria, keeping its Cost to Income Ratio below the market average and below main competitors.** With a Net profit of BGN 224 mln, the Bank **accumulated more than ¼ from the Banking system's 2020 Net Profit**, for another year in a row achieving 26.6% market share. The Bank **outperformed the market average** levels in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio.

The Bank achieved **BGN 680.1 mln in Revenues**, with **market share in Revenues (excl. Net other operating income and Dividend income) stable** at 19.3%, in line with the market share in Total assets at 19.4%.

Targeting an increase in the value proposition of our customers, the Bank continued to focus on business re-design which enabled also improvement in the productivity. UniCredit Bulbank firmly stands as **leader in Net fee and commission income** (BGN 212.2 mln) despite the y/y decline of 10.4%, driven by negative impact of cross-border regulation on transactional revenues and Covid-19 driven decrease in business activity. **Net interest income** (BGN 348.0 mln) decreased by 9.4% y/y, negatively impacted by competitive pressure on spread and slowdown in lending due to Covid-19. **Operating expenses** (BGN -283.1 mln) increased by 5.0% y/y, coming from staff expenses due to labor market trends and depreciation due to strategic upgrade in core banking system and investment in other strategic projects and projects related to Covid-19 crisis respond (remote work for employees; customer services digitalization and internal processes automation). **Impairment losses on financial assets** (BGN -153.1 mln) increase by 92.5% y/y, incorporating the Covid-19 impacts in risk parameters.

In terms of **Assets quality**, **UniCredit Bulbank** continued to **hold lower NPE ratio** (6.0%) compared to the market average (8.2%) as of December 2020. At the same time, the NPE coverage remained at a comfortable level of 73.7% (74.1% in 2019).

**To support loan customers** in servicing their obligation during the widespread crisis, the Bank fastly adapted its lending activity and **implemented several initiatives** like participation in non-legislative **public-like moratorium** initiated by the Association of Bulgarian Banks and introduced **bank-specific set of stabilization measures** for cases that could not be addressed via public-like moratorium. In addition, the Bank actively participated in the **guarantees schemes initiated by the Government** as a response to Covid-19 crisis.

In **Corporate and Investment Banking area,** in parallel to Covid-19 driven activities on moratoria measures, the Bank continue **active financing of viable investment projects** and corporate loans portfolio recorded a growth of 4.0% y/y despite the crisis environment. Another area of focus was continuing activities on **improving customer experience**. In the beginning of 2020 a new module in Bulbank Online was launched which allows customers to trade securities remotely, through our online banking platform. In terms of products based on **EU funds**, UniCredit Bulbank is the leader on the Bulgarian market providing variety of financing products with preferential conditions for SMEs, such as COSME Direct Guarantee, InnovFin, NGF – Rural development, etc. **In Corporate Finance advisory area**, UniCredit Bulbank took the mandate in most important deals for Bulgarian market. In **Market area**, the Bank retained its leading position on the interbank market for local currency denominated products and remained first class liquidity provider for local and international banks. The Bank reconfirmed its role of a preferred partner also in the areas of **Cash Management, Trade Finance, Transactional Sales and Global Security Services** partner for both domestic and international corporate clients of all sizes and industries.

**In Retail area**, the Covid-19 situation **accelerated remote channels development and usage**.

**Physical branches** still remained important distribution channel and one of the priorities of 2020 was related to providing **secure and safe working environment for employees and customers**. Further simplification of processes and boost of efficiency was achieved through centralization of commercial support activities. Following the continuous trend of digitalization and migration towards automated cash services **the self-service zones** as part of the branches were further extended and increased to 58 (42% of branches) at year end. In 2020 business model was enhanced by introduction of another innovation – **remote relationship managers.**

Following a model for offering more and more remote services, UniCredit Bulbank has managed to introduce various **new processes which are accessible entirely remotely**, without the need for customers to visit physical location of the Bank. As a result, the individual customers of UniCredit Bulbank are able to make **98% of the operations**, available in a branch, **fully remotely**.

**Mobile banking** experienced significant increase in usage. The mobile banking active users reached 41% from total portfolio of Retail banking active customers, which led to a significant increase in the number of payments, with a growth of +45% y/y. Several **new functionalities and improvements in the mobile banking** were implemented in the area of digital payments, full end-to-end digital process for debit cards, the option for digital on-boarding of new-to-bank customers, the possibility to sign digitally various documents and contracts with QES, application forms for consumer loan, saving plan, etc.

In the pandemic situation, **Call center** turned into equally important channel as the branch network. This foster a strategic decision to transform it into sales channel in the future.

In **Cards area, a lot's of innovations, new services and product updates** were introduced all of them contributing to affirming UniCredit Bulbank a digital leader on the market – Apple Pay with Visa; Issuer Wallet enabling digitization of both card brands for Android mobile devices; possibility of digitalization of all commercial VISA cards; delivery to cards plastics to customers' address together with e-PIN; 3D dynamic password providing customers with high security levels in online payments; launch of new premium product debit card "VISA Debit Gold"; new VISA Classic Shopping card providing the clients a new functionality to reschedule purchases on equal instalments on the POS terminals.

Another focus during the year was the extended portfolio from **investment products** and offering premium services in this area so that to provide customers investment products as alternative for their savings in the environment of negative interest rates.

All these achievements make us feel comfortable entering 2021 while strictly following our strategy for **digital transformation**. We lead our service model toward our strategic direction to **Simple Banking**: centralization of back office activities in the branches in order to focus the sales force on customer advisory, improved client experience and sustainable growth.

In **Private Banking**, the focus remains on further development of the business model and service levels, supported by local and group-wide projects and initiatives. Private Banking product catalogue has been expanded providing best-in-class products, financial solutions and services reflecting to client's individual needs.

Concentrating on the development of its **corporate social responsibility** program, in the unprecedented developments of 2020, **UniCredit Bulbank** has taken a leadership role in supporting the clients, colleagues and communities to endure the effects of the Covid-19 pandemic. Moreover, the originally planned rich corporate social responsibility program was adapted, digitalized and extended in view to the changing environment**. In the first days of the Emergency State the Bank supported with donations** one of the largest hospitals in the country as well as the Ministry of Health. UniCredit Bulbank initiated campaigns for support of **disadvantaged children and vulnerable groups**. Partnerships in the **area of culture** continued with joint activities with National Theater while **UniCredit studio** hosted several exhibitions on contemporary art. Responsibility to society was enhanced by several initiatives in **social impact banking financing** as well as developing **digital webinars** on financial education topics. UniCredit Bulbank has understanding of the importance of collectively and urgently taking further concrete actions across the three **pillars of ESG** – environment, social and governance. As the Bank, who works with every second corporate entity in Bulgaria, we are committed to walk the talk of transition towards sustainable business models with our clients, offering a wide range of ESG products and services, but also helping local communities and disadvantaged individual on the ESG path.

**Protection of health and well-being of employees was among the top-priorities in 2020**. UniCredit Bulbank implemented substantial changes in the working environment. Physical presence in branch network was organized in **shifts**, while Head Office were shifted in their majority to **home office** mode. Many of **HR activities were shifted to digital environment** in order to respond to the new environment and to continue provide high quality services.

The Bank participated in several **digital career events**, which appeared to be the new normal for this kind of initiatives as result of the Covid-19 impact. Also learning offers were switched to virtual environment. A thoroughly new development program for executives LeadInPath was launched in 2020.

Thanks to the strong brand of UniCredit, the good image of a stable and reliable organization, UniCredit Bulbank continued to be considered as a stable and **reliable employer and an excellent place for career development.** UniCredit people are our main competitive advantage. While supporting a well-balanced work life, we want to create the conditions to allow our people to contribute, grow and learn. We strongly believe that our continuous investment in people development will make the difference. Acknowledgment of the high quality of the HR practices is the **Top Employer award** by the Top Employers Institute based in Netherlands, which was awarded for 2020 to the Bank for another consecutive year.

UniCredit Bulbank remains firmly **committed to do an ethical and sustainable business fully complying with regulatory framework.**

Following the decision of ECB for establishing close co-operation with BNB, **UniCredit Bulbank had been identified as one of the five significant supervised entities in the country**. In order to cope with this new challenge at best manner, local Supervisory Affairs Team was established with main to act as single point of contact for all local and European banking authorities.

**Compliance with the existing regulatory framework** is an essential requirement for the effectiveness of the overall corporate governance of UniCredit Bulbank. In 2020 the Bank continued its efforts to strictly follow the requirements of the local regulations and UniCredit Group's policies and procedures. **Additional controls were implemented** in the Bank and its subsidiaries, as well as **trainings in the field of Compliance area** were organized for all employees in order to mitigate the exposure of the institution to regulatory, money laundering and other risks.

**UniCredit Bulbank remains firmly grounded on UniCredit Group values and principles.** I am very proud of everything that we achieved in 2020 at **UniCredit Bulbank** as part of UniCredit Group. **Thanks to our strong position, and our people, we were able to be part of the solution for our clients during a very challenging year.**

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

We enter 2021 as a robust institution, well positioned for further growth, with outstanding reputation and capable to deliver value-added solutions to customers and society. The Bank will continue to leverage on technology to accelerate the digital and remote banking transformation, while focusing on sustainability. I would like to thank our **shareholders for their strong support and commitment** and **our clients for their trust**. Also, I would like to express my gratitude to the **management team and all our employees** for their hard work and dedication.

**Teodora Petkova**
CEO and Chairman of the MB of
UniCredit Bulbank

# Supervisory Board and Management Board[1]

## Supervisory Board (SB)

| | |
|---|---|
| Alberto Devoto | **Chairman** |
| Niccolo Ubertalli | **Deputy Chairman** |
| Dimitar Zhelev<br>Heinz Meidlinger<br>Monika Rast<br>Francesco Correale<br>Francesca Giordana | **Members** |

## Management Board (MB)

| | |
|---|---|
| Teodora Petkova | **Chairman and Chief Executive Officer** |
| Septimiu Postelnicu | **Deputy Chairman and General Manager** |
| Giacomo Volpi | **Executive Officer and Member of MB** |
| Jasna Mandac<br>Raluca–Mihaela Popescu-Goglea<br>Borislav Bangeev<br>Mario Collari | **Members** |

[1] As of December 31st, 2020

# Supervisory Board and Management Board (continued)

**ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW (01.01.2020 – 31.12.2020)**

### Members of the Supervisory Board

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

**Niccolo Ubertalli**
- KOC FINANSAL HIZMETLER AS – DEPUTY CHAIRMAN B.D. – till 05.02.2020
- YAPI VE KREDI BANKASI AS – Member of B.D (DEPUTY CHAIRMAN B.D. – till 05.02.2020)
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S. – DEPUTY CHAIRMAN of the SB – from 29.04.2020
- UNICREDIT BANK S.A. – MEMBER OF SUPERVISORY BOARD – from 21.02.2020

**Heinz Meidlinger**
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – Deputy Chairman of SB – till 29.04.2020
- UNICREDIT BANK S.A. – Deputy Chairman of SB – till 08.01.2020
- 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 – Member of BD, 51% ownership (49% owned by SHIPPING AND INSURANCE FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA – 49.5% ownership through both BULLS AD and DZH AD
- DZH AD – Member of BD, 50% ownership
- 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/

**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

### SB members released during 2020

**Silvano Silvestri**
- UNICREDIT BANK HUNGARY ZRT. – Chairman of SB till 30.07.2020
- UNICREDIT BANK HUNGARY ZRT. – Member of the MB from 01.10.2020
- UNICREDIT GLOBAL LEASING EXPORT GMBH – Deputy Chairman of SB – till 30.12.2020
- BARN BV – MEMBER OF BOARD OF DIRECTORS
- UNICREDIT LEASING HUNGARY ZRT – MEMBER OF SUPERVISORY BOARD – from 01.09.2020
- UNICREDIT JELZALOGBANK ZRT. – MEMBER OF SUPERVISORY BOARD – from 01.10.2020
- UNICREDIT OPERATIV LIZING KFT – MEMBER OF SUPERVISORY BOARD – from 01.09.2020

### Members of the Management Board

**Teodora Petkova**
- UNICREDIT CONSUMER FINANCING EAD – Chairman of SB
- BORICA AD – Member of BD
- UNICREDIT LEASING EAD – Chairman of SB
- ASSOCIATION OF BANKS IN BULGARIA – Member of MB
- Council of the Women in the Business in Bulgaria – Member of MB since 15.07.2020

**Septimiu Postelnicu**
- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of SB
- UNICREDIT LEASING EAD – Deputy Chairman of SB

**Raluca-Mihaela Popescu-Goglea**
- UNICREDIT FACTORING EAD – Chairman of BD
- UNICREDIT LEASING EAD – Member of SB

**Borislav Bangeev**
- UNICREDIT CONSUMER FINANCING EAD – Member of SB

**Jasna Mandac**
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- UNICREDIT LEASING EAD – Member of SB

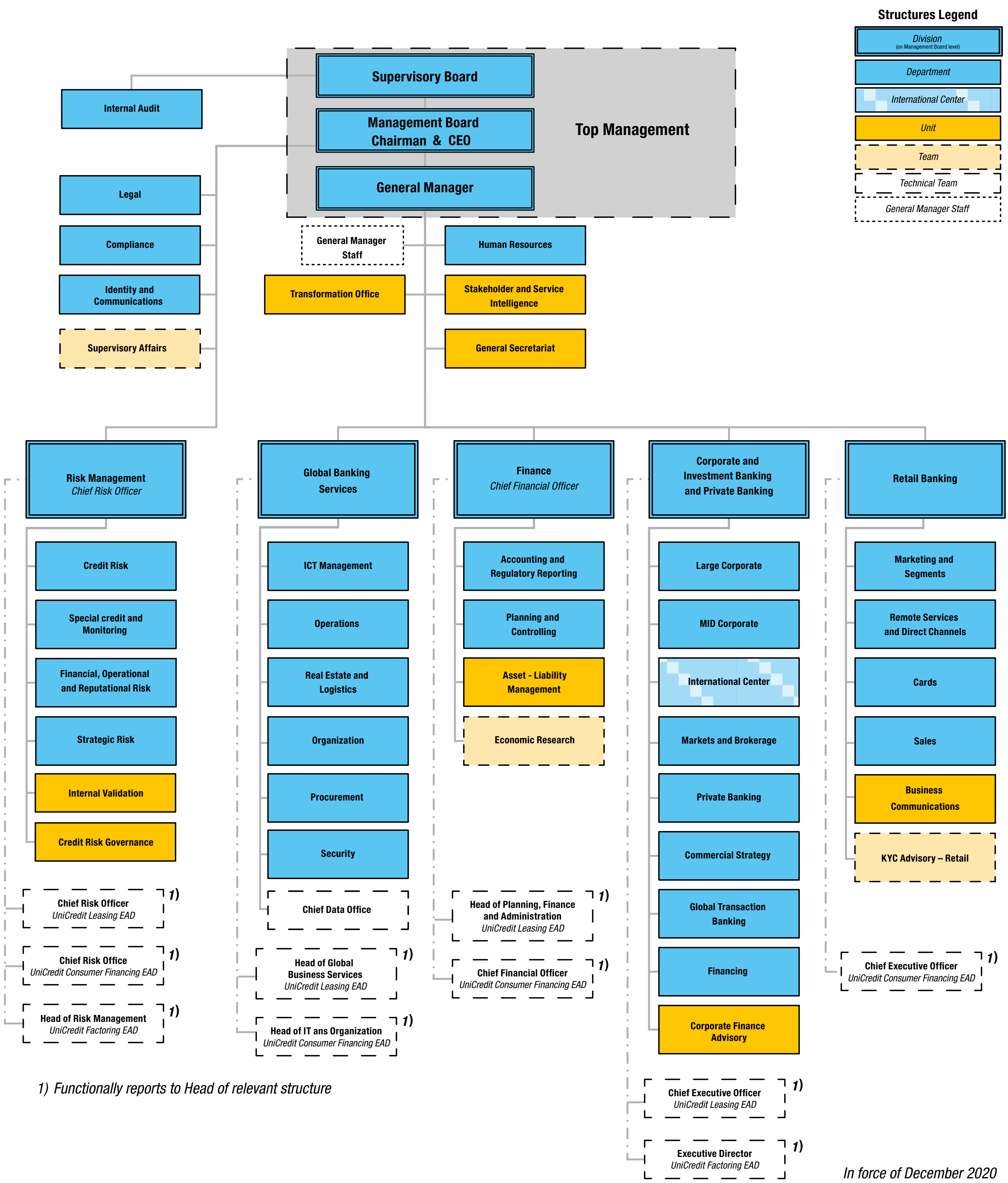
**Giacomo Volpi**
- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of MB

**Mario Collari**
- Does not participate in the management of any other entities

### MB members released during 2020

**Tsvetanka Mincheva**
- CASH SERVICES COMPANY AD – Member of BD released on 08.06.2020
- Council of the Women in the Business in Bulgaria – Member of MB released on 15.07.2020

# Organisation Chart[2]




[2] As of December 31, 2020

# Credit rating

## UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

| | |
|---|---|
| Long-term | **BB+** |
| Short-term | **B** |
| Outlook | **Stable** |

## 2020 AWARDS

- Euromoney: Market leader in trade finance services in Bulgaria and ''Best Service provider”
- Top Employers Institute: Top employer in Bulgaria and Europe
- Euromoney: Best Private Banking & Wealth Management in CEE
- Global Finance: Best Bank in Bulgaria 2020
- The annual awards of SOS Children’s Villages Bulgaria (March): Special award for UniCredit Consumer Financing for the campaign “Together we make children’s dreams come true”
- Global Finance: Best Sub-custodian Bank in Bulgaria
- Annual awards of the b2b media awards: Innovative company; first place in the category Dynamic development for the overall transformation and development of HR processes in UniCredit Bulbank; second place in the Mobile Innovation category for the process of opening an account for new customers with selfies and third place in the Sustainable Development Investment category for the charity initiative with the UniCredit Call for Europe 2019 Foundation
- Euromoney: Best bank in Bulgaria
- PR Prize 2020 of the Bulgarian Public Relations Association: First place in the category “Imagemaking or working with influencers” and second place in the category “Crisis communications”
- Global Finance: UniCredit Bulbank is the Best Consumer Digital Bank in Bulgaria for 2020
- ‘Global Private Banking Awards’ of the international magazines PWM and The Banker: Best Private Banking in Bulgaria.
- Euromoney: Best Service Provider in Bulgaria
- Ranked sixth in the SeeNews TOP 100 SEE 2019 Banks in Southeast Europe
- The annual awards of THE BANKER newspaper: Teodora Petkova received Banker of the Year 2020 award for the trust of the shareholders and for the continuity of the sustainable development

# Do the right thing!
## For the Real Economy

We quickly took decisive actions to support the backbone of the real economy in Europe: small and medium sized enterprises.

### AWARDED ‘WORLD'S BEST BANK FOR SMES’

In October, UniCredit was awarded ‘Best Bank for SMEs’ by Global Finance magazine in its World’s Best Global Banks Awards. This was based on our performance over the past year, based on criteria including reputation and management excellence.

# Introduction Summary



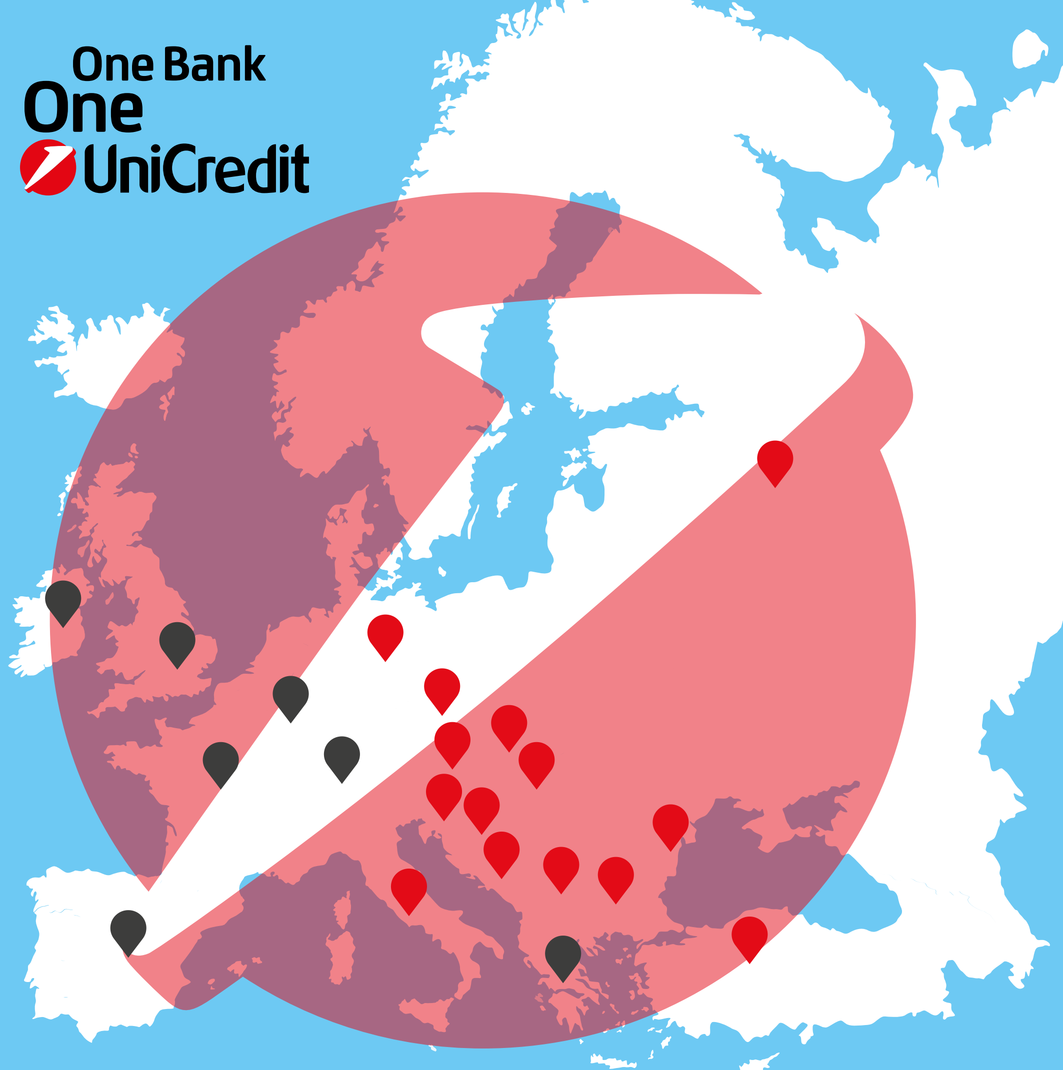




# At a glance

UniCredit is a simple successful Pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise.

**One Bank One UniCredit**



Commercial banks

International branches and representative

**LARGE INTERNATIONAL PRESENCE WITH 13 CORE MARKETS AND 16 COUNTRIES WORLDWIDE**

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

**What we do**
We meet real client needs with real solutions which harness synergies between our businesses: CIB, Commercial Banking and Wealth Management.

**How we do it**
By focusing on banking that matters, we offer local and international expertise, providing unparalleled access to market leading products and services in our core markets.

## Our values

| Ethics & Respect | Do the right thing! |
|---|---|

Ethics and respect: these two values unite us and define our Group culture – how we make decisions and how we act on them. Do the right thing! is a simple, guiding principle to help us live these values every day, everywhere.

# Our financial highlights

**SHAREHOLDERS' EQUITY**

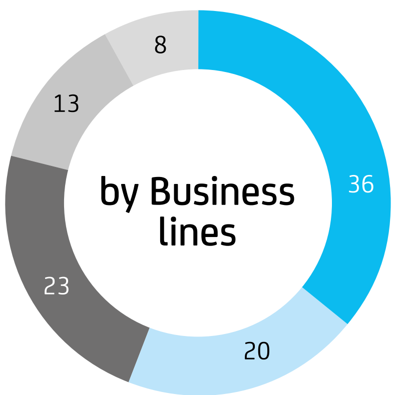
**€59,507m**

**UNDERLYING NET PROFIT**

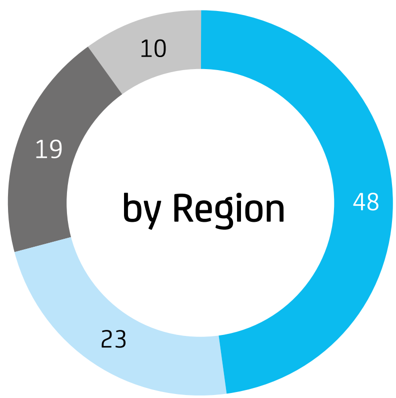
**€2,785m**

Strong global products and local excellence: well-diversified revenues

## Revenues[1] (%)

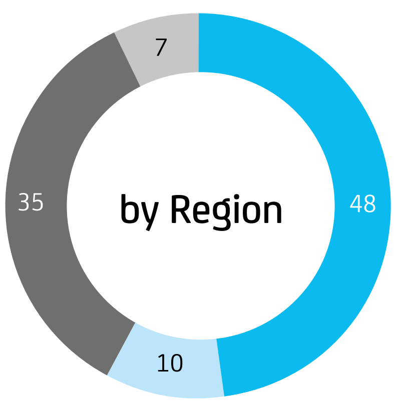



- Commercial Banking Italy
- CEE Division
- CIB
- Commercial Banking Germany
- Commercial Banking Austria



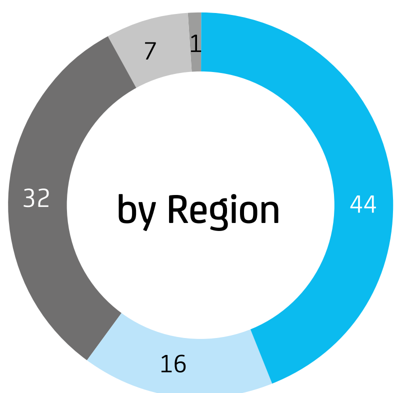

- Italy
- Germany
- CEE
- Austria

## Customers[1] (%)




- Italy
- Germany
- CEE
- Austria

## Employees[1] (%)*




- Italy
- Germany
- CEE
- Austria
- Other

1. Data as at December 31, 2020.
* FTE "Full Time Equivalent"= number of employees counted for the rate of presence.

“UniCredit will remain a solid pan-European commercial bank with local roots, supporting families and companies in their international growth and development”.

# Chairman's message

**Cesare Bisoni**
CHAIRMAN
UNICREDIT S.P.A.

## Dear Shareholders,

On behalf of the UniCredit Board of Directors, I start by sharing our heartfelt gratitude to Jean Pierre Mustier for all of his achievements. Jean Pierre took the lead of UniCredit almost five years ago, at a delicate historical moment. He leaves our Group in a position of strength. He led through years of an extraordinary turnaround, achieved with the unwavering support of all those working at UniCredit, to whom I am also grateful. Thanks to the successful implementation of Transform 2019, despite the crisis triggered by the Covid-19 pandemic, our Group is and remains in a solid position. We have high capital levels and are a true pan-European bank, with a well-diversified presence. We will continue to turn challenges into opportunities.

The year 2020, marked by Covid-19, was difficult for everyone. I am proud of how the Group swiftly responded to the crisis, to support all of our stakeholders. First and foremost, we prioritised the personal safety of our employees and clients, by taking immediate and decisive actions to protect them. We also rolled out numerous initiatives to support the real economy, rapidly implementing moratoriums and providing governments-backed loans. At the same time, we provided significant support for hospitals and the civil protection service.

As a response to the pandemic, the Supervisory Authority requested in relation to 2019 financial year, a freeze of all dividend payments, to protect capital levels in the banking system and ensure continued support for the real economy. More recently, the ECB announced the resumption of bank profit distribution. UniCredit is also planning an extraordinary capital distribution in the last quarter of the year, should the conditions recur and subject to the Supervisory Authority authorization. It is important that European banks are perceived as a good investment, to encourage international shareholders to commit capital that the financial sector can put to good use across Europe. As such, the Group has recently confirmed its dividend policy, to create solid value for our shareholders.

The way the Group has achieved its turnaround and served our clients and communities leaves me very optimistic about the future. In October, we co-opted in our Board of Directors Piercarlo Padoan who is the best candidate for the position of UniCredit Chairman for the next term. The Group will benefit from his extraordinary experience and extensive knowledge of European institutional and financial framework. His co-optation well in advance of the end of my mandate has ensured a smooth hand-over and has played a key role in the Board renewal process. Together, we have identified the new Chief Executive Officer, Andrea Orcel, an outstanding banker with a broad experience in the international banking sector combined with proven track record in business transformation and risk management focus. We strongly believe his contribution to UniCredit will be distinctive. Over the coming years, Piercarlo and Andrea will have the opportunity to work closely with the wonderful people at UniCredit, benefitting from their extraordinary skills and dedication.

In a challenging economic context, with rapidly evolving client needs, digital transformation plays a critical role. On the one hand, it responds to the growing demand for simplicity and speed. On the other hand, it allows the optimisation of company processes. UniCredit will continue to invest in innovation.

This is my final message to you as Chairman. My mandate, together with that of the current Board, is coming to an end. We leave a transformed Group, fully dedicated to supporting the real economy: clients and communities. UniCredit is inspired by two core values, ethics and respect, which form the basis of our long-term vision, and it will continue to provide finance and drive positive change in society. Furthermore, at UniCredit, the ways in which results are achieved are as important as the results themselves. We are proud that the attention to sustainability has been acknowledged externally, through numerous awards.

The Group will continue to grow and strengthen the client franchise, transform its service model and optimise productivity, with disciplined risk management and controls as well as rigorous capital and balance sheet management. UniCredit will remain a solid "pan-European commercial bank with local roots" supporting the real economy: families and companies, in their international growth and development

Your faithfully,

**Cesare Bisoni**
Chairman UniCredit S.p.A.


UniCredit

“I am very proud of everything that we have achieved at UniCredit, over the past few years, especially in 2020”.

# Chief Executive Officer's message

**Jean Pierre Mustier**
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

# Dear Shareholders,

The year 2020 was a big shock for all of us. We faced new challenges with the benefit of a strong balance sheet, thanks to all the great work done by our teams. We were able to assist and support our clients and team members, while protecting them.

The needs of our clients changed even faster, so we accelerated the transformation of the Group already planned for in Team 23. All transformation requires courage and 2020 has been a year where our team members have shown extraordinary commitment. In UniCredit, we celebrated our branch heroes, who supported our customers throughout the lockdowns. We continue to collect their stories and those of other teams, across the Group, to discover how we have been, and are still, facing these unprecedented times. The health and safety of our team members and clients has always been and will remain our top priority.

Outside the Group, we also supported heroes in the medical sectors by supporting medical innovation, such as the CURA pod prototype, as well as offering zero interest rate loans and donating millions to hospitals and the healthcare services in several of our countries.

## UniCredit in 2020: Do the right thing!

I am very proud of everything that we have achieved at UniCredit, over the past few years, especially in 2020. Thanks to our strong position, and our people, we were able to be part of the solution during a very challenging year.

Throughout the health emergency, we remained open for business and continued to serve customers in all our countries, while keeping them and our people safe. We did this by accelerating the switch to digital and remote banking. We made decisions quickly, based on data, to protect colleagues and clients. We rolled out new laptops and VPN access to give around 80,000 UniCredit employees the possibility of working remotely. We unlocked potential by giving our people the opportunity to work safely and effectively, while making sure they could continue to contribute.

While all this began as a response to the health crisis, the ongoing situation led to pronounced changes in our clients' mindset, behaviours and needs, as well as developments in our own. The Covid-19 pandemic created a need and an opportunity to accelerate our transformation.

We are now investing to make sure that these improvements are long-lasting. For example, we are rolling out training to help our people lead remote teams and manage hybrid working. We will also continue to support our employees with a new welfare and wellness offer: work-life balance will be increasingly important in the future.

At the same time, human interactions will remain key to our Group culture. Our strong working relationships are one of the reasons why UniCredit has been able to work remotely so effectively over the past few months. The workplace will continue to be an important element of our lives, and while things will certainly be different, the change may be less extreme than some might think.

In 2020, we made important contributions to our communities and the real economy. These include our Social Impact Banking, which started in Italy in 2017 and has since been extended to 10 other Group countries. As at the end of 2020, we had disbursed well over €225 million to support nearly 4,400 projects and microenterprises that make a social impact. We remain on track to meet our goal of providing €1 billion of social impact financing by 2023.

We also responded to the health and economic emergency with a wide range of volunteering initiatives and donations, including millions of euros donated by UniCredit employees and customers and the UniCredit Foundation. You can read about some of these activities later in this report and on our website.

**Ethics & Respect**

Do the right thing!

All this was possible thanks to our corporate culture, which is based on two values, Ethics and Respect, and our commitment to always **Do the Right Thing!** This guiding principle governs our interactions with all our stakeholders.

In 2020, we continued to lead most international peers on governance, such as pay practices and board structure. We are the only bank in Italy with an EE+ rating from Standard Ethics, recognised as a European excellence in terms of sustainability.

This is all thanks to our concrete ESG actions, such as the launch of our new coal policy, that commits UniCredit to ending all coal financing by 2028. We also ranked number one globally for sustainability-linked loans by Bloomberg* and were awarded Best Social Impact Bank in Europe by Capital Finance International. UniCredit will soon be launching other new initiatives, in line with our ESG strategy.

With our management leading by example, we will continue to build a sustainable future, where environmental, social and governance factors are essential for long-term growth. At UniCredit, sustainability is part of our DNA. We say what we do and do what we say, and we always favour long-term sustainable outcomes over short-term solutions. We will continue to support our clients, communities, partners and the industry at large, in becoming increasingly sustainable.

*as at 3Q 2020.

One Bank One UniCredit

## Team 23: focused on our customers

Our strategy remains **"One Bank, One UniCredit"** and our mission is unchanged: UniCredit is a simple successful pan-European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive and growing client franchise. We will continue to build on our existing competitive advantages.

In 2020, we continued to focus on the four strategic pillars we introduced to investors at our Capital Markets Day in 2019.

- Grow and strengthen client franchise
- Transform and maximise productivity
- Disciplined risk management & controls
- Capital and balance sheet management

As mentioned earlier, the Covid-19 pandemic accelerated the change in our clients' behaviours. We responded to this by speeding up our own digital transformation, so that we can continue to support their evolving needs. UniCredit is a multi-channel bank and we have made good progress in the areas of mobile banking, call centres, internet banking and paperless branches. Our goal is to transition towards a true omni-channel approach that will provide all UniCredit clients with the same customer experience, whichever channels they prefer to use.

We maintained a very strong capital level at all times, continuing our disciplined management of the business to sustain our liquidity levels, focused on high asset quality. It is this strength and discipline – together with the successful completion of our **Transform 2019** strategy – that allowed us to keep supporting our clients and communities when they needed us most.

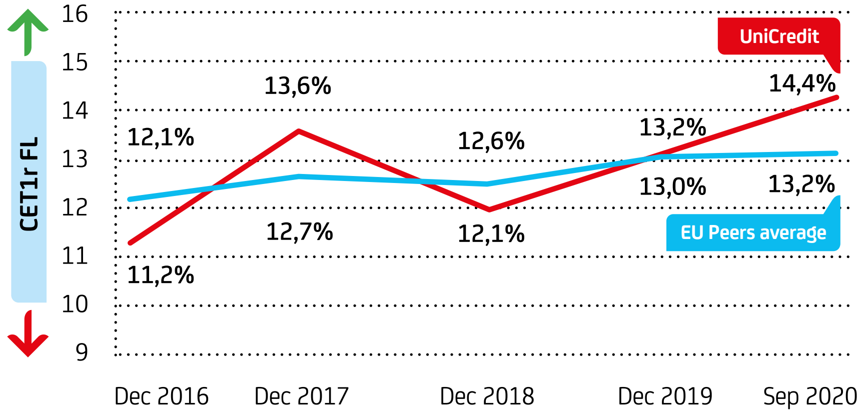
In 2020, we delivered an underlying net profit of €1.3bn, successfully navigating an extraordinary year from a position of strength. We delivered lower costs and provisions, with a stated cost of risk well within guidance, at 105bps. Our Non Core rundown is fully on track and we confirm the strength of our balance sheet, with very strong capital and liquidity positions. All this would not have been possible without your unwavering support and the steadfast commitment of UniCredit colleagues.

## Looking to the future

As the world adjusts to the changes brought about and accelerated by the Covid-19 pandemic, there is a clear need for companies investing in a long-term vision that is shared with all their stakeholders. This includes the financial services industry: banks will continue to play a very important role in ensuring that local companies have access to adequate funding.

### CET1r FL evolution

**Common Equity Tier 1 ratio Fully Loaded evolution***




### European Debt and Trade Finance Powerhouse

- **Most active player in EUR Bonds** since 2012 (no. 1 by number of deals)
- **No. 2 in EMEA** Bonds in EUR (by no of deals) in 2020 (no.1 in ITA, no. 1 in GER, no. 2 in AUT)
- **No. 1 Bookrunner EMEA** Corporate Loans in EUR (by no. of deals)
- **No. 4 Lead Bank Combined EMEA** Green and ESG-linked Loans and Bonds in EUR
- **In ECM:**
  - No. 1 all ECM transactions in Germany by no. of deals
  - No. 2 Equity-linked transactions in Italy

- **The Banker's Transaction Banking Awards 2020 –** Best Bank for Supply Chain Finance
- **Euromoney Cash Management 2020 Survey** – Best Service Provider in Austria, Germany and Market Leader in Austria, Italy
- **Euromoney Trade Finance 2020 Survey** – Market Leader in Austria, Italy and Best Service in All Services in Western Europe, Austria, Italy
- **Global Finance's 2021 Treasury & Cash Management Awards** including CEE:
  - Best Bank for Liquidity Management in Central & Eastern Europe
  - Best Treasury & Cash Management Bank in Germany and Italy

*Source: Market Presentations and Reports. Peers' sample: Intesa Sanpaolo, Santander, BBVA, Deutsche Bank, Commerzbank, Société Générale, Credit Agricole SA, BNP Paribas, Erste, Raiffeisen, ING. Data: Year End figures; 2020 figures as of September 2020. Stated Common Equity Tier 1 ratio Fully Loaded where disclosed (for ING CET1r Transitional available only; Intesa San Paolo discloses Pro-forma CET1r FL, at 15.2% as of Sep20, at 14% excluding the mitigation of the impact of the FTA of IFRS9).

UniCredit has shown the importance of pan-European banks, combining strong global products and local excellence. Our long-term focus is on being One Bank. The Group will continue to leverage on technology to accelerate the digital and remote banking transformation, while focusing on sustainability: continuing to look beyond purely economic profit to consider social impact banking initiatives and other community support.

This is the last time that I will address you as the UniCredit CEO. I am very happy that Andrea Orcel is joining the Group as my successor. He will be supported by a fantastic team, loyal clients and supportive shareholders. My warmest regards go to all my outstanding colleagues, who have worked relentlessly to transform the bank. I am immensely proud of everything that we have achieved together.

UniCredit is a very strong bank and all our stakeholders can count on us. We will continue to **"Do the Right Thing!"** to support our clients, communities and our team members, in order to create value for our shareholders.

Thank you!

**Jean Pierre Mustier**
Chief Executive Officer UniCredit S.p.A.

# Do the right thing!

**€500,000 FOR THE RED CROSS**

During the Covid-19 pandemic, UniCredit made donations to the Red Cross in Italy, Bosnia & Herzegovina, and Croatia.

"Your generous contribution will help, through our work, the entire Italian population forced to face this moment of emergency linked to the spread of the new Coronavirus. Thanks to your donation, the Italian Red Cross continues to expand, investing in services, resources and training for volunteers and operators to be alongside those who need it most".

**Francesco Rocca**
President of the Italian Red Cross

## SUPPORTING MEDICAL INNOVATION

UniCredit provided €250,000 to build the first CURA Pod prototype, an intensive care unit made from a shipping container. The first unit was transported to Turin where it was used to treat Covid-19 patients.

## MAKING AN IMPACT ACROSS EUROPE

UniCredit Social Impact Banking has now disbursed €225.1 million of impact financing and microcredit loans. New projects in 2020 included the launch of a dedicated offer in Italy to support female entrepreneurship and profit and non-profit businesses with a focus on women and the family, and financing for new facilities to support young people with disabilities in Germany.

## SUPPORTING SOCIAL ENTREPRENEURSHIP

By partnering with **Finance 4 Social Change**, UniCredit's Social Impact Banking initiative is supporting social entrepreneurship as a driver of sustainable development in eight different UniCredit countries, including: Austria, Bulgaria, Croatia, Germany, Hungary, Romania, Serbia and Slovakia.

## MILLIONS DONATED TO EUROPEAN HOSPITALS

Thanks to donations from UniCredit employees and the UniCredit Foundation, €1.2 million was raised to help hospitals in Italy. On top of this, UniCredit and its local banks donated more than €2.5 million to hospitals and healthcare services in Bulgaria, Czech Republic, Italy, Serbia and Slovakia.

# For our Communities

**Thanks to UniCredit's strong position, we were able to support communities in all of our countries. Formal initiatives such as UniCredit's Social Impact Banking and the UniCredit Foundation were supplemented by a wide range of volunteering activities and donations, including millions of euros donated by UniCredit employees and customers.**

## SUPPORTING ARTISTS AND LIVE MUSIC

UniCredit's smart phone bank, buddybank, launched **Niente Di Strano**, a series of six music concerts to support the Italian music industry. The live-streamed events attacted over 3 million YouTube views.

**€1m**

**DONATED TO 11 SOCIAL AND CULTURAL ORGANISATIONS IN GERMANY**

## SHARING INSIGHTS

In 2020, UniCredit launched several success initiatives to support clients. These include **STARTUP ACADEMY**, a managerial programme for 60 Italian startups, a series of events focused on the ESG aspects of corporate financing attended by over 1,100 clients from Italy, Germany, Austria and the CEE, and **ITALY TECH DAY 2020**, an annual event to showcase Italian innovation and support the startup industry.

## SUPPORTING ECOMMERCE

UniCredit partnered with Google to develop **UniCredit Easy ECommerce** to help Italian companies access digital markets and boost their B2C e-commerce. Only 30% of Italian companies have an e-commerce website and just 10% currently sell online, creating a huge digital opportunity.

# For our Clients

**2020 was a challenging year for clients of all sizes. From billion euro funding programmes for multinational companies to mentoring new start-up businesses, UniCredit was committed to being part of the solution.**


## €10 MILLION OF NEW FINANCING FOR A 100-YEAR OLD PASTA MAKER

The loan was used to meet the working capital needs of Gragnano-based Pastificio Di Martino. It was also the first large loan issued in under Italy's guaranteed loans programme.

"Thanks to this deal, we can better absorb the shock to our production chain from the spread of Covid-19, meet our working capital needs and ensure the continuity of operations and the supply of our products".

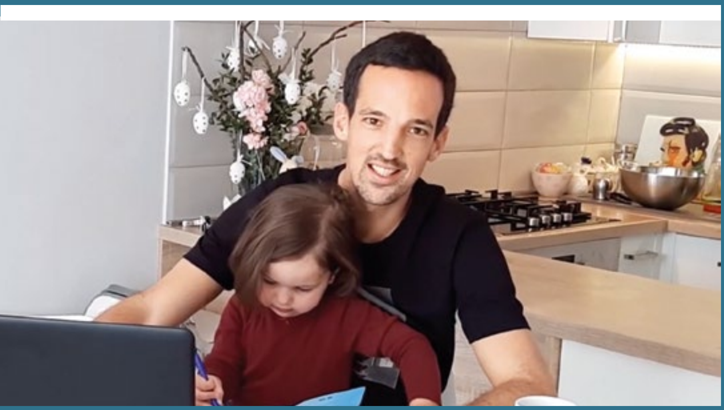
**Giuseppe Di Martino**
Owner of Pastificio Di Martino

## ACCESSING CAPITAL MARKETS

UniCredit continued to help clients access capital markets including those of the Republic of Austria, the Free State of Bavaria, the German State of North Rhine Westphalia and the European Investment Bank. UniCredit also supported the Italian Ministry of Finance with record breaking BTP issuance to help the country fund it's pandemic response and was joint bookrunner on a €17 billion social bond for the EU.

## STAYING ON TRACK WITH €600 MILLION

UniCredit supported Italy's state-owned railways operator – Ferrovie dello Stato – by raising €600 million of new funding. This included a €200 million ESG loan to fund new electric trains and upgrade on-board safety systems.



## BEING THERE FOR FAMILIES

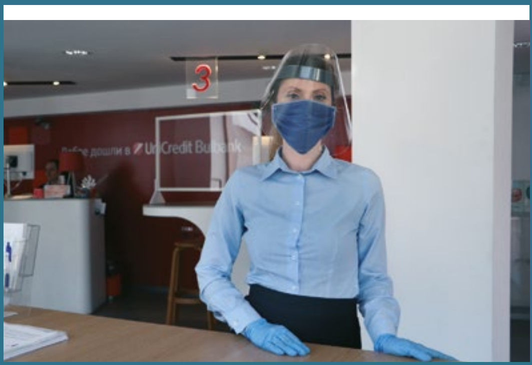
To ensure the bank understood individual and family needs stemming from the Covid-19 crisis and identify possible solutions, UniCredit formed a new Family Board. The 20 person team meets regularly and has made a series of recommendations, on flexibilities, psycho-physical wellbeing, homeschool/homework support.

## NEW WAYS OF WORKING

In October, UniCredit and the UniCredit European Works Council signed a joint declaration on remote work. This will allow the Group to extend the opportunities offered by technological advancements and enable new ways of working to support a better work-life balance and greater efficiency.

# For our Colleagues

**Throughout 2020, we made decisions quickly to protect our colleagues. We distributed millions of items of PPE to our branches and offices, and with fast IT upgrades, we rolled out new laptops and remote access to around 80,000 UniCredit employees, allowing them to work safely and effectively.**



## SUPPORTING OUR BRANCH HEROES

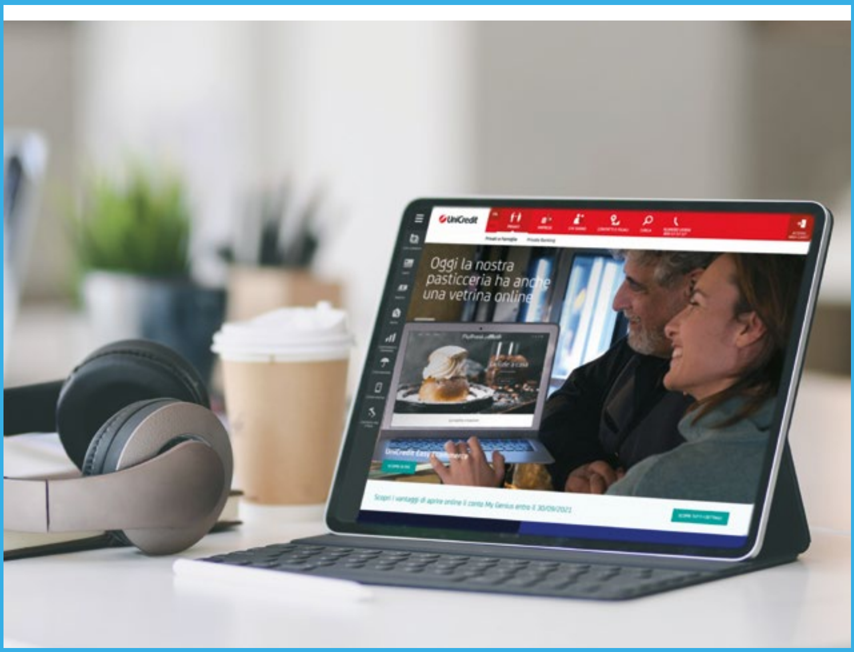
Thanks to our branch heroes, UniCredit remained open for business and continued to serve customers in all our countries, while keeping clients and our people safe. During the lockdown, UniCredit's CEO and other members of the Executive Management Committee made hundreds of video calls to branch colleagues across Italy, Austria, Germany and the CEE to recognise their extraordinary efforts.

## TURNING IDEAS INTO ACTION

UniCredit's Millennial Board – comprised entirely of employees aged 22-32 – continued to implement some of the 1,200 ideas and suggestions made by their UniCredit colleagues. Successful initiatives in 2020 included starting planting more than 90,000 trees to establish the UniCredit Forest.

## HELP FOR ENTREPRENEURS

The UniCredit Start Lab programme supports growth of 60 Italian innovative companies with its Startup Academy initiative, demonstrating the bank's willingness to support innovation and young entrepreneurs.




# For the Real Economy

**With over 16 million clients in 13 countries, we took decisive action to give families and businesses across Europe the support they need.**

**€34.8bn**
MORATORIA LOANS

**€20.8bn**
STATE-GUARANTEED LOANS

### GRANTING MORATORIA LOANS...QUICKLY!

As the pandemic hit Europe, pushing many countries into lockdown, we provided our clients with moratoria loans worth €34.8 billion and granted €20.8 billion of state guaranteed loans.
Given the circumstances, speed was important and 1,600 UniCredit employees worked over the weekend to process the first 100,000 applications.

Thanks to a partnership with SACE, the Italian credit export agency, UniCredit disbursed a lot of loans with most processed in just a few hours. Similar partnerships with the European Investment Bank and the European Investment Fund provided working capital support and new financing to SMEs and mid-cap companies in Italy, Austria, Germany and nine CEE countries.

## AWARDED ‘WORLD'S BEST BANK FOR SMES’

In October, **Global Finance** magazine recognised UniCredit in its World’s Best Global Banks Awards. Based on performance over the past year and criteria including reputation and management excellence, UniCredit was awarded ‘Best Bank for SMEs’.

## SUPPORTING SUPPLIERS

To help companies with their working capital needs and inject liquidity into the economy, UniCredit started to pay over 20,000 suppliers on ‘sight’ of the invoice rather that in accordance with contractual payment terms. The initiative has been continued in 2021.

**20,000**

**SUPPLIERS SUPPORTED WITH FASTER PAYMENTS**

## GIVING A BOOST TO BUSINESS

In June, UniCredit launched the **Digital&Export Business School** in partnership with SACE and Microsoft with the aim of providing an integrated path, lasting 6 months, which was concretely supportive for Made in Italy entrepreneurship. The entire course was designed to be full digital, and has allowed more than 3,200 registered and over 2,700 participants to converse with about **50 UniCredit, Microsoft, Sace experts** but also journalists, sociologists, researchers, through 8 inspiring national events and 26 local live Coaching on specific issues carried out with over 19 local associations.

## HELPING CUSTOMERS SUPPORT COMMUNITIES

In 2020, over €2,600,000 in donations were funded by customers using UniCredit’s Carta Etica payment card. UniCredit’s Flexia Classic Etica credit card lets customers contribute to charitable projects at no added cost. For every €1,000 spent, UniCredit contributes €2 to the Carta Etica fund.

“The bank reacted quickly after the state of emergency was declared. We immediately applied to reschedule our debt, which helped us keep our company our staff, and preserve our partners.
I would like to express my gratitude”.

**Ivelin Bezhev**
Manager, Santulita Limited
Customer of UniCredit Bulbank, Bulgaria

# For the Environment

**Our new sustainability targets, unveiled towards the end of 2019, were the focus of several sustainability-focused initiatives in 2020 and it was great to be recognised by a number of external organisations for our progress.**

### LEADING THE WAY ON GREEN FINANCE

As a leader in the sustainable finance sector, UniCredit participated to the placement of nearly €120 bn of sustainable bonds and loans in 97 deals. UniCredit was also recognised by Bloomberg as a leading provider of sustainability-linked loans. Moreover, with regard to green bonds, other major transactions included a €750 million bond for real estate firm CPI Property Group to fund new green projects, €750 million for Eurogrid to fund offshore wind farm projects and €500 million for Swisscom to finance energy efficiency projects.

### A NEW GOAL FOR COAL

UniCredit's updated coal policy – which will see the bank fully exit coal sector financing by 2028 – was praised as best-in-class by Reclaim Finance, a non-profit organisation focused on reducing financing of fossil fuels by the world's largest financial institutions.

### FUNDING THE FUTURE

Throughout 2020 we supported companies and projects that are supporting the transition to a lower carbon future. This included €700 million of new funding for a renewable energy portfolio, a €143 million funding package for one of Austria's largest wind farms and financing support to build Europe's largest battery factory.

**#1***

**RANKING ON BLOOMBERG SUSTAINABILITY LINKED LOANS**

### CAUSING A BUZZ AT OUR NEW AUSTRIAN HQ

It wasn't just employees that moved into UniCredit new Austrian headquarters. They were joined by over one million honeybees who will both pollinate nearby surroundings and make honey to be harvested by UniCredit employees. What a sweet result!

**20,000**

**TONNES OF $CO_2$ OFFSET BY UNICREDIT FOREST OVER THE NEXT DECADE**

*as at 3Q2021

## TAKING ACTION AT D&I WEEK 2020

More than 21,000 colleagues participated in 145 hours of workshops, coaching sessions and online discussions as part of UniCredit's second annual Diversity & Inclusion Week. With 100 events held in 15 markets, there was a chance for everyone to join in or listen to 270 external speakers.


# For Diversity & Inclusion

**UniCredit is committed to promoting a positive working environment that embraces our core values of Ethics and Respect.**

## GENDER-EQUALITY EFFORTS RECOGNISED BY BLOOMBERG

UniCredit was included in Bloomberg's 2020 Gender-Equality Index (GEI), which tracks the performance of public companies committed to disclosing their efforts to support gender equality through policy development, representation and transparency. The bank was included again in 2021, joining 380 companies across 44 countries and 11 sectors.

## SUPPORTING FEMALE ENTREPRENEURS

In Italy, UniCredit unveiled a package of support for female entrepreneurs and companies that provide family-orientated services. The support includes discounted loans for entrepreneurs, social impact financing for companies providing welfare, health and educational services, and a dedicated mentoring programme.

## A GREAT PLACE FOR WOMEN TO WORK

UniCredit was named Italy's 'Best Employer for Women' by **Istituto Tedesco Qualità e Finanza (ITQF) –** a leading European market research institution – and its media partner **La Repubblica Affari&Finanza.** ITQF uses big data to review a company's online reputation and sentiment amongst women at work, with UniCredit receiving the top score in the banking sector.

## TAKING ACTION ON DISABILITY LEADERSHIP

UniCredit joined **The Valuable 500,** a movement that aims to put disability on the global business leadership agenda by attracting the support of 500 national and multinational corporation.

“Sustainability is part of our DNA and we continue to further incorporate ESG factors in the decision processes across the business”.

# Q&A

**Roberta Marracino**
HEAD OF GROUP ESG
STRATEGY & IMPACT BANKING

**Taking stock of the challenges of 2020, which in many ways further contributed to the growing significance of ESG, our Group Head of ESG Strategy and Impact Banking, Roberta Marracino, explains UniCredit's commitment to sustainability and why that's important.**

## Q. There has been a lot of talk about ESG issues by different companies, but what does ESG mean to you and to UniCredit?

A. Firstly, you are absolutely right. The importance of ESG continues to grow and this is causing all companies to rethink their business models in many ways. For UniCredit, sustainability is not something new. Nevertheless, today we have set very ambitious targets including the full phase-out from the coal sector by 2028, which goes to show our growing efforts and commitment.

Sustainability is part of our DNA and we continue to further incorporate ESG factors in the decision processes across the business and our operations, which is fundamental for long-term value creation and helps us drive positive change in society.

For me, ESG is a "hard" discipline rather than "soft", because it has to be fully integrated in the business model. It is crucial in helping us respond to market and societal challenges, as it plays a key role in how we support our clients, colleagues, and communities now and in the future.

## Q. How did 2020 change the ESG landscape and what does that mean for the industry going forward?

A. The challenges of 2020 showed once and for all that ESG is prominent and here to stay and will only grow in its importance. It is something that every company must take into consideration and adapt their approach accordingly. Furthermore, the business opportunity is clear and not one companies can afford to miss.

In addition, we've seen the growing importance of the "S" component in ESG. In fact, the interaction and intersection between "E" and "S" are increasingly relevant and their impact is often combined.

Going forward, sustainability will become more and more embedded across society impacting client demand and expectations. This will be reflected in changing client behaviours, investor attitudes, and the regulatory context as well as the significant amount of ESG-relevant upcoming national and supranational investments. We are starting to see a mounting sensitivity of both retail and corporate clients to ESG topics, particularly on the environmental side, and we expect this trend to grow in 2021 and beyond.

**Q. What role does ESG play in helping UniCredit progress towards its strategic goals?**

A. ESG is instrumental in helping us ensure our corporate values are concretely implemented across the whole business from lending to risk management as well as in our short-and long-term incentive plans.
ESG helps us live and deliver on our values and continually grow our impact in the community.
This is evident in our approach to partner with our clients in the transition to a low carbon economy as well as in the activities of our Social Impact Bank and the UniCredit Foundation aimed at supporting the more vulnerable parts of our territories and helping them access finance and grants and nurture their projects. It is also evident in our strong corporate governance and in our continued focus on diversity and inclusion both internally and externally. Defining clear ESG metrics and targets, as we are doing, helps a lot in setting the overall direction.

**Q. Finally, how is UniCredit helping to advance sustainability within the financial sector?**

A. Playing our role as part of the solution within the wider industry is key. To that end, UniCredit belongs to several institutional and international working groups with specific monitoring requirements also for our ESG progress, including the Task Force on Climate-Related Financial Disclosures, Principles for Responsible Banking, and the OECD Business for Inclusive Growth Coalition. This is important to ensure a consistent global ambition towards increased sustainability with a long-term view that takes into account the needs of our future generation.
We are all working towards common standards and definitions of "green" and "sustainable", setting the right direction to help all the companies in our sector raise the bar together. Making this a common goal, helps us all reach it faster.

**FUNDING THE FUTURE**
Throughout 2020, we supported companies and projects in the transition to a more sustainable economy: we have an exposure of more than 6 billion in the renewable energy sector and we have participated in the financing of more than 64 billion loans linked to sustainability goals.

## Our Integrated approach

- Ethics and Respect and Do the right thing! are the values and principles that drive our decisions
- UniCredit has a clear ESG strategy, goals and plan, including short and long term ESG KPIs for Top Management
- We work closely with our clients in their transition also helping to unlock potential new financing opportunities
- With a clear commitment to the environment and to reduce the Group's direct and indirect carbon footprint
- Our corporate governance is best in class and we remain committed to sustainable value creation for all stakeholders
- ESG factors are integrated in our risk assessment models and Risk Appetite Framework
- We continue to expand our ESG offer in line with client needs and feedback
- Our social strategy combines philanthropy and social impact finance to drive positive social change and inclusion in our countries
- Our Social Impact Bank is currently present in 11 Group countries
- We adhere to international climate and social impact initiatives working together as part of the solution

# Executive Management Committee

**JEAN PIERRE MUSTIER**
Chief Executive Officer

**FRANCESCO GIORDANO**
Co-CEO of Commercial Banking WEU

**OLIVIER KHAYAT**
Co-CEO of Commercial Banking WEU

**GIANFRANCO BISAGNI**
Co-CEO of Commercial Banking CEE

**NICCOLÒ UBERTALLI**
Co-CEO of Commercial Banking CEE

**RANIERI DE MARCHIS**
Co-Chief Operating Officer

**CARLO VIVALDI**
Co-Chief Operating Officer

**WOUTER DEVRIENDT**
Head of Finance & Controls

**GIANPAOLO ALESSANDRO**
Head of Group Legal Secretary of the BoD

**MAURIZIO BERETTA**
Head of Group Institutional & Cultural Affairs

**MIRKO BIANCHI**
CEO of Group Wealth Management & Private Banking

**MARCO BRESSAN**
Group Data & Analytics Officer

**RICHARD BURTON**

CEO of CIB Division

**ANDREA CASINI**

Co-CEO of Commercial Banking Italy

**PAOLO CORNETTA**

Head of Group Human Capital

**SERENELLA DE CANDIA**

Chief Compliance Officer

**ADELINE DE METZ**

Head of Group Regulatory Affairs

**MICHAEL DIEDERICH**

CEO of Commercial Banking Germany

**MAXIMILIAN HOHENBERG**

Head of Group Identity & Communication

**FINJA CAROLIN KÜTZ**

Group Chief Transformation Officer & Deputy COO

**TJ LIM**

Group Chief Risk Officer

**AURELIO MACCARIO**

Group Chief Lending Officer

**ANDREA FRANCESCO MAFFEZZONI**

Head of Strategy and M&A

**ROBERTA MARRACINO**

Head of Group ESG Strategy & Impact Banking

**STEFANO PORRO**

Group Chief Financial Officer

**REMO TARICANI**

Co-CEO of Commercial Banking Italy

**GUGLIELMO ZADRA**

Head of Internal Audit*

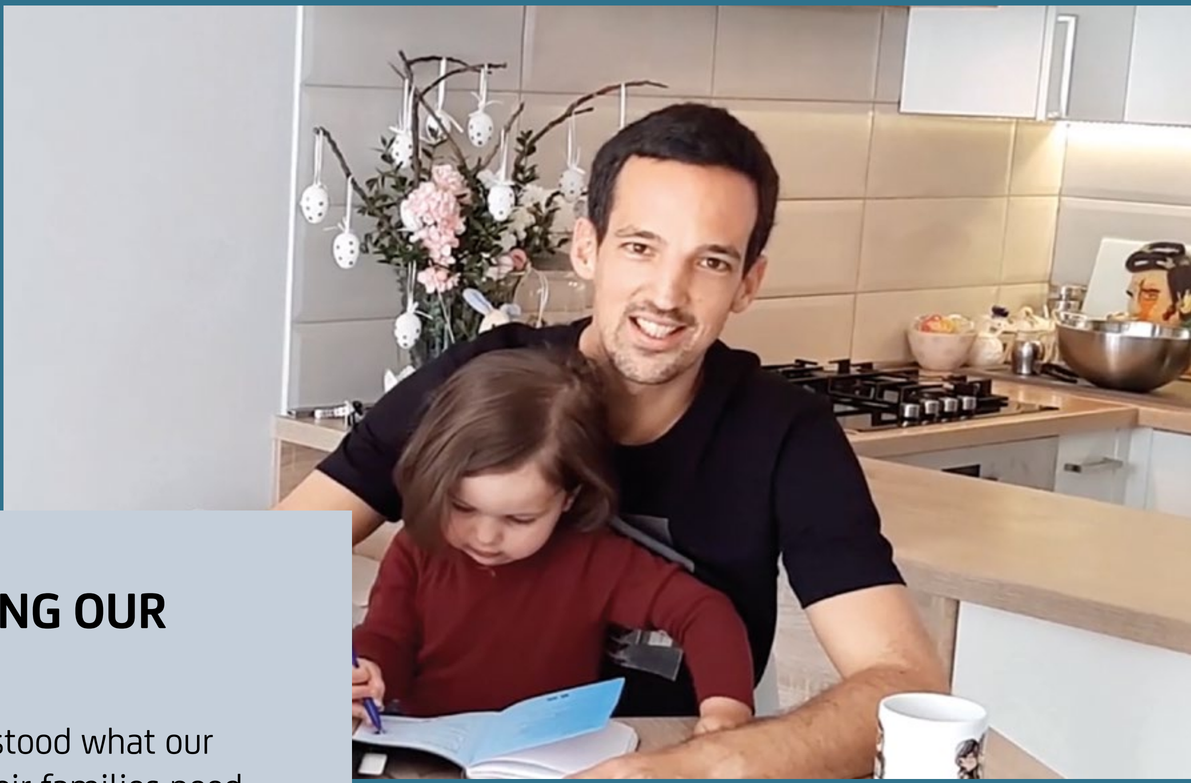
**ROBERT ZADRAZIL**

CEO of Commercial Banking Austria

* Not EMC Member

# Do the right thing!
## For our Colleagues

Throughout 2020, we focused on protecting our people: we provided them with millions of PPE items and fast IT upgrades, rolling out new laptops and remote access to around 80,000 UniCredit employees, to make sure they could work safely and effectively.

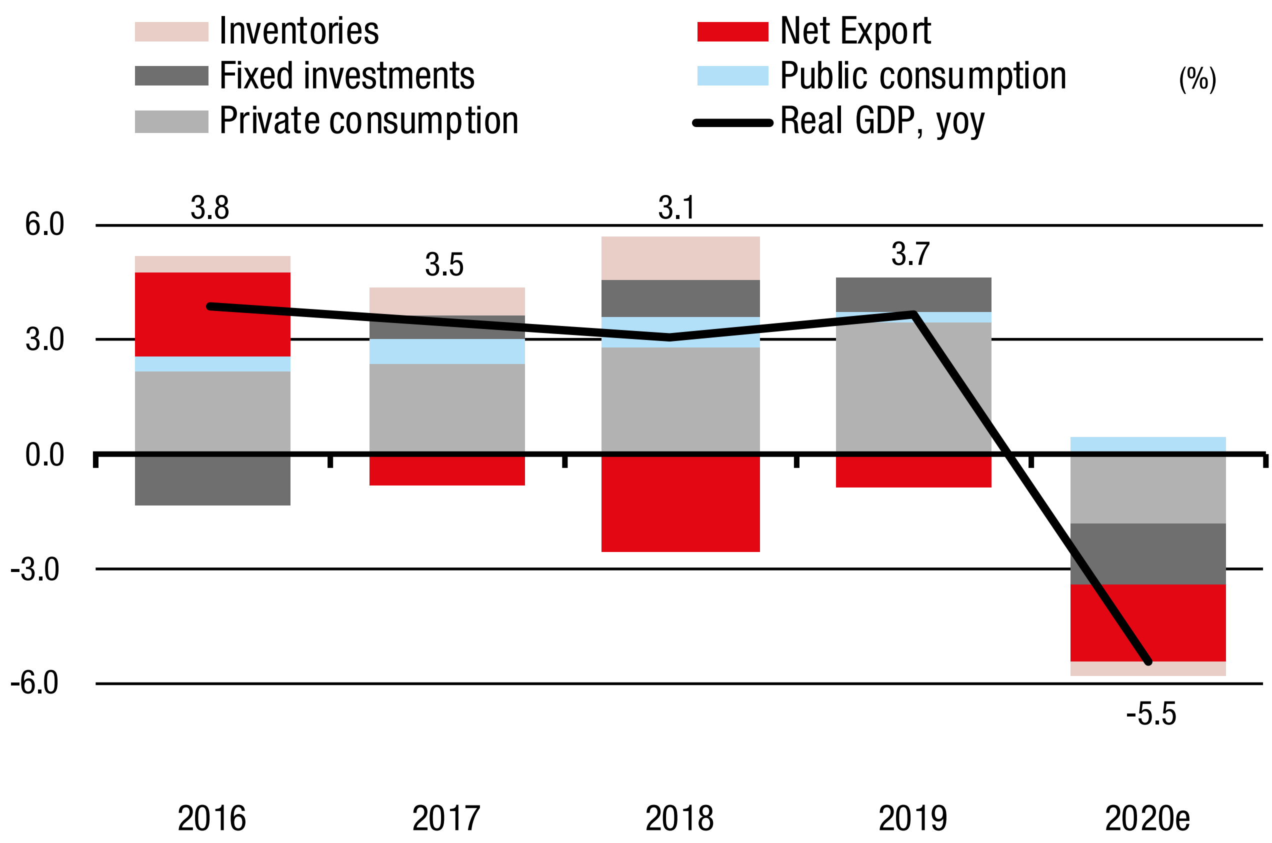


### PROTECTING OUR PEOPLE

To best understood what our people and their families need to face the Covid-19 crisis, UniCredit created a Family Board: the 20-person team meets regularly to define solutions and recommendations in terms of flexibility, wellbeing and other support (i.e. homeschooling/ homework).

# Bulgarian Economy in 2020

**Real GDP growth and contribution to growth**




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

The Covid-19 pandemic has led to severe socio-economic and health crisis. GDP is likely to have plummeted by 5.5% in real terms in 2020, as quarantine measures introduced to contain the spreading of the disease pushed large swats of the economy to a virtual standstill. The economic fallout from the pandemic was most severe in the Accommodation and food service activities as well as in Arts, entertainment and recreation sector. Wholesale and retail trade sector suffered serious contraction in economic activity also, as consumers avoided crowded shopping malls and postponed purchases of big-tickets items. At the same time, supply chain disruptions and weaker aggregate demand negatively affected activity in the export oriented manufacturing sectors. Many of the services sectors, and particularly those based on human contact, were partially paralyzed.

Despite record high economic contraction, the economy lost relatively small number of jobs, thanks to the widespread use of job retention schemes. The extensive use of wage subsidies and short-time work programs financed from the public sector helped to facilitate labor market adjustment. Indeed, the sharp reduction in overall hours worked last year was mostly driven by a reduction in hours per worker and not by excessive job losses. In fact, the unemployment rate increased only moderately to an estimated 5.4% on average in 2020, from all-time low of 4.2% in 2019. Absent public sector funded policies to facilitate labor market adjustment, the average unemployment rate last year is likely to have reached levels close to the 10% mark, fueling emigration and brain drain similarly, to what we had witnessed in the aftermath of the global financial crisis more than a decade ago.

Fiscal policy provided critical support to the households and companies from the real economy, thereby markedly dampening the negative socio-economic impact of the crisis. Initially, Bulgaria's fiscal policy response was more delayed and timid than in the other CEE countries. The scale of the fiscal support was gradually increased thereafter and we expect it to have reached 3.2% of GDP in 2020. Fiscal measures included increased salaries and wages for those on the forefront of the fighting against the pandemic, increased health care spending, various schemes to subsidize losses of incomes in both households and corporations sectors, and temporary tax cuts and deferrals for those hit most by the crisis. At the same time, financial support in the form of guarantees and bank lending schemes was smaller and broadly in line with the size of that applied in other CEE countries.

CPI, calculated according to the national methodology, slowed down to just 0.1% in the end of 2020. This reflects the sizeable collapse in aggregate demand, caused by the pandemic, in combination with a sharp drop in prices of primary energy resources traded on the markets. More than 40% cut in the prices of gas supplied from Gasprom also helped reducing energy prices component in the CPI.

The CA surplus moderated to anticipated 2.7% of GDP in the end of 2020, from 3% in 2019. The negative impact from the sharp drop in tourism services export and emigrants' receipts was almost completely offset by the positive impact from lower energy prices, lower repatriation of profits generated in the local economy, and stronger EU funds absorption. While highly uncertain these developments does not seem to suggest a shift in the overall external position, in our view.

On the positive side, Bulgaria simultaneously joined Exchange Rate Mechanism (ERMII) and the Banking Union in July 2020. The importance of this strategic choice of the country can hardly be overestimated. Country's integration into the euro area is likely to reduce transaction costs, improve banking supervision, and deepen the integration of local companies into the western European supply chains. In the short-run, euro adoption, which we expect to take place in 2024, will help to keep funding cost under control and should further strengthen already very solid domestic liquidity position, amidst the worst global recession since the end of the WWII.

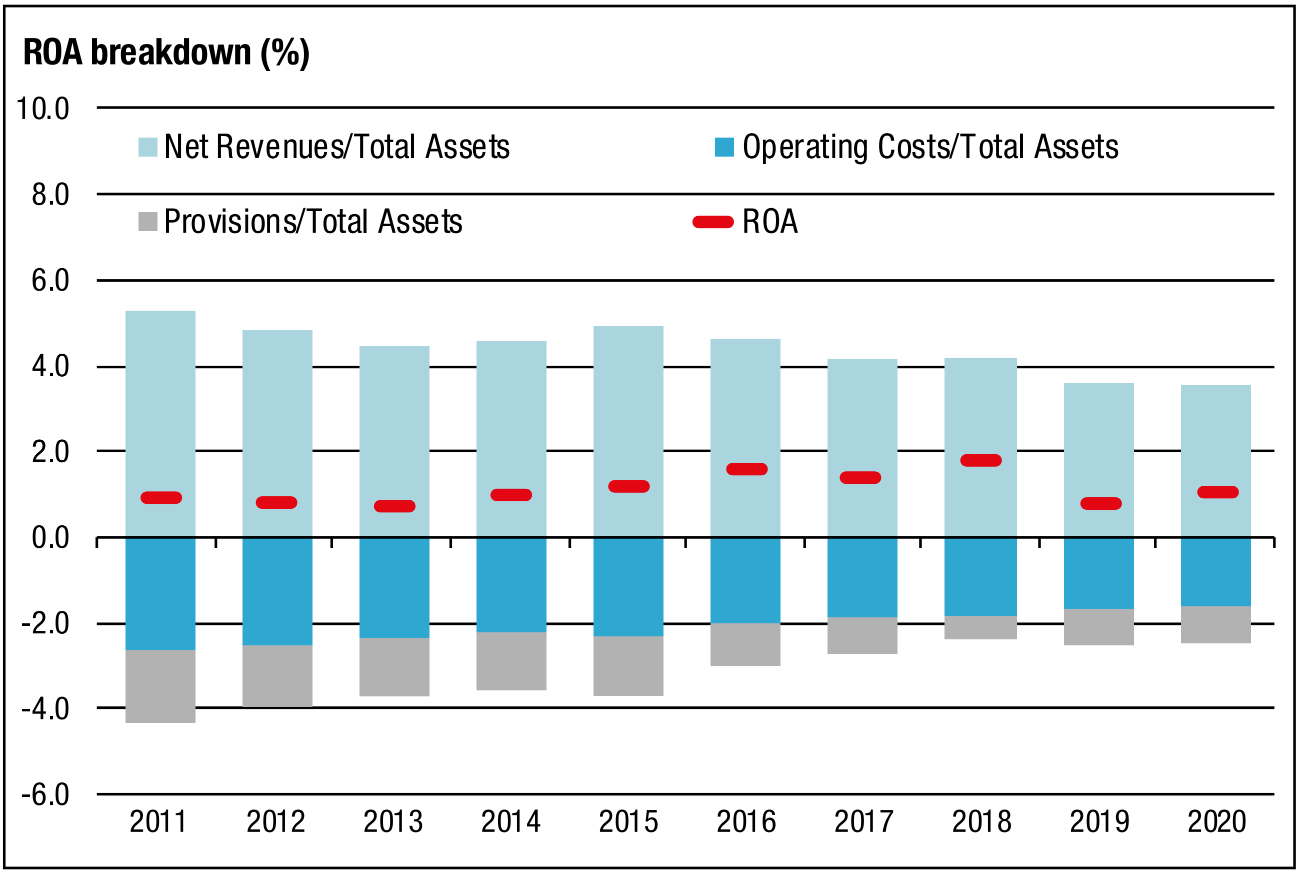
| MACROECONOMIC INDICATORS | 2020 | 2019 | 2018 | 2017 | 2016 | CHANGE 2020/2019 |
|---|---|---|---|---|---|---|
| Nominal GDP[1] (BGN million) | 115 184 | 119 772 | 109 743 | 102 345 | 95 131 | (3.8%) |
| GDP per capita[1] (BGN) | 16 687 | 17 230 | 15 678 | 14 517 | 13 395 | (3.2%) |
| Real GDP growth[1], swda (%) | (5.5) | 3.7 | 3.1 | 3.5 | 3.8 | (9.2 pp) |
| Basic Interest Rate, avg (%) | (0.65) | (0.48) | (0.50) | (0.29) | (0.16) | (0.2 pp) |
| Inflation, eop (%) | 0.1 | 3.8 | 2.7 | 2.8 | 0.1 | (3.7 pp) |
| Inflation, avg (%) | 1.7 | 3.1 | 2.8 | 2.1 | (0.8) | (1.4 pp) |
| Unemployment rate[2], SA, eop (%) | 5.4 | 4.2 | 5.2 | 6.2 | 7.6 | +1.2 pp |
| Official exchange rate, eop (BGN/USD) | 1.61 | 1.76 | 1.71 | 1.63 | 1.86 | (8.6%) |
| Official exchange rate, avg (BGN/USD) | 1.72 | 1.75 | 1.66 | 1.74 | 1.77 | (1.8%) |
| Current account balance[2] (BGN millions) | 730 | 3 613 | 1 083 | 3 569 | 3 033 | (82.9%) |
| Current account balance[2]/GDP[1] (%) | 0.6 | 3.0 | 1.0 | 3.5 | 3.2 | (2.9 pp) |
| Net foreign direct investments[2] (BGN millions) | 1 454 | 1 613 | 1 523 | 2 568 | 1 092 | (8.2%) |
| Net foreign direct investments[2]/GDP[1] (%) | 1.3 | 1.3 | 1.4 | 2.5 | 1.1 | (0.1 pp) |
| Gross foreign debt[2], eop (BGN millions) | 73 293 | 67 193 | 66 111 | 66 209 | 66 931 | 6.4% |
| Gross foreign debt[2]/GDP[1] (%) | 63.6 | 56.1 | 60.2 | 64.7 | 70.4 | +6.1 pp |
| Public debt[2], eop (BGN millions) | 28 968 | 23 563 | 23 893 | 25 616 | 26 954 | 22.9% |
| Public debt[2]/GDP[1] (%) | 25.1 | 19.7 | 21.8 | 25.0 | 28.3 | +5.5 pp |
| BNB FX reserves (BGN millions) | 60 334 | 48 574 | 49 037 | 46 279 | 46 742 | 24.2% |
| Budget balance/GDP[1] (%) | (3.1) | (1.0) | 0.1 | 0.9 | 1.6 | (2.1 pp) |

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

[1] UniCredit Bulbank forecast for 2020.

[2] Data as of November 2020.

## Bulgarian banking sector in 2020




Source: Bulgarian National Bank, UniCredit Bulbank

A number of measures were implemented to strengthen the local banking sector's resilience to shocks. To reinforce banks' capital positions, the BNB has urged banks to capitalize entire profits from 2019 and has canceled the planned increase of the countercyclical buffer. All lenders were instructed to transfer their free liquidity maintained outside the country to their accounts with the BNB, thus boosting the liquidity position of the local banking sector by BGN 7 bn. In line with the EBA guidance, a loan repayment moratorium for borrowers who had regularly serviced loans prior to the pandemic was introduced. Importantly, the regulator implemented a shift toward a more lenient supervisory stance in order to help banks deal with the anticipated drop in asset quality.

Very strong capital position on the eve of the pandemic helped local lenders maintain the flow of credit to the economy. At the same time, credit standards have remained broadly unchanged, despite expectations for higher COR due to the corona virus caused downturn in the economy. Importantly, fiscal support measures undertaken by the government prevented a sharp rise in unemployment and firms' bankruptcies, thereby supporting demand of credit in the economy.

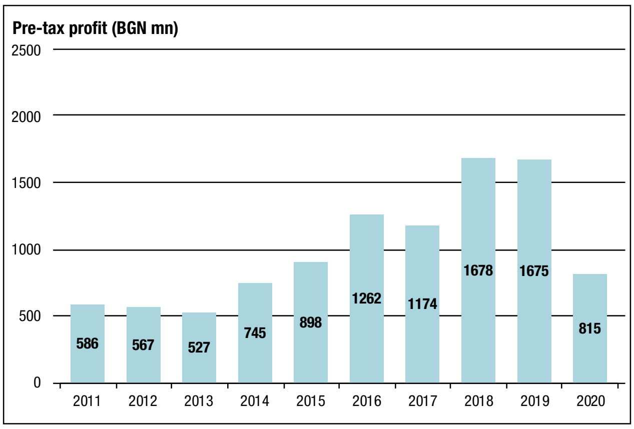
Pandemic caused shift to higher savings rate in the non-governmental sector (from already elevated levels prior to that), along with some one-offs, pushed deposit growth (9.7% in 2020) to its highest annual increase since 2011. In the context of remarkably low interest rates, households and private companies continued to shift large part of their savings into real estate, which pushed the national house price index 4.1% yoy up in Jan-Sept 2020. While housing prices showed resilience, regional differences continues to rise and in the most preferred locations in the capital and on the seaside, already started to approach levels higher than those that prevailing incomes seems to indicate.

Competition pushed the spread between interest rates on loans and deposits further downward. The spread contraction in 2020 (34bp) was in line with that seen in 2019 (35bp) and in 2018 (34bp). Against this increasingly challenging backdrop, NII growth rate declined by 3.5% yoy, while net fee and commission income posted an even sharper drop (6.1%), as pricing of bank transfers to EU member states was made identical to the pricing applied to intercountry transfers. Ongoing consolidation and digitalization, on the other hand, helped to constrain the growth in overhead expenses (up 1.5%) below the rate of the average CPI (1.7%) for a second year in a row.

# Bulgarian Economy in 2020 (continued)

Loan repayment moratorium and fiscal support measures undertaken by the government helped the share of NPLs to decline to its lowest level (8.2%) from total gross loans since 2008. As part of their preparation to meet the anticipated drop in assets quality in 2021, when both fiscal support for customers and more lenient supervisory stance unwinding are likely to begin, the banks set aside BGN 911mn in provisions, pushing COR (1.5%) to its highest level since 2017. Importantly, coverage with provisions of NPLs overdue more than 30 days rose to 63% – its highest level ever.

After-tax profit was BGN 815 mn in 2020 or 51% down when compared with the previous year (BGN 1675mn), when Bulgarian banking sector posted its second highest profit since the start of transition in 1989. This enabled the large and well-established local lenders to achieve after-tax ROE close to the COE, despite the sharpest recession in the country's economy since 1997, thereby reconfirming once more the outstanding profitability performance of the Bulgarian banking sector.




Source: Bulgarian National Bank, UniCredit Bulbank

| BANKING SYSTEM KEY FIGURES | 2020 | 2019 | 2018 | 2017 | 2016 | CHANGE 2020/2019 |
|---|---|---|---|---|---|---|
| **INCOME STATEMENT (BGN MILLION)** | | | | | | |
| Operating income | 4 162 | 4 232 | 4 223 | 3 886 | 4 080 | (1.7%) |
| incl. Net interest income | 2 649 | 2 746 | 2 742 | 2 675 | 2 805 | (3.5%) |
| incl. Net non-interest income | 1 513 | 1 486 | 1 480 | 1 212 | 1 274 | 1.8% |
| Operating costs | 1 961 | 1 933 | 1 893 | 1 789 | 1 762 | 1.5% |
| Operating profit | 2 201 | 2 299 | 2 330 | 2 098 | 2 317 | (4.3%) |
| Provisions (net) | 991 | 511 | 529 | 805 | 911 | 94.0% |
| Pre-tax profit | 1 210 | 1 789 | 1 800 | 1 292 | 1 406 | (32.4%) |
| Net profit | 815 | 1 675 | 1 678 | 1 174 | 1 262 | (51.4%) |
| **BALANCE SHEET (BGN MILLION)** | | | | | | |
| Total assets | 124 006 | 114 201 | 105 557 | 97 808 | 92 095 | 8.6% |
| Loans to customers (incl. non-residents) | 69 500 | 66 293 | 60 908 | 56 084 | 54 467 | 4.8% |
| thereof: Non-performing loans | 5 711 | 6 120 | 6 790 | 8 288 | 9 956 | (6.7%) |
| Deposits from customers (incl. non-residents) | 100 671 | 91 853 | 84 571 | 78 406 | 74 129 | 9.6% |
| Shareholders' equity | 15 352 | 14 397 | 13 858 | 12 597 | 12 133 | 6.6% |
| **KEY PERFORMANCE INDICATORS (%)** | | | | | | |
| Loans-to-Deposits ratio (on residents) | 68.8 | 72.5 | 72.3 | 71.9 | 73.2 | (3.7 pp) |
| Cost/Income ratio | 47.1 | 45.7 | 44.8 | 46.0 | 43.2 | +1.5 pp |
| NPLs ratio | 8.2 | 9.2 | 11.1 | 14.8 | 18.3 | (1.0 pp) |
| Cost of Risk[1] | 1.5 | 0.8 | 0.9 | 1.5 | 18. | +0.7 pp |
| ROAE (after tax) | 5.5 | 11.9 | 12.7 | 9.5 | 10.7 | (6.4 pp) |
| ROAA (after tax) | 0.7 | 1.5 | 1.7 | 1.2 | 1.4 | (0.8 pp) |
| **RESOURCES (NUMBER, EOP)** | | | | | | |
| Acting commercial banks at the end of the period | 24 | 24 | 25 | 27 | 27 | 0 |

Source: Bulgarian National Bank

[1] Provisions flow/Avg gross loans

# Market Positioning

Although the ongoing **consolidation** of the banking sector in Bulgaria, fierce competition and worsen macro-economic conditions impacted by Covid-19, in 2020 UniCredit Bulbank (UCB, the Bank) successfully managed to preserve its leadership position on the Bulgarian Banking Market closing the year as **NUMBER ONE BANK** in terms of SIZE (Total Assets), holding BGN 1.3 billions positive GAP vs the second largest bank and **accumulating more than ¼ from Banking System's 2020 Net Profit for another year in a row.**

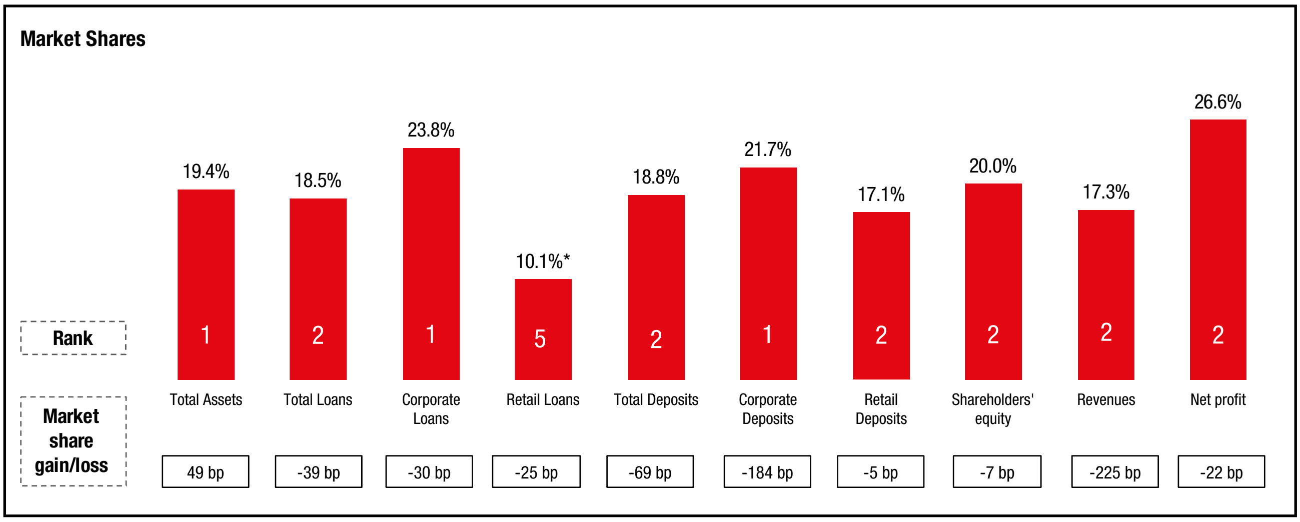
The Bank's ability to **successfully navigate this extraordinary year** was underpinned by its diversified business model and its solid financial foundations with a very robust capital and liquidity position and strong risk discipline.

The Bank **continues to be undisputable market leader in Corporate segment where UniCredit Bulbank improved** its positive variance vs the main peers and is **one of the main key players in Retail segment.**

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 UniCredit Bulbank.

**Serving more than one million customers** through a branch network of 152 units **UniCredit Bulbank** is part of UniCredit, a simple successful Pan European Commercial Bank, with a fully plugged in Corporate & Investment Banking, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise. UniCredit Bulbank's s**ynergies with its parent** are very strong, thus building another competitive advantage especially in terms of robust positioning in international businesses.

In 2020 UCB recorded **further growth in Total Assets** (+11.4% y/y vs growth of 8.6% for the Banking System) achieving 19.4% market share.




Source: Regulatory financial statements and Monetary Statistics of UniCredit Bulbank and Bulgarian National Bank.
*15.5% market share or second position if including the business, generated mainly trough the Bank's subsidiary, specialized in consumer financing UCFin.

Although the unusual business environment impacted by the changed macroeconomic environment following Covid-19, UCB **recorded y/y growth of 6.3% in Shareholders' Equity** supported by a satisfactory Net Profit.

The unfavorable impact of negative market interest rates and pressure on loan margins has been counterbalanced by **further streamlined liquidity optimization policy** of the Bank.

In 2020 UniCredit Bulbank remained the most important institution among the financial intermediators keeping leading position in bonds and corporate loans. During 2020 the Bank continued to keep its leading position in the field of the **Bonds Trading** reaching 21.8% market share and keeping 5p.p. distance vs the main peer.

**UCB's CET1 capital ratio** remained much higher (25.7% as of Dec'20) than the minimum BNB requirement of 11.50% (including applicable capital buffers) and was further aided by a net profit of BGN 224 mln, which accounted for 26.6% of the sector's net result.

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 18.5% in Total Gross Loans (or 19.1% if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing – UniCredit Consumer Financing (UCFin).

In contrast with the deteriorated economic activity impacted by Covid-19 and GDP negatively consolidating at around -5.5% y/y, Banking System recorded a positive y/y lending growth of 4.4% vs growth of 2.3% for UniCredit Bulbank.

In **Corporate Loans sector** UCB continues to be **absolute market leader** with 23.8% market share. The Bank remained the main

# Market Positioning (continued)

partner of companies operating in Bulgaria as indicated by the indisputable leadership position in the sector of non-financial corporations, where the Bank holds about 1/5 of total exposure in the banking system (20.1% market share as of Dec'20).

Although the worsen business activity and following a strict risk discipline, in **Retail Loans**, UniCredit Bulbank (including UCFin) recorded growth of 1.9% y/y (15.5% market share) supported by a sustainable growth in Mortgage Loans. Thanks to continuing projects of process of simplification new service model implementation and enhancement of the alternative channels functionalities, UCB achieved growth of 5.6% y/y in Mortgage Loans keeping its market share at 19.6% and above the market share of total Retail Loans (including UCFin). Consumer Loans (including UniCredit Consumer Financing's contribution) closed the year announcing drop of 1.7% y/y clearly preserving the second position in this segment marking 12.3% market share.

In 2020 UCB continues to be amongst **the most trusted banks on the Deposit market, achieving growth of 6.1% y/y** (market share at 18.8%, -0.69p.p decrease y/y).

Thanks to its outstanding reputation, the bank clearly established itself as **one of the most trusted bank on the Retail Deposit Market,** positioning in **Retail segment** was confirmed recording growth of 9.4% y/y vs growth of 9.7% for the market, market share reached 17.1%, flat y/y.

Within **Corporate segment** UCB remains **indisputable market leader** with market share of 21.7% keeping its distinguished position vs the second largest competitor at 9.2p.p.

In an environment of lowest ever offer rates on new loan contracts, margins compression, excess liquidity charges and new fees regulations on cross border transfers, UniCredit Bulbank **continues to be the most efficient bank in Bulgaria keeping its Cost to Income Ratio below the market average and main competitors.**

Although the unfavorable market environment and worsen macro-economic conditions, UniCredit Bulbank kept its **market share in Revenues(excl. Net Other Operating Income and Dividend income) stable** at 19.3%, in line with the market share in Total Assets at 19.4%.

With a Net Profit of BGN 224 mln., the Bank **accumulated more than ¼ from Banking System's 2020 Net Profit** for another year in a row achieving 26.6% market share, **outperforming the Market** Average in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio.

# UniCredit Bulbank Activity Review

## Unconsolidated Financial Results

**Net Profit** decreased by 47.3% y/y to BGN 224.0 mln due to lower operating income (pre-Covid impacts of margin decrease and cross border regulation aggravated by Covid driven slow-down of business activity) as well as increase in impairment losses, entirely driven by crises situation.

**Operating Income** (BGN 680.1 mln), dropped by 16.4% y/y, in both interest (pre-Covid competition driven decline in margins; post-Covid: slowdown in lending) and non-interest income (pre-Covid: impact of cross border payments regulation; post Covid: decrease in business activity).

**Net interest income** (BGN 348.0 mln) decreased by 9.4% y/y, negatively impacted by competitive pressure on spread and slowdown in lending due to Covid.

**Fees and commission income** (BGN 212.2 mln) decreased by 10.4% y/y, influenced mainly by the new regulation for cross border payments introduced in Dec'19 and due to decreased business activity, Covid driven.

**Net income from financial assets at FV and dividends** (BGN 188.9 mln) dropped by 26.3%, in FX gains (mainly in proprietary component due to USD/EUR swap points drop following fed funds rates cut) as well as gains from sale of bonds.

**Operating expenses** (BGN -283.1 mln) increased by 5.0% y/y, coming from Staff expenses and depreciation costs, while y/y increase of other administrative expenses is driven by costs related to Covid-19 crisis.

**Gross Operating Profit** decreased by 27.0% to BGN 397.0 mln.

**Impairment losses on financial assets** (BGN -153.1 mln) increase by 92.5% y/y, incorporating the Covid impacts in risk parameters.

*In thousands of BGN*

| INCOME STATEMENT | YEAR | | CHANGE | |
|---|---|---|---|---|
| | 2020 | 2019 | % | AMOUNT |
| Net interest income | 347 995 | 383 961 | (9.4%) | (35 966) |
| Net fee and commission income | 212 224 | 236 986 | (10.4%) | (24 762) |
| Net gains on financial assets and liabilities held for trading and hedging derivatives | 78 447 | 98 737 | (20.5%) | (20 290) |
| Dividends and net gain from financial assets MFVPLand at FVOCI | 110 470 | 157 490 | (29.9%) | (47 020) |
| Other operating income/expenses, net | (69 053) | (64 065) | 7.8% | (4 988) |
| **OPERATING INCOME** | **680 083** | **813 109** | **(16.4%)** | **(133 026)** |
| Operating expenses | (283 074) | (269 583) | 5.0% | (13 491) |
| **GROSS OPERATING PROFIT** | **397 009** | **543 526** | **(27.0%)** | **(146 517)** |
| Impairment losses on financial assets | (153 143) | (79 557) | 92.5% | (73 586) |
| Provisions for risk and charges | (5 662) | (7 411) | (23.6%) | 1 749 |
| Income from property, plant and equipment | 59 | 2 941 | (98.0%) | (2 882) |
| Income tax expense | (14 285) | (34 393 ) | (58.5%) | 20 108 |
| **NET PROFIT** | **223 978** | **425 106** | **(47.3%)** | **(201 128)** |

| REVENUE STRUCTURE | YEAR | |
|---|---|---|
| | 2020 | 2019 |
| Net interest income | 51% | 47% |
| Net fee and commission income | 31% | 29% |
| Net income from financial assets at FV, dividends and net other operating income/expenses | 18% | 24% |
| **OPERATING INCOME** | **100%** | **100%** |

**Net interest income** (BGN 348 mln) decreased by 9.4% y/y, due to lower interest income and higher interest expenses. The share of Net Interest Income in total revenues increased to 51% in 2020 (47% in 2019).

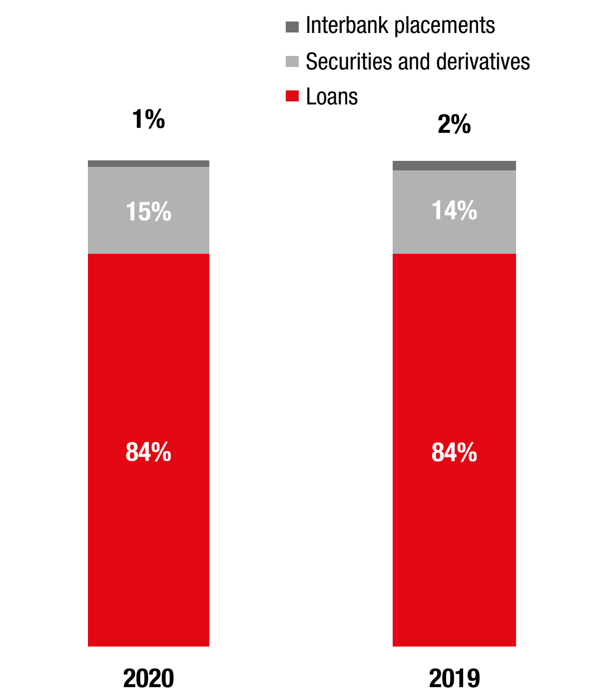
**Interest income** (BGN 393.4 mln) decreased by 6.5%, negatively impacted by competitive pressure on spread and slowdown in lending due to Covid. **Interest income from customer loans** (BGN 331.5 mln) dropped by 6.3% y/y and accounts for 84% of total interest income. **Interest income from securities and derivatives** (BGN 56.9 mln) decreased by 6.0% y/y and represents 15% from

## Unconsolidated Financial Results (continued)

interest income. **Interest income from interbank business** (BGN 4.9 mln) dropped by 24.8% y/y.

**Interest expenses** (BGN -45.4 mln) increased by 23.3% y/y, in interbank deposits. **Interest expenses on interbank business** (BGN -23.4 mln) increased by 52.1% y/y (52% share in total interest expenses vs 42% a year ago).

**Share in Interest Income**




**Net fee and commission income** (BGN 212.2 mln) decreased by 10.4% y/y, influenced mainly by the new regulation for cross border payments introduced in Dec'19 and due to decreased business activity, Covid driven.

**Net gains on financial assets held for trading and hedging derivatives** (BGN 78.4 mln) decreased by 20.5% y/y, driven by lower FX trading income, which dropped by 21.5% y/y to BGN 72.4 mln.

**Dividends and net gains from financial assets mandatorily at fair value and at fair value through other comprehensive income** (BGN 110.5 mln) declined by 29.9% y/y, due to lower gains from the sale of bonds, measured at FVTOCI.

**Net other operating expenses** (BGN -69.1 mln) increased by 7.8% y/y, mainly due to higher contributions to the Deposit Guarantee and Resolution Funds, in line with increased volumes of attracted funds.

**Operating expenses** (BGN -283.1 mln) increased by 5.0% y/y. **Personnel expenses** (BGN -140.5 mln) account for 50% of total operating expenses and grow by 3.7% y/y. **Non-personnel costs** (BGN -142.5 mln) increased by 6.3% y/y, driven by new investments and the implementation of strategic business and operational projects.

**Impairment losses on financial assets** (BGN -153.1 mln) increased by 92.5% y/y, incorporating the Covid impacts in risk parameters. Non-performing exposures slightly increased and account for 6.0% of gross loans (4.5% in 2019) and NPE coverage ratio marked 73.7% (74.1% in 2019).

**Profit before tax** decreased by 48.1% y/y, reaching BGN 238.3 mln and **Net profit** reached BGN 224.0 mln (-47.3% y/y).

## Unconsolidated Financial Results (continued)

### Unconsolidated Assets and Liabilities

In 2020 UniCredit Bulbank kept its leadership position on the market in terms of **Total Assets** which reached BGN 24 108 mln, growing by 11.4% y/y supported by the increase in customer deposits (+5.5% y/y). On the assets side customer loans increased by 1.9%, while cash and balances with central banks increased by 219.4% y/y.

**Net loans and advances to customers** increased by 1.9% y/y to BGN 11 860 mln, driven by Corporate lending (mainly the sector of non-monetary financial institutions), while the production of the consumer lending to individuals was performed via the Bank's specialized subsidiary – UniCredit Consumer Financing. N**et loans and advances to customers** constitute 49% of total assets of the Bank, confirming its strategic commitment on **sustainable development of traditional commercial banking.**

**Securities portfolio** (investment securities and non-derivative financial assets held for trading) increased to BGN 3 692 mln, (+2.3% y/y), with share in total assets of 15.3% (16.7% in 2019). Almost the entire portfolio comprised of Bulgarian government bonds.

**Other assets** are at the amount of BGN 308 mln and represent other items such as derivatives, intangible assets, investments in subsidiaries and other receivables.

Customer deposits reached BGN 18 679 mln and kept their very high share in total liabilities (excl. equity) of 89%. 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 5.5% y/y.

The **net loans/deposits ratio** decreased to 63.5% in 2020. It is better than the market average of 65.8% and positions the Bank favourably for successful exploration of further growth opportunities.

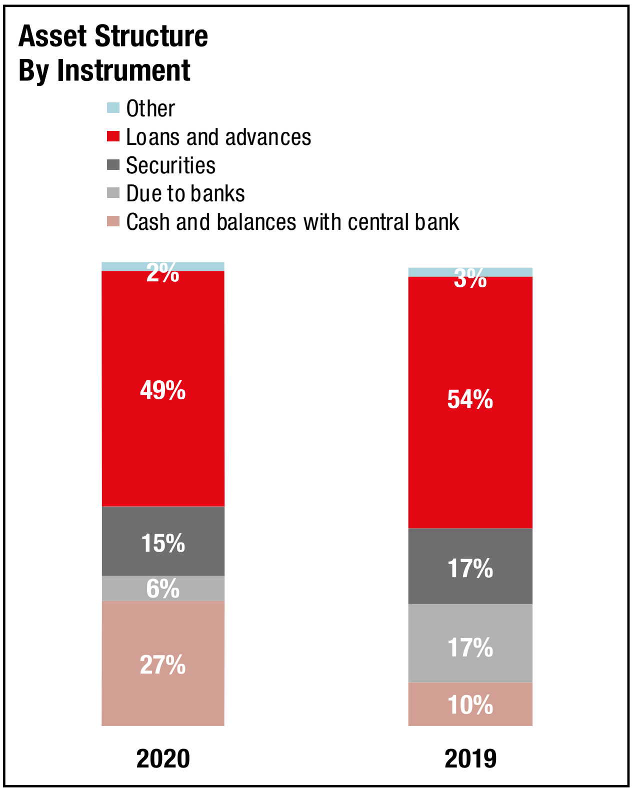
**Deposits from banks** reached BGN 1 918 mln remaining with insignificant share in total liabilities (9%). The increase of 190.3% y/y mainly relates to business volumes with banks operating in the country.

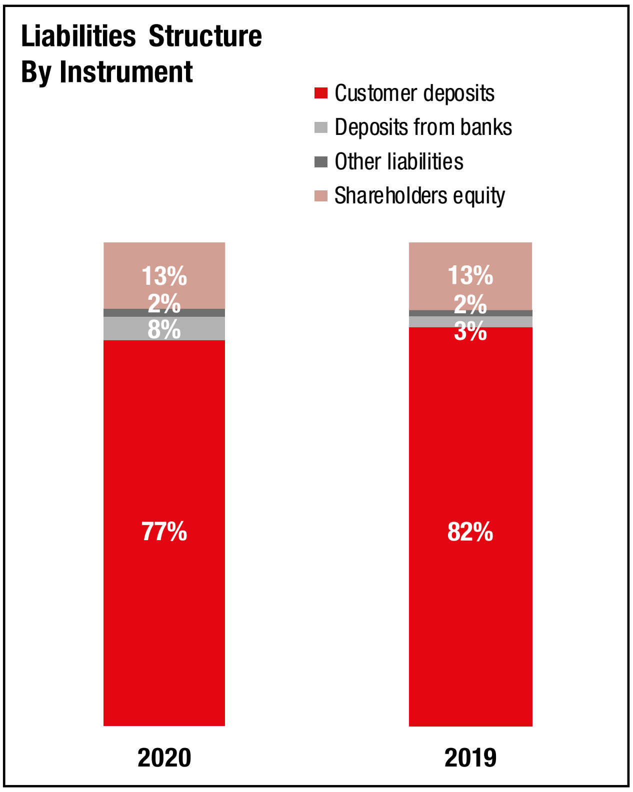
**Shareholders' equity** reached BGN 3 077 mln, with 12.8% share in total assets. The increase of 6.3% y/y is attributable to retained earnings.

*In thousands of BGN*

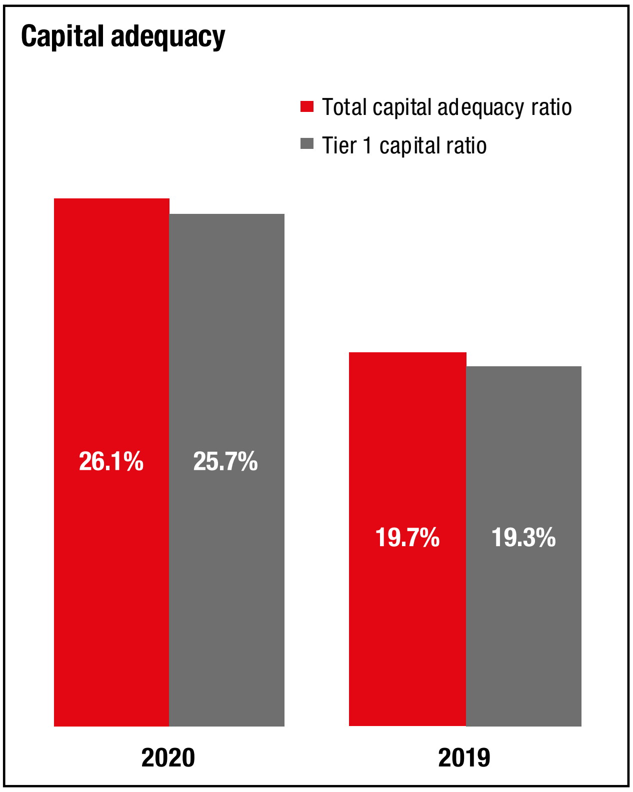
| STATEMENT OF FINANCIAL POSITION STRUCTURE | YEAR | | CHANGE | |
|---|---|---|---|---|
| | 2020 | 2019 | % | AMOUNT |
| **ASSETS** | | | | |
| Cash and balances with Central Bank | 6 595 652 | 2 065 166 | 219.4% | 4 530 486 |
| Loans and advances to banks | 1 426 838 | 3 754 103 | (62.0%) | (2 327 265) |
| Securities | 3 691 883 | 3 609 204 | 2.3% | 82 679 |
| Loans and advances to customers | 11 860 343 | 11 643 963 | 1.9% | 216 380 |
| Property, plant, equipment, right of use assets and investment properties | 225 126 | 254 910 | (11.7%) | (29 784) |
| Other assets, net | 307 686 | 311 714 | (1.3%) | (4 028) |
| **TOTAL ASSETS** | **24 107 528** | **21 639 060** | **11.4%** | **2 468 468** |
| **LIABILITIES AND EQUITY** | | | | |
| Customer deposits | 18 678 882 | 17 706 409 | 5.5% | 972 473 |
| Deposits from banks | 1 918 207 | 660 687 | 190.3% | 1 257 520 |
| Other liabilities | 433 860 | 377 032 | 15.1% | 56 828 |
| **TOTAL LIABILITIES** | **21 030 949** | **18 744 128** | **12.2%** | **2 286 821** |
| **SHAREHOLDERS' EQUITY** | **3 076 579** | **2 894 932** | **6.3%** | **181 647** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **24 107 528** | **21 639 060** | **11.4%** | **2 468 468** |

## Unconsolidated Financial Results (continued)




In compliance with Basel III (CRD IV) regulatory framework, in 2020 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 15% for total capital adequacy ratio and 13% for Tier 1 ratio. The **total capital adequacy ratio marked 26.1%** (19.7% in 2019) and **Tier 1 ratio reached 25.7%** (19.3% in 2019). The comparable levels of total and Tier I capital adequacy indicates the **high quality of the capital instruments – i.e. mainly Tier I eligible ones.**



## Unconsolidated Financial Results (continued)

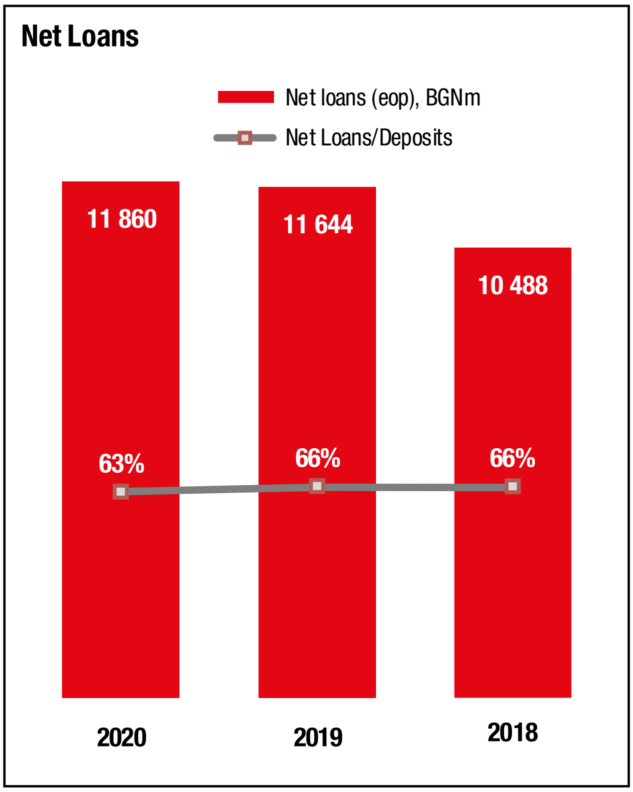
### Customer Loans

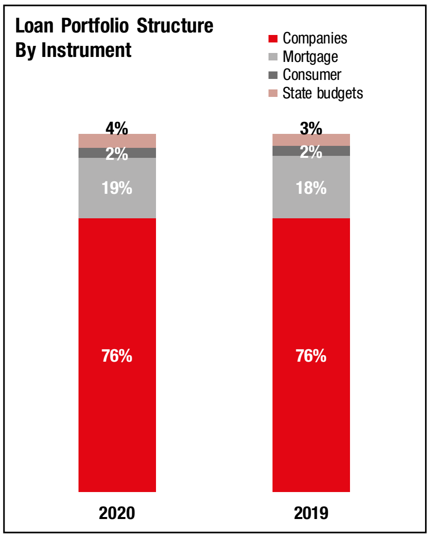
While facing the waves of an unprecedented pandemic in 2020, UniCredit Bulbank relentlessly **supported its clients and the real economy.** We stood by each other and worked together in a rapidly changing business environment, always supporting our customers and protecting our people. **The commercial 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, factoring and consumer financing solutions.

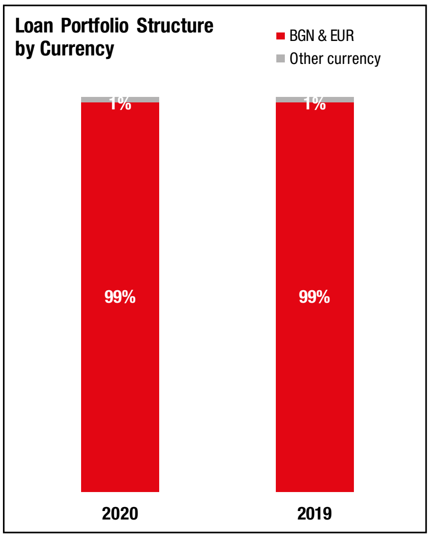
UniCredit Bulbank affirmed its leading market position with **net customer loans** at the amount of BGN 11 860 mln and **gross customer loans** amounting to BGN 12 553 mln. The Bank continued to be the one of the biggest players in the Bulgarian lending market with a share of 18.5% (18.9% in 2019).

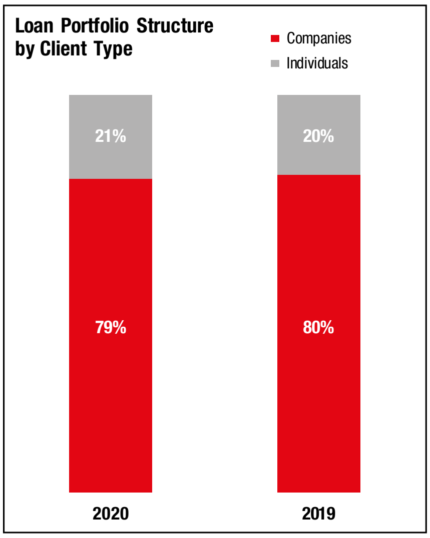
**Loans to companies and government** represented the largest portion (79%) of the Bank's loan portfolio and amounted to BGN 9 949 mln, up by 2.6% y/y. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. 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 2 603 mln, representing 21% share of total loans.

In 2020 mortgage loans marked a positive trend of 6.4% y/y, reaching BGN 2 370 mln. Their share in loans to individuals increased to 91% (19% share in total loans) from 89% in 2019.

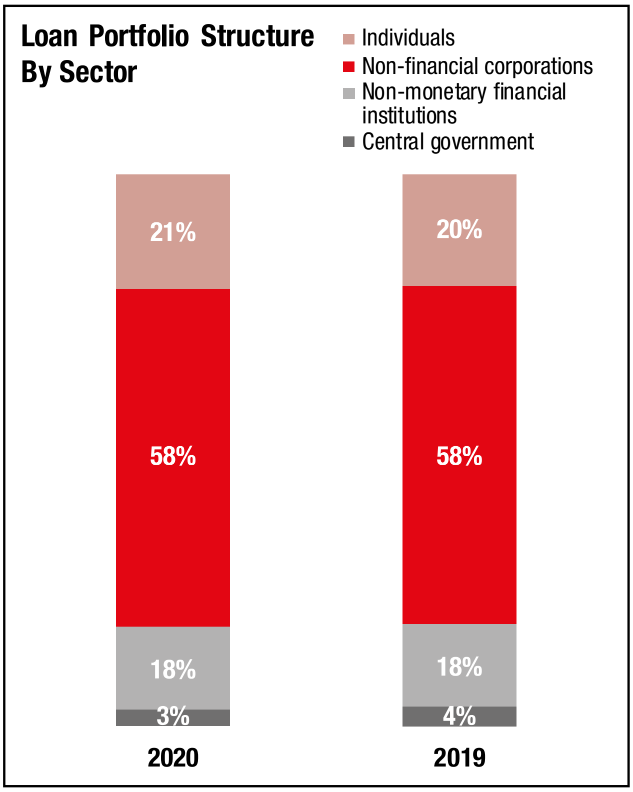


## Unconsolidated Financial Results (continued)



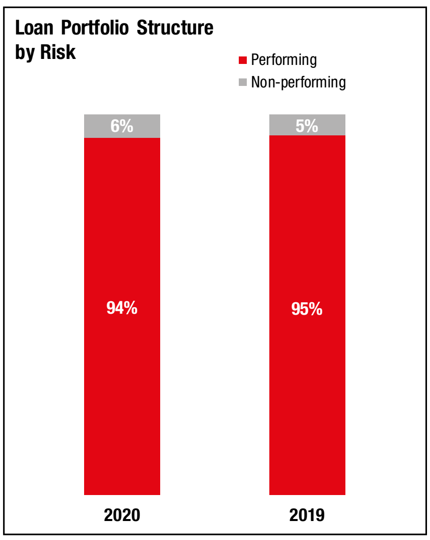

At the end of 2020 the share of loans in EUR shrank to 27% (28% in 2019) of Bank's gross loan portfolio and amounted to BGN 3 348 mln. Loans in BGN grew by 3.6% y/y, offsetting the EUR loan portfolio and took a share of 71%. Loans in other currencies remained immaterial with 1% share.

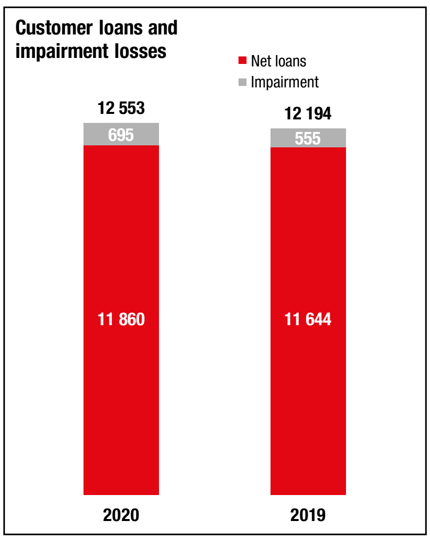
Regarding the **structure by economic sectors**, over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume. They keep the share of 58%, while the loans to non-banking financial institutions took share of 18%. The share of loans to individuals remained flat at 21%, while the loans to central government represented only 3% in 2020.

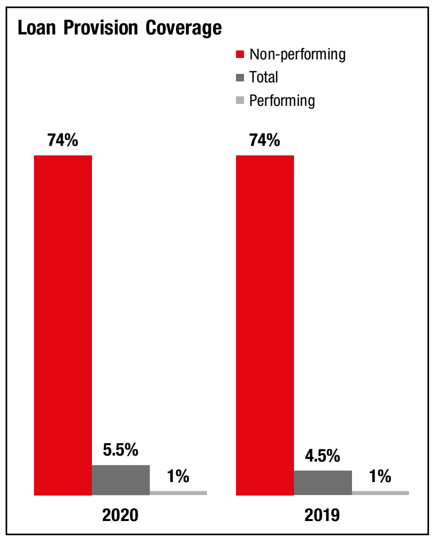
In terms of **asset quality** the performing loans portfolio represented 94% (+1.4% y/y growth) and amounted to BGN 11 805 mln. On the other hand, the non-performing loans increased by 34.8% y/y to BGN 748 mln, impacted by Covid-19 pandemic outbreak.

As of December 2020 the Bank reported NPL ratio of 6.0%. The loan loss provision coverage of non-performing exposures decreased by -39bp and reached 73.7%. Total loan loss impairment increased by 25.3% on an annual basis and reached BGN 695 mln. Total coverage ratio reached 5.5% (4.5% for 2019).

**In terms of industry structure,** in 2020 the most significant growth in share was achieved by Transport and communication (increase by 32.9% y/y). The biggest declines are recorded in the sectors



## Unconsolidated Financial Results (continued)

of Agriculture and forestry (decrease by 7.5% y/y) and Commerce (decrease by 4.7% y/y). In line with the Bank's strategy Housing loans registered an increase by 6.4% y/y with share of 19%. At the end of 2020 the largest areas of concentration were Manufacturing (18%), Financial services (17%) and Housing loans (19%).

*Thousands of BGN*

| INDUSTRY STRUCTURE | 2020 | | 2019 | |
|---|---|---|---|---|
| | AMOUNT | SHARE | AMOUNT | SHARE |
| Manufacturing | 2 271 863 | 18% | 2 256 088 | 18% |
| Commerce | 1 826 807 | 15% | 1 915 963 | 16% |
| Financial services | 2 193 220 | 17% | 2 246 056 | 18% |
| Construction and real estate | 1 519 010 | 12% | 1 405 028 | 12% |
| Agriculture and forestry | 417 901 | 3% | 451 645 | 4% |
| Sovereign | 463 162 | 4% | 373 633 | 3% |
| Services | 438 580 | 3% | 396 424 | 3% |
| Transport and communication | 606 453 | 5% | 456 446 | 4% |
| Tourism | 216 855 | 2% | 198 010 | 2% |
| **Retail (individuals)** | **2 603 453** | **21%** | **2 499 344** | **20%** |
| Housing loans | 2 370 470 | 19% | 2 228 485 | 18% |
| Consumer loans | 167 745 | 1% | 193 766 | 2% |
| Other | 65 238 | 1% | 77 093 | 1% |
| **TOTAL LOAN PORTFOLIO** | **12 557 304** | **100%** | **12 198 637** | **100%** |

## Unconsolidated Financial Results (continued)

### Customer Deposits

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

UniCredit Bulbank confirmed its top position on the market in customer deposits with **18.8% market share** leveraging on its distinguished reliability and faithfulness.

In 2020 UniCredit Bulbank's **Deposits from customers** grew by 5.5% y/y to BGN 18 679 mln supported by both Retail and Corporate segments, where the Bank continues to be one of the most trusted and preferred banks announcing constantly increasing market shares.

Furthermore, in 2020 UniCredit Bulbank outperformed the market of Retail Deposits achieving y/y growth of 8.8% vs growth of 8.7% for the Banking System while in Corporate Deposits UCB achieved growth of 1.3% vs growth of 11.1% for the Banking System

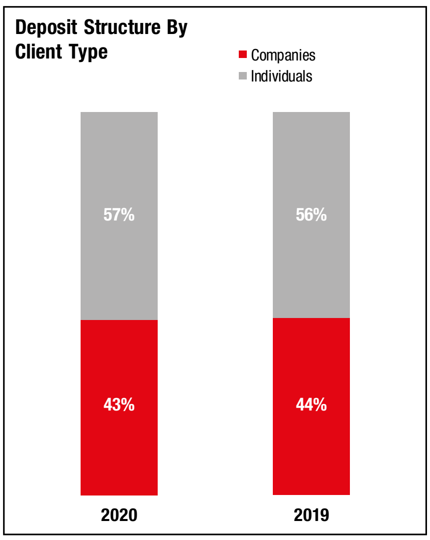
UniCredit Bulbank became the Bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.

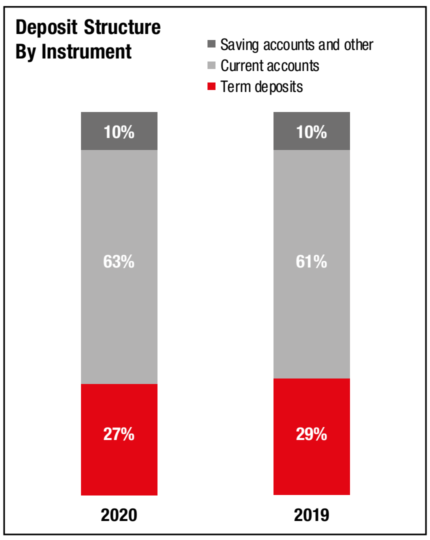
In terms of **clients type**, deposits of Individuals had an upward momentum of 8.8% y/y ending 2020 at BGN 10 719 mln and the company's deposits registered an increase of 1.3% y/y to BGN 7 960 mln. In 2020 deposits of Individuals kept the 57% share in customer deposits, compared to 43% share of deposits from companies, signalling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

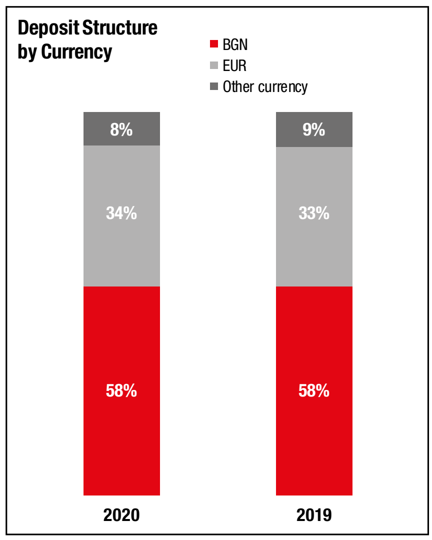
With regard to the **product structure**, current accounts increased by 9.1% y/y and reached 63% share (61% in 2019). Term deposits slightly decreased by 2.1% y/y resulting in decreasing share of total funds to 27% in 2020 vs 29% in 2019. Saving accounts remain with 10% share similar to 2019.

In terms of **currency distribution** the structure of deposits remained balanced, 58% share of BGN denominated deposits vs 42% in other currencies. The growth of the Deposit base is predominantly driven by BGN denominated deposits which increased by 5.2% y/y, keeping their share to 58% in 2020.

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 mutual funds of Amundi Investments, life insurances and pension funds of Allianz.



# UniCredit Bulbank Activity Review (continued)

## Consolidated Financial Results

As of 31 December 2020 UniCredit Bulbank's subsidiaries and associates, 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 Factoring EAD | 100.0% | Full consolidation |
| UniCredit Fleet Management EOOD | 100.0% | Full consolidation |
| Cash Service Company AD | 25.0% | Equity method |

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

The consolidated net profit of UniCredit Group for 2020 was at BGN 195.1 mln, down by 51.7% y/y, mainly due to cross border regulation aggravated by Covid driven slow-down of business activity as well as higher impairment, entirely driven by crises situation.

The **consolidated operating** income decreased by 12.7% y/y, in both interest and non-interest income, where non-interest income represented 35% from operating income and dropped by 20.9% y/y. Net fees and commissions decreased by 8.8% y/y, mainly in payments. Net income from financial assets, measured at fair value and dividends decreased by 34.5% y/y, driven by net income from other trading instruments and FX trading.

The **consolidated operating expenses** increased by 5.8% y/y to BGN 329.4 mln and **gross operating profit** decreased by 22.6% y/y to BGN 450.2 mln.

The **consolidated impairment losses on financial assets** marked an increase of 94.6% y/y to BGN -229.5 mln in line with the conservative provisioning policy. The consolidated NPE ratio marked 7.0% and NPE coverage increased by 3.1pp.

Total **consolidated assets** (BGN 24 620 mln) increased by 10.7% y/y, driven by the growth of customer business. **Customer deposits** (BGN 18 729 mln) remain the main source of financing, growing by 5.5% y/y. **Net customer loans** increased by 1.0% y/y to BGN 12 327 mln.

*In thousands of BGN*

| | YEAR | | CHANGE % |
|---|---|---|---|
| | 2020 | 2019 | |
| **INCOME STATEMENT FIGURES** | | | |
| Operating income | 779 690 | 893 1401 | (12.7%) |
| Operating expenses | (329 448) | (311 481) | 5.8% |
| Gross operating profit | 450 242 | 581 659 | (22.6%) |
| Impairment losses on financial assets | (229 528) | (117 949) | 94.6% |
| Net profit | 195 106 | 404 007 | (51.7%) |
| **BALANCE SHEET FIGURES** | | | |
| Total assets (eop) | 24 619 517 | 22 246 642 | 10.7% |
| Net customer loans (eop) | 12 327 208 | 12 210 454 | 1.0% |
| Customer deposits (eop) | 18 728 712 | 17 747 580 | 5.5% |

## Risk Management

### Credit Risk

In 2020 the Bank continued to perform its **credit activities** in compliance with the governing rules and internal policies, while the year was marked by an unprecedented pandemic situation with significant repercussions on economic and social life, to which the Bank has quickly adapted. To prevent further negative impacts and support its clients in the widespread crisis, the Bank:

- actively participated in the introduced in Bulgaria non-legislative public-like moratorium initiated by the Association of the Banks in Bulgaria, which is fully compliant with the EBA "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" and approved as such by the Bulgarian National Bank;
- introduced bank-specific set of stabilization measures for the cases that could not be addressed by the mentioned moratorium (with no preferential regulatory treatment) and
- actively participated in the programs for guaranteed by the Bulgarian Development Bank loans to private individuals and companies affected by the pandemic as part of the government response to the crisis.

Despite the measures adopted, during the year is visible an increased trend in the inflow from Performing ("PE") to Non-Performing Exposures ("NPE"), distributed across all business segments. The peak was in last quarter, which led to an increase of the NPE ratio with 218bp since beginning of the year to a level of 7.0% on consolidated basis, breaching the trigger set in the Risk Appetite Framework ("RAF") for 2021, but staying within the respective limit (RAF trigger at 6.86% and limit – 7.69%). Conservative coverage is continuously ensured with 71.5% for NPE coverage at end of 2020. The coverage of the performing portfolio remained at levels prior to the pandemic at 1.5%. Respectively, the Cost of Risk ("CoR") ratio went up with -84bp from the budgeted -96bp to -180bp, including the impacts from baseline economic scenario and adverse and positive scenarios update (overlay), used for the determination of Expected Credit Losses according to IFRS9, thus breaching the RAF limit of 157bps. Besides these two, all other RAF KPIs have been duly managed within the defined triggers.

The outbreak of the Covid-19 pandemic have a significant impact on the management of Non-Performing Exposure. Declared state of emergency in Bulgaria impeded all enforcement procedures. Moratorium measures extended during the whole 2020 plus social isolation that complicates the close contact with clients made even more challenging the recognition of asset quality deterioration and the normal NPE management. The Bank responded with a proactive management of portfolio and post-moratoria process, further enhancing its ability to identify unlikeliness to pay ("UTP") cases so that to anticipate postponed default event. Preferential treatment was allowed under private moratoria in line with the EBA Guidelines and BNB decision and the Bank duly followed its well-structured and sound creditworthiness assessment procedures so it could differentiate, in a timely and effective manner and on case-by-case basis where appropriate, viable from non-viable debtors. Customers highly possible not to meet their credit obligations after grace periods expiration were duly marked as UTP events so that, dependent on severity, post-measure risks to be properly addressed via increased provisioning coverage and management within specialized Restructuring Units. Covid-19 response processes were added with worth mentioning New Definition of Default implementation project that not only stretched bank technical resources but also implies important amendment in default identification processes and procedures.

With measures expiring in 4Q2020 and throughout 2021 (considering the extended moratorium timeline), the restructuring process will be significantly stretched in environment where retrospective data will be less indicative and impact severity will differ among industries. The adopted prudential approach within the bank for increased provisioning coverage of identified UTP cases will allow implementation of aggressive restructuring plans where necessary in order not to allow accumulation of a stock of non-performing loans. SME sector is expected to be first signal and main driver of NPE inflow. The effect on private individuals exposure are expected to be soften by available household savings and expected no asset devaluation. Timely identification of going concern versus gone concern strategy would be a key for NPE process efficiency for the year to come.

The New Definition of Default ("New DoD") implementation with implied strict rules for days of delay calculation and client relatedness assessment were one of the strategic risk initiatives undergone during 2020, following the application for material change submitted in end September 2019. While the effective roll out is scheduled for January 2021, the Bank successfully developed internal technical and procedural changes to face new requirements and strictly monitor and manage the potential New DoD impact.

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.

Besides this, further enhancements in the underwriting processes have been introduced, for example:

- Implementation of a new UW system for Private Individuals and Small Business clients which allows through automation: (i) to receive and analyse information from external sources (Credit Bureau, Social security agency etc ), (ii) decrease the overload and operational risk; (iii) decrease time to decision and improve clients experience; (iv) improve the ability to manage in automation mode the decision taking and to structure it based on Risk Appetite Framework of the Bank;
- Implementation of additional automation and process simplification of the Corporate UW tool via a dedicated E2E room;

## Risk Management (continued)

- Automation through IT tool of the moratoria applications – automated checks of client's eligibility criteria, simplification of approval and processing of annexes;
- Automation through IT tool of Post moratoria monitoring – assignment of Risk segment, possible outcome and classification.

Due to Covid-19 outbreak and expected impact on the economy and clients following changes/amendments were introduced: (i) changes in the risk appetite to certain sectors through amendment in the steering signals; (ii) temporary ceases of some active campaigns towards new clients and/or sectors affected by the pandemic; (iii) introduction of specially dedicated monitoring process to clients with moratoria measures; (iv) introduction of forward looking approach towards companies and private individuals in respect to proper assessment of their creditworthiness and ability to cover their obligations upon moratoria expirations. The imposed temporary restrictions with regards to new business originations were actively managed in line with the development of the pandemic situation leading to substantial removal of such at the end of 2020.

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).

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.

### Market, Counterparty and Liquidity Risks

In the area of risk appetite and strategy, the Financial Risk Management (FRM) function supported regular reassessment of market and liquidity risk limits considering budget targets and focus on client-flow business. Market and liquidity risk policies and processes were regularly adapted to ensure group-compliant risk measurement and control. In 2020 the Bank finalized the implementation of the group risk measurement and reporting infrastructure for liquidity risks (ALMRisk Evolution project).

Regarding risk control activities, the FRM function continued to supply the bank's management with daily limit compliance reports. These consisted of VaR metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, combined with stop-loss and operative liquidity triggers. Within ALCO process, the Bank's management was regularly supplied 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 response to the outbreak of Covid-19 pandemic the Bank activated from March till October the business continuity management plans to ensure regular execution of its Treasury activities and proper information flows to the senior management and the Supervisor. Three additional stress test scenarios were introduced and monitor for the period, to enhance the close tracking of the pandemic reflection on the bank's liquidity. Impacts on market risk exposures and liquidity were insignificant, thanks to the conservative investment strategy and strong funding profile largely independent from wholesale markets.

In the area of market risk controls, UniCredit Bulbank makes use of the group internal model IMOD for daily managerial control and economic capital assessment, leveraging on UCI Group market risk methodology and architecture. In 2020 the bank further enhanced valuation of embedded options for customer loans and deposits and introduced a model for valuation of the behavioural profile of non-maturing deposits to enable granular simulations of interest rate risks in the banking book. Key element in the area of interest rate risks in the banking book was the enhancement of the managerial and regulatory IRRBB stress test metrics in line with the respective EBA Guidelines. Regarding risk management systems, significant efforts were focused on maintaining sound quality of data and stability of control processes to facilitate reliable managerial information flows.

Activities of Financial risk management function in 2021 will be focused on further adaptation of tools and processes related to fair valuation and to the Fundamental Review of Trading Book. Another milestone in the regulatory-driven agenda will be the upgrade of risk systems facilitating adoption of the new Standardized Approach for counterparty credit risk as part of the CRR II that will come into force in 2021. A key step forward in the area of liquidity risk monitoring will be the anticipated methodology enhancements with regard to NSFR. Further refinements of the behavioral models under liquidity and interest rate risk perspective will be another area for development.

An important activity to continue in 2021 will be the integration of Consumer Finance, Leasing and Factoring operations in terms of banking book risks infrastructure and reporting tools.

RAF KPIs for financial risks were constantly in full compliance with the defined triggers/limits.

## Risk Management (continued)

### Operational and Reputational Risk (OpRepRisk)

The main activities of the Operational and Reputational Risk Unit (ORR) in 2020 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks and ensuring business continuity during the Covid-19 situation.

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; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring. The RCSA, activity was defined in 2019, performed in UniCredit Bulbank on annual basis and further enhanced in 2020. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of ORR Unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

Several OpRisk assessments dedicated to Covid-19 impact were performed in 2020, including:

- 10 most critical processes (identified through the Business Impact Analysis) were evaluated in terms of most important operational risks affecting them;
- several clusters of processes (Payments, Onboarding, Lending, Treasury, etc.) were assessed together with the process owners based on predefined key root causes; risks and controls/measures were identified and additional update was provided to the Holding;
- OpRisk assessment on moratorium, public guarantees and social wage advance was performed. Sets of root causes predefined by Holding ORM function had to be assessed in terms of mitigation actions existence and risk mitigation level evaluation.

All activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner with no delay.

In 2020 CEE MORO (Markets Operational Risk Optimization) Project review was launched by the Holding. The main goals of the project were to review and update MORO controls as per the latest business and regulatory development and strengthen and optimize those controls to further reduce operational risk. Final overall status was defined as Mostly Satisfactory. Throughout the year, ORR Unit continued its important participation in other risk mitigation and compliance-oriented projects such as GDPR and PSD2.

The established Operational and Reputational Risk Committee greatly enhances the regular exchange of information and promotion of the operational risk awareness within the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Overall, the organization of operational and reputational risk management in UniCredit Bulbank is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible overall rating to the local OpRisk management and internal control framework. The outcome of these assessments also proves full compliance to the regulatory and Group standards. A sound and well-developed risk management system was established with strong focus on pro-activeness with full support of senior management and all functions in the Bank.

During 2020 the ORR Unit continued to develop and strength 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 Reputational Risk Committee (RRC), which was established in the beginning of 2020, hold regular meeting to discuss deals and issues in the scope of the reputational risk.

The risk culture has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness at Bank level. Starting from March 2020 all trainings were organized as remote sessions. In 2020 and 2021 the unit participates in a dedicated training aiming to improve the expertise of the branch managers of the retail network of the bank.

In 2021 the ORR Unit will further develop and successfully finalize the projects and activities started in 2020 and most of which related to the newly introduced regulatory requirements. Additional efforts will be dedicated to further strengthening the control framework via dedicated projects and processes assessments. The unit will continue the methodological support, training and monitoring of the legal entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards. The monitoring was improved in 2020 via introduction of the new Operational Risk Oversight model of UniCredit Group focused on smaller legal entities like the subsidiaries of UniCredit Bulbank.

RAF KPIs for operational and reputational risks were constantly in full compliance with the defined triggers/limits.

# Corporate, Investment and Private Banking

## Overview

The **GDP** for 2020 is expected to drop by 5.5% (UniCredit Research), due to a decline in domestic demand and net exports, impacted by the containment measures introduced against the spread of Covid-19 in Bulgaria and worldwide. The uncertain economic environment and weak demand were the main challenges to companies' business activity in 2020.

## The Transform 2019 Group initiative was substituted by Team 23 Plan

Transform 2019 showed UniCredit favours long-term sustainable outcomes and its success confirms ability to execute and deliver **Team 23** plan, which substituted the latter as of 2020.

New international clients were attracted in 2020 at UniCredit Bulbank CIB&PB and the International Center premises continue to be a well-known hub for discovering new opportunities and meeting new/existing partners and drive and facilitate international business and also local business willing to expand abroad. Considering the local lock-down and emergency situation, announced by the local Gouvernment in March 2020, the meetings were held mainly online but still in this new regime, the International Center continued its dedicated work to attract new international customers.

Transformation of the client management system at UniCredit Bulbank by adding new functionalities in order to sustain complete overview and information with regard to customer products, activities and respective commercial actions, based on artificially-spotted opportunities was successfully implemented. BI 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

## Financial Result

CIB&PB **net revenues**, including the leasing, factoring and fleet management subsidiaries, decreased in 2020, mainly due to the subdued client's demand for new lending and the newly applied EU regulations for foreign payments in euro where pricing was reduced to the levels of domestic payments. Profit before tax decreased compared to previous year, as a result of higher provisioning costs and drop in revenues.

The Bank continued to support its clients affected by the Covid-19 crisis by offering them concrete actions and a mechanism to ease the servicing of their credits.

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 2020 was impacted by the economic downturn in all sub-segments as a result of Covid-19 pandemic. However, the business with financial institutions registered a double digit increase in revenues vs 2019, stemming from interest and non-interest income. Private banking noted a decline in both interest and non-interest income. As of January 2021, Private banking is transferred to Retail banking division, targeting increased efficiencies and better customer penetration and origination.

## Business Lines Performance

Markets and Brokerage, Leasing, Factoring and Fleet management noted a decrease in revenues yoy, as a result of the economic downtrend as well as postponed customer projects and investments.

## Deposits

Deposits in corporate banking stand alone decreased yoy, following the strategy for liquidity management. Deposits in Private Banking increased marginally, predominantly in current and saving accounts.

## Loans

In 2020 investment loans gained a momentum vs 2019 and despite the slight decrease in working capital loan volumes, the total corporate banking increased by 4.0% yoy (EOP).

## Cross-divisional Initiative

Another **joint initiative** between "Retail Banking division" and "Corporate and Investment Banking division" continues to be on focus in 2021. The combined commercial efforts between CIB and Retail resulted in increase in the number net banking customers /individuals with payroll accounts at UCB and use of additional products and services. In 2021 the commercial efforts will once again focus on tailor-made offers for every potential retail client employee of our CIB clients. New offers were created – packages with different preferential price/term conditions to respond to the customer needs.

## Service Model (including Team 23 initiatives)

## Product/Coverage Model

The CIB&PB 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.

In 2020 the product factories remained focused on i**nnovation and digitalization**, targeting improved customer experience. This practice will be implemented also in 2021.

## Corporate, Investment and Private Banking (continued)

The Trade Finance module as part of Bulbank Online (functionality for accepting corporate client orders and processing trade finance deals) was actively used by corporate clients. For 2021 the aim is to enrich the applications and requests in online banking for companies.

The majority of the factoring transactions are executed through the first electronic portal for factoring services in Bulgaria (e-factoring). The web platform provides corporate customers with a solution to perform online all their factoring daily operations.

In the beginning of 2020 we launched a new module in Bulbank Online. It allows customers to trade securities remotely, through our online banking platform. Communication campaign was launhced and so far a customer client base is already onboarded. In the next years further enhancements of the services via the Module are planned and also ever more broad marketing efforts will be made in order to raise the awareness of the market and to onboard in the BBO Module also the customers executing their Securities trading still on paper.

As of 2020, the corporate branch network consists of 9 branches established in all the major regions of the country and ensures a high-class professional operational services exclusively dedicated to corporate customers.

### Multi-Year Plan 2020-23 Initiatives

In **Corporate Banking** the Multi-Year Plan 2020-23 is implemented through several initiatives for digitalization and internal processes optimization, leveraging also on implementation of several new EU financial engineering instruments and numerous ammendments of existing ones with regards to Covid related measures.

Additional enhancements and functionalities for the web-based solutions were implemented in 2020 aiming at comprehensive analysis of complex business trends, building of long-term customer relationships and spotting market opportunities. Usage of business intelligence (BI) tools were enhanced in the process of data-driven decision making and in-depth market analytics.

In **Private Banking** the Team 23 plan targets a further development of the client service model and advisory services via several initiatives:

- Optimizing service model focusing on client needs by clusters
- Providing best-in-class products, financial solutions, and services reflecting to client's individual needs

### 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. Some products are based on partnerships with European Investment Fund, European Bank of Reconstruction and Development, European Investment Bank and local institutions as the Bulgarian Development Bank, National Guarantee Fund, State Fund Agriculture, Fund Manager of the Financial Instruments in Bulgaria, etc.

Main active products are COSME Direct Guarantee, InnovFin, BDB Covid-19 scheme for SMEs, NGF, NGF – Rural Development Programme and RSF EBRD:

- COSME – provides standard 50% guarantee supplementing the collateral for investment and revolving transactions.
- InnovFin – provides 50% paid guarantee supplementing the collateral for investment and 80% coverage of W/C loans signed after 09.2020 as the scheme was Covid amended. Eligible borrowers are innovative, research and development oriented SMEs, Small and Large Mid-caps (up to 3000 employees).
- National Guarantee Fund (NGF) – The Guarantee Scheme was prolonged with inclusion period 30.06.2021 due to market interest. The scheme provides 50% paid guarantee supplementing the collateral for investment and W/C loans for SMEs from broad scope of economic sectors (including agriculture) that are ineligible under other available guarantee instruments. This product provides options for bridging loans with EU grants programs.
- National Guarantee Fund (Rural Development Program) – guarantees up to 50% of the outstanding credit exposures, granted by UCB to micro-, SMEs companies for financing approved projects under Rural Development Program, as well as enterprises with activity within the Agriculture sector. The Agreement was prolonged with inclusion period until 31.07.2021.
- EBRD Risk sharing Facility – suitable for Large companies, MidCaps. Main advantages – 50% 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.
- Microfinance instrument–Capped Guarantee scheme (CAP 25%) for Microfinance, organized by the FMFIB – Fund Manager of the Financial Instrueumts in Bulgaria. This scheme is for micro loans up to TEUR 50 per transaction, mostly for Retail segment, including social enterpreneures and projects with 80% guaranteed part.
- BDB Covid-19 scheme for SMEs – Covid related national scheme for SMEs companies as stabilization measure to overcome the shortage of working capital.

The focus of EU funds team for 2021 is to finalize negotiations and implement the following external guarantee lines as follows:

- Documentary Finance Facility – suitable for SMEs and MidCaps (up to 499 employees). 80% guarantee, capital relief for the guaranteed part, CAP 25%. Specialized instrument for trade finance transactions – bank guarantees, L/C, however including pure working capital limit as well. The Agreement for MEUR 100 was signed end of December 2020 and the implementation is foreseen for Q1 2021.
- EIF (Umbrella Facility) and EIB schemes as part of the new European Guarantee Fund (EGF).
- EIF scheme has 70% guarantee and target SMEs transactions up to the amount of MEUR 0.8. EIB has 75% guarantee and is structured for large tickets up to MEUR 100.
- The EGF aims to cover the the gap between the finalization of

InnovFin guarantee scheme and the forthcomming new ones.
- SME Covid related scheme by FMFIB with 80% guarantee and interest subsidy for SME companies. It offers long loan maturity up to 10 years, sufficient loan amount up to MEUR 1.5 and no guarantee fee.

## Markets and Brokerage

In 2020 UniCredit Bulbank retained **a leading position** on the interbank market for local currency denominated products and was a first class liquidity provider for local and international banks.

The UniCredit Bulbank Corporate treasury sales unit (CTS) covered a diverse client base, providing high-quality services in the field of FX, FX Derivatives, Interest Risk Management and Comodity Risk Management. Despite the global pandemic and related dificulties, the unit exploited new opportunities in order to develop CTS services in a way to enhance customer experience, leveraging on team of experienced professionals and taking advantage of digitalization.

The Brokerage team provided high level services for equity, fixed income, exchange traded financial instruments and derivatives, covering wide range of clients: Institutional, Private Banking and Retail.

The UniCredit Bulbank use of digital technologies to improve a business model and provide new value-added opportunities and better customer experience led to the implementation of online channel for placing orders for equities fully integrated in the Bulbank Online.

## Financing

The Financing Department has a deep and vast expertise and knowhow in providing complex and tailor-made financing solutions to corporate clients and professional real estate investors, being the leading bank in the local market. Throughout the past year all viable market opportunities in both Real Estate and Project and Structured Financing were assessed for bankability following our credit risk matrix and internal policies. We are in a position to offer to our clients high quality services to support their growth strategies for development of new projects finance deals and M&A transactions in various industries.

2020 was a different and a challenging year in terms of new business and risk appetite on one hand and sustaining market position on the other side. We managed to keep a delicate balance between safeguarding healthy portfolios and applying adequate relief measures to clients affected by the Covid-19 health and economic crisis. Private moratorium measures were applied once in mid-2020 and once at YE 2020 for the industries most affected by the State of Emergency. Despite complex circumstances and thanks to clear focus, dedication and professionalism in 2020, the Department increased portfolio volume with double digits, though with the help of some inertia from 2019 in Real Estate segment.

A balanced mix of transactions in all sub-sectors characterizes the activity in Real Estate throughout 2020. The continued utilization of investment loans for high quality office developments, top located residential projects and retail schemes were accompanied by a few new transactions on a very selective basis. The continuous low interest rates environment, together with near zero deposit rates as well as the uncertainty in the economic prospects, is keeping the demand for good quality housing. The transactional volumes had been driven mainly by existing well-known local clients and professional international RE investors and developers.

Due to the specific nature of both Real Estate Financing and Project and Structured Financing, 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.

Project and Structured Finance Unit confirmed its leading market position by demonstrating their structuring and arranging capabilities in several large, complex, tailor-made and highly visible transactions. The bank's risk appetite and management of the market risks associated with the local environment are taken into consideration during the process of structuring the various transactions. The strong focus on diversifying the existing financing portfolio by providing our expertise and knowhow to all corporate segments (MID, LARGE, INTL) with prospects for growth proved to be efficient. Our origination abilities to capture financing opportunities were proven by closing several large transactions in 2020. Our constant monitoring of the existing portfolio for responding to the challenging market environment was paramount to maintain the revenues and keep our sustainability levels. The strategy for 2021 foresees further growth supporting all our corporate segments with sectoral focus in line with our growth strategies and credit risk matrix. Emphasis is put on fostering our arranging and advising capabilities, providing full debt re-financings, offering tailor-made corporate finance solutions (including syndicated transactions) and M&A financing for existing and new clients.

## Corporate Finance and Advisory

The European M&A activity in 2020 and particularly in CEE was negatively impacted and considerably disrupted by the Covid-19 pandemic with a significant downward reduction in terms of deal value and volumes. The biggest deals on the Bulgarian market were dominated by investments in more resilient sectors: "Energy and Infrastructure", "Information and Communication Technology (ICT)", with a significant uptake in the renewable energy sub-segment, as well as investor interest in niche software products, smart city solutions, advanced biotechnologies and multimedia.

Another main trend observed during this tumultuous period was the substitution of local capital with investments from foreign strategic and financial investors with focus on clean energy and high-tech.

The main drivers of the M&A activity in Bulgaria were the robust

## Corporate, Investment and Private Banking (continued)

fiscal and economic position, sustainable export levels, stable financial system, favourable financing conditions, strong internal consumption and an advancing policy for targeted transition to renewable energy.

For the Investment Banking Unit, 2020 was very dynamic and successful year, affirming its position as a preferred partner and advisor to local and international counterparties on transactions in Mergers and Acquisitions (M&A) and Capital Markets – Equity Capital Markets (ECM) and Debt Capital Markets (DCM).

The main focus in 2020 was on the implementation of a landmark and highly complex infrastructure concession project launched in 2018, of a vital importance for the Bulgarian economy and its regional competitiveness. During the year, the Investment Banking Unit further established its position as a leading advisor on projects in the "Energy and Infrastructure" sector with numerous deal signings achieved in the RES sub-segment.

The focussed pitching initiatives of the Investment Banking Unit and the active collaboration with the pan-European Corporate Finance Advisory (CFA) platform of UniCredit Group, contributed to the signing of a cross border mandate in the "Healthcare" sector, and one mandate in "Energy" sector, as well as successful completion of three mid-market deals in the clean energy space.

Capital market activities in Bulgaria remained subdued during 2020 with some deals postponed for a later period subject to more favourable conditions. However, the preliminary planned equity offerings were launched, mainly innovative players from TMTN sector (with 5 shares offerings in 2020 – vs 10 deals closed in 2019).

Debt capital market remained relatively active with issued 18 (17 corporate and 1 municipal) bonds at a total amount EUR 192.4mn, including two bonds issued by a non-banking financial institution, which were lead-managed by UniCredit Bulbank. In 2019 were issued 22 corporate bonds at a total amount EUR 245.4mn issued. UniCredit Bulbank AD, together with UniCredit Bank AG, acted as Joint Lead Manager and Bookrunner of the EUR 2.5bn dual-tranche Government Bond issue under GMNT Programme of the Republic of Bulgaria placed in September 2020. Other projects performed by Investment Banking unit in 2020 were securities restructuring related services for a corporate client.

In 2021 the focus of Capital Market activity within Investment Banking unit would be proactively pitching, together with the Group's ECM and DCM teams, for expected public offerings, debt raising/refinancing and securitization for issuers – leading players in various sectors – IT/Software, energy & mining and pharmaceutical sectors.

The Investment Banking Unit continued its participation in a number of local and international initiatives through active communication with external partners and key stakeholders, as well as participation in online investment conferences and seminars.

As a part of the leading commercial bank in Bulgaria, in 2021 the Investment Banking Division will continue to leverage on the existing client base of UniCredit Bulbank, while also focus on the close collaboration with the international Corporate Finance Advisory (CFA), ECM & DCM platform within UniCredit Group in order to generate new business opportunities and to provide tailored advice.

In 2021 large deals are expected in "Energy and Infrastructure", "Automotive", "Manufacturing", "Healthcare" and "ICT" sectors, in which the Investment Banking Unit has solid expertise, excellent positioning and key support from the pan-European platform of UniCredit Group.

### Global Transaction Banking

In the unprecedented business environment of 2020, 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 and Global Security Services 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.

The broad product range and consultancy approach in the Cash Management area answered the daily banking needs of the customers in challenging circumstances and allowed us to add new reputable domestic and international companies to our client portfolio. The quality of the standardized services and capability to structure tailor made solutions were yet again recognized on the market and the Bank was named the **Cash Management Market leader** and **Best Service Provider in Bulgaria** by Euromoney.

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 of increased risk and respectively interest in documentary trade instruments, our digital Trade Finance platform played increasingly important role in meeting customer needs for convenient and secure online management of their trade activities. Quality of the service was verified by our clients in the Euromoney survey, recognizing UniCredit Bulbank as the **Trade Finance Market leader** and **Best Service Provider in Bulgaria.**

In the Global Securities Services area strong focus was put on the development of the custody IT systems aiming at continuous enhancement in the service level for both domestic and international institutional clients in an efficient and automated manner with no compromise on operational risk. The sustainable development of the business, marked also by a double-digit growth of assets under custody, was recognized by Global Finance Magazine, naming UniCredit Bulbank the **Best Sub-custodian Bank** in Bulgaria for a seventh year in a row.

## Corporate, Investment and Private Banking (continued)

Anticipating dynamic development in customer behavior and business needs and to ensure seamless and efficient interactions with the Bank, in 2021 we will keep investing in our product portfolio enhancement with focus on the digital channels and services.

### Private Banking

Private Banking (PB) Department continues its strong focus and commitment towards core goals for 2021, stepping on the results in 2020:

- Providing best-in-class products, financial solutions and services reflecting to client's individual needs
- Widening the opportunities in 2021 for investments through:
  - New insurance products with Allianz
  - Launching of the new Mutual Funds Providers as well as
  - Presenting new structured products
- Widening the opportunity for lending with focus on mortgage loans
- Enhance department revenue management
- Digital trading solutions upgrade.

Along with the core goals, PB aims at constantly improving investment efficiency by raising investment volumes and its profitability while implementing in 2020 very solid KYC process.

In 2020, nevertheless the pandemic lockdown, the continuity of the business was assured and investments in Amundi registered an increase compared to the previous year, while on the life insurance side we reached a double digit increase. Assets under Custody decreased YoY, mainly due to the volatility on the markets and uncertainty in front of investors.

In the area of Assets under Management (AuM), PB has started to introduce diversification via insurance, mutual funds, and tailor-made investment solutions leveraging on cooperation with external partners.

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 has further developed custodian service as part of the overall goal to increase the quality of AuC.

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 has been expanded with new investment products and digital solutions.

### Outlook for 2021

The GDP growth for 2021 is forecasted at 3.0% (UniCredit Research), driven by private consumption, fixed capital investments and net exports. The strength of the economic recovery will depend on the size and efficiency of the fiscal policy response. However, uncertainty over the 2021 outlook remains elevated.

CIB is fully dedicated to deliver Team 23 plan. The division continues to be **market leader** with strong results on customer satisfaction survey and focused on attracting foreign investments by leveraging on the International Center. In 2021, CIB strategy is to strengthen corporate governance and retain strong capital position. During 2021 the planned innovative products and services to be offered to the market together with the projects for digitalization are targeting improvement of customer experience.

# Retail Banking

## General Overview

**2020 crisis affected negatively our main business drivers: lending as well as transactional banking. However, the worldwide unprecedented situation accelerated remote channels development and usage.**

2020 was an unprecedented year in which the Covid-19 pandemic caused a deep economic crisis and changed the whole market and all of us. However, we have not stopped caring for our customers and adapting to the difficult environment so as not to reduce the quality of the services we offer. We have taken timely action to help our customers, both citizens and companies, overcome the negatives of the isolation and closure of some businesses, using various tools to reduce losses from the Covid crisis by putting in focus accelerated digitization, intelligent risk management and stay closer to our customers.

The lock-downs during spring and autumn as well as the cautious consumption affected mostly the lending in terms of new volumes and related income. The transactional activity of the customers also dropped during the year (with more than 6% y/y). However the number of transactions via our digital channels increased with almost 9% during the year.

We simplified the product portfolio, while still covering all customer needs. UCB provides individual approach, through portfolio management covering 100% of all active clients

**Deposits base grew steadily, even if interest rates remain at zero level**

The customers continue to recognize the Bank as a preferred choice for their savings. Growth of attracted funds from households was +8%, in line with the market, mainly in sight accounts.

With interest rates at zero for the long run investment product alternatives are gaining speed – in unprecedented turmoil year as 2020, Amundi funds volumes and number of Saving plans sales are with 12.74% and 2.21% YoY growth respectively. Positive Amundi Net sales of approx. 34 mln. euro rank UCB as N1 among all CEE countries for 2020. In parallel, sustainable demand for alternative investment opportunities resulted in YoY growth of 15.4% in the number of customers holding Amundi Direct investments, 10.61% in the number of customers with Allianz Life investment and overall 14.5% growth in the share of investments in TFA.

The growth in investment products was realized despite hindered communication with clients/investors due to Covid situation. The team of Regional experts together with commercial positions managed to contact most of the large scale investors and not only address their concerns about market turmoil effects and ensure sustainable level of redemptions, but build-up on clients' portfolio. Even with numerous lock downs and travel bans, Regional experts managed to provide on-site and distant support in investment products training, sales and structured post-sales service.

We are implementing structured, simple and straight forward sales scenario for saving plan designed to be used by Customer advisors and effectively engage wider range of customers in using alternative way of saving. Our goal is to use overall saving strategy where regular monthly investments are diversified through Allianz Life regular premiums and Voluntary pension fund instalments. We continue to enrich the product portfolio introducing new families of products addressing up-to-date investment trends – e.g. thematic and ESG funds, principle protected and fixed yield solutions.

Premium service quality in the area of investment products has been confirmed by the customer satisfaction surveys (based on NPS) – indicating excellent results on **Investments** and **Deposits** overall net satisfaction vs comps/peers.

## Main Activities, Initiatives and Achievements

In 2020 we continued to follow our strategy to increase digital channels usage, digitalization of different bank services and migration of transactions towards automated cash services, online and mobile banking, so that customers can use the Bank's services remotely.

Throughout the 2020 the main activities and initiatives were related to easy daily banking and restart the business.

- We were focused on promoting Bulbank Mobile 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.
- In order to restart the business during the year we introduce attractive price offer, referral programme, green mortgage offer and we established strong relationship with 3rd party agents aiming to introduce our products to wider range of customers
- The digitalization, centralization and simplification of processes were in our focus throughout the year. In addition, many resources have been devoted to successfully adapting to home office mode and digital customer contacts.
- A strong focus and activities were committed in the KYC area aiming to fully comply with the regulatory requirements and eliminate any operational risk for the bank and the customers. We have made a full revision of the processes related to customer registration, data maintenance and review.
- We centralized the main processes in the bank, which freed up additional trading time or the sales forces and helped reduce operational risk.
- Package programs, which aim to optimize customer costs, are one of the most recognized and valued products for both segments
- We also negotiated for our clients attractive Guarantee Schemes, which improved the opportunities for lending in a difficult environment
- In order to support the citizens in the unprecedented situation of a pandemic caused by Covid-19, the Bank introduced processes for implementing measures under the public moratorium and granting interest-free loans guaranteed by the Bulgarian Development Bank. The main actions of the bank were focused on helping borrowers in the conditions in which the business was placed. At the same time, the Bank continued to support its clients financing their plans

with particular care not to put them in excessive debt, given the complex economic environment.

- In order to fully comply with regulatory requirements and eliminate any operational risk for banks and customers, we have made several changes to the General Terms and Conditions for opening, servicing and closing bank accounts of individuals and for providing payment services and instruments.

A strong focus and activities were committed in the digitalization area aiming to comply fully with the new business environment. In order to granted as many as our services and products fully digital we have made and still working in area to full revision of the processes related to customer registration, data maintenance and review and lending.

Cooperation between Retail and Corporate is considered key element to growing business. The dedicated initiative "Bulbank United" was maintained also during 2020, supported by focused campaigns with customer selection and targeting, using a tailor made value proposition.

In 2020 we introduced the dedicated team of payroll experts. The last quarter of 2020 the team was actively working and leveraging on this approach is one of our main targets to improve our results in the following areas – growth in number of payroll clients, increasing penetration in companies using our payroll service, Improving product penetration among existing payroll customers.

In 2021, we are going to initiate the work on a comprehensive tool for managing offers, payroll clients and to assure financial reporting on this sub-segment. Also we are working to create a new onboarding process for payroll clients with early identification of new payroll clients.

During that period, the Bank introduced the new digital onboarding process for digital customer acquisition which was followed by a TV advertising campaign in June and a digital campaign with famous influencer in the last quarter of the year.

Promotion of digital wallets and card payments promotion took place. In the beginning of the autumn, we introduced the new Shopping card with a mass campaign. In the same period, the lending restrictions loosened up and we restarted our digital marketing campaign, followed by two TV campaigns in November and December related to the Black Friday and consumer loans.

## Service Model

Following the continuous trend of digitalization and migration towards automated cash services we invested in multichannel journeys of customers. We managed to increase self-service zones incorporated in branches to 58 (42% of branches) at year end. In addition, all branches in our network are already provided with deposit ATMs to support migration of cash deposit transactions.

In first lockdown, we focused on providing the most secure and safe working environment for our employees and customers in the physical branches of the bank. It was provided with clear and timely instructions to employees and clients, setting and observance of a new organization of daily activities in branches and provision of each employee and each workplace with the necessary protective equipment. Operation of physical branches was reorganized so as to ensure the continuity of work.

Although 2020 was a challenging year, we managed to implement planned initiatives and by the end of year all projects set in retail branch network development and optimization plan were fulfilled. This strengthened for another year UniCredit Bulbank retail network as one of the most efficient on the market and made the physical branches even safer and more reliable channel for interaction with our clients.

In such challenging conditions, additional network optimization enabled us to leverage on optimal coverage and achieve efficiency. The year was closed with a network of 209 points of presence representing our well-balanced distribution of physical locations.

During 2020 we have successfully invested in supporting the best customer experience by completing eight major projects for relocation, expansion and Branch of the Future redesign of some major locations in Sofia, Varna, Burgas and Blagoevgrad.

In 2020 Retail Division accomplished the project of centralization of commercial support. The new post sales team is responsible for the process after loan approval, i.e. preparation of contract/annex, digital signing through Eurotrust, registration and accounting, administration of collateral, renewal of collateral. The process is taken out from the branches to release time for new deals and implement control and monitoring on every stage of loan cycle.

*Remote management*

Leveraging on Remote relationship model. Introducing of new Remote relationship management team in the end of 2020. Increasing the number of Remote managers affluent clients and covering wider customer base. Already have 17 Remote RMAC and clear view for additional development in 2021 of this model. In 2021 we will increase additionally the number of Remote RM in all retail banking regions. Also from beginning of 2021 we introducing the pilot phase of SME remote team. Based on the results of the SME pilot project, we will prepare the next steps for this model and possible increasing from next year.

*Unified protocol*

Implementation of Unified protocol – leveraging of customer satisfaction and the way we servicing our clients. Our plan is to establishing the protocol in 2021 and to have a recognizable approach to service, as well as increase the added value with specific offers to customers

## Channels Overview

The pandemic environment boosted additionally the usage of remote services and digital channels, which was also supported with key initiatives and functionalities implemented during 2020.

## Retail Banking (continued)

The mobile banking active users reached 41% from total portfolio of Retail banking active customers, which led to a significant increase in the number of payments, with a growth of +45% YoY. Several new functionalities and improvements in the mobile banking were implemented in the area of digital payments, full end-to-end digital process for debit cards, the option for digital onboarding of new-to-bank customers, the possibility to sign digitally various documents and contracts with QES, application forms for consumer loan, saving plan, etc.

Our constant strategy for shifting the everyday banking transaction activities from the branches towards self-service devices and digital channels has once again proven its results – the share of transactions performed via those channels has reached share of 90% vs. total on a bank level.

Following a model for offering more and more remote services, the bank has managed to introduce various new processes which are accessible entirely remotely, without the need for customers to visit physical location of the bank. As a result, the individual customers of UniCredit Bulbank are able to make 98% of the operations, available in a branch, fully remotely.

The Call Center activities were in the core of handling the pandemic situation, while turning into an equally important channel as the branches of the bank. The increase in the incoming calls during the second half of the year is close to 16%, which is a clear signal that the customers continue to rely on this way of communication and servicing.

Our strategic direction is to transform the Call Center into a pure sales channel, using every single contact for making a sales offer. Based on the designed remote processes within the Call Center, the possibility of digital signing in the mobile banking with QES, this channel has generated close to 9% from total sales on Retail level, while 87% of them were closed entirely remotely, without any visit of the customers in a branch.

### Card Business Overview

The year of 2020 for Card Business was extremely extraordinary and brought great challenges. No matter the unexpected situation and stunning life change we were suddenly placed the Cards team succeeded to launch the biggest number of innovations, new services and product updates for the last several years.

The Card Business focus was on digitalization and improving the customer experience for all segments by remaining compliant with all the regulatory requirements, and at the same time by stimulating the card usage, responding to the market situation (moratoria) and keeping under control the card frauds and last but not least, developing the POS network.

Several complex projects went live giving the Bank a strong competitive advantage and affirming UCB as undisputable digital leader on the market:

- Apple Pay with Visa: enabling digitization of VISA cards in Apple Pay wallets for iOS devices.
- Issuer Wallet – enabling digitization of both card brands in Bulbank Mobile for Android mobile devices.
- Possibility of digitalization of all commercial VISA cards providing a service that no other bank on the market offers.
- Delivery to address: Individual and corporate clients receive the plastic at their address and the e-PIN in their Bulbank Mobile with self-activation capability through mobile app by the cardholder.
- 3D dynamic password providing customers with high security levels in online payments in accordance with PSD2 requirements and implementation of SCA exemptions via Risk Based Authentication.

The Bank succeeded to launch a new premium product debit card "VISA Debit Gold" in cards portfolio for individuals, and simultaneously simplified the product portfolio for Individuals and upgraded it for Legal entities. On the other hand, the credit card portfolio was enriched by the new VISA Classic Shopping card providing the clients a new functionality to reschedule purchases on equal installments on the POS terminals of the Bank or via Bulbank Mobile and Bulbank Online. Our efforts also combined a variety of onboarding and lifecycle activities plus improvements in credit card features and functionalities. To keep leading positions of merchant outlets we have shifted to improving POS terminal network effectiveness, updated POS functionality for Shopping card (on installments) and cashback (small amount cash withdrawal at the cash desk of the merchant). We succeeded to launch together with International Card Organizations (ICO) the biggest number of commercial initiatives focused on cards' usage delivering rewards to cardholders. That tendency will continue in 2021 too.

### 2021 Outlook

Everything done in 2020 allows us comfortable to enter 2021 following strictly our strategy for digital transformation. The focus will be on some of the key initiatives in digital area for 2021, such as enhanced digital services for companies, increasing the share of SME digital sales and SME remote advisory model

Increase the brand awareness and customer satisfaction, to solidify leading position in terms of Reputation index and to raise level of advocacy and net promoting score, supported by efforts for Branch Network simplification, productivity and efficiency improvement; focusing strongly on compliance and client protection related legal requirements will remain our key success goals.

We lead our service model toward our strategic direction to Simple banking: centralization of back office activities in the branches in order to focus the sales force on customer advisory, improved client experience and sustainable growth.

Our first priority is to ensure positive and excellent customer experience in all our channels. Although customers' interactions continue to shift away from branches towards digital, in 2021 our physical presence will continue to play a significant role in the most important part of customer relations – consultancy and sales. Our

## Retail Banking (continued)

main goal will be on maintaining fully fledged efficient branches focused on high added value products, where customers appreciate face to face interaction.

- Provision of automated cash services through 24/7 Self Service Zones and free WiFi in all our branches to support migration to mobile banking is still on focus.
- Last but not least our priority continues to be ensuring safe, healthy and pleasant working environment for staff and all our customers.
- Main challenge for 2021 is the cash outsource initiatives to decrease cash handling and FTE workload in the branches and will affect the customer experience and operational risk.
- In 2021 the post control on branch transactions will be centralized by implementing the remote model in all branches. This will make the control 100% paperless and digital set on electronic control reports, automatic registration of mistakes, automatic notification process and monitoring tool for mistakes closure.
- The main goal in front of Card Business is to make cards more user friendly by different enhancements in channels, new products for digital payments and structured clients' communication. The 2021 focus is to promote the card delivery to address as a preferred choice from the clients saving them time and, at the same time, to respond to the new reality. The new Shopping card will be even more attractive for the cardholders placing the Bank in the leading position on the market. We believe that the product is advantageous enough both for the clients and merchants with the bank POS terminals where purchased can be rescheduled.
- In 2021 risk limitation will be supported by the implementation of new upgraded identification methods, digitalization of processes for business credit cards and card claims. The Bank aims to ensure faster and high qualified e-commerce implementation support and post-sales support and during these pandemic times to be able to cover the market needs and to strengthen our e-commerce presence. As we head into 2021, we will continue to focus on becoming the better and preferred partner for our clients by unlocking enhanced opportunities that perfectly complements the acceleration of digital and contactless payments ecosystem in the market.

## Asset and Liability Management

In 2020, UniCredit Bulbank continued deleveraging its external funding exposure under the conditions of robust primary sources and abundant liquidity.

The volume of intra-group funding decreased further, the remaining part being attributed to local subsidiaries. The aim – successfully achieved – was to **decrease the overall cost of funding** for the bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. BASEL-3 ratios) and capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, with abundant liquidity buffers being kept against the backdrop of increasing liquidity in the local banking system. No increase of intra-group funding was planned for 2021 either – except for MREL debt necessary to comply with respective regulatory requirements – as the Bank is able to take advantage of gradually increasing opportunities for a post-Covid lending growth on its own, without deviating from the prudent liquidity management policy pursued so far. Since UniCredit Bulbank Group includes local subsidiaries (Leasing, Consumer Financing, Factoring etc.), the consolidated 2021 Funding Plan covers their liquidity needs, too.

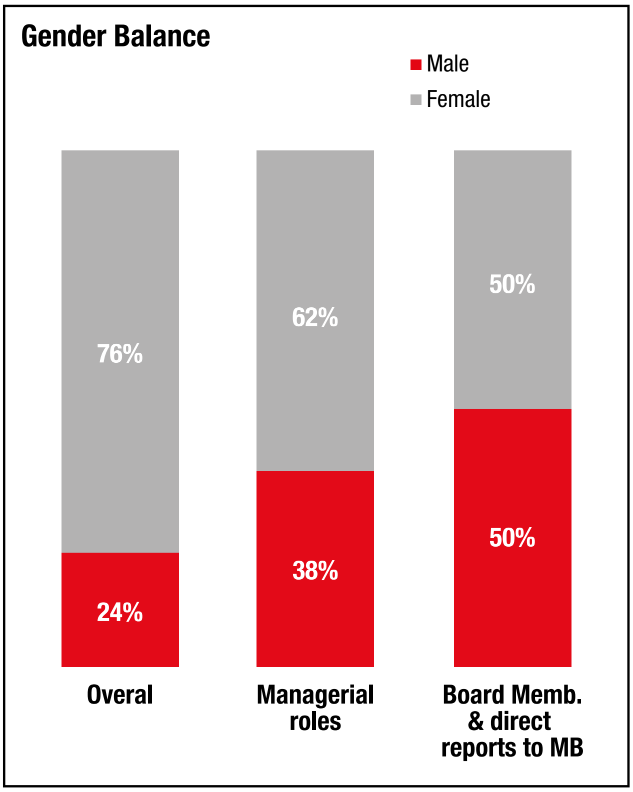
Customer deposits remained the main funding source for the Bank, growing throughout 2020 and contributing to the confirmation of its leadership position on the local market and a decrease of the loan/deposit ratio compared to 2019. UniCredit Bulbank will maintain its focus on retail and corporate deposits also in 2021, taking advantage of its excellent reputation, international franchising, variety of innovative products and service quality.

Given the **excellent liquidity position of the Bank**, no bonds were issued in 2020 while for 2021 only MREL funding was planned.

Over the course of the year 2020, 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 managed 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.

## Human Resources

In 2020 HR department continued following its strong human capital development focus and promoting UniCredit Bulbank as best place to work, great people developer and quality rewarder company. 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 and unprecedented environment because in UniCredit our people's **health and safety** is our top priority
The Covid-19 crisis forced us to quickly transform a number of HR processes to an entirely digital environment which helped us not only to implement improvements and automations that we had previously planned in a longer term. In this context, in 2020 a number of HR processes (eg. recruitment, learning & development) marked a dynamic development that takes a key part of our HR strategy also for the future.




The number of employees (FTEs) of the Bank increased from 3555 to 3612 with the purpose to feed the specific strategic initiatives with the purpose to fulfil the 2020-2023 Strategic plan. In terms of **gender distribution** the proportion of female/male overall is ~76%/24%; the ratio for the managerial positions is quite balanced – 62%/38%, while for the top managerial positions (board level and direct reports to executive directors) the ratio is 50%/50%. Gender diversity is one of the priority not only of the HR 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 42 years, and from educational structure perspective most of the bank's employees have university education (over 75%).

More conservative approach towards changes of compensation was adopted in order to reflect the overall economic and labor market dynamic as result of the Covid-19 impact. And on the other, again due to the global pandemic the variable payments pool was reduced in proportion to the net operating profit, as implied by the remuneration policy principles and UniCredit Group guidelines. Still the compensation of employees was continuously analysed and monitored in order to ensure it is competitive in comparison with the market. The voluntary turnover was impacted by the labor market conditions as result of Covid-19 (reduced dynamic, higher unemployment) and decreased from 8.8% to 7% (bank only, non-consolidated basis).

The Bank implemented substantial change of the working environment as response to Covid-19 pandemic. In the periods of "lock-down" the network was organized to work in shifts in a way to ensure maximum protection for employees and business continuity for the branch activities. The Head office roles, where possible but indeed gradually reaching their majority, were shifted to "home office" mode, at the same time the bank was continuously monitoring the Covid-19 situation and reacting with increasing or decreasing the presence in the office based on a data driven approach and in alignment with UniCredit Group principles for managing the pandemic situation. Many of the HR activities also were shifted to its digital equivalent in order to respond to the new environment and to continue to deliver high quality and value HR services.

The Bank continued to be considered a good place to work and stable and reliable Employer, supported by the strong brand of UniCredit. It participated in several digital career events, which appeared to be the new normal for this kind of initiatives as result of the Covid-19 impact. The HR team managed to provide sufficient number of job applications, including the specific profiles (software developers, system analysts, ICT architects) for the staffing of the teams engaged with the strategic initiatives on the multi-year plan, which supported the ability of the HR Department to fill the open positions. Still particularly challenging and despite the impact of Covid-19 on the labor market (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. Obviously the Covid-19 impact was not so strong on the high-profile jobs and apart of the lower turnover, the recruiting of the needed resources in general didn't become a lot less challenging. The recruiting process was shifted to completely remote and digital environment with most of the interviews delivered remotely via online tools. In 2020 were hired almost 470 new people. The Internship program as usual was one of the key priorities, though realized in a reduced scale due to the impact of the Covid-19. Due to the home office work for many of the Head office structures, it was inappropriate to provide internships. And due to the need of additional resourced for managing the Know

# UniCredit Bulbank Activity Review (continued)

## Human Resources (continued)

Your Customer activities, many potential interns were offered directly a temporary job within the bank. As result the number of interns in 2020 was a bit lower than previous year, but still almost 140 young professionals (~170 on consolidated basis) received the opportunity to conduct an internship with the bank. 44 of them (56 on consolidated basis) were offered a permanent job thus the program still being a key sources for recruiting of new employees.

The compensation policy was in line with the Group approach and with the European and local legislative requirements. Market trends have been closely monitored through participation in salary survey, analyzing the results and taking the needed actions in order to provide sustainable and competitive remuneration to employees, ensuring correlation with the Bank's performance. The benefits portfolio is of top class and is an important additional factor for attracting and retaining employees.

In 2020 the HR Department maintained a strong focus on various activities supporting our people's psychological and mental health but also stimulating our people' s curiosity and fostering their professional and personal growth and development. The learning & development area passed through a huge transformation from blended (classroom & online) to fully virtual formats. This transformation led to synergies and efficiencies and opened further opportunities for improving our employee experience journey. Irrespective of the dynamic business environment and uncertainties, also in 2020 the focus on fostering our employees' professional and personal growth stayed at the core of our people development strategy and was supported by various continuous and also brand new initiatives.

The innovative strategy of UniCredit Bulbank towards people development led to the establishment of "Generation Y Management Board" – a shadow board of millennials to the actual Management Board of the company that contributes with a different look on actual topics tackling Bank's strategy and adaptation to future market trends. In the same time the talents from Generation Y Board have the great opportunity to learn directly from our top management and work on special projects on-the-job, being stimulated and supported by the whole management team. The Generation Y Board plays also the role of an ambassador of all millennials at Bank level to enhance collaboration and connectivity between generations.

In 2020 we put a strong focus on various **learning initiatives** intending to support our employees' psychological and mental health and help them accept smoother the new normal. A flagman initiative in this area were "LIVE Motives" Events, delivered in a fully virtual environment, that kept on enhancing the wellbeing, work-life balance and personal growth of our employees and supporting their abilities to manage successfully the dynamics and "new normal" in their professional and personal life. Also in 2020 this initiative enjoyed a very big interest and positive feedback from our employees.

Because of the substantial change of the working environment as response to Covid-19 pandemic, during the year all managers in UniCredit Bulbank were provided with various learning opportunities (virtual classrooms, online, articles, videos) intending to support them in managing more effectively remote teams, especially in the direction of keeping the team spirit, engagement and assuring proper work-life balance of their teams irrespective of the new way of working.

Following our strive to further foster the curiosity and self-driven development of our people, we kept also providing our employees with the opportunity to select their own path for personal and professional development with new initiatives where they can freely enroll in various trainings of interest. All these initiatives aimed to further increase our employees' satisfaction and engagement to the company.

The **leadership development** was another key pillar for sustainable people and business development represented through initiatives supporting the key people in the organization and ensuring growth of our leaders – e.g. Executive development plan (EDP), Talent management review (TMR), Local talent program, succession planning process, etc. In 2020 we have kicked off a thoroughly new development program for executives "LeadInPath – Leaders Inspiring with Purpose and Passion" and a tailored "Discovery" Academy for our talents, both fostering the role of our senior leaders and talents in the realization of UniCredit Bulbank Common purpose & Goals, through improving their overall management capabilities, developing change and challenging status quo transformation mindset and appropriating "One Team, one Voice" culture.

Other groups of activities, facilitating the professional excellence and action learning of our people, were the numerous business/process related trainings, the ongoing trainings on Financial analysis/ for CIB and Risk structures, Master Academy for Retail Branch Managers, Strategic Relationship Management workshops, Virtual pitching skills trainings, trainings on Agile methodology, etc. Compliance and Security related topics kept on taking a tangible part of training agenda also for 2020.

Acknowledgment of the high quality of the HR practices is the **Top Employer award** by the Top Employers Institute based in Netherlands, which was awarded for 2020 to the Bank for another consecutive year. The award is provided after thorough research of the existing strategy, practices, tools and procedures and is a great recognition for all initiatives, run by the HR department, as well as a solid base to build further our image as attractive employer, providing excellent conditions for its employees.

In 2021 the HR Department 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 our colleagues and local communities. Employer branding initiatives will be continued in order to maintain the good image as Employer. New HR initiatives will be launched in support of employee experience journey and as an answer of 2021 business challenges and priorities. The employee journey will be assessed and improved with a particular attention on 'onboarding' of new colleagues, managerial development, knowledge sharing in order to ensure smooth transition in connection with the changes of the workforce during the Multi-year plan. Digitalization and automation of HR processes and tools will be key enablers.

## Supervisory Affairs

Following Decision 2020/2015 of the European Central Bank (ECB) for establishment of close cooperation between the ECB and BNB starting from 27 July 2020, on 04 August 2020 ECB instructed BNB to adopt a national decision in order to classify UniCredit Bulbank AD as a significant supervised entity as of 01 October 2020, so that the ECB as the competent authority directly supervises the Bank effectively from 01 October 2020. With BNB's letter received on 10 August 2020, we were officially informed that UniCredit Bulbank AD had been identified as one of the five significant supervised entities in the country.

In order to cope with this new challenge at best manner, local Supervisory Affairs Team was established. One of the main tasks of the unit is to act as single point of contact (SPOC) for all local and European banking authorities aiming at proper and timely addressing of all their requests by the Bank's relevant structures. The team will support via coordination and steering both supervisors (JST) and Bank's participants during the SREP process as well as in case of on site and off site inspections and ad hoc requests.

## Compliance With Regulatory Framework

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.

In order to be in compliance with the requirements specified in the local legislation and the Group procedures, the Compliance Department 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, 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 2020 Compliance Department continued focusing its efforts to strictly follow the requirements of the local regulations and UniCredit Group's policies and procedures. Additional controls were implemented in the Bank and its related legal entities, as well as trainings in the field of Compliance area were organized for all employees of UniCredit Bulbank and its subsidiaries in order to mitigate the exposure of the institution to regulatory, money laundering and other risks. Trainings and awareness ensure that our staff are in a position to identify compliance risk, including financial crimes and comprehend current anti – money laundering and customer due diligence requirements at all times. Our approach to prevent financial crime with client accounts are the efforts made by our staff to know our customers and to establish the long term business relationships with them.

## Global Banking Services

2020 has been a year of dynamic adaptation to the pandemic challenge and ever-changing business environment. Being a **market leader in the Bulgarian banking sector**, UniCredit Bulbank had the responsibility to ensure the necessary service and support to our clients in times of economic uncertainty for many of them. We did it with care and respect to our customers' and employees' health, while at the same time ensuring compliance with security and regulatory requirements. The Global Banking Services Division played a significant role in both business as usual, as well as in the introduction of digital and innovative solutions, supporting the strategic projects and overall Bank transformation, and ultimately – the achievement of outstanding customer experience.

Smart Office initiative was put in place to ensure the necessary equipment, tools and infrastructure for remote work. Whenever possible, our employees switched to **Home Office** mode, keeping the high level of service to our customers uninterrupted. The Bank responded to the challenges related to Covid-19 crisis, showing extremely high levels of responsibility, strictly following the orders and the guidelines from the Ministry of Health and Regional Health inspectorate. At the same time, UniCredit developed golden rules of conduct for its employees and implemented an extensive program of information sharing and guidance, as taking care of the health of our employees and customers is our first priority.

In parallel, we invested in **simplification of the ways we do business**, extending further the remote client services. The Covid-related measures triggered the launch and implementation of numerous initiatives aiming to enlarge products distribution through online and mobile banking, incl. online account opening for private individuals, online securities trading, debit cards and Shopping card delivery to client's address, digital documents signing.

The Bank created in a timely fashion the necessary organization for the implementation of the **Moratoria** measures, introduced by the Bulgarian National Bank, in order to respond to every single customer's loan restructuring need. Many automations and process improvements were made in this regard. Further, we become one of the banks to distribute governmental grants to a vast range of companies and private individuals, for example the guarantee schemes provided by the Bulgarian Development Bank. Such instruments will stay among our priorities as well in 2021.

Furthermore, we are proud that in 2020 the Bank made another step towards **facilitation and modernization of our customers' daily transactions** by launching the new Shopping card, combining the advantages both of a credit card and a consumer loan within a single product. The Bank fulfilled the regulatory standard for strong customer authentication through implementation of dynamic password for online payment (a unique password for each internet payment), which the client receives via bank's electronic channels during the payment process. Thus, we managed to increase the security and reduced the unauthorized cards usage when shopping online.

Seeking constant risk management improvement and higher efficiency, and in order to provide an optimized automated loan applications processing, UnCredit Bulbank successfully deployed a **completely new industry-best underwriting system for SME customers** integrated with Bank and third party IT applications (for example Central Credit Register) ensuring both faster customer service as well as decreasing the manual administration by our colleagues. In addition, a new register of related parties has been developed, covering the new EBA requirements. In the past year, the Bank made as well the necessary changes in the IT systems and internal documents for the implementation of the new regulations for Definition of Default.

Last but not least, during the past 2020 a significant number of initiatives and projects were dedicated to **further enhancements in the IT security area, technological upgrades** and regulatory compliance. It is worth mentioning the activities related to GDPR, AML, anti-bribery and anti-corruption, financial benchmarks, PSD2, payments and many other.

In support of Bank's strategic initiatives and transformation effort through a **leaner, more digital and customer centric processes**, while improving cost efficiency and adequate risk management, UniCredit Bulbank performed the necessary organizational changes in 2020, incl.

- Establishment of Transformation Office reporting directly to deputy CEO;
- Set up of a Regulatory Affair Team reporting directly to CEO, considering that as of 1st of October 2020 UniCredit Bulbank is under the direct supervision of the European Central Bank;
- Reorganizations of Risk Division and Retail Division;
- Reallocation of responsibilities among bank organizational units and changes of reporting lines.

### Focus on Information and Communications Technologies (ICT)

**Digital working place initiative** was a first priority for ICT in the pandemic situation, aiming to provide equipment, tools and environments to the employees working remotely in a secure way. Further activities are planned also for year 2021 to improve digital collaboration of the teams both in the office and at home.

**Obsolescence program** targets decrease of security and operational risk in Bank infrastructure and during the year the level of obsolete components decreased by 15%. Good results were achieved based on the efforts for systematic patching, upgrading and replacement of legacy systems. Challenge for next years will be ATMs upgrade to W10 operating system and set up of regular patching and lifecycle monitoring.

**ICT processes were reviewed and enhanced** with a new versions of SDLC and Incident Management in order to cover the new way of working (E2E practices) and to have a clear definition of the roles and the responsibilities of all involved parties assuring improved collaboration with Security, Compliance, Operational Risk and Organization Departments for mitigation of different risks.

## Global Banking Services (continued)

KPI targets for the critical IT services were kept on a very high level (99.93% availability), which clearly shows that Bank was operating in stable and predictable production environment, with a material reduction of the number of IT incidents

Managing resources and collaboration to cover main priorities was done via close collaboration with the PMO, Transformation Office and a newly introduced process for small IT initiatives, supporting simplification and automation. Transparency in the planning of common activities was improved by establishing common release planning and defining the roadmaps for execution of key initiatives.

Technological initiatives remained priority in 2020 together with business and regulatory solutions, including but not limited to test environments masking, encryption of end point devices, antivirus replacement, midrange storage replacement, etc.

### Focus on Security

**Information and Cyber security was reinforced** in 2020 by achieving constant improvements in the critical security domains as network and application security, cloud security, perimeter security, asset and change management, cryptography, logging and monitoring. As a part of the multiyear security strategy a number of key projects have been initiated and completed with the main objective to improve and enhance the functionalities and performance of some of the most important solutions such as Identity and Access Management, Data Leakage Protection, Data and Application Security, Cyber security and Fraud prevention.

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 realized strategic initiatives and operational excellence, the Bank demonstrates general decrease of losses in digital channels fraud cases and achievement of a very strong security level.

We are fully aware of the great need to **promote cyber culture** for both our employees and our customers. For this purpose, we have developed 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.

### Focus on Operations

Major operational functions characterized with intensive paper, printing and physical activities have been reorganized into digital and home office mode of working, taking into account all relevant security considerations. Notwithstanding the lockdown negative effects and the further volume growths in particular areas (e.g. payments, cash, loans, funds distribution and cards operations) Operations

## Global Banking Services (continued)

Department managed to deliver quality of services, thus contributing to the increased customer experience, measured via the NPS (Net Promoter Score).

To address the Covid-related negative impacts, our teams strongly contributed to the efficient cash management activities that scored a boom in the first pandemic months. Extensive efforts of the units processing loans were invested into moratoria measures and related volume peaks and challenging regulative deadlines. Overall, we managed to achieve 5% growth of operational productivity, despite the initial challenges related to remote work and increased workload.

In alignment with the expectations from the business lines for more operational activities centralizations and leveraging on the high levels of expertise, collaboration and accountability for results, several important priorities were managed under the New Service Model program, such as KYC onboarding/review and BBO registration centralization. Strategic projects related to Borika NG, Target consolidation, GPP upgrades, GDPR and EMIR reporting were supported in Operations, coping with the latest regulative and compliance requirements.

### Focus on Real Estate and Logistics

For Real Estate and Logistics the 2020 will go down in history as the year in which we challenged our limits and learned to be flexible and sustainable in the same time. Facing the coronavirus pandemic, the main goal of the team was to ensure a safe working environment for our colleagues and customers. While relocating resources in order to provide the necessary personal protective materials and to organize a high performance in cleaning, disinfection and protective office equipment, the team was actively renegotiating rental contracts and continued following the strategy for transformation of our branches (Branch of the Future model and more Self Service Zones). Among the most significant projects delivered during the year were Sofia Serdika Mall, Sofia Tzarevets, Sofia The Mall, Burgas Slaveykov and Sofia Nadezhda.

### Focus on Procurement

In 2020 procurement strategy and execution efforts were fully in line with the main Bank priorities and specific pandemic situation. In this environment, the team succeeded to ensure all needed protective materials and services related to Covid-19 for the Bank and its subsidiaries, as well as the necessary equipment, licenses, projects and services related to new remote working environment – Home Office.

Procurement Department contributed significantly in the optimization of the operating expenditures of the Bank and for the timely and in-scope project implementation by achieving excellent results related to some of the new projects related to digitalization, paperless, etc.

**New Group Procurement platform** SAP ARIBA was implemented and local procurement organization and workflows were aligned with the new Group requirements. The platform gives the possibility for transparent on-line tender procedures which result in low-risk and trustworthy relationship with our suppliers.

Alongside with the support to the business divisions and the implementation of numerous projects, in 2021 the Global Banking Services will continue with the centralization of various operations and back office activities, currently performed in the branch network, targeting **process simplification and speed up**, improved efficiency and risk mitigation.

Further area of focus will remain the cost optimization initiatives, enhancement of the smart working options (mobility and head office optimization initiatives), technological upgrade and robotization, continuous improvement of internal processes and their alignment with the Bank strategic priorities for best in class customer experience and sustainability.

### Transformation Office

We successfully delivered UniCredit Strategic Plan “Transform 2019” in worse-than-expected macro environment. That success confirms our ability to execute and deliver the newly-defined Strategic Plan 2020-2023 called “Team 23”. We aim at a digital transformation with “change is the new normal” mindset.

- **Priority value streams:** we have established customer-centric value streams (so called End-to-end teams) in priority areas of Mobile Leadership; Digital channels boost and lending automation for companies; become a Paperless Bank; we commence on applying an omnichannel strategy – simplifying our core products and adopting one unique process for our customers across all channels (digital, call center and branch). Around 40% of our IT investments are dedicated to these commercial streams.
- **New way of working:** to continuously improve above value streams we have dedicated fully-committed human resources, leveraging on Agile methodology, to assure upmost attention to customer needs, end-to-end improvement of business processes, speed of delivery, boost of innovation mindset
- **Bringing the customer at the core of product development:** Beyond setting up our End-to-end teams, we will be setting up focused groups of customers to inspire as well as challenge our ideas for how to improve our products and services; what really Omni-experience means to them
- **Technology:** Revamping our IT foundation. Having upgraded to a modern core system that opens up new opportunities to integrate our banking systems; we will further invest in top-notch digital-native platforms, business process management solutions that will give us the needed flexibility and will allow us to gain speed through DevOps, Continuous Integration & Deployment (CI/CD)

## Customer Satisfaction Management

Client centricity and the focus to improve on Customer Experience remains a strategic pillar when it comes to the mission of UniCredit Bulbank.

Based on customer-centric approach of the Bank, a special Customer Experience Committee was established in the course of 2020. The Customer Experience Committee establishment was based on the Bank's and Group's ambition in customer experience excellence, stated also in details in the Team 23 plan that clearly envisages customer experience being a key driver for all strategic initiatives. With the Committee, the bank establishes a body dealing with CX topics, driven by the desire to have a customer centric DNA and decision-making process grounded by reliable data, based on customers', employees' and prospects' feedback and complaints' management, in each step of designing new or modifying existing products and services, facilitating the digital transformation of UniCredit Bulbank.

Having the customer-centric approach, the bank conducts high volume of listening activities to support the execution of the MYP, to leverage on customer insights and better prioritize initiatives to enhance dedicated customer journeys while continuously adopting new ways of working.

Main focus is to actively identify business issues to be addressed, synthesized from disparate sources to provide a holistic view of the customers' needs and marketplace as well as to provide actionable insights.

In 2020, despite the challenges of the Covid-19 pandemic situation, the bank was focused on utilizing insights from surveys among customers, prospects and employees', complaints, to adapt our way of working and servicing clients to the challenges of the external market by providing **Simple banking** and focus on b**anking that matters.**

### Customer Satisfaction and Experience

Nearly 1100 customers and 2000 prospects' among **individual clients** were interviewed within the strategic NPS program. The main purpose of this initiative is to obtain a valuable feedback and reliable benchmarking to competitors in the area of customer satisfaction and experience. Important topics as customer experience, reputation, satisfaction with moratorium processes and Covid-19 measures, recommendation of the bank, preferences towards banks, attrition risk, cross-selling, acquisition potential and others were covered.

Main metric for monitoring customer experience in the bank remains the world-wide recognized **Net Promoter Score.**

Results for **Individual** customers in 2020 show a NPS of 30 pts. (stable YoY) which is 2pts. higher than average Competitors' results.

Additional 2000 feedbacks were gathered to deeply investigate customer's perception about various areas in the relationship with the bank.

To support the local initiatives related to customer experience provided by personal bankers and relationship management model, during the year the bank interviewed additional more than 8 000 clients with a dedicated Relationship Manager.

In the context of an organization aiming at becoming increasingly customer centric, our ability to collect and react upon the Voice of Customer in a structured way is one of the key enablers to excel in Customer Experience. Therefore special attention is paid to customers who have performed certain actions among various channels of UniCredit Bulbank.

Despite the Covid-19 pandemic situation, in 2020 UniCredit Bulbank succeeded to collect approximately 31 000 valuable feedbacks (31 000 in 2019) about customers' experience through different channels and touchpoints immediately after these interactions. Net Promoter Score for customers who have visited a branch is 65 pts. at the end of the year.

In addition to the initiatives within Retail, in 2020 UniCredit Bulbank continued to monitor the Mobile banking users' experience where NPS among users is 62 pts.

In **Corporate**, UniCredit Bulbank program for strategic measurement of Net Promoter Score and benchmarking vs. competition delivered a NPS of 25pts. (18pts. above Competitors' average). 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 of UniCredit Bulbank.

### Internal Customer Satisfaction

As Customer First is among the pillars of UniCredit, delivering an excellent service quality and top products to customers means having a high level of cooperation between structures inside the bank. Therefore an Internal Customer Satisfaction Survey has been conducted for 11th consecutive year. *Cooperation and Synergies Index* measuring the level of cooperation between structures and effort they put into dealing with each other increased to 73 with +3 points YoY gap, 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.

### Complaints Management

The complaints management process is centralized and all complaints are addressed and managed by the relevant internal structure – Central Complaint Management Unit. Information about the complaint management process is published on the official website of UniCredit Bulbank and is available in the bank branches.

Each client's feedback is processed with detailed individual

## Customer Satisfaction Management (continued)

examination, involving all the responsible bank structures and providing official position of the bank via the channel selected by the client.

The main goal of the bank is to react in a timely manner to each signal, analyze it, identify the problems and malfunctions by solving the situation on client level and at the same time to undertake the necessary actions with the competent bank units for preventing such problems in the future.

The Complaints management process and procedure are structured in accordance with the Group Global Policy and local legislation, allowing a structured and transparent claim handling process as well as better understanding of the underlying core reasons.

The process determines the tools and functionalities of the internal complaint system, as well as defines the acceptance, registration, allocation, analysis, investigation, competences for authorization of compensating and answer to incoming customer complaints and to regulatory authorities. A fundamental part of complaints management is also the identification of recurring issues and system, process and other malfunctions and suggestion for respective corrective measures to the competent bank structures.

The process includes a post-complaint survey where the bank monitors the satisfaction level with the result from the complaint resolution and with the efforts of colleagues directly involved with the client.

Customer feedback and the information for each complaint is being analyzed and integrated in reports which are regularly presented to Top Management and managers at different structures (including on Group level) for different topics and on regular basis. 3 453 customer complaints were received and successfully processed in 2020. The complaint process was specially organized for priority assistance and resolution for Covid-19 related cases. The Bank was addressed with 82 Complaints about service in context with the pandemic, 60 about moratoria and 24 due to guaranteed loans.

The internal KPI for complaints management resolution is to resolve at least 85% of complaints within 3 workdays which was achieved again for 2020.

### Strategy/Outlook for 2021

Continuing its strategy for customer-centricity, the bank will continue to strictly listen to the voice of the customer through dedicated surveys and complaints' management.

Further development and management of the NPS system across the bank is in the pipeline, spreading customer centric culture with focus on gathering insights and delivering recommendations for further actions to maintain excellent customer experience.

Actively leveraging on information (custom research, analytics, customers' feedback and insights, complaints) will be key to developing a holistic market and consumer understanding that is actionable and impactful.

All of the above is planned to be also supported and enhanced with processes related to automation and digitalization.

## Corporate Social Responsibility and Sustainable Development

In the unprecedented developments of 2020, **UniCredit Bulbank has taken a leadership role** in supporting the clients, colleagues and communities to endure the effects of the Covid-19 pandemic. Moreover, the originally planned rich corporate social responsibility program was adapted, digitalized and extended in view to the changing environment.

### Charity and employee engagement

*Marketing with a cause, inspired by employees*

UniCredit Bulbank have donated 6,300 BGN to "Bulgarian Christmas". The amount was raised during a campaign in which the leading bank committed to donate 10 stotinki in support of children with chronic diseases for each payment made by a customer with a phone in the period 18-31 December 2020. The campaign was initiated bottom up by employees of the bank and received high praise from the Bulgarian Christmas campaign under the auspices of the Bulgarian President Rumen Radev. In addition, the bank supports the campaign as a main sponsor of the Bulgarian Christmas concert.

*Supporting disadvantaged children of Bulgaria*

UniCredit Foundation launched the "Call for Europe 2019 – Supporting Childhood" initiative with the aim to identify and support social projects helping children in the different European countries where UniCredit is present outside of Italy. The Group's banks, including UniCredit Bulbank, were asked to provide UniCredit Foundation with a shortlist of relevant local projects in each country by the end of February 2020 and an expert jury appointed by the Foundation selected the winning initiatives to be granted a total of 500 000 euros split among the winners. 7 projects were funded from Bulgaria: Agapedia Bulgaria Foundation, Centre for Human Policy, First of June Association, Give a book (Podarete Kniga), Learn Foundation, Association Parents and Start Academy Sofia Foundation.

*Vulnerable groups supported by bank employees*

Employees of UniCredit Bulbank, together with UniCredit Foundation, have raised 91 567 BGN to help the most vulnerable groups, which were most affected by the spread of Covid-19. The funds raised were equally distributed among 10 civil organizations. The employees supported with own funds 10 organizations which are active in various strands and locations: Sv. Nikolay Chudotvorets Foundation and the "Wonderful Garden", the World of Mary Foundation and their Catering Bon Appétit, Art Workshop Tvorilnitsa, Club of Non-Profit Organizations in Targovishte, Health and Social Development Foundation, Caritas Sofia, Northwest Project, Civil Initiatives Association – town of Lovech, Animus Association Foundation, Project #zadobroto.

At the beginning of the pandemic, UniCredit Bulbank instantly supported the society for covering essential medical needs. Later, with the internal donation campaign, it managed to help social entrepreneurs, the disabled and the poor, elderly people and female victims of violence.

*Support to the health emergency*

In the light of the national state of emergency generated by Covid-19 pandemic, UniCredit Bulbank donated already in the first days of the emergency state 100 000 BGN to Pirogov Hospital to cover the extraordinary medical needs identified. Pirogov is the biggest emergency hospital in Bulgaria of its kind and at the moment is facing the challenge of Covid-19

A few weeks into the pandemic the bank placed a second donation of BGN 100 000 to the Ministry of Health. The amount was provided to support the laboratories and for purchase of Covid-19 tests. Thus, the total amount, donated by the bank in the battle with Covid-19 reached 225 000 BGN adding up also 25 000 BGN to the joint fund of donors in Bulgaria which will be utilized according to the recommendation of the National Crisis Unit.

### Culture and Art

*Partnership with National Theatre Ivan Vazov*

UniCredit Bulbank and Ivan Vazov National Theater launched their partnership in support of the development of the Bulgarian theater. The suspension of the performances of the National Theater, as well as of all cultural events for several months due to the spread of the coronavirus, led to a gap in Bulgarian society. UniCredit Bubank, in its role of main partner of the National Theater, declared its desire to be part of a faster return to normal theatrical rhythm and cultural life. To the delight of fans of this art, the National Theater made resumption of its performances in compliance with all safety measures.

*Venue for contemporary art UniCredit Studio*

In the second half of the year, following all health guidelines, UniCredit Studio presents its first exhibition since the beginning of the Covid-19 pandemic: "The Metaphysics of Imagination". The talented young artist Denitsa Boeva, who has received the special award of Stoyan Kambarev Foundation for "Flight in Art", challenged the audience to fill up our imagination with atoms and space. The images of the microworlds and systems that excite Denitsa were recreated in textiles playing with colours and light.

Later in the year the contemporary art space, UniCredit Studio, presented an exhibition of the best artworks in the categories: painting, graphic art and design, of the winners in the competition "History is in our hearts, the future – in our hands" on the occasion of 20 years of UniCredit in Bulgaria, which was organised in partnership with the National Academy of Art.

UniCredit Bulbank provided a cash prize of BGN 1,000 for each of the winners for their talent, inspiration and dedication to art. The prize cheques were awarded by Teodora Petkova, Chief Executive Officer and Chairperson of the Management Board of UniCredit Bulbank AD. Professor Georgi Yankov, Rector of the National Academy of Art, formally congratulated the winners.

The opening of the exhibition took place at a short ceremony in the presence of a limited number of guests and in adherence to all anti-epidemic precautions.

## Corporate Social Responsibility and Sustainable Development (continued)

*Social Impact Banking and Financial education*

Under the SIB umbrella microfinancing was made available to social enterprises and start-ups under enhanced terms through loan guarantees provided by the Fund of Funds (FoF). UniCredit Bulbank, which was selected in a public procurement procedure to serve as the intermediary, will lend up to EUR 50 000 or its BGN contervalue with a maximum tenor of 120 months. The loan can be used as investment financing or working capital.

Together with 4 main partners even during the pandemic, UniCredit Bulbank continues to deliver financial webinars with the participation of numerous volunteers from the bank. Key partners in FinCultura – the national program for financial education were Junior Achievement, Teenovator, Bulgarian Center for Non-profit law and BASE program of American for Bulgaria Foundation. Under several media partnerships series of articles were published with educational role on topics like FinKultura: Digitalisation, FinKultura: Cybersecurity, FinKultura: Investments – the articles were read more than 100 000 times. In addition UniCredit Bulbank published an unique guide for healthy finances, and e-book and promised to donate up to 10 000 BGN – 1 BGN for each download of the free e-book on personal finance management – to the educational foundation Together in class. The total number of downloads exceeded 17 000.

### Focus on 2021

We will continue to develop our support mechanisms to the communities we live and work in. moreover, we have the understanding of the importance of collectively and urgently taking further concrete actions across the three pillars of ESG – environment, social and governance. As the bank, who works with every second corporate entity in Bulgaria, we are committed to walk the talk of transition towards sustainable business models with our clients, offering a wide range of ESG products and services, but also helping local communities and disadvantaged individual on the ESG path.

## Major Subsidiaries and Associates

### UniCredit Consumer Financing

2020 was a challenging year quite adversely affected by the global Covid pandemic. Since mid of March 2020 UniCredit Consumer Financing EAD (UCFin) switched to a crisis management mode putting employees health and customers' support as ultimate priorities. Together with the direct parent UniCredit Bulbank AD and its other fellow subsidiaries, UCFin joined the approved by BNB private moratorium defining payment deferral on loan installments. For the year ended December 31, 2020 more than 20,000 customers' requests have been granted moratoria payment relief. In the heat of the demand, UCFin deployed three robotized solutions and managed to process more than 600 requests per day.

Despite the global pandemic, drastically reduced new business and higher cost of risk, UCFin managed to keep its operations afloat recording total operating income for 2020 in the amount of BGN 143.8 million and net profit in the amount of BGN 60.1 million (reduction by 4.3% and 25.8% respectively vs prior year). NII continued to be main revenue contributor with share of 86.8%. The operating costs were kept on the level of prior year BGN 20.2 million (vs BGN 20.4 million in 2019) with depreciation costs marking the highest increase by 17% yoy due to significant investments in computer hardware that allow remote working of UCFin employees.

The pandemic and offered moratorium have direct impact on cost of risk. UCFin carried over its prudential risk management policy and as a result impairment losses reached BGN 57 million (increase by 89% yoy). Share of non-performing exposures increased to 6.8% as of December 31, 2020 while the overall portfolio was reduced by 1.2%.

UCFin chose a non-aggressive sale strategy in 2020 considering the overall economic conditions. Remote and on-line sales continue to grow. In August 2020 a new product was launched on the market – Shopping Card. It is a joint product between UCFin and UniCredit Bulbank AD and combines standard revolving with installment features. During the year the Company continued Customer value management (CVM) commercial activities on banking clients as well as on POS customers. The share of CVM sales reached 31% from all new cash loans production.

2021 is expected to be a year of post-pandemic recovery with moderate GDP growth. Business is also expected to be back to normal, with the push for on-line and remote sales getting stronger. UCFin is committed to upgrade and improve the sales processes in order to meet the new demand.

### UniCredit Leasing

2020 was a year marked by Covid-19 pandemic. The state of emergency in 2020 and the other difficulties stemming from the pandemic induced the declining trend of the commercial KPIs of the entity. In order to support its clients in this difficult year UniCredit Leasing applied the moratoria measures as approved by BNB.

Irrespective of adverse context, UniCredit Leasing succeeded to sustains its leading market position as this is an aftermath of the excellent collaboration and cross sales with UniCredit Bulbank and the strong cooperation with international vendors of equipment and vehicles.

Thanks to its vast experience in the selection and evaluation of viable projects, UniCredit Leasing managed to maintain its risk appetite and providing leasing solutions in almost all economic sectors.

UniCredit Insurance Broker strengthened further its position as a leading provider of insurance-brokerage services and consultancy on Bulgarian market. The closer cooperation with all entities of Bulgarian UniCredit Group resulted in stable Broker revenues and net profit.

### UniCredit Factoring

For UniCredit Factoring EAD (UCF) the beginning of 2020 was marked with stable development and continuous growth of factoring business, following the inertia of 2019 and strong commercial activities. During the first quarter the company performed significant growth in terms of business generation: +18% growth of business volumes, +19% growth of loan volumes as of March YoY and enlarged its client portfolio by +10%.

The period after was marked by the pandemic Covid-19 crisis and increasing uncertainty in the business environment, not only locally. Fluctuations in business were noticeable even at the end of the first quarter and the early beginning of the spring. The company observed significant decrease in the turnover in 2Q2020, lower utilization of the factoring lines, and limited client acquisition which were slightly compensated in 3Q2020 and further.

The main causes for the business downtrend and weak opportunities during that period can be summarized as decreased turnover due to temporary closure of business activities or very limited ones and downtrend in export opportunities, suffering by limitations in EU markets and neighbor countries. The challenging business environment and the uncertainty in the business recovery made companies from most suffering industries very cautious in terms of financial services utilization.

Despite the business limitations, led by very strong commercial focus, the YE results of UniCredit Factoring showed levels slightly below 2019 in terms of turnover (-6% YoY) and gross operating income (- 4.6% YoY).

The overview of products in terms of share in turnover of the major categories – domestic and international, showed insignificant changes vs 2019. The share of international factoring slightly increased by +3% in 2020. The export factoring business marked a positive trend of development, leveraging on excellent expertise, best practice within UC Group and FCI channel as a major world-wide factoring business network and resulted in growth of +14% YoY. The clients' demand for customized approach and reverse factoring continued to rise, driven by the demand of flexible financial services and easy process of financing not only for the company but to its counterparties as well. During 2020, UniCredit Factoring focused mainly on negotiating flexible solutions – reverse factoring, supplier-driven non-recourse transactions, etc., providing high quality of services to the suppliers of large and reliable companies. The key success driver was the commercial focus on several strategic initiatives providing the client with advisory services completely in line with their working capital needs.

The full digitalization of the factoring services and customized solutions through the web-based factoring platform eFactoring.bg was the key benefit guaranteeing smooth, easy and fully electronic process of the clients in 2020, eliminating the physical contacts in the pandemic period. The company continued to invest in the platform, developments enhancing e-signing functionalities and enriching the services supported. The growth in electronically assigned turnover in every consecutive year confirms the client's choice of using the platform and reaffirms the benefits for the company and its counterparties.

In terms of industries penetration, the factoring business followed entirely the macro environment and its business opportunities, limited in some sectors due to crisis restrictions. The good practices of factoring opportunities with suppliers of services to public institutions, agencies and municipalities continued in 2020 as well.

In 2021, the focus on enlarging the client portfolio will be a key driver for further diversification and penetration on the factoring market. The digitalization of services by adding high-value enhancements will continue, having proven to be mandatory pre-requisite for further opportunities for business growth and market leadership position.

### UniCredit Fleet Management

UniCredit Fleet Management is a non-financial company, specialized in providing operational leasing with a full range of services to its domestic and international clients, as well as, to the companies within UniCredit Group in Bulgaria. Notwithstanding the current context, in 2020 UCFM posted growth of its fleet under management of 13.2%. The client's portfolio surged by 27.6%, mainly due to the constant partnerships development and continuous strategy for an intensified cross-selling with the UniCredit Bulbank corporate customers.

Despite the unprecedented circumstances induced by the Covid crisis, UniCredit Fleet Management will continue to deliver a sustainable business performance due to the company's business model resilience, the high quality products and services and the loyal UniCredit customers, the dedication and expertise of UCFM team.

# 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.

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:

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

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

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

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

## Management

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

## General Meeting of the Shareholders

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

The General Meeting of the Shareho1lders:

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.

## 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.

# Corporate Governance Declaration (continued)

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 7 (three to seven) members appointed by the Supervisory Board for a term of up to 3 (three) years. The exact number of the members of the Management Board, their term of office and remuneration 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. No member of the Management Board can be at the same time a member of the Supervisory Board or an employee of Internal Audit Department.

Every management body of UniCredit Bulbank has its own rules or procedures which describe the functions, rights and duties of the respective body and its members in detail. While performing their duties both the Supervisory and Management Board 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 2020 provides detailed information about the organizational structure of the Bank and the members of the management bodies.

## Specialized bodies

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

## Supervisory Board Committees

### (i) Audit Committee

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

### (ii) Nomination and Compensation Committee

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

### (iii) Risk Committee

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

## Management Board Committees

### (i) Asset-Liability Committee (ALCO)

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

### (ii) Credit Committee and Credit Council

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

### (iii) Provisioning and Restructuring Committee

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

### (iv) Cost Committee

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

### (v) Project Portfolio Committee

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

### (vi) Operational and Reputational Risk Committee

Operational and Reputational Risk Committee is a decision taking body, which decisions are reconfirmed by Management Board. The Committee is responsible for the regular exchange of information on operational risks affecting different units in order to find proper risk mitigation measures. It also coordinates risk activities such as Risk Appetite Framework (RAF) metrics for Operational Risk, key risk indicators, risk scenarios, loss data collection and mitigation strategies implementation. The Committee functions as a Permanent Work Group, where current problems and events related to operational risk are reported and discussed with the aim to finding most suitable solution.

### (vii) Credit Monitoring Commission

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

### (viii) Internal Control Business Committee (ICBC)

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

### (ix) Process Steering Committee

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

### (x) Change Advisory Committee (CAC)

CAC has to review all proposed changes in the ICT environment, to evaluate their impact, to check them for collisions and to approve the needed ones.

### (xi) Software Advisory Committee (SAC)

SAC is responsible for the governance of the Software Development Life Cycle process.

### (xii) Capacity Planning Committee (CPC)

CPC has to review the capacity reports, trends, analysis and forecasts and approve the capacity plan.

### (xiii) Local Investment Committee to Private Banking Department

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

### (xiv) Business Continuity Management Committee

The Committee organizes the preparation, maintenance, monitoring and validation of the business continuity process and submits it for approval to the Management Board. It promotes the development, maintenance and checking of the Business Continuity, Pandemic, and Emergency & Crisis Management Plans of UniCredit Bulbank through the Business Continuity Manager/ Business Continuity & Emergency and Crisis Manager; Validates the UniCredit Bulbank's Business Continuity, Pandemics and Emergency & Crisis Management Plans and submit them for approval to the Management Board so that the necessary human, technological and financial resources may be adequately assured for the reaching of set objectives; Encourages regular control of plans and their update in case of relevant organizational, technological or infra-structure innovations; Validates annual test plans for continuity/crisis management measures and analyses the results; Is empowered to make the decisions regarding solutions supporting other UniCredit Group Legal Entities in case of their staff unavailability and supports the Business Continuity & Emergency and Crisis Manager on the basis of their skills and competence areas.

### (xv) Security Management Committee (SMC)

The function of the Security Management Committee is to support the ICT Security and Crisis Management Unit to achieve the UniCredit Group Bulgaria security objectives according to the business needs. It has to regulate the organizational aspects of the information security management processes and procedures, including the issuing, the managing and the maintaining of the local Information Security Strategy, part of local Security Strategy. SMC has to address timely the separation of potential conflicting duties, to guarantee an adequate level of accountability and control, and to reduce opportunities for unauthorized or unintentional modification or misuse of the Bank's assets. SMC manages the aspects of information security related to the main IT initiatives. It identifies the organization responsibilities related to the information security risk management activities, and in particular for acceptance of residual risk and duly monitors the implementation of corrective plans by process/ business owners.

### (xvi) Real Estate Portfolio (REPC) Committee

Real Estate Portfolio Committee's generic goal is 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. The core virtue of REPC is validation of Projects' conformity via transparency of their execution.

### (xvii) Reputational Risk Committee

The Reputational Risks Committee (RRC) of UniCredit Bulbank is responsible for the assessment of the reputational risks on all initiatives, transactions, projects and other topics and business activities generated by UniCredit Bulbank or its subsidiaries, and evaluated by the Reputational Risk function, as High reputational risk. The approval of High risk transactions by the RRC is mandatory prior to their submission to Local Credit Committee/Credit Council. The local RRC is also responsible for the reputational risk assessments of material events.

### (xviii) Disciplinary Committee

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

### (xix) Whistleblowing Committee

The Committee main responsibilities are to take decisions on whistleblowing cases investigations opened on the base of reported unacceptable conducts.

### (xx) Internal Compliance Committee

The purpose of the Committee is to support the management of the Bank in the assessment of the overall Internal Control System adequacy related to the "Compliance" Department and "AML and Financial sanctions" unit in the Bank. In addition, the Committee will inform the management for the risk exposure in Compliance area and to support the management in taking decisions for mitigating such risks.

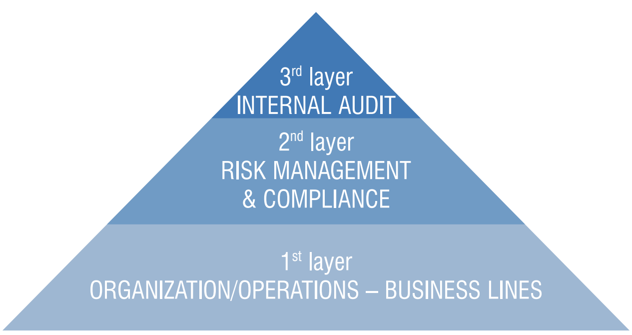
### (xxi) Customer Experience Committee

With the establishment of Customer Experience Committee, the Bank aims to have a customer centric approach and decision-making process grounded by reliable data, based on customers' and employees' feedback in each step of designing new or modifying existing products and services, facilitating the digital transformation of UniCredit Bulbank AD. Customer Experience Committee responsibilities are as follows:

- Prioritize, optimize and monetize customer and employee experience based on data driven decisions to deliver Simple Banking;
- Sets priorities on processes and customer journeys optimization based on customers' and employees' feedback;
- Ensures that the gaps pointed by customers are closed in a proper and timely manner;
- Assigns the respective structures/ process owners for implementation of decisions.

## Internal Control Mechanisms

LAYERS OF THE INTERNAL CONTROL SYSTEM




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

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

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

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

# Corporate Governance Declaration (continued)

## Information on proposals for acquisitions/ mergers in 2020

As at the end of 2020 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 2020 on an individual and consolidated basis.

For UniCredit Bulbank AD:

Teodora Petkova
Chairman
of the Management Board
and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman
of the Management Board
and General Manager

# Do the right thing!
## For our Clients

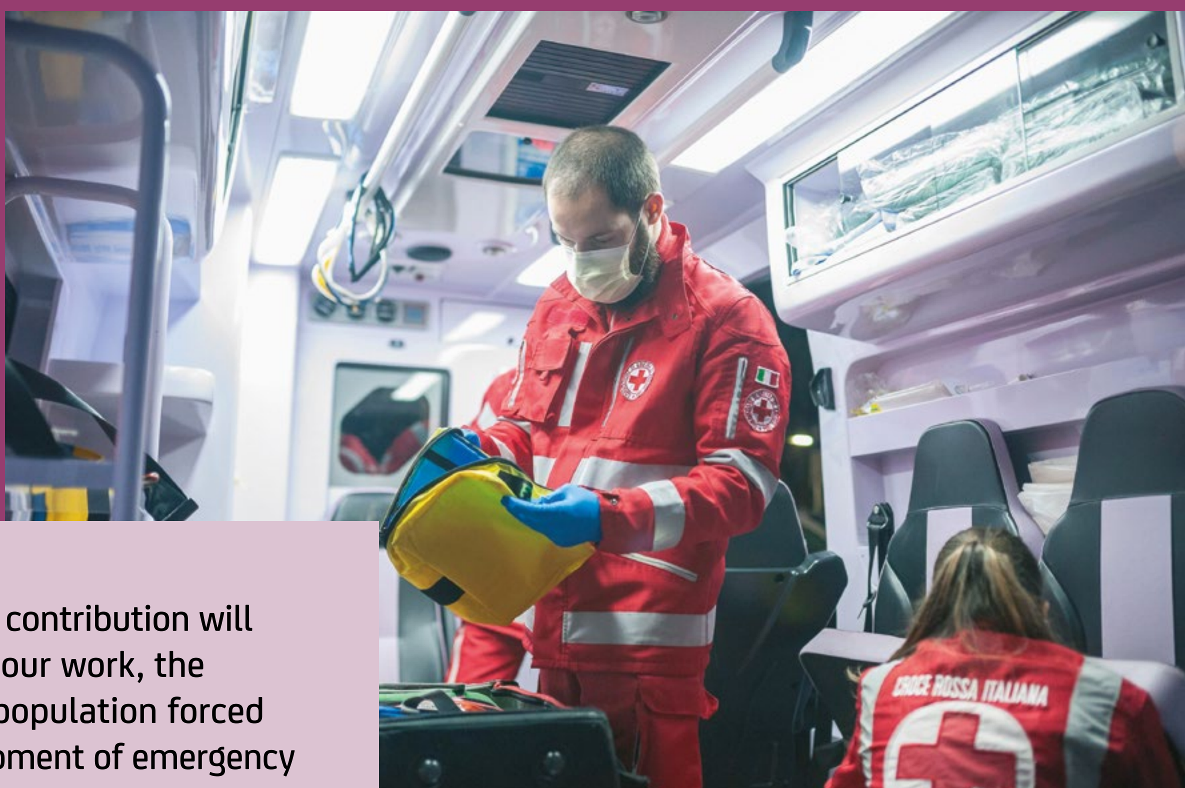
With over 16 million clients in 13 countries, we worked harder than ever in 2020 to help all our clients face new challenges: from billion euro funding programmes for multinational companies to mentoring new startup businesses, UniCredit is committed to being part of the solution.

### €10 MILLION OF NEW FINANCING FOR A 100-YEAR OLD PASTA MAKER

This loan was set up to meet the working capital needs of Gragnano-based Pastificio Di Martino. It was also the first large loan issued in under Italy's guaranteed loans programme.

# Do the right thing!
## For our Communities

UniCredit is proud to support communities in all of our countries: we launched formal and informal initiatives, with a wide range of volunteering activities and donations, employees and customers raising and donating millions of euros.




"Your generous contribution will help, through our work, the entire Italian population forced to face this moment of emergency linked to the spread of the new Coronavirus. Thanks to your donation, the Italian Red Cross continues to expand, investing in services, resources and training for volunteers and operators to be alongside those who need it most".

**Francesco Rocca**
President of the Italian Red Cross

Deloitte. bakertilly

# INDEPENDENT AUDITORS' REPORT

To the shareholders of UniCredit Bulbank AD

## REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying separate financial statements of UniCredit Bulbank AD (the "Bank"), which comprise the separate statement of financial position as at December 31, 2020, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2020, and its separate financial performance and its separate 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (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 IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| **Impairment of loans and advances to customers** | |
| The assessment of impairment allowances for loans and advances to customers requires Bank management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment.<br><br>In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank.<br><br>The assessment of classification to impairment stages is a result of combination of relative and absolute factors:<br>• Relative comparison between the probability of default at the original date of the receivable and the probability of default at the end of the reporting year,<br>• Absolute factors such as limits set by IFRS 9 Financial Instruments (30 days past due or 90 days past due),<br>• Other factors with internal relevance for the Bank (such as forbearance or watch list classification).<br><br>The expected credit losses are calculated using available historical data and anticipated future development determined by using macroeconomic indicators. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources or determines the amount of allowances for expected credit losses on individual basis.<br><br>The statistical models used are based on the probability of default, the estimated amount of the loss given default and the determined exposure at default. Input data for the models and the calculation logic and its comprehensiveness depend on judgment of Bank management. | During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area.<br><br>We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances for the significant loan portfolios.<br><br>We tested the design and operating effectiveness of key controls management of the Bank has established over the impairment assessment processes. The testing focused on controls related to:<br>- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,<br>- regular client creditworthiness review processes,<br>- creation and regular review of watch-lists,<br>- approval of experts' collateral valuation,<br>- management review and approval of the impairment assessment results.<br><br>We involved auditors' experts in the areas which required specific modelling expertise in order to determine the appropriateness of the model development and model implementation. We have considered the adequacy of the risk parameters determined by the models. We have reviewed the quality of the data used in the computation of the risk parameters.<br><br>We performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. |

| | |
|---|---|
| For loans of individual financial significance as per the Bank's policy impairment assessment aims at calculating the exposure's recoverable amount and compares it with the gross carrying amount in order to quantify the impairment allowance.<br><br>As described in note 26 to the separate financial statements, the Bank has recorded as at December 31, 2020 impairment allowances on loans and advances to customers amounting to BGN 694,807 thousand.<br><br>Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, and because of the impact that the COVID-19 pandemic had on these estimates and assumptions, we identified impairment of loans and advances to customers as a key audit matter. | For a sample of exposures we recalculated the impairment based on the risk parameters resulted from the models or we formed an independent view on the levels of impairment allowances for individually significant exposures.<br><br>We analyzed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions on the credit risk of borrower, the valuation of collaterals, on estimates of expected cash flows and on other factors that may affect the recoverability of loans. We have assessed the adequacy of Management assumptions and adjustments resulting from the impact of the COVID-19 pandemic on the estimation of expected credit losses.<br><br>We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers. |

**Information Other than the separate financial statements and Auditors' Report Thereon**

The Management Board of the Bank (the "Management") is responsible for the other information. The other information comprises the annual report on activities, the corporate governance statement and the non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our joint 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, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

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

We have nothing to report in this regard.

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

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

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

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

**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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**Additional matters, required to be reported by the Accountancy Act**

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

**Opinion under Art. 37, paragraph 6 of the Accountancy Act**

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.

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

**Additional reporting related to Ordinance 58/2018 of the Financial Supervisory Commission (FSC)**

*Statement in connection with Art. 11 of Ordinance No 58/2018 of FSC outlining the requirements for protection of the customers' financial instruments and cash, for product management and for providing or receiving considerations, commissions, other cash and non-cash benefits*

Based on the performed audit procedures and the acquired knowledge for and understanding of the activity of the Bank ("Investment intermediary") in the context and the course of our audit of its separate financial statements as a whole, the established and applied organization related to the keeping of clients' assets complies with the requirements of Art. 3-10 of Ordinance 58 of FSC and Art. 92-95 of Markets in Financial Instruments Act regarding the Investment intermediary's activity.

**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.

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended 31 December 2020 by the general meeting of shareholders held on November 30, 2020 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2020 represents eighth total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and fourth total consecutive statutory audit engagement for the Bank carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, dated March 9, 2021, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2019, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".

## Independet Auditors' Report (continued)

- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2019 and December 31, 2020. The audits were performed in accordance with ISA.
  - Attest related procedures in relation to follow up on the first time adoption of IFRS 9 – Financial Instruments by the Bank and its subsidiary UniCredit Leasing EAD.
  - Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2019 and December 31, 2020. The audits were performed in accordance with ISA.
  - Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 6 months ending June 30, 2020, and the 9 months ending September 30, 2020. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Momchil Chergansky
Proxy of the Statutory Manager Sylvia Peneva
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

103, Al. Stamboliiski Blvd
Sofia Tower (Mall of Sofia)
1303 Sofia, Bulgaria

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

Krassimira Radeva
Managing Director

5, Stara Planina Str., 5th floor
1000 Sofia, Bulgaria

March 9, 2021

## Separate Income Statement

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest income | | 393 353 | 420 747 |
| Interest expense | | (45 358) | (36 786) |
| **Net interest income** | 7 | **347 995** | **383 961** |
| **Dividend income** | 9 | **100 037** | **119 527** |
| Fee and commission income | | 241 753 | 269 526 |
| Fee and commission expense | | (29 529) | (32 540) |
| **Net fee and commission income** | 8 | **212 224** | **236 986** |
| Net gains on financial assets and liabilities held for trading and hedging derivatives | 10 | 78 447 | 98 737 |
| Net gains (losses) from financial assets mandatory at fair value | 11 | (99) | 4 144 |
| Net income from financial assets measured at FVTOCI | 12 | 10 532 | 33 819 |
| Other operating expenses, net | 13 | (69 053) | (64 065) |
| **TOTAL OPERATING INCOME** | | **680 083** | **813 109** |
| Net income related to property, plant and equipment | 14 | 59 | 2 941 |
| Personnel expenses | 15 | (140 545) | (135 516) |
| General and administrative expenses | 16 | (103 236) | (98 234) |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | 17 | (39 293) | (35 833) |
| Provisions for risk and charges | 18 | (5 662) | (7 411) |
| Net impairment loss on financial assets | 19 | (153 143) | (79 557) |
| **PROFIT BEFORE INCOME TAX** | | **238 263** | **459 499** |
| Income tax expense | 20 | (14 285) | (34 393) |
| **PROFIT FOR THE YEAR** | | **223 978** | **425 106** |

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 08, 2021

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

J. Mandac
Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

09.03.2021
Momchil Chergansky
*Registered auditor, in charge of the audit*

Baker Tilly Klitou & Partners OOD

Galina Lokmadjieva
*Registered auditor, in charge of the audit*
*09.03.2021*

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
*Managing Director*

Одиторско дружество София Рег. № 033 Делойт одит ООД

Одиторско дружество София Рег. № 129 Бейкър Тили Клиту и партньори ООД

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

## Separate Statement of Comprehensive Income

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Profit for the year** | | **223 978** | **425 106** |
| **Other comprehensive income - items that will not be reclassified subsequently to profit or loss** | | | |
| Actuarial losses | 38 | (800) | (1 210) |
| Revaluation reserve on tangible assets | 29 | (3 835) | 78 928 |
| Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss | | 464 | (7 772) |
| | | **(4 171)** | **69 946** |
| **Other comprehensive income - items that may be reclassified subsequently to profit or loss** | | | |
| Investment securities | | (42 327) | 6 402 |
| Cash flow hedge | | (569) | (6 763) |
| Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss | | 4 736 | 23 |
| | | **(38 160)** | **(338)** |
| **Total other comprehensive income net of tax for the year** | | **(42 331)** | **69 608** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **181 647** | **494 714** |

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 03, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Mandac

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

09.03.2021

Momchil Chergansky
*Registered auditor, in charge of the audit*

Baker Tilly Klitou & Partners OOD

Galina Lokmadjieva
*Registered auditor, in charge of the audit*
*09.03.2021*

Baker Tilly Klitou & Partners OOD

Krasimira Radeva
*Managing Director*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

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

## Separate Statement of Financial Position

*In thousands of BGN*

| | Notes | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank | 21 | 6 595 652 | 2 065 166 |
| Non-derivative financial assets held for trading | 22 | 17 007 | 39 090 |
| Derivatives held for trading | 23 | 78 880 | 68 327 |
| Derivatives held for hedging | 24 | 16 | 226 |
| Loans and advances to banks | 25 | 1 426 838 | 3 754 103 |
| Loans and advances to customers | 26 | 11 860 343 | 11 643 963 |
| Investment securities | 27 | 3 676 620 | 3 595 260 |
| Investments in subsidiaries and associates | 28 | 55 479 | 55 479 |
| Property, plant, equipment, right of use assets and investment properties | 29 | 225 126 | 254 910 |
| Intangible assets | 30 | 77 656 | 67 407 |
| Current tax assets | 31 | 738 | - |
| Non current assets and disposal groups classified as held for sale | 33 | 19 357 | 2 324 |
| Other assets | 34 | 73 816 | 92 805 |
| **TOTAL ASSETS** | | **24 107 528** | **21 639 060** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 35 | 101 394 | 53 677 |
| Derivatives used for hedging | 24 | 105 683 | 90 688 |
| Deposits from banks | 36 | 1 918 207 | 660 687 |
| Deposits from customers and other financial liabilities at amortized cost | 37 | 18 678 882 | 17 706 409 |
| Provisions | 38 | 107 646 | 105 049 |
| Current tax liabilities | 31 | - | 3 662 |
| Deferred tax liabilities | 32 | 5 552 | 4 546 |
| Other liabilities | 39 | 113 585 | 119 410 |
| **TOTAL LIABILITIES** | | **21 030 949** | **18 744 128** |
| **EQUITY** | | | |
| Share capital | | 285 777 | 285 777 |
| Revaluation and other reserves | | 173 393 | 217 235 |
| Retained earnings | | 2 393 431 | 1 966 814 |
| Profit for the year | | 223 978 | 425 106 |
| **TOTAL EQUITY** | 40 | **3 076 579** | **2 894 932** |
| **TOTAL LIABILITIES AND EQUITY** | | **24 107 528** | **21 639 060** |

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 03, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

**Deloitte Audit OOD**

09.03.2021

Momchil Chergansky
*Registered auditor, in charge of the audit*

**Baker Tilly Klitou & Partners OOD**

Galina Lokmadjieva
*Registered auditor, in charge of the audit*

09.03.2021

**Baker Tilly Klitou & Partners OOD**

Krassimira Radeva
*Managing Director*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The accompanying notes 1 to 46 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, 2019** | **285 777** | **342 378** | **2 054 475** | **180 137** | **(28 001)** | **(4 509)** | **-** | **2 830 257** |
| **Profit for the year** | - | - | **425 106** | - | - | - | - | **425 106** |
| Actuarial (losses) | - | - | - | - | - | (1 210) | - | (1 210) |
| Change of revaluation reserve on investment securities | - | - | - | 6 402 | - | - | - | 6 402 |
| Change of revaluation reserve on cash flow hedges | - | - | - | - | (6 763) | - | | (6 763) |
| Change of revaluation reserve on tangible assets | - | - | - | - | - | - | 78 928 | 78 928 |
| Income tax related to components of other comprehensive income | - | - | - | (653) | 676 | 121 | (7 893) | (7 749) |
| **Total other comprehensive income for the year net of tax** | - | - | - | **5 749** | **(6 087)** | **(1 089)** | **71 035** | **69 608** |
| **Total comprehensive income for the year net of tax** | - | - | **425 106** | **5 749** | **(6 087)** | **(1 089)** | **71 035** | **494 714** |
| Dividends paid | - | - | (430 039) | - | - | - | | (430 039) |
| **Balance as of December 31, 2019** | **285 777** | **342 378** | **2 049 542** | **185 886** | **(34 088)** | **(5 598)** | **71 035** | **2 894 932** |

| | 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, 2020** | **285 777** | **342 378** | **2 049 542** | **185 886** | **(34 088)** | **(5 598)** | **71 035** | **2 894 932** |
| **Profit for the year** | - | - | **223 978** | - | - | - | - | **223 978** |
| Actuarial (losses) | - | - | - | - | - | (800) | - | (800) |
| Change of revaluation reserve on investment securities | - | - | - | (42 327) | - | - | - | (42 327) |
| Change of revaluation reserve on cash flow hedges | - | - | - | - | (569) | - | - | (569) |
| Change of revaluation reserve on tangible assets | - | - | - | - | - | - | (3 835) | (3 835) |
| Transfers of Revaluation reserve of tangible assets to other net equity items | - | - | 1 678 | - | - | - | (1 678) | - |
| Income tax related to components of other comprehensive income | - | - | (167) | 4 679 | 57 | 80 | 551 | 5 200 |
| **Total other comprehensive income for the year net of tax** | - | - | **1 511** | **(37 648)** | **(512)** | **(720)** | **(4 962)** | **(42 331)** |
| **Total comprehensive income for the year net of tax** | - | - | **225 489** | **(37 648)** | **(512)** | **(720)** | **(4 962)** | **161 647** |
| **Dividends paid** | | | - | | | | | - |
| **Balance as of December 31, 2020** | **285 777** | **342 378** | **2 275 031** | **148 238** | **(34 600)** | **(6 318)** | **66 073** | **3 076 579** |

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 03, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD
09.03.2021
Momchil Chergansky
*Registered auditor, in charge of the audit*

Baker Tilly Klitou & Partners OOD
Galina Lokmadjieva
*Registered auditor in charge of the audit*
09.03.2021

Baker Tilly Klitou & Partners OOD
Krassimira Radeva
*Managing Director*

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

## Separate Statement of Cash Flows

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Net profit** | | **223 978** | **425 106** |
| Current and deferred tax, recognised in income statement | | 14 285 | 34 393 |
| *Adjustments for non-cash items* | | | |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | 17 | 39 293 | 35 833 |
| Impairment of financial assets | 19 | 160 514 | 111 184 |
| Impairment of foreclosed properties | 13 | 270 | 1 492 |
| Provisions, net | 38 | 7 441 | 8 138 |
| Unrealised fair value (gains)/losses through profit or loss, net | | 4 197 | (5 555) |
| Unrealised fair value (gains)/losses on FX revaluation | | (130 625) | 28 989 |
| Net (gains) from sale of property, plant and equipment | | (1 065) | (4 484) |
| Net interest income | | (347 995) | (383 961) |
| Dividend income | | (100 037) | (119 526) |
| Increase in other accruals | | 22 425 | 14 213 |
| **Cash flows from profits before changes in operating assets and liabilities** | | **(107 319)** | **145 822** |
| **Operating activities** | | | |
| **Change in operating assets** | | | |
| Decrease in loans and advances to banks | | 355 060 | 1 348 074 |
| (Increase) in loans and advances to customers | | (383 466) | (1 260 844) |
| Decrease/(Increase) in investment securities | | (130 187) | 142 259 |
| Decrease in financial instruments held for trading and hedging derivatives | | 70 517 | 28 283 |
| Decrease/(Increase) in non-current assets held for sale | | 2 353 | (2 324) |
| Decrease in other assets | | 17 650 | 14 439 |
| **Change in operating liabilities** | | | |
| Increase in deposits from banks | | 1 270 773 | 178 567 |
| Increase in deposits from customers | | 1 104 949 | 1 823 665 |
| Provisions utilization | | (5 767) | (2 082) |
| (Increase) in other liabilities | | (28 709) | (612) |
| **Interest received** | | 391 801 | 429 318 |
| **Interest paid** | | (44 653) | (36 030) |
| **Dividends received** | | 100 037 | 119 526 |
| **Taxes paid** | | (8 600) | (30 000) |
| **Net cash flow from/(used in) operating activities** | | **2 604 439** | **2 898 061** |

## Separate Statement of Cash Flows (continued)

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flow from investing activities** | | | |
| Cash payments to acquire PPE | | (15 697) | (15 880) |
| Cash receipts from sale of PPE | | 1 065 | 4 484 |
| Cash payments to acquire intangible assets | | (23 319) | (32 054) |
| Cash payments for the investment in associates | | - | (475) |
| **Net cash flow used in investing activities** | | **(37 951)** | **(43 925)** |
| **Cash flow from financial activities** | | | |
| Dividends paid | | - | (430 039) |
| Cash payments related to lease liabilities | | (7 052) | (4 787) |
| **Net cash flows used in financial activities** | | **(7 052)** | **(434 826)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(1 803)** | **4 476** |
| **Impairment of cash equivalent** | | **(126)** | **16** |
| **Net increase/(decrease) in cash and cash equivalents** | | **2 557 507** | **2 423 802** |
| **Cash and cash equivalents at the beginning of period** | **44** | **4 999 263** | **2 575 461** |
| **Cash and cash equivalents at the end of period** | **44** | **7 556 770** | **4 999 263** |

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 03, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

**Deloitte Audit OOD**

Momchil Chergansky
*Registered auditor, in charge of the audit*
09.03.2021

**Baker Tilly Klitou & Partners OOD**

Galina Lokmadjieva
*Registered auditor, in charge of the audit*
09.03.2021

**Baker Tilly Klitou & Partners OOD**

Krassimira Radeva
*Managing Director*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

The accompanying notes 1 to 46 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, 2020 the Bank operates through its network comprising of 152 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 03, 2021. They should be read in conjunction with the consolidated financial statements which are to be approved by the Management Board of the Bank in February 2021.

### (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 recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts 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.

### (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.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client.

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

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

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

The Bank concludes 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 on net basis 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 realised and unrealised fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

### (f) Dividend income

Dividend income is 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 recognises 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 recognises 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 recognised 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 recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity, 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 recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost. If the amount of transaction costs is clearly not material compared to the fair value of the related financial asset at initial recognition, it is possible to recognize them directly in profit or loss.

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 analyse the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortised 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 analyse 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 amortised cost in the statement of financial position.

### b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking.

These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

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

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 recognised in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognised 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 amortised 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 realised or unrealised, are recognised in profit or loss as "Other 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 fair value through comprehensive income 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 revenues directly attributable to the instrument.

After initial recognition, the interests accrued on interest-bearing instruments are recorded in the income statement according to the amortised cost criterion as Interest income and similar revenues.

The gains and losses arising from changes in fair value are recognised 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 recognised 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 recognised in the income statement. Only dividends are recognised 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 recognised 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 recognised in the income statement. Only dividends are recognised in profit or loss. No reclassification of gains and losses to profit or loss on derecognition is allowed.

#### g) Financial assets at amortised cost

A financial asset is classified as financial asset measured at amortised 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 amortised cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition assets are measured at amortised 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 recognised in profit or loss as Interest income and similar revenues.

The carrying amount of financial assets at amortised 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 recognised 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) Investments in subsidiaries and associates

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

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

Following the above criteria, 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.

#### i) Deposits from banks and customers

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

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

### (iii) Derecognition

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

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

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

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

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

#### a) Contractual modifications and accounting derecognition (IFRS9)

In order to limit the effects of the restriction measures put in place to contain the Covid-19 pandemic, starting from the first half 2020, the Bank has granted to its customers debt moratoria measures. These measures have been granted both:

- following the specific moratoria measures as approved by the Bulgarian National Bank and Association of Bulgarian Banks (EBA Compliant moratoria);
- following the specific moratoria measures as approved by the Bank (non EBA Compliant moratoria leading to forbearance).

These moratoria measures generally allowed to postpone the payment of instalments for a period from 6 to 12 months upon request by the customers, with the consequent increase in the maturity of the loan and the accrual of interests on the capital being postponed.

As a result of the continuing health emergencies, restrictions measures have not been lifted and these initiatives have been renewed in the second half of 2020 allowing the possibility to further postpone payments at a future date up to 31 December 2021.

In accordance with ESMA's declaration which clarified, that it is unlikely that the contractual changes resulting from these moratoria can be considered as substantial, the Bank has not derecognised the related credit exposures and the modification loss is considered close to zero, having in mind the NPV neutrality with regard to cash flows as well as the continuing interest accruals during the grace period.

### (iv) Amortised cost measurement

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

### (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 5).

### (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 recognised 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) New Definition of Default

The New Definition of Default will be applied in the first quarter of 2021, in line with the deadline for the entry in force (1 January 2021) set out by European Banking Authority in the related Guidelines for Banks adopting Internal Rating Based Approaches. The new classification criteria will envisage as main changes the review of the materiality thresholds of past due and a further 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 (primarily, Group of companies, joint credit obligations among individuals and link among natural persons and unlimited liability companies). Furthermore, a minimum probation period before returning in a non-defaulted status has been set as mandatory.

As at 31 December 2020, therefore, the Non-Performing Exposures do not incorporate the New Definition of Default classification.

Nevertheless, as a result of the application of the new Definition of Default, the Bank is aware of new more stringent criteria for the classification of the counterparty risk, therefore the related effect is already recognised within the determination of the Loan Loss Provisions as at 31 December 2020.

Particularly, the new Definition of Default is considered in terms of quantification of Loan Loss Provisions under the twofold perspective of:

1. portfolio shift from Performing to Non-Performing Loan portfolio, with the consequent impact on the loan losses coverages, stemming from classification of loans according to the New Definition of Default;
2. estimation of the Expected Credit Loss on the single credit exposures including the new Definition of Default.

As far as point 1 is concerned, as above mentioned, as a result of the application of the new Definition of Default, the Bank is aware of new more stricter criteria on the evaluation of the counterparty risk. According to IFRS 9 the presence of additional information leads to assess the increase in credit risk also considering the downgrade therefore increasing the associated Loan Loss provisions. Considering, however, that classification of counterparty as defaulted can occur only starting from 1 January 2021, the additional Loan Loss Provisions are allocated, on a proportional basis, to each single credit positions belonging to the relative homogeneous sub-portfolios, sharing common credit risk characteristics and identified as the ones having higher likeliness of occurrence of new default events.

With reference to point 2 from above, it is worth mentioning that increase in credit risk arising from an expected downgrade of a borrower determines not only an increase in Loan Loss Provisions of that single borrower, but also of all those borrowers sharing common credit risks features.

As a result, IFRS parameters and methodologies used as at 31 December 2020 for estimating the expected credit loss and the associated Loan Loss provisions and, in particular, underlying risk parameters, Probability of Default, Loss Given Default, Exposure-at-Default and assessment of Significant Increase in Credit Risk, have been recalibrated, considering the New Definition of Default.

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

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in profit or loss.

### c) 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 Bank's 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 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 available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

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

### Cash flow hedge

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

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

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

## (k) Property, plant, equipment and investment property

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

### (l) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment losses. As of December 31, 2020 and December 31, 2019 intangible assets include primarily investments in software and related licenses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate. For core system software and related applications estimated useful life is 10 years, which is an equivalent of approximately 10% annual amortisation rate.

### (m) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not 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.

### (n) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2020 and December 31, 2019 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

### (o) Employees' benefits

#### (i) Short-term employee's benefits

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

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

#### (ii) Defined benefit obligation

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

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

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

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

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

As of December 31, 2020 and December 31, 2019 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as Other liability.

### (p) Share capital and reserves

#### (i) Share capital

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

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

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

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

No changes in the amount of the share capital were made in 2020 and 2019.

#### (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) and investment properties, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2020 and December 31, 2019 the reserves include also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

### (q) Taxation

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

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

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

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

As of December 31, 2020 and December 31, 2019 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

### (r) Segment reporting

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.

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in financial statements.

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

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

- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);

- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

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

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

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

## 4. Financial risk management

### (a) General framework

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

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

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. The senior management is responsible for the effective oversight of the operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational and Reputational Risk Committee, where current operational risk issues and developments are reported and discussed. UniCredit Bulbank AD applies the Advanced Measurement Approach (AMA) for its capital calculation of operational risk on stand-alone level.

Reputational risk governance activities are within the scope of the responsibilities of the Operational and Reputational Risk Unit. All relevant rules and policies for management and monitoring of reputational risk exposure have been adopted in full compliance with the UniCredit Group guidelines. The newly created Reputational Risk Committee is a dedicated decision-making body on reputational risks topics.

### (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 located in Financial Risk and Models Unit. Market risk control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book 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.

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 ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily analysis of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.

UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level 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, 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 traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2020, VaR of FVtOCI positions (measured with 1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between EUR 2.65 million and EUR 6.57 million, averaging EUR 5.17 million, with credit spreads being main driver. VaR of FVtPL positions moved in a range between EUR 0.15 million and EUR 0.55 million, averaging EUR 0.37 million.

VaR of UniCredit Bulbank AD by portfolio in EUR million for 2020 on stand-alone basis is as follows:

| RISK CATEGORY | MINIMUM | MAXIMUM | AVERAGE | YEAR-END |
|---|---|---|---|---|
| FVtPL | 0.15 | 0.55 | 0.37 | 0.40 |
| FVtOCI | 2.65 | 6.57 | 5.17 | 5.71 |

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate 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' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2020 (change in value due to 1 basis point shift, amounts in EUR, trading and banking books):

IR BASIS POINT SHIFT (EUR)

| CCY | 0-3M | 3M-1Y | 1Y-3Y | 3Y-10Y | 10Y- | SUM |
|---|---|---|---|---|---|---|
| EUR | (1,890) | 5,895 | (27,783) | 151,513 | 1,307 | 129,042 |
| BGN | 18,379 | 25,626 | 58,667 | 76,279 | (75,535) | 103,416 |
| USD | (5,063) | 2,885 | 225 | (36) | - | (1,989) |
| CHF | (65) | 252 | 1 | (25) | (7) | 155 |
| GBP | 79 | 372 | 28 | - | - | 479 |
| Other | 8 | (302) | - | - | - | (293) |
| **Total Absolute** | **11,448** | **34,729** | **31,139** | **227,730** | **(74,235)** | **230,810** |

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2020 totaled EUR 955 291. Instruments issued by governments account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT (EUR)

| ISSUER | 0-3M | 3M-1Y | 1Y-3Y | 3Y-10Y | 10Y- | SUM |
|---|---|---|---|---|---|---|
| Sovereigns | (295) | (13,703) | (124,239) | (708,080) | (75,648) | (921,965) |
| Regional governments | - | - | (199) | (199) | - | (398) |
| Corporates | - | (49) | (15,926) | (16,953) | - | (32,928) |
| **Total Absolute** | **295** | **13,751** | **140,363** | **725,233** | **75,648** | **955,291** |

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position up are reported at least monthly to ALCO. In 2020 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

In response to the outbreak of Covid-19 pandemic the Bank activated from March 2020 till October 2020 the business continuity management plans to ensure regular execution of its Treasury activities and proper information flows to the senior management and the Supervisor. Three additional stress test scenarios were introduced and monitored for the period, to enhance the close tracking of the pandemic reflection on the Bank's liquidity. Impacts on market risk exposures and liquidity were insignificant, thanks to the conservative investment strategy and strong funding profile largely independent from wholesale markets.

A behavioural modelling of non-maturing deposits (NMDs) has been introduced in Q2 2020 in compliance with the respective EBA Guidelines. The model estimates the liquidity and interest rate characteristics of the customer positions following the real behaviour, 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.

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.

As of December 31, 2020 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 | 6 568 629 | 27 023 | **6 595 652** |
| Non-derivative financial assets held for trading | 15 263 | 1 744 | **17 007** |
| Derivatives held for trading | 45 786 | 33 094 | **78 880** |
| Derivatives held for hedging | 16 | - | **16** |
| Loans and advances to banks | 1 276 993 | 149 845 | **1 426 838** |
| Loans and advances to customers | 11 729 481 | 130 862 | **11 860 343** |
| Investment securities | 3 661 995 | 14 625 | **3 676 620** |
| Investments in subsidiaries and associates | 55 479 | - | **55 479** |
| Property, plant, equipment and investment properties | 225 126 | - | **225 126** |
| Intangible assets | 77 656 | - | **77 656** |
| Current tax assets | 738 | - | **738** |
| Non current assets and disposal groups classified as held for sale | 19 357 | - | **19 357** |
| Other assets | 73 501 | 315 | **73 816** |
| **TOTAL ASSETS** | **23 750 020** | **357 508** | **24 107 528** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 68 175 | 33 219 | **101 394** |
| Derivatives used for hedging | 105 683 | - | **105 683** |
| Deposits from banks | 1 648 986 | 269 221 | **1 918 207** |
| Deposits from customers and other financial liabilities at amortize cost | 17 156 373 | 1 522 509 | **18 678 882** |
| Provisions | 101 941 | 5 705 | **107 646** |
| Deferred tax liabilities | 5 552 | - | **5 552** |
| Other liabilities | 109 498 | 4 087 | **113 585** |
| **TOTAL LIABILITIES** | **19 196 208** | **1 834 741** | **21 030 949** |
| **EQUITY** | **3 076 579** | **-** | **3 076 579** |
| **Net off-balance sheet spot and forward position** | **(1 559 025)** | **1 479 208** | **(79 817)** |
| **Net position** | **(81 792)** | **1 975** | **(79 817)** |

As of December 31, 2019 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 | 2 043 161 | 22 005 | **2 065 166** |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | **39 090** |
| Derivatives held for trading | 62 213 | 6 114 | **68 327** |
| Derivatives held for hedging | 226 | - | **226** |
| Loans and advances to banks | 3 634 092 | 120 011 | **3 754 103** |
| Loans and advances to customers | 11 478 432 | 165 531 | **11 643 963** |
| Available for sale investments | 3 581 632 | 13 628 | **3 595 260** |
| Investments in subsidiaries and associates | 55 479 | - | **55 479** |
| Property, plant, equipment and investment properties | 254 910 | - | **254 910** |
| Intangible assets | 67 407 | - | **67 407** |
| Non current assets and disposal groups classified as held for sale | 2 324 | - | **2 324** |
| Other assets | 92 538 | 267 | **92 805** |
| **TOTAL ASSETS** | **21 286 358** | **352 702** | **21 639 060** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 44 781 | 8 896 | **53 677** |
| Derivatives used for hedging | 90 688 | - | **90 688** |
| Deposits from banks | 402 558 | 258 129 | **660 687** |
| Deposits from customers | 16 195 330 | 1 511 079 | **17 706 409** |
| Provisions | 98 722 | 6 327 | **105 049** |
| Current tax liabilities | 3 662 | - | **3 662** |
| Deferred tax liabilities | 4 546 | - | **4 546** |
| Other liabilities | 113 030 | 6 380 | **119 410** |
| **TOTAL LIABILITIES** | **16 953 317** | **1 790 811** | **18 744 128** |
| **EQUITY** | **2 894 932** | **-** | **2 894 932** |
| Net off-balance sheet spot and forward position | (1 445 626) | 1 443 816 | (1 810) |
| **Net position** | **(7 517)** | **5 707** | **(1 810)** |

### (c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Financial risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2020, 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 2020 | UP TO 1 YEAR | OVER 1 YEAR | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Non-derivative financial assets held for trading | 17 007 | - | **17 007** |
| Loans and advances to banks | 1 328 195 | 98 643 | **1 426 838** |
| Loans and advances to customers | 4 361 132 | 7 499 211 | **11 860 343** |
| Investment securities | 130 644 | 3 545 976 | **3 676 620** |
| Other assets | 50 408 | 23 408 | **73 816** |
| **TOTAL FINANCIAL ASSETS** | **5 887 386** | **11 167 238** | **17 054 624** |

*In thousands of BGN*

| MATURITY TABLE AS AT 31 DECEMBER 2019 | UP TO 1 YEAR | OVER 1 YEAR | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | **39 090** |
| Loans and advances to banks | 3 614 284 | 139 819 | **3 754 103** |
| Loans and advances to customers | 4 191 592 | 7 452 371 | **11 643 963** |
| Investment Securities | 342 871 | 3 252 389 | **3 595 260** |
| Other assets | 60 040 | 32 765 | **92 805** |
| **TOTAL FINANCIAL ASSETS** | **8 222 731** | **10 902 490** | **19 125 221** |

*In thousands of BGN*

| MATURITY TABLE AS AT 31 DECEMBER 2020 | 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 | **1 918 207** | (1 918 086) | (1 914 621) | - | - | (3 465) |
| Deposits from customers and other financial liabilities at amortized cost | **18 678 882** | (18 679 232) | (15 986 527) | (948 944) | (1 451 486) | (292 275) |
| Unutilized credit lines | **-** | (3 895 277) | (3 895 277) | - | - | - |
| **Total non-derivative instruments** | **20 597 089** | **(24 492 595)** | **(21 796 425)** | **(948 944)** | **(1 451 486)** | **(295 740)** |
| **Derivatives held for trading, net** | **(22 514)** | | | | | |
| Outflow | | (4 789 347) | (3 390 268) | (1 173 333) | (105 945) | (119 801) |
| Inflow | | 4 807 920 | 3 399 436 | 1 165 777 | 108 796 | 133 911 |
| **Derivatives used for hedging, net** | **(105 667)** | | | | | |
| Outflow | | (98 695) | - | (9 522) | (9 175) | (79 998) |
| Inflow | | 9 262 | - | 1 | 38 | 9 223 |
| **Total derivatives** | **(128 181)** | **(70 860)** | **9 168** | **(17 077)** | **(6 286)** | **(56 665)** |
| **Total financial liabilities** | **20 468 908** | **(24 563 455)** | **(21 787 257)** | **(966 021)** | **(1 457 772)** | **(352 405)** |

*In thousands of BGN*

| | | | | | | |
|---|---|---|---|---|---|---|
| **Non derivative instruments** | | | | | | |
| Deposits from banks | **660 687** | (660 695) | (654 745) | - | - | (5 950) |
| Deposits from customers and other financial liabilities at amortized cost | **17 706 409** | (17 707 082) | (5 345 198) | (1 645 148) | (3 035 161) | (7 681 575) |
| Unutilized credit lines | **-** | (4 302 338) | (584 947) | (218 581) | (983 613) | (2 515 197) |
| **Total non-derivative instruments** | **18 367 096** | **(22 670 115)** | **(6 584 890)** | **(1 863 729)** | **(4 018 774)** | **(10 202 722)** |
| **Derivatives held for trading, net** | **14 650** | | | | | |
| Outflow | | (4 789 347) | (3 390 268) | (1 173 333) | (105 945) | (119 801) |
| Inflow | | 4 807 920 | 3 399 436 | 1 165 777 | 108 796 | 133 911 |
| **Derivatives used for hedging, net** | **(90 462)** | | | | | |
| Outflow | **-** | (98 695) | - | (9 522) | (9 175) | (79 998) |
| Inflow | **-** | 9 262 | - | 1 | 38 | 9 223 |
| **Total derivatives** | **(75 812)** | **(70 860)** | **9 168** | **(17 077)** | **(6 286)** | **(56 665)** |
| **Total financial liabilities** | **18 291 284** | **(22 740 975)** | **(6 575 722)** | **(1 880 806)** | **(4 025 060)** | **(10 259 387)** |

## (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 strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

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

The analysis based on client credit quality and rating (where available) as of December 31, 2020 and December 31, 2019 is as shown in the next table:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Government bonds** | | |
| Rated BBB- | **12 416** | 10 453 |
| **Equities** | | |
| Unrated | 2 847 | 3 491 |
| **Loan** | | |
| Rated BBB | 1 744 | 25 146 |
| **Derivatives (net)** | | |
| Banks and financial institution counterparties | (190 111) | (115 274) |
| Corporate counterparties | 61 930 | 39 462 |
| **Total trading assets and liabilities** | **(111 174)** | **(36 722)** |

Government bonds presented as of December 31, 2020 and as of December 31, 2019 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 Provisioning and Restructuring Committee (PRC) established in the Bank.

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

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

The financial year 2020 was marked by an unprecedented pandemic situation with significant repercussions on economic and social life, to which the Bank has quickly adapted. To prevent further negative impacts and support its clients in the widespread crisis, the Bank:

- actively participated in the introduced in Bulgaria non-legislative public-like moratorium initiated by the Association of the Banks in Bulgaria and approved by Bulgarian National Bank, which is fully compliant with the EBA "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" and approved as such by the Bulgarian National Bank. As of December 2020 nearly 7 300 customers have applied for such moratoria measures and the gross carrying amount of the approved loans is over BGN 1.2 billion;
- introduced bank-specific set of stabilization measures for the cases that could not be addressed by the mentioned moratorium (with no preferential regulatory treatment). As of December 2020 nearly 850 customers have applied for such stabilization measures and the gross carrying amount of the approved loans is over BGN 200 million; and
- actively participated in the Covid programs for guaranteed by the Bulgarian Development Bank AD loans to private individuals and companies affected by the pandemic as part of the government response to the crisis. As of December 2020 nearly 4 170 customers have applied for such moratoria measures and gross carrying amount of the approved loans is over BGN 33 million.

With regard to the above mentioned circumstances the Bank has adapted an updated baseline economic scenario and adverse and positive scenarios within IFRS 9 model.

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 monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as 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 capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups (excluding related parties) of customers as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| | CREDIT RISK EXPOSURE BEFORE RISK TRANSFER | | CREDIT RISK EXPOSURE AFTER RISK TRANSFER | | % OF OWN FUNDS | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Biggest credit risk exposure to customers' group | 531 317 | 410 327 | 459 028 | 358 426 | 15.9% | 14,4% |
| Credit risk exposure to top five biggest customers' groups | 1 385 391 | 1 320 743 | 1 069 108 | 1 095 449 | 36.9% | 44,1% |

The table below analyses the breakdown of loss allowances as of December 31, 2020 and December 31, 2019 on different classes:

*In thousands of BGN*

| LOSS ALLOWANCE BY CLASSES | 2020 | 2019 |
|---|---|---|
| Cash and balances with Central Bank | 165 | 39 |
| Loans and advances to banks at amortised cost | 374 | 478 |
| Loans and advances to customers at amortised cost | 694 690 | 554 414 |
| Debt investment securities at amortised cost | 117 | 260 |
| Debt investment securities at FVTOCI | 7 288 | 2 823 |
| Loan commitments | 16 842 | 16 212 |
| Financial guarantee contractss | 42 224 | 46 550 |
| Accumulated negative changes in fair value due to credit risk on non-performing exposures mandatory at FV | 2 154 | - |
| **Total Loss allowance by classes** | **763 854** | **620 776** |

The tables below analyse the movement of the loss allowance during the year per class of assets:

*In thousands of BGN*

| LOSS ALLOWANCE – LOANS AND ADVANCES AND DEBT SEQURITIES TO BANKS AT AMORTISED COST | STAGE 1 | STAGE 2 | STAGE 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **Loss allowance as at 31.12.2019** | **(478)** | - | - | - | **(478)** |
| New financial assets originated or purchased | (204) | - | - | - | **(204)** |
| Financial assets that have been derecognised | 308 | - | - | - | **308** |
| **Loss allowance as at 31.12.2020** | **(374)** | - | - | - | **(374)** |

*In thousands of BGN*

| LOSS ALLOWANCE – LOANS AND ADVANCES TO BANKS AT AMORTISED COST | STAGE 1 12-MONTH ECL | STAGE 2 LIFETIME ECL | STAGE 3 LIFETIME ECL | POCI | TOTAL |
|---|---|---|---|---|---|
| | CUM | CUM | CUM | CUM | CUM |
| | | | | | |
| **Loss allowance as at 31.12.2019** | **(45 178)** | (98 472) | (410 540) | (484) | **(554 674)** |
| Changes in the loss allowance | | | | | |
| Transfer to stage 1 | (2 963) | 2 961 | 2 | - | **-** |
| Transfer to stage 2 | 30 067 | (30 400) | 333 | - | |
| Transfer to stage 3 | 64 116 | 72 712 | (136 828) | - | **-** |
| Increases due to change in credit risk | (107 257) | (71 219) | (48 646) | - | **(227 122)** |
| Decreases due to change in credit risk | 9 905 | 44 788 | 34 461 | - | **89 154** |
| Write-offs | - | - | 14 033 | - | **14 033** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | **-** |
| New financial assets originated or purchased | (10 740) | (14 047) | (12 801) | (253) | **(37 841)** |
| Financial assets that have been derecognised | 4 757 | 7 324 | 11 130 | - | **23 211** |
| Changes in models/risk parameters | - | - | - | - | **-** |
| Foreign exchange and other movements | - | - | (1 568) | - | **(1 568)** |
| **Loss allowance as at 31.12.2020** | **(57 293)** | **(86 353)** | **(550 424)** | **(737)** | **(694 807)** |

The tables below analyse the movement of the customers portfolio at amortised cost in terms of quality and respective movements of the gross carrying amounts during 2020 as per IFRS 9 requirements:

*In thousands of BGN*

| LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST | YEAR ENDED 2020 | | | | | YEAR ENDED 2019 |
|---|---|---|---|---|---|---|
| | STAGE 1 | STAGE 2 | STAGE 3 | POCI | TOTAL | TOTAL |
| Grades 1-3: Low to fair risk | 4 286 633 | 7 330 | - | - | **4 293 963** | **4 880 256** |
| Grades 4-6: Monitoring | 5 939 187 | 780 314 | - | - | **6 719 501** | **5 874 238** |
| Grades 7-8: Substandard | 74 937 | 631 975 | - | - | **706 912** | **878 207** |
| Grade 9: Doubtful | - | - | 483 553 | 737 | **484 290** | **305 266** |
| Grade 10: Impaired | - | - | 263 657 | - | **263 657** | **249 536** |
| | | | | | | |
| **Total gross carrying amount** | **10 300 757** | **1 419 619** | **747 210** | **737** | **12 468 323** | **12 187 503** |
| Loss allowance | (57 176) | (86 353) | (551 161) | | **(694 690)** | **(554 414)** |
| **Carrying amount** | **10 243 581** | **1 333 266** | **196 049** | **737** | **11 773 633** | **11 633 089** |

*In thousands of BGN*

| DEBT INVESTMENT SECURITIES AT AMORTISED COST | YEAR ENDED 2020 | | | | | YEAR ENDED 2019 |
|---|---|---|---|---|---|---|
| | STAGE 1 | STAGE 2 | STAGE 3 | POCI | TOTAL | TOTAL |
| Grades 1-3: Low to fair risk | 80 191 | - | - | - | **80 191** | **6 977** |
| Grades 4-6: Monitoring | 4 263 | - | - | - | **4 263** | **-** |
| Grades 7-8: Substandard | - | - | - | - | **-** | **-** |
| Grade 9: Doubtful | - | - | - | - | **-** | **-** |
| Grade 10: Impaired | - | - | - | - | **-** | **-** |
| | | | | | | |
| **Total gross carrying amount** | **84 454** | **-** | **-** | **-** | **84 454** | **6 977** |
| Loss allowance | (117) | - | - | - | **(117)** | **(260)** |
| **Carrying amount** | **84 337** | **-** | **-** | **-** | **84 337** | **6 717** |

*In thousands of BGN*

| LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST | STAGE 1 | STAGE 2 | STAGE 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **Gross carrying amount as at 31.12.2019** | **10 411 972** | **1 227 706** | **554 318** | **484** | **12 194 480** |
| **Changes in the gross carrying amount** | **(434 671)** | 186 357 | 248 314 | - | **-** |
| Transfer to stage 1 | 326 363 | (325 592) | (771) | - | **-** |
| Transfer to stage 2 | (635 278) | 642 871 | (7 593) | - | **-** |
| Transfer to stage 3 | (125 756) | (130 922) | 256 678 | - | **-** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | **-** |
| New financial assets originated or purchased | 2 249 539 | 177 199 | 17 558 | 253 | **2 444 549** |
| Financial assets that have been derecognised | (854 814) | (83 244) | (14 912) | - | **(952 970)** |
| Write-offs | - | - | (14 033) | - | **(14 033)** |
| Other changes (repayments) | (986 815) | (88 399) | (44 035) | - | **(1 119 249)** |
| **Gross carrying amount as at 31.12.2020** | **10 385 211** | 1 419 619 | 747 210 | 737 | **12 552 777** |

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

*In thousands of BGN*

| | LOANS AND ADVANCES TO CUSTOMERS | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| **Defaulted exposures** | | |
| Cash collateral | 6 567 | 4 110 |
| Property | 1 007 847 | 697 121 |
| Debt securities | 463 | - |
| Other collateral | 677 193 | 349 667 |
| | | |
| **Performing exposures** | | |
| Cash collateral | 60 079 | 171 030 |
| Property | 11 070 326 | 11 250 572 |
| Debt securities | 9 509 | 9 972 |
| Other collateral | 7 912 113 | 9 271 388 |
| Corporate counterparties | 61 930 | 39 462 |
| **Total** | **20 744 097** | **21 753 860** |

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

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| | LOANS AND ADVANCES TO CUSTOMERS | | LOANS AND ADVANCES TO BANKS | | INVESTMENT SECURITIES | |
|---|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| **Concentration by sectors** | | | | | | |
| Sovereign | 463 162 | 373 633 | - | - | 3 523 292 | 3 200 939 |
| Manufacturing | 2 271 863 | 2 256 088 | - | - | 50 923 | 81 915 |
| Commerce | 1 826 807 | 1 915 963 | - | - | - | - |
| Construction and real estate | 1 519 010 | 1 405 028 | - | - | 67 | 67 |
| Agriculture and forestry | 417 901 | 451 645 | - | - | - | - |
| Transport and communication | 606 453 | 456 446 | - | - | 107 | - |
| Tourism | 216 855 | 198 010 | - | - | - | - |
| Services | 438 580 | 396 424 | - | - | 655 | 655 |
| Financial services | 2 193 220 | 2 246 056 | 1 427 212 | 3 754 581 | 157 055 | 367 163 |
| Retail (individuals) | | | | | | |
| Housing loans | 2 370 470 | 2 228 485 | - | - | - | - |
| Consumer loans | 167 745 | 193 766 | - | - | - | - |
| Other | 65 238 | 77 093 | - | - | - | - |
| | **12 557 304** | **12 198 637** | **1 427 212** | **3 754 581** | **3 732 099** | **3 650 739** |
| Impairment allowances | (696 961) | (554 674) | (374) | (478) | - | - |
| | | | | | - | - |
| **Total** | **11 860 343** | **11 643 963** | **1 426 838** | **3 754 103** | **3 732 099** | **3 650 739** |
| **Concentration by geographic location** | | | | | | |
| Europe | 12 522 127 | 12 166 235 | 1 392 970 | 3 684 865 | 3 717 474 | 3 637 111 |
| North America | 18 646 | 16 596 | 9 135 | 12 561 | 14 625 | 13 628 |
| Asia | 16 391 | 15 662 | 24 843 | 56 020 | - | - |
| Africa | 20 | 21 | 131 | 1 081 | - | - |
| South America | 19 | 22 | - | - | - | - |
| Australia | 101 | 101 | 133 | 54 | - | - |
| | **12 557 304** | **12 198 637** | **1 427 212** | **3 754 581** | **3 732 099** | **3 650 739** |
| Impairment allowances and accumulated negative changes in fair value due to credit risk on non-performing exposures | (696 961) | (554 674) | (374) | (478) | - | - |
| **Total** | **11 860 343** | **11 643 963** | **1 426 838** | **3 754 103** | **3 732 099** | **3 650 739** |

## (e) 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 (including legal risk). Examples of events include compensations paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud. Such events are subject to consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital held for operational risk is based.

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

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

The main activities of the OpRepRisk Unit in 2020 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks and ensuring business continuity during the Covid-19 situation.

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; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring. The RCSA activity was defined in 2019, performed in UniCredit Bulbank on an annual basis and further enhanced in 2020. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of ORR Unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

Several OpRisk assessments dedicated to Covid-19 impact were performed in 2020, including:

- 10 most critical processes (identified through the Business Impact Analysis) were evaluated in terms of most important operational risks affecting them;
- several clusters of processes (Payments, Onboarding, Lending, Treasury, etc.) were assessed together with the process owners based on predefined key root causes; risks and controls/measures were identified and additional update was provided to the Holding;
- OpRisk assessment on moratorium, public guarantees and social wage advance was performed. Sets of root causes predefined by Holding ORM function had to be assessed in terms of mitigation actions existence and risk mitigation level evaluation.

All activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner with no delay.

In 2020 CEE MORO (Markets Operational Risk Optimization) Project review was launched by the Holding. The main goals of the project were to review and update MORO controls as per the latest business and regulatory development and strengthen and optimize those controls to further reduce operational risk. Final overall status was defined as Mostly Satisfactory. Throughout the year, ORR Unit continued its important participation in other risk mitigation and compliance-oriented projects such as GDPR and PSD2.

The established Operational and Reputational Risk Committee greatly enhances the regular exchange of information and promotion of the operational risk awareness within the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Overall, the organization of operational and reputational risk management in UniCredit Bulbank is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible overall rating to the local OpRisk management and internal control framework. The outcome of these assessments also proves full compliance to the regulatory and Group standards. A sound and well-developed risk management system was established with strong focus on pro-activeness with full support of senior management and all functions in the Bank.

During 2020 the OpRepRisk Unit continued to develop and strength 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 Reputational Risk Committee (RRC), which was established in the beginning of 2020, held regular meetings to discuss deals and issues in the scope of the reputational risk.

The risk culture has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness at Bank level. Starting from March 2020 all trainings were organized as remote sessions. In 2020 and 2021 the unit participates in a dedicated training aiming to improve the expertise of the branch managers of the retail network of the bank.

In 2021 the OpRepRisk Unit will further develop and successfully finalize the projects and activities started in 2020, most of which related to the newly introduced regulatory requirements. Additional efforts will be dedicated to further strengthening the control framework via dedicated projects and processes assessments. The unit will continue the methodological support, training and monitoring of the legal entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards. The monitoring was improved in 2020 via introduction of the new Operational Risk Oversight model of UniCredit Group focused on smaller legal entities like the subsidiaries of UniCredit Bulbank.

The Reputational Risk Management is implemented within the Group 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., GORRIC);
- Rule the necessary escalation / decision-making processes (e.g. material events escalation process)

The overall reputational risk management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies, in all the relevant decisions regarding the Reputational Risk management (i.e., escalation mechanisms);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- An effective system of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defence model).

During the year a new Reputational Risk Policy regarding Non-Conventional Oil & Gas and Arctic Region Oil & Gas Industry Sector was adopted and implemented. Adopted were also updates within the existing Defense/Weapons Industry Reputational Risk Global Policy and Coal Sector Environmental, Social and Reputational Risk Global Policy. In 2021 UniCredit Bulbank will implement new coal-related sector policy.

### (f) Basel III disclosure

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

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 of 0.5% (or combined buffers additional capital requirement of 6%). In addition to those starting from 2019 also Countercyclical capital buffer has been introduced at the level of 0.5% and capital buffer for other systemic important institution has been increased to 0.75%. 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, 2020 are 11.5%, 13%, 15% (as of December 31, 2019 – 11.5%, 12.75%, 14.75%), respectively.

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

### Securitization

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2020 is presented in the table below:

| NAME | EIF JEREMIE | |
|---|---|---|
| Type of securitisation: | First Loss Portfolio Guarantee | |
| Originator: | UniCredit Bulbank | |
| Issuer: | European Investment Fund | |
| Target transaction : | Capital Relief and risk transfer | |
| Type of asset: | Highly diversified and granular pool of newly granted SME loans | |
| Quality of Assets as of December 31, 2020 | Performing loans | |
| Agreed maximum portfolio volume: | EUR 85,000 thousand | |
| Nominal Value of reference portfolio: | BGN 4,235 thousand | |
| Issued guarantees by third parties: | First loss cash coverage by EIF | |
| Amount and Condition of tranching: | | |
| Type of tranche | Senior | Junior |
| Reference Position as of December 31, 2020 | BGN 0 | BGN 3,388 thousand |

### (i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2020 and December 31, 2019 are as follows:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Regulatory own funds** | | |
| Core Equity Tier 1 (CET 1) | 2 846 764 | 2 431 871 |
| Tier 1 capital | 2 846 764 | 2 431 871 |
| Tier 2 capital | 47 165 | 52 110 |
| **Total regulatory own funds** | **2 893 929** | **2 483 981** |
| **Risk Weighted Assets (RWA)** | | |
| RWA for credit risk | 10 198 674 | 11 670 005 |
| RWA for market risk | 85 813 | 100 225 |
| RWA for operational risk | 798 238 | 813 763 |
| RWA for credit valuation adjustments | 6 388 | 10 025 |
| **Total Risk Weighted Assets (RWA)** | **11 089 113** | **12 594 018** |
| **CET 1 ratio** | **25,67%** | **19,31%** |
| **Tier 1 ratio** | **25,67%** | **19,31%** |
| **Total capital adequacy ratio** | **26,10%** | **19,72%** |
| **Minimum CET 1 capital requirements (4.5%)** | **499 010** | **566 731** |
| **Minimum Tier 1 capital requirements (6% )** | **665 347** | **755 641** |
| **Minimum total capital requirements (8%)** | **887 129** | **1 007 521** |
| Additional capital requirements for conservation buffer (2.5%) | 277 228 | 314 850 |
| Additional capital requirements for systemic risk buffer (3%) | 332 673 | 377 821 |
| Additional capital requirements for other systemic important institution (2019-0.75%, 2020-1%) | 110 891 | 94 455 |
| Additional capital requirements for countercyclical capital buffer (0.5%) | 55 446 | 62 970 |
| **Combined buffers additional capital requirements (2019-6.75%, 2020-7%)** | **776 238** | **850 096** |
| Adjusted minimum CET 1 capital requirements after buffers (11.25% -2019, 11.50% - 2020;) | 1 275 248 | 1 416 827 |
| Adjusted minimum Tier 1 capital requirements, including buffers (12.75% -2019; 13% - 2020 ) | 1 441 585 | 1 605 737 |
| Adjusted minimum total capital requirements after buffers (14.75% -2019; 15%- 2020) | 1 663 367 | 1 857 618 |
| **Free equity, after buffers** | **1 230 562** | **626 363** |

### (g) Climate-related and environmental risks

Climate change-related risks (both physical and transition) and the accompanying shift towards sustainable finance are mounting challenges to the financial sector and may impact other types of risks.

In the context of an evolving regulatory framework that in 2020 put even more emphasis on the climate risk topic, the UniCredit Group aims to continue 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 possible requests of the regulatory authorities.

A very first step in the achievement of this important aspiration was the setting up of a dedicated team within the Group Risk Management (GRM) function, responsible for the supervision and management of issues related to climate change and environmental risks and UniCredit's approach to sensitive sectors. A major step forward put in place by the team is the definition of a dedicated internal methodology aimed at assessing Climate and Environmental exposure and vulnerability of the lending portfolio. Furthermore, UniCredit was one of the participating banks to the Paris Agreement Capital Transition Assessment (PACTA) methodology developed by 2° Investing Initiative (2°ii). UniCredit Group also participated to the European Banking Authority 2020 voluntary pilot sensitivity exercise. With reference to physical risk it has been performed a preliminary estimation at Group level of potential impact of some chronic (i.e. sea-level rise) and acute (i.e. Landslide and Flooding) hazards on the value of mortgage collaterals related to properties located on the most exposed areas. UniCredit group endorsed the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, signed up to the Principles for Responsible Banking (PRB), launched by the United Nations Environment Program to help banks align their business strategy with society's goals.

## 5. Use of estimates and judgements

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

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

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

### (a) Fair value determination of financial instruments

As described in note **3 (h) (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 2020 and 2019 see also Note **10**).

### 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 2020, 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.

### 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, 2020 and December 31, 2019 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| INSTRUMENT CATEGORY | LEVEL 1 | | LEVEL 2 | | LEVEL 3 | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| Non derivative financial assets held for trading | 15 263 | 10 725 | 1 744 | 28 365 | - | - | **17 007** | **39 090** |
| Derivatives held for trading | - | - | 78 880 | 67 732 | - | 595 | **78 880** | **68 327** |
| Derivatives held for hedging | - | - | 16 | 226 | - | - | **16** | **226** |
| Investment securities | 2 507 886 | 2 276 481 | 1 125 461 | 1 268 777 | 43 273 | 50 002 | **3 676 620** | **3 595 260** |
| Loans and advances to banks | - | - | 1 235 449 | 3 752 466 | 289 539 | - | **1 524 988** | **3 752 466** |
| Loans and advances to customers | - | - | 4 338 652 | 3 868 052 | 6 288 156 | 8 210 462 | **10 626 808** | **12 078 514** |
| | **2 523 149** | **2 287 206** | **6 780 202** | **8 985 618** | **6 620 968** | **8 261 059** | **15 924 319** | **19 533 883** |
| | | | | | | | | |
| Financial liabilities held for trading | - | - | 101 394 | 53 677 | - | - | **101 394** | **53 677** |
| Derivatives used for hedging | - | - | 105 683 | 90 688 | - | - | **105 683** | **90 688** |
| Deposits from banks | - | - | - | - | 1 919 255 | 665 374 | **1 919 255** | **665 374** |
| Deposits from customers and lease liabilities | - | - | - | - | 18 679 634 | 17 702 236 | **18 679 634** | **17 702 236** |
| | **-** | **-** | **207 077** | **144 365** | **20 598 889** | **18 367 610** | **20 805 966** | **18 511 975** |

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2020 is as follows:

*In thousands of BGN*

| | FINANCIAL ASSETS HELD FOR TRADING | INVESTMENT SECURITIES |
|---|---|---|
| **Opening balance (January 1, 2020)** | **595** | **50 002** |
| **Increases** | **-** | **1 710** |
| Purchase | - | - |
| Profit recognized in income statement | - | 1 179 |
| Profit recognized in equity | - | 240 |
| Other increases | **-** | 291 |
| **Decreases** | **(595)** | **(8 439)** |
| Redemption | - | (748) |
| Loses recognized in income statement | (595) | - |
| Transfer to other levels | - | (7 073) |
| Other decreases | - | (618) |
| **Closing balance (December 31, 2020)** | **-** | **43 273** |

The tables below analyses the fair value of financial instruments by classification as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| DECEMBER 2020 | 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 | - | - | - | - | 6 595 652 | **6 595 652** | **6 596 933** |
| Non-derivative financial assets held for trading | 15 263 | 1 744 | - | - | - | **17 007** | **17 007** |
| Derivatives held for trading | 78 880 | - | - | - | - | **78 880** | **78 880** |
| Derivatives held for hedging | - | - | - | 16 | - | **16** | **16** |
| Loans and advances to banks | - | 1 426 838 | - | - | - | **1 426 838** | **1 524 988** |
| Loans and advances to customers | - | 11 860 343 | - | - | - | **11 860 343** | **10 626 808** |
| Investment securities | - | - | 3 676 620 | - | - | **3 676 620** | **3 676 620** |
| **TOTAL ASSETS** | **94 143** | **13 288 925** | **3 676 620** | **16** | **6 595 652** | **23 655 356** | **22 521 252** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading | 101 394 | - | - | - | - | **101 394** | **101 394** |
| Derivatives used for hedging | - | - | - | 105 683 | - | **105 683** | **105 683** |
| Deposits from banks | - | - | - | - | 1 918 207 | **1 918 207** | **1 919 255** |
| Deposits from customers | - | - | - | - | 18 678 882 | **18 678 882** | **18 679 634** |
| **TOTAL LIABILITIES** | **101 394** | **-** | **-** | **105 683** | **20 597 089** | **20 804 166** | **20 805 966** |

*In thousands of BGN*

| DECEMBER 2019 | FAIR VALUE THROUGH PROFIT OR LOSS | LOANS AND RECEIVABLES | AVAILABLE FOR SALE | CFH DERIVATIVES | OTHER AMORTIZED COST | TOTAL CARRYING AMOUNT | FAIR VALUE |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with Central bank | - | - | - | - | 2 065 166 | **2 065 166** | **2 065 205** |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | - | - | - | **39 090** | **39 090** |
| Derivatives held for trading | 68 327 | - | - | - | - | **68 327** | **68 327** |
| Derivatives held for hedging | - | - | - | 226 | - | **226** | **226** |
| Loans and advances to banks | - | 3 754 103 | - | - | - | **3 754 103** | **3 752 466** |
| Loans and advances to customers | - | 11 643 963 | - | - | - | **11 643 963** | **12 078 514** |
| Available for sale Investments | - | - | 3 595 260 | - | - | **3 595 260** | **3 595 260** |
| **TOTAL ASSETS** | **82 271** | **15 423 212** | **3 595 260** | **226** | **2 065 166** | **21 166 135** | **21 599 088** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading | 53 677 | - | - | - | - | **53 677** | **53 677** |
| Derivatives used for hedging | - | - | - | 90 688 | - | **90 688** | **90 688** |
| Deposits from banks | - | - | - | - | 660 687 | **660 687** | **665 374** |
| Deposits from customers | - | - | - | - | 17 706 409 | **17 706 409** | **17 702 236** |
| **TOTAL LIABILITIES** | **53 677** | **-** | **-** | **90 688** | **18 367 096** | **18 511 461** | **18 511 975** |

### (b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2020 and December 31, 2019 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note 29).

### (c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortised cost 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.

## 6. Segment reporting

Business segments pay and receive interest from the Asset-Liability Management Department (ALM) on arms' length basis, through given Fund Transfer Pricing rate (FTP) to reflect the funding costs per currencies/tenors. Allocation of capital is also carried out, in proportion to respective 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 2020 | RETAIL BANKING | CIB AND PRIVATE BANKING | ALM AND OTHER | TOTAL |
|---|---|---|---|---|
| Net interest income | 171 420 | 202 873 | (26 298) | **347 995** |
| Dividend income | - | - | 100 037 | **100 037** |
| Net fee and commission income | 139 916 | 72 618 | (310) | **212 224** |
| Net gains from financial assets and liabilities held for trading and hedging derivatives | 21 773 | 50 441 | 6 233 | **78 447** |
| Net gains from financial assets mandatory at fair value | - | - | (99) | **(99)** |
| Net income from financial assets measured at FVTOCI | - | 9 639 | 893 | **10 532** |
| Other operating expenses | (27 986) | (40 371) | (696) | **(69 053)** |
| **TOTAL OPERATING INCOME** | **305 123** | **295 200** | **79 760** | **680 083** |
| Personnel expenses | (62 458) | (19 271) | (58 816) | **(140 545)** |
| General and administrative expenses | (57 783) | (14 396) | (31 057) | **(103 236)** |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | (21 209) | (5 452) | (12 632) | **(39 293)** |
| **Total direct expenses** | **(141 450)** | **(39 119)** | **(102 505)** | **(283 074)** |
| Allocation of indirect and overhead expenses | (62 726) | (34 386) | 97 112 | **-** |
| **TOTAL OPERATING EXPENSES** | **(204 176)** | **(73 505)** | **(5 393)** | **(283 074)** |
| Provisions for risk and charges | (165) | 3 649 | (9 146) | **(5 662)** |
| Net impairment loss on financial assets | (32 068) | (115 639) | (5 436) | **(153 143)** |
| Net income related to property, plant and equipment | - | - | 59 | **59** |
| **PROFIT BEFORE INCOME TAX** | **68 714** | **109 705** | **59 844** | **238 263** |
| Income tax expense | (6 871) | (10 971) | 3 557 | **(14 285)** |
| **PROFIT FOR THE YEAR** | **61 843** | **98 734** | **63 401** | **223 978** |
| **ASSETS** | **3 170 899** | **9 438 179** | **11 498 450** | **24 107 528** |
| **LIABILITIES** | **11 583 264** | **7 083 943** | **2 363 742** | **21 030 949** |

*In thousands of BGN*

| DECEMBER 2019 | RETAIL BANKING | CIB AND PRIVATE BANKING | ALM AND OTHER | TOTAL |
|---|---|---|---|---|
| Net interest income | 195 742 | 214 770 | (26 551) | **383 961** |
| Dividend income | - | - | 119 527 | **119 527** |
| Net fee and commission income | 160 481 | 76 814 | (309) | **236 986** |
| Net gains from financial assets and liabilities held for trading and hedging derivatives | 23 823 | 50 171 | 24 743 | **98 737** |
| Net gains from financial assets mandatorily at fair value | - | - | 4 144 | **4 144** |
| Net income from financial assets measured at FVTOCI | - | 32 828 | 991 | **33 819** |
| Other operating expenses, net | (27 402) | (35 653) | (1 010) | **(64 065)** |
| **TOTAL OPERATING INCOME** | **352 644** | **338 930** | **121 535** | **813 109** |
| Personnel expenses | (60 172) | (18 805) | (56 539) | **(135 516)** |
| General and administrative expenses | (58 220) | (15 346) | (24 668) | **(98 234)** |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | (19 642) | (5 114) | (11 077) | **(35 833)** |
| **Total direct expenses** | **(138 034)** | **(39 265)** | **(92 284)** | **(269 583)** |
| Allocation of indirect and overhead expenses | (55 824) | (32 575) | 88 399 | **-** |
| **TOTAL OPERATING EXPENSES** | **(193 858)** | **(71 840)** | **(3 885)** | **(269 583)** |
| Provisions for risk and charges | - | - | (7 411) | **(7 411)** |
| Net impairment loss on financial assets | - | - | (79 557) | **(79 557)** |
| Net income related to property, plant and equipment | - | - | 2 941 | **2 941** |
| **PROFIT BEFORE INCOME TAX** | **158 786** | **267 090** | **33 623** | **459 499** |
| Income tax expense | (15 879) | (26 709) | 8 195 | **(34 393)** |
| **PROFIT FOR THE YEAR** | **142 907** | **240 381** | **41 818** | **425 106** |
| **ASSETS** | **3 162 437** | **8 758 532** | **9 718 091** | **21 639 060** |
| **LIABILITIES** | **10 607 017** | **7 692 522** | **444 589** | **18 744 128** |

## 7. Net interest income

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Non-derivative financial assets held for trading | 262 | 570 |
| Derivatives held for trading | 28 | 248 |
| Loans and advances to banks | 4 917 | 6 541 |
| Loans and advances to customers | 331 494 | 353 661 |
| Investment securities | 56 652 | 59 727 |
| | **393 353** | **420 747** |
| **Interest expense** | | |
| Derivatives held for trading | (17) | - |
| Derivatives used for hedging | (19 345) | (18 037) |
| Deposits from banks | (23 416) | (15 391) |
| Deposits from customers | (2 580) | (3 358) |
| | **(45 358)** | **(36 786)** |
| **Net interest income** | **347 995** | **383 961** |

For the financial years ended December 31, 2020 and December 31, 2019 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 12 863 thousand and BGN 12 674 thousand, respectively.

## 8. Net fee and commission income

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Fee and commission income** | | |
| Collection and payment services | 114 445 | 147 959 |
| Lending business | 12 059 | 14 184 |
| Account services | 34 099 | 26 051 |
| Management, brokerage and securities trading | 10 949 | 7 757 |
| Documentary business | 17 007 | 17 673 |
| Package accounts | 23 534 | 22 020 |
| Other | 29 660 | 33 882 |
| | **241 753** | **269 526** |
| **Fee and commission expense** | | |
| Collection and payment services | (26 880) | (29 543) |
| Management, brokerage and securities trading | (1 360) | (1 129) |
| Lending business | (128) | (158) |
| Other | (1 161) | (1 710) |
| | **(29 529)** | **(32 540)** |
| **Net fee and commission income** | **212 224** | **236 986** |

## 9. Dividend income

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Dividend income from subsidiaries | 98 808 | 119 205 |
| Divident income from other equity participations | 1 229 | 322 |
| **Dividend income** | **100 037** | **119 527** |

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| FX trading income, net | 72 374 | 92 175 |
| Net income from debt instruments | 1 223 | 929 |
| Net loss from equity instruments | (428) | (46) |
| Net income from derivative instruments | 2 670 | 513 |
| Net income from other trading instruments | 2 876 | 5 562 |
| Net loss from hedging derivative instruments | (268) | (396) |
| **Net gains on financial assets and liabilities held for trading and hedging derivatives** | **78 447** | **98 737** |

The total CVA (net of DVA) for the years ended December 31, 2020 and December 31, 2019, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 1 351 thousand and BGN 127 thousand, respectively.

## 11. Net loss/gains from financial assets mandatorily at fair value

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Equity securities | 1 983 | 3 886 |
| Loans and advances | (2 082) | 258 |
| **Net gains from financial assets mandatory at fair value** | **(99)** | **4 144** |

## 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, 2020 and December 31, 2019 the gains are in the amount of BGN 10 532 thousand and BGN 33 819 thousand, respectively.

## 13. Other operating expenses, net

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Other operating income** | | |
| Income from non-financial services | 737 | 1 285 |
| Rental income | 1 787 | 1 805 |
| Other income | 1 589 | 3 333 |
| | **4 113** | **6 423** |
| **Other operating expenses** | | |
| Deposit guarantee fund and RR fund annual contribution | (71 994) | (65 610) |
| Impairment of foreclosed properties | (270) | (1 492) |
| Losses on tangible assets measured at fair value | (263) | (1 513) |
| Other operating expenses | (639) | (1 873) |
| | **(73 166)** | **(70 488)** |
| **Other operating expenses net** | **(69 053)** | **(64 065)** |

In 2020 and 2019 the Bank has assessed net realizable value of foreclosed properties under IAS 2 and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

## 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, 2020 and December 31, 2019 the gains are in the amount of BGN 59 thousand and BGN 2 941 thousand respectively.

## 15. Personnel expenses

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | (115 846) | (112 369) |
| Social security charges | (17 544) | (15 805) |
| Pension and similar expenses | (1 779) | (727) |
| Temporary staff expenses | (1 309) | (1 543) |
| Share-based payments | (719) | (1 411) |
| Other | (3 348) | (3 661) |
| **Total personnel expenses** | **(140 545)** | **(135 516)** |

As of December 31, 2020 the total number of employees, expressed in full time employee equivalent is 3 612 (December 31, 2019 – 3 555).

As described in note 3 (o) (iii) 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:

*In thousands of BGN*

| | ECONOMIC VALUE AT DECEMBER 31, 2019 | 2020 COST (GAINS) | SETTLED IN 2020 | ECONOMIC VALUE AT DECEMBER 31, 2020 |
|---|---|---|---|---|
| Deferred Short Term Incentive (ordinary shares) | 7 368 | 719 | (947) | 7 140 |
| ESOP and shares for Talents | 64 | - | - | 64 |
| **Total Options and Shares** | **7 432** | **719** | **(947)** | **7 204** |

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 38.

## 16. General and administrative expenses

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Advertising, marketing and communication | (5 236) | (7 792) |
| Credit information and searches | (844) | (1 132) |
| Information, communication and technology expenses | (49 199) | (46 691) |
| Consulting, audit and other professionals services | (2 510) | (2 538) |
| Real estate expenses | (15 165) | (12 900) |
| Rents | (8 047) | (8 407) |
| Travel expenses and car rentals | (1 902) | (3 149) |
| Insurance | (1 334) | (1 187) |
| Supply and miscellaneous services rendered by third parties | (13 094) | (12 107) |
| Other costs | (5 905) | (2 331) |
| **Total general and administrative expenses** | **(103 236)** | **(98 234)** |

For 2020 the fees for audit services provided by the auditing companies amount to BGN 932 thousand (BGN 1 000 thousand for 2019).

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Depreciation charge | (39 293) | (35 833) |
| Impairment | - | - |
| **Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale** | (39 293) | (35 833) |

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2020 and December 31, 2019 there is no impairment of fixed assets.

## 18. 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 38).

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it is presented in the income statement.

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Additions of provisions** | | |
| Provisions on credit risk on commitments and financial guarantees | (26 700) | (41 036) |
| Restructuring provisions | (6 023) | - |
| Legal cases provisions | (4 426) | (952) |
| Other provisions | (200) | (1 050) |
| | **(37 349)** | **(43 038)** |
| **Reversal of provisions** | | |
| Provisions on credit risk on commitments and financial guarantees | 30 343 | 34 743 |
| Legal cases provisions | 1 344 | 884 |
| | **31 687** | **35 627** |
| **Net provisions charge** | **(5 662)** | **(7 411)** |

## 19. Net Impairment loss on financial assets

*In thousands of BGN*

| PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS | 2020 | 2019 |
|---|---|---|
| **Balance 1 January** | **554 674** | **562 849** |
| | | |
| *Increase* | 291 041 | 261 177 |
| | | |
| *Decrease* | | |
| Loans and advances to customers | (134 890) | (149 627) |
| Recoveries from loans previously written-off | (7 497) | (31 695) |
| | (142 387) | (181 322) |
| | | |
| **Net impairment losses** | **148 654** | **79 855** |
| FX revaluation effect on imparment allowances | (1 566) | 349 |
| | | |
| Other movements | (419) | (1 113) |
| | | |
| *Written-off* | (14 033) | (118 961) |
| | | |
| **Balance December 31** | | |
| **Loans and advances to customers** | **694 807** | **554 674** |

*In thousands of BGN*

| PROVISIONS ON LOANS AND ADVANCES TO BANKS | 2020 | 2019 |
|---|---|---|
| **Balance 1 January** | **478** | **631** |
| | | |
| *Increase* | 295 | 384 |
| *Decrease* | (397) | (537) |
| **Net impairment losses** | **(102)** | **(153)** |
| | | |
| FX revaluation effect on imparment allowances | (2) | - |
| | | |
| **Balance December 31** | | |
| **Loans and advances to banks** | **374** | **478** |

*In thousands of BGN*

| PROVISIONS ON BALANCES WITH CENTRAL BANK | 2020 | 2019 |
|---|---|---|
| **Balance 1 January** | **39** | **55** |
| | | |
| *Increase* | 126 | - |
| *Decrease* | - | (16) |
| **Net impairment losses** | **126** | **(16)** |
| | | |
| **Balance December 31** | | |
| **Balances with Central Bank** | **165** | **39** |

*In thousands of BGN*

| PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI | 2020 | 2019 |
|---|---|---|
| **Balance 1 January** | **2 823** | **2 952** |
| | | |
| *Increase* | 7 612 | 4 141 |
| *Decrease* | (3 147) | (4 270) |
| **Net impairment losses** | **4 465** | **(129)** |
| | | |
| **Balance December 31** | | |
| **Financial assets at fair value through OCI** | **7 288** | **2 823** |

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Net impairment losses on Loans and advances to customers | (148 654) | (79 855) |
| Net impairment losses on Loans and advances to Banks | 102 | 153 |
| Net impairment losses on Balances with Central Bank | (126) | 16 |
| Net impairment losses on Financial assets at fair value through OCI | (4 465) | 129 |
| **Total net impairment loss on financial assets** | **(153 143)** | **(79 557)** |

## 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 2020.

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Current tax | (7 872) | (33 668) |
| Deferred tax income (expense) related to origination and reversal of temporary differences | (6 206) | (760) |
| (Overprovided)/underprovided prior year current tax | (207) | 35 |
| **Income tax expense** | **(14 285)** | **(34 393)** |

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*

| | 2020 | 2019 |
|---|---|---|
| **Accounting profit before tax** | **238 263** | **459 499** |
| Corporate tax at applicable tax rate (10% for 2020 and 2019) | (23 826) | (45 950) |
| Tax effect of non-taxable revenue | 9 994 | 11 947 |
| Tax effect of non-tax deductible expenses | (601) | (387) |
| Overprovided (underprovided) prior year income tax | 148 | (3) |
| **Income tax expense** | **(14 285)** | **(34 393)** |
| **Effective tax rate** | **6,00%** | **7,48%** |

## 21. Cash and balances with Central bank

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash in hand and in ATM | 252 791 | 233 367 |
| Cash in transit | 152 233 | 169 365 |
| Current account with Central Bank | 6 190 628 | 1 662 434 |
| **Total cash and balance with Central Bank** | **6 595 652** | **2 065 166** |

## 22. Non-derivative financial assets held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Government bonds | 12 416 | 10 453 |
| Equities | 2 847 | 3 491 |
| Loans | 1 744 | 25 146 |
| **Total non-derivative financial assets held for trading** | **17 007** | **39 090** |

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

Trading loans consist of prepaid forward transaction with a customer.

## 23. Derivatives held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Interest rate swaps | 34 214 | 41 651 |
| FX forward contracts | 5 484 | 18 507 |
| FX swaps | 7 778 | 3 243 |
| Commodity swaps | 15 744 | 436 |
| Commodity options | 15 660 | 4 490 |
| **Total derivatives held for trading** | **78 880** | **68 327** |

Derivatives consist of trading instruments that have positive market value as of December 31, 2020 and December 31, 2019. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

## 24. Derivatives held/used 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.

As of December 31, 2020 fair value of derivatives used for hedging are as follow:

- Derivative used as hedging instrument for Fair value hedge relationship – Present Value (PV) as of 31.12.2020 is – PV (+) BGN 16 thousand and PV (-) BGN 66 395 thousand.
- Derivative used as hedging instrument for Cash flow hedge relationship – PV (-) as of 31.12.2020 is BGN 39 288 thousand.

## 25. Loans and advances to banks

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Debt securities | 98 315 | 98 555 |
| Loans and advances to banks | 1 218 318 | 3 471 616 |
| Current accounts with banks | 110 579 | 184 410 |
| **Loans and advances to banks at amortized cost** | **1 427 212** | **3 754 581** |
| *Less impairment allowances* | *(374)* | *(478)* |
| **Total loans and advances to banks** | **1 426 838** | **3 754 103** |

## 26. Loans and advances to customers

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Companies | 9 486 162 | 9 321 503 |
| Individuals | | |
| Housing loans | 2 370 470 | 2 228 485 |
| Consumer loans | 167 745 | 193 766 |
| Other loans | 65 238 | 77 093 |
| Central and local governments | 463 162 | 373 633 |
| | **12 552 777** | **12 194 480** |
| *Less impairment allowances* | *(694 807)* | *(554 674)* |
| **Loans and advances to customers at amortized cost** | **11 857 970** | **11 639 806** |
| **Loans and advances to customers mandatory at fair value** | **2 373** | **4 157** |
| thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures | (2 154) | - |
| **Total loans and advances to customers** | **11 860 343** | **11 643 963** |

## 27. Investment securities

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Securities measured at FVTOCI** | | |
| Government bonds | 3 523 292 | 3 198 850 |
| Bonds of banks and other financial institutions | 75 533 | 288 839 |
| Corporate bonds | 50 923 | 81 704 |
| Equities | 11 660 | 11 660 |
| | | |
| **Securities mandatory measured at FV** | | |
| Equities | 15 212 | 14 207 |
| **Total Investment securities** | **3 676 620** | **3 595 260** |

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2020 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 of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2020 is BGN 1 744 875 thousand and as of 31.12.2019 is BGN 1 232 263 thousand.

As of December 31, 2020 and as of December 31, 2019 there are pledged investments amounting to BGN 1 711 100 thousand and BGN 142 496 thousand respectively (see also Note **42**).

## 28. Investments in subsidiaries and associates

*In thousands of BGN*

| COMPANY | ACTIVITY | SHARE IN CAPITAL DECEMBER 2020 | SHARE IN CAPITAL DECEMBER 2019 | CARRYING VALUE IN THOUSANDS OF BGN DEC 2020 | CARRYING VALUE IN THOUSANDS OF BGN DEC 2019 |
|---|---|---|---|---|---|
| UniCredit Factoring EAD | Factoring activities | 100% | 100% | 3 000 | 3 000 |
| UniCredit Fleet Management EOOD | Transport services | 100% | 100% | 655 | 655 |
| UniCredit Consumer Financing EAD | Consumer lending and other similar activities in line with 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** | | **55 479** | **55 479** |

As described in Note **3 (h) (ii) (h)**, investments in subsidiaries and associates comprise of 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.

## 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 | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | | | |
| **As of December 31, 2019** | **12 117** | **225 777** | **46 118** | **11 432** | **79 689** | **51 714** | **426 847** |
| Additions | - | 5 538 | 6 105 | 679 | 8 238 | 1 242 | **21 802** |
| Transfers | - | (1 546) | - | - | - | 1 546 | **-** |
| Write offs | - | (1 716) | (1 175) | (562) | (1 719) | (3 444) | **(8 616)** |
| Disposals | - | - | - | - | (221) | (2 898) | **(3 119)** |
| **As of December 31, 2020 before revaluation** | **12 117** | **228 053** | **51 048** | **11 549** | **85 987** | **48 160** | **436 914** |
| Increase in value via revaluation reserve upon new revaluation | 1 104 | 3 246 | - | - | - | - | **4 350** |
| Decrease in value via revaluation reserve upon new revaluation | (882) | (7 303) | - | - | - | - | **(8 185)** |
| Decrease in value in profit or loss upon new revaluation | (222) | (250) | - | - | - | - | **(472)** |
| **Revaluation adjustment** | **-** | **(4 307)** | **-** | **-** | **-** | **-** | **(4 307)** |
| **As of December 31, 2020 after revaluation** | **12 117** | **223 746** | **51 048** | **11 549** | **85 987** | **48 160** | **432 607** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2019** | **-** | **87 585** | **4 957** | **8 832** | **52 993** | **38 320** | **192 687** |
| Depreciation charge | - | 5 564 | 5 807 | 629 | 9 535 | 4 688 | **26 223** |
| Impairment | - | - | - | - | - | - | **-** |
| Write offs | - | (1 716) | (221) | (562) | (1 719) | (3 444) | **(7 662)** |
| On disposals | - | - | - | - | (212) | (2 898) | **(3 110)** |
| Transfers | - | - | - | - | - | - | **-** |
| **As of December 31, 2020** | **-** | **91 433** | **10 543** | **8 899** | **60 597** | **36 666** | **208 138** |
| **Net book value as of December 31, 2020** | **12 117** | **132 313** | **40 505** | **2 650** | **25 390** | **11 494** | **224 469** |
| **Net book value as of December 31, 2019** | **12 117** | **138 192** | **41 161** | **2 600** | **26 696** | **13 394** | **234 160** |

*In thousands of BGN*

| | LANDS | BUILDINGS | BUILDINGS – RIGHT OF USE | FURNITURE | ELECTRONIC EQUIPMENT | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | | | |
| **As of December 31, 2018** | **3 591** | **156 265** | **-** | **11 231** | **75 484** | **54 238** | **300 809** |
| Additions | - | 4 415 | 46 118 | 775 | 8 076 | 2 614 | **61 998** |
| Transfers | (90) | (451) | - | - | - | - | **(541)** |
| Write offs | - | (246) | - | (574) | (3 321) | (1 546) | **(5 687)** |
| Disposals | (56) | (4 208) | - | - | (550) | (3 592) | **(8 406)** |
| **As of December 31, 2019 before revaluation** | **3 445** | **155 775** | **46 118** | **11 432** | **79 689** | **51 714** | **348 173** |
| Increase in revaluation reserve upon new revaluation | 8 726 | 70 202 | - | - | - | - | **78 928** |
| Decrease in value in profit or loss upon new revaluation | (54) | (200) | - | - | - | - | **(254)** |
| Revaluation adjustment | 8 672 | 70 002 | - | - | - | - | **78 674** |
| **As of December 31, 2019 after revaluation** | **12 117** | **225 777** | **46 118** | **11 432** | **79 689** | **51 714** | **426 847** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2018** | **-** | **83 034** | **-** | **8 185** | **49 720** | **37 931** | **178 870** |
| Depreciation charge | - | 7 265 | 4 957 | 1 221 | 6 992 | 5 494 | **25 929** |
| Impairment | - | - | - | - | - | - | **-** |
| Write offs | - | (246) | - | (574) | (3 321) | (1 546) | **(5 687)** |
| On disposals | - | (2 183) | - | - | (398) | (3 559) | **(6 140)** |
| Transfers | - | (285) | - | - | - | - | **(285)** |
| **As of December 31, 2019** | **-** | **87 585** | **4 957** | **8 832** | **52 993** | **38 320** | **192 687** |
| **Net book value as of December 31, 2019** | **12 117** | **138 192** | **41 161** | **2 600** | **26 696** | **13 394** | **234 160** |
| **Net book value as of December 31, 2018** | **3 591** | **73 231** | **-** | **3 046** | **25 764** | **16 307** | **121 939** |

*In thousands of BGN*

| | INVESTMENT PROPERTY |
|---|---|
| **Net book value as of December 31, 2019** | **20 750** |
| Additions | 30 |
| Transfers | (20 332) |
| Write offs | - |
| Disposals | - |
| **Net book value as of December 31, 2020** | **657** |

*In thousands of BGN*

| | INVESTMENT PROPERTY |
|---|---|
| **Net book value as of December 31, 2018** | **23 154** |
| Transfers | 6 114 |
| Disposals | (7 259) |
| Reductions in fair value | (1 259) |
| **Net book value as of December 31, 2019** | **20 750** |

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.

As of December 31, 2020 and December 31, 2019 all investment properties have undergone external independent fair valuation and results of revaluation are considered in these separate financial statements. Same is in place also for land and buildings used in business.

The following table illustrates the fair value of investment properties as of December 31, 2020 and December 31, 2019, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2020 and December 31, 2019 are ranked Level 3 as per fair value hierarchy.

*In thousands of BGN*

| | FAIR VALUE | |
|---|---|---|
| | 2020 | 2019 |
| **Investment properties** | | |
| Land | 70 | 6 037 |
| Buildings | 587 | 14 713 |
| **Total investment properties** | **657** | **20 750** |

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, 2020, while liabilities under lease contracts are presented in Note **37**:

*In thousands of BGN*

| RIGHT OF USE ASSETS | BUILDINGS – RIGHT OF USE |
|---|---|
| **Cost** | |
| **As of December 31, 2019** | **46 118** |
| Additions | 6 105 |
| Write offs | (1 175) |
| **As of December 31, 2020** | **51 048** |
| **As of December 31, 2019** | **4 957** |
| Depreciation charge | 5 807 |
| Impairment | 4 957 |
| Write offs | (221) |
| **As of December 31, 2020** | **10 543** |
| **Net book value as of December 31, 2020** | **40 505** |
| **Net book value as of December 31, 2019** | **41 161** |

## 30. Intangible assets

*In thousands of BGN*

| RIGHT OF USE ASSETS | |
|---|---|
| **Cost** | |
| **As of December 31, 2019** | **125 911** |
| Additions | 23 319 |
| Write offs | - |
| Disposals | - |
| **As of December 31,2020** | **149 230** |
| **Depreciation** | |
| **As of December 31, 2019** | **58 504** |
| Depreciation charge | 13 070 |
| Write offs | - |
| **As of December 31,2020** | **71 574** |
| **Net book value as of December 31, 2020** | **77 656** |
| **Net book value as of December 31, 2019** | **67 407** |

*In thousands of BGN*

| RIGHT OF USE ASSETS | |
|---|---|
| **Cost** | |
| **As of December 31, 2018** | **122 985** |
| Additions | 32 054 |
| Write offs | (29 128) |
| Disposals | - |
| **As of December 31,2019** | **125 911** |
| **Depreciation** | |
| **As of December 31, 2018** | **77 728** |
| Depreciation charge | 9 904 |
| Write offs | (29 128) |
| **As of December 31,2019** | **58 504** |
| **Net book value as of December 31, 2019** | **67 407** |
| **Net book value as of December 31, 2018** | **45 257** |

## 31. Current tax

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, 2020 current tax assets amount to BGN 738 thousand. As of December 31, 2019 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the year 2019 for the amount of BGN 3 662 thousand.

## 32. Deferred tax

The origination breakdown of the deferred tax liabilities as of December 31, 2020 and December 31, 2019 is as outlined below:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Property, plant, equipment, investment properties and intangible assets | 14 032 | 13 429 |
| Provisions | (3 744) | (3 195) |
| Actuarial losses | (702) | (622) |
| Other liabilities/Other assets | (4 034) | (5 066) |
| **Deferred tax liabilities** | **5 552** | **4 546** |

The movements of deferred tax liabilities on net basis throughout 2020 are as outlined below:

*In thousands of BGN*

| | BALANCE 31.12.2019 | RECOGNISED IN P&L | RECOGNISED IN EQUITY | BALANCE 31.12.2020 |
|---|---|---|---|---|
| Property, plant, equipment, investment properties and intangible assets | 13 429 | 987 | (384) | 14 032 |
| Investment securities at fair value through OCI | - | 4 679 | (4 679) | - |
| Provisions | (3 195) | (549) | - | (3 744) |
| Actuarial losses | (622) | - | (80) | (702) |
| Cash flow hedge | - | 57 | (57) | 0 |
| Other liabilities | (5 066) | 1 032 | - | (4 034) |
| **Net tax (assets) liabilities** | **4 546** | **6 206** | **(5 200)** | **5 552** |

## 33. 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*

| | 2020 |
|---|---|
| Land | 5 660 |
| Buildings | 13 697 |
| **Total non-current assets and disposal groups, classified as held for sale** | **19 357** |

As of December 31, 2019 the value of the assets the Bank has classified as non-current assets held for sale is BGN 2 324 thousand and is equal to the agreed price.

## 34. Other assets

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Receivables and prepayments | 43 047 | 51 931 |
| Materials, spare parts and consumables | 837 | 739 |
| Other assets | 6 524 | 7 370 |
| Foreclosed properties | 23 408 | 32 765 |
| **Total other assets** | **73 816** | **92 805** |

## 35. Financial liabilities held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Interest rate swaps | 20 249 | 24 389 |
| FX forward contracts | 1 360 | 23 246 |
| FX swaps | 48 385 | 1 137 |
| Commodity swaps | 15 724 | 416 |
| Commodity options | 15 676 | 4 489 |
| **Total financial liabilities held for trading** | **101 394** | **53 677** |

## 36. Deposits from banks

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Current accounts and overnight deposits** | | |
| Local banks | 102 008 | 303 548 |
| Foreign banks | 948 015 | 82 391 |
| | **1 050 023** | **385 939** |
| **Deposits** | | |
| Local banks | 246 436 | 248 460 |
| Foreign banks | 615 277 | 21 075 |
| | **861 713** | **269 535** |
| **Other** | **6 471** | **5 213** |
| **Total deposits from banks** | **1 918 207** | **660 687** |

## 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, 2020 and December 31, 2019 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*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Current accounts** | | |
| Individuals | 4 224 923 | 3 442 581 |
| Corporate | 7 162 497 | 7 057 792 |
| Budget and State companies | 405 134 | 305 647 |
| | **11 792 554** | **10 806 020** |
| **Term deposits** | | |
| Individuals | 4 812 738 | 4 803 339 |
| Corporate | 264 138 | 370 135 |
| Budget and State companies | 20 458 | 32 472 |
| | **5 097 334** | **5 205 946** |
| **Saving accounts** | **1 681 588** | **1 604 811** |
| **Lease liabilities** | **41 550** | **41 836** |
| **Transfers in execution process** | **65 856** | **47 796** |
| **Total deposits from customers and other financial liabilities at amortized cost** | **18 678 882** | **17 706 409** |

The following table represent liabilities under lease contracts as of December 31, 2020, while existing right of use assets are presented in Note **29**:

*In thousands of BGN*

| LEASE LIABILITIES | |
|---|---|
| **As of January 01, 2020** | **41 836** |
| Additions | 6 105 |
| Repayments | (5 906) |
| Accrued interest | (485) |
| **As of December 31,2020** | **41 550** |
| Up to one year | 5 826 |
| From beyond 1 year to 2 years | 6 082 |
| From beyond 2 years to 3 years | 5 959 |
| From beyond 3 years to 4 years | 5 944 |
| From beyond 4 years to 5 years | 5 314 |
| Beyond five years | 14 309 |
| **Total lease payments to be made for finance leases** | **43 434** |
| *Unearned finance expenses (Discounting effect)* | *(1 884)* |
| **Net book value as of December 31, 2020** | **41 550** |
| **Net book value as of December 31, 2019** | **41 836** |

*In thousands of BGN*

| LEASE LIABILITIES | |
|---|---|
| **As of January 01, 2019** | **26 882** |
| Additions | 19 238 |
| Accrued interest | 503 |
| Repayments (incl. interest) | (4 787) |
| **As of December 31,2019** | **41 836** |
| Up to 1 year | 5 444 |
| From beyond 1 year to 2 years | 5 501 |
| From beyond 2 years to 3 years | 5 542 |
| From beyond 3 years to 4 years | 5 288 |
| From beyond 4 years to 5 years | 5 102 |
| Above 5 years | 17 235 |
| **Total lease payments to be made for finance leases** | **44 112** |
| *Unearned finance expenses (Discounting effect)* | *(2 276)* |
| **Net book value as of December 31, 2019** | **41 836** |
| **Net book value as of December 31, 2018** | **-** |

## 38. Provisions for risk and charges

The movement in provisions for the years ended December 31, 2020 and December 31, 2019 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) | | |
| **Balance as of December 31, 2018** | **56 451** | **29 708** | **10 247** | **302** | **952** | **-** | **97 660** |
| Allocations | 41 036 | 952 | 727 | - | 1 050 | - | **43 765** |
| Releases | (34 743) | (884) | - | - | - | - | **(35 627)** |
| Additions due to FX revaluation | 211 | 1 755 | - | - | - | - | **1 966** |
| Releases due to FX revaluation | (193) | (1 650) | - | - | - | - | **(1 843)** |
| Actuarial gains/losses recognized in OCI | - | - | 1 210 | - | - | - | **1 210** |
| Utilization | - | (718) | (508) | - | (856) | - | **(2 082)** |
| Actuarial gains/losses recognized in OCI | - | - | 888 | - | - | 888 | **-** |
| Utilization | - | (397) | (320) | - | (244) | (961) | **-** |
| **Balance as of December 31, 2019** | **62 762** | **29 163** | **11 676** | **302** | **1 146** | **-** | **105 049** |
| Allocations | 26 700 | 4 426 | 1 779 | - | 200 | **6 023** | **39 128** |
| Releases | (30 343) | (1 344) | - | - | - | **-** | **(31 687)** |
| Additions due to FX revaluation | 293 | 2 371 | - | - | - | **-** | **2 664** |
| Releases due to FX revaluation | (346) | (2 826) | - | - | - | **-** | **(3 172)** |
| Actuarial gains/losses recognized in OCI | - | - | 800 | - | - | **-** | **800** |
| Utilization | - | (3 440) | (898) | - | (798) | **-** | **(5 136)** |
| **Balance as of December 31, 2020** | **59 066** | **28 350** | **13 357** | **302** | **548** | **6 023** | **107 646** |

### (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, 2020 accumulated provisions are in the amount of BGN 59 066 thousand (as at December 31, 2019 – BGN 62 762 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, 2020 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 28 350 thousand has been recognized (BGN 29 163 as of December 31, 2019).

### (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 2020 defined benefit obligation are as follows:

- Discount rate – 0.20% (previous year – 0.30%);
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2020 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 haven`t changed in 2020. 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 changes related to retirement benefits lead to an increase of 2020 real costs amounting at BGN 1 013 thousand.

The movement of the defined benefit obligation for the year ended December 31, 2020 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 | THEREOF PLAN BY LAW | THEREOF PLAN BY COMPANY |
|---|---|---|---|
| **Recognized defined benefit obligation as of December 31, 2019** | **11 676** | **11 676** | **-** |
| Current service costs for 2020 | 1 746 | 732 | 1 014 |
| Interest cost for 2020 | 33 | 33 | - |
| Actuarial losses recognized in OCI in 2020 | 800 | 739 | 61 |
| Benefits paid | (898) | (677) | (221) |
| **Recognized defined benefit obligation as of December 31, 2020** | **13 357** | **12 503** | **854** |
| | | | |
| Interest rate beginning of the year | 0,30% | | |
| Interest rate end of the year | 0,20% | | |
| Future increase of salaries | 5,00% | | |
| Expected 2021 service costs | 1 497 | | |
| Expected 2021 interest costs | 25 | | |
| **Expected 2021 benefit payments** | 1 890 | | |

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*

| | 2020 | 2019 |
|---|---|---|
| Sensitivity – Discount rate +/- % | 0,20% | 0,25% |
| DBO Discount rate - | 13 744 | 12 011 |
| DBO Discount rate + | 12 988 | 11 357 |
| Sensitivity – Salary increase rate +/- % | 0,20% | 0,25% |
| DBO Salary increase rate - | 13 004 | 11 370 |
| DBO Salary increase rate + | 13 725 | 11 995 |

### (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, 2020 and December 31, 2019 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 548 thousand as of December 31, 2020 (BGN 1 146 thousand as of December 31, 2019) 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. 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 it will influence 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.

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.

### (g) Contingent asset

As of December 31, 2020 the Bank discloses contingent asset in the amount of BGN 2 686 thousand. The asset relates to a payment performed by the Bank following National Revenue Agency (NRA) audit and resulting in finding, assigning to the Bank additional social security obligation linked to certain employees' benefits for 2014. The Bank has duly objected NRA finding.

For prudential reasons the Bank has paid the amount. However, in case of repeal of the Tax Assessment Act by the relevant Tax Authorities, the Bank should be entitled to receive back the paid amount together with all the due legal interest. As of the date of approval of these financial statements the recovery of this amount is not certain and depends on occurrence or non-occurrence of future events not wholly within the control of the Bank and for that reason it is disclosed as contingent asset in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

## 39. Other liabilities

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Liabilities to the State budget | 4 858 | 2 451 |
| Liabilities to personnel | 17 958 | 24 102 |
| Liabilities for unused paid leave | 5 485 | 6 006 |
| Dividends | 974 | 1 035 |
| Incentive plan liabilities | 7 204 | 7 432 |
| Other liabilities | 77 106 | 78 384 |
| **Total other liabilities** | **113 585** | **119 410** |

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

Liability to personnel includes accrued but not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2020 and 2019 in accordance with the defined target settings and adopted incentive programs.

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

As described in note **3 (o) (iii)** selected group of Top and Senior Managers are given UniCredit S.p.A stock options and performance shares as part of their remuneration packages. The economic value of the options and shares is presented as other liability, as upon expiring of the vesting period respective amounts have to be settled in cash. The breakdown of the liabilities by type of instruments is presented in **Note 15**.

## 40. Equity

### a) Share capital

As of December 31, 2020 and December 31, 2019 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 available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 “Employee Benefits”.

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2020 and December 31, 2019 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 10 532 thousand and BGN 33 819 thousand, respectively.

## 41. Contingent liabilities

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
|---|---|---|---|---|---|---|---|---|
| | STAGE 1 | | STAGE 2 | | STAGE 3 | | TOTAL | |
| Letters of credit and letters of guarantee | 2 102 785 | 1 817 409 | 322 | 340 | 44 887 | 37 872 | **2 147 994** | **1 855 621** |
| Credit commitments | 4 309 098 | 4 073 433 | 289 052 | 228 905 | 42 032 | 9 781 | **4 640 182** | **4 312 119** |
| **Total contingent liabilities** | **6 411 883** | **5 890 842** | **289 374** | **229 245** | **86 919** | **47 653** | **6 788 176** | **6 167 740** |

### 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, 2020 and December 31, 2019 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, 2020 are in the amount of BGN 28 350 thousand (BGN 29 163 thousand in 2019), (see also Note 38).

### c) Credit commitments

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

As of December 31, 2020 and December 31, 2019 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

## 42. Assets pledged as collateral

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Securities pledged for budget holders' account service | 164 606 | 80 284 |
| Securities pledged on REPO deals | 1 546 494 | 62 212 |
| Loans pledged for budget holders' account service | 254 864 | 254 864 |
| Loans pledged on other deals | 189 057 | 117 476 |
| | **2 155 021** | **514 836** |
| **Pledged assets include:** | | |
| Securities received for reverse REPO | 298 800 | - |
| Investment securities | 1 412 300 | 142 496 |
| **Loans and advances** | **443 921** | **372 340** |
| **Total assets pledged as collateral** | **2 155 021** | **514 836** |

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 Bank has relatedness with its subsidiaries and associates (see also Note 28) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2020 and December 31, 2019 and Income statement items for the years ended then are as follows:

*In thousands of BGN*

| AS OF DECEMBER 31, 2020 | PARENT COMPANIES | SUBSIDIARIES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Derivatives held for trading | 1 522 | - | 2 320 | **3 842** |
| Derivatives held for hedging | 16 | - | - | **16** |
| Current accounts and deposits placed | 707 480 | - | 146 939 | **854 419** |
| Debt sequrities | 98 159 | - | - | **98 159** |
| Extended loans | - | 2 132 559 | 5 541 | **2 138 100** |
| Other assets | 3 143 | 9 946 | 1 704 | **14 793** |
| **LIABILITIES** | | | | |
| Financial liabilities held for trading | 12 884 | - | 37 400 | **50 284** |
| Derivatives used for hedging | 56 335 | - | 49 348 | **105 683** |
| Current accounts and deposits taken | 1 488 765 | 24 698 | 17 273 | **1 530 736** |
| Other liabilities | 9 321 | 97 | 983 | **10 401** |
| **Guarantees received by the Group** | 11 288 | - | 107 764 | **119 052** |

*In thousands of BGN*

| AS OF DECEMBER 31, 2019 | PARENT COMPANIES | SUBSIDIARIES | ASSOCIATES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|---|
| | | | | | |
| Derivatives held for trading | 2 219 | - | - | 8 174 | **10 393** |
| Derivatives held for hedging | 226 | - | - | - | **226** |
| Current accounts and deposits placed | 3 251 272 | - | - | 222 179 | **3 473 451** |
| Debt sequrities | 98 471 | **-** | **-** | - | **98 471** |
| Extended loans | - | 2 167 955 | - | 12 011 | **2 179 966** |
| Other assets | 4 117 | 16 445 | - | 1 350 | **21 912** |
| **LIABILITIES** | | | | | |
| Financial liabilities held for trading | 10 155 | - | - | 25 462 | **35 617** |
| Derivatives used for hedging | 51 975 | - | - | 38 713 | **90 688** |
| Current accounts and deposits taken | 8 199 | 31 794 | - | 8 549 | **48 542** |
| Other liabilities | 8 915 | 60 | - | 1 742 | **10 717** |
| **Guarantees received by the Group** | 11 322 | - | - | 120 347 | **131 669** |

*In thousands of BGN*

| AS OF DECEMBER 31, 2020 | PARENT COMPANIES | SUBSIDIARIES | ASSOCIATES | OTHER RELATED PARTIES | TOTAL INCOME (EXPENSE) |
|---|---|---|---|---|---|
| Interest incomes | 2 114 | 14 156 | - | 258 | 16 528 |
| Interest expenses | (14 665) | - | - | (9 900) | (24 565) |
| Dividend income | - | 98 808 | 478 | - | 99 286 |
| Fee and commissions income | 284 | 10 456 | - | 1 318 | 12 058 |
| Fee and commissions expenses | (35) | - | - | (91) | (126) |
| Net gains (losses) on financial assets and liabilities held for trading | (8 184) | - | - | (40 161) | (48 345) |
| Other operating income | - | 620 | - | 25 | 645 |
| Administrative and personnel expenses | (2 855) | (1 291) | (901) | (15 416) | (20 463) |
| **Total** | **(23 341)** | **122 749** | **(423)** | **(63 967)** | **35 018** |

*In thousands of BGN*

| AS OF DECEMBER 31, 2019 | PARENT COMPANIES | SUBSIDIARIES | ASSOCIATES | OTHER RELATED PARTIES | TOTAL INCOME (EXPENSE) |
|---|---|---|---|---|---|
| Interest incomes | 3 693 | 13 243 | - | 860 | 17 796 |
| Interest expenses | (16 550) | - | - | (9 831) | (26 381) |
| Dividend income | - | 119 205 | - | - | 119 205 |
| Fee and commissions income | 228 | 16 992 | - | 538 | 17 758 |
| Fee and commissions expenses | (25) | - | - | (91) | (116) |
| Net gains (losses) on financial assets and liabilities held for trading | (12 068) | - | - | (3 932) | (16 000) |
| Other operating income | - | 599 | - | (210) | 389 |
| Administrative and personnel expenses | (2 174) | (1 697) | (803) | (14 791) | (19 465) |
| **Total** | **(26 896)** | **148 342** | **(803)** | **(27 457)** | **93 186** |

As of December 31, 2020 the loans extended to key management personnel amount to BGN 1 389 thousand (BGN 999 thousand in 2019). For the year ended December 31, 2020 the compensation paid to key management personnel amounts to BGN 3 213 thousand (BGN 3 314 thousand in 2019).

## 44. Cash and cash equivalents

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash in hand and in ATM | 252 791 | 233 367 |
| Cash in transit | 152 233 | 169 365 |
| Current account with the Central Bank | 6 190 628 | 1 662 434 |
| Current accounts with banks | 110 579 | 184 410 |
| Placements with banks with original maturity less than 3 months | 850 539 | 2 749 687 |
| **Total cash and cash equivalents** | **7 556 770** | **4 999 263** |

## 45. Leasing

Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars.

### (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 29 and respectively Note 37.

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

Summary of non-cancellable minimum lease payments as of December 31, 2020 and December 31, 2019 are presented in the tables below.

*In thousands of BGN*

| RESIDUAL MATURITY | TOTAL FUTURE MINIMUM LEASE PAYMENT | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Up to one year | 30 | 143 |
| **Total** | **30** | **143** |

## 46. Other regulatory disclosures

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

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2020 and December 31, 2019 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*

| | 2020 | 2019 | REFERENCE TO OTHER NOTES AND REPORTS |
|---|---|---|---|
| Total operating income | 680 083 | 813 109 | Separate Income Statement and details in Notes 7,8,9,10,11,12 and 13 |
| Profit before income tax | 238 263 | 459 499 | Separate Income Statement |
| Income tax expense | (14 285) | (34 393) | Separate Income Statement and details in Notes 20 |
| Return on average assets (%) | 1,0% | 2,1% | 2020 Annual Report on Activity |
| Full time equivalent number of personnel as of December 31 | 3 612 | 3 555 | Note 15 |

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

# Do the right thing!
## For Diversity & Inclusion

UniCredit is committed to promoting a positive working environment that embraces our core values: Ethics & Respect.


### TAKING ACTION AT THE 2020 D&I WEEK

More than 21,000 colleagues joined our 100 events in 15 countries. With 270 external speakers and 145 hours of workshops, coaching sessions and online discussions, we made sure everyone could join UniCredit's second annual Diversity & Inclusion Week.

## Independent Auditors' Report

Deloitte.

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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 accompanying consolidated financial statements of UniCredit Bulbank AD (the "Bank") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (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 IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**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.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| **Impairment of loans and advances to customers**<br><br>The assessment of impairment allowances for loans and advances to customers requires Group management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment.<br><br>In accordance with the requirements of IFRS 9 Financial Instruments, the Group distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Group.<br><br>The assessment of classification to impairment stages is a result of combination of relative and absolute factors:<br>• Relative comparison between the probability of default at the original date of the receivable and the probability of default at the end of the reporting year,<br>• Absolute factors such as limits set by IFRS 9 Financial Instruments (30 days past due or 90 days past due),<br>• Other factors with internal relevance for the Group (such as forbearance or watch list classification).<br><br>The expected credit losses are calculated using available historical data and anticipated future development determined by using macroeconomic indicators. To assess the amount of allowances for expected credit losses, the Group applies statistical models with input parameters obtained from internal and external sources or determines the amount of allowances for expected credit losses on individual basis.<br><br>The statistical models used are based on the probability of default, the estimated amount of the loss given default and the determined exposure at default. Input data for the models and the calculation logic and its comprehensiveness depend on judgment of Group management. | During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area.<br><br>We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances for the significant loan portfolios.<br><br>We tested the design and operating effectiveness of key controls management of the Group has established over the impairment assessment processes. The testing focused on controls related to:<br>- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,<br>- regular client creditworthiness review processes,<br>- creation and regular review of watch-lists,<br>- approval of experts' collateral valuation,<br>- management review and approval of the impairment assessment results.<br><br>We involved auditors' experts in the areas which required specific modelling expertise in order to determine the appropriateness of the model development and model implementation. We have considered the adequacy of the risk parameters determined by the models. We have reviewed the quality of the data used in the computation of the risk parameters.<br><br>We performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the |

| | |
|---|---|
| For loans of individual financial significance as per the Group's policy impairment assessment aims at calculating the exposure's recoverable amount and compares it with the gross carrying amount in order to quantify the impairment allowance.<br><br>As described in note 25 to the consolidated financial statements, the Group has recorded as at December 31, 2020 impairment allowances on loans and advances to customers amounting to BGN 847,400 thousand.<br><br>Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, and because of the impact that the COVID-19 pandemic had on these estimates and assumptions, we identified impairment of loans and advances to customers as a key audit matter. | Group. For a sample of exposures we recalculated the impairment based on the risk parameters resulted from the models or we formed an independent view on the levels of impairment allowances for individually significant exposures.<br><br>We analyzed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions on the credit risk of borrower, the valuation of collaterals, on estimates of expected cash flows and on other factors that may affect the recoverability of loans. We have assessed the adequacy of Management assumptions and adjustments resulting from the impact of the COVID-19 pandemic on the estimation of expected credit losses.<br><br>We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers. |

**Information Other than the consolidated financial statements and Auditors' Report Thereon**

The Management Board of the Bank ("Management") is responsible for the other information. The other information comprises the annual report on activities, the corporate governance statement and the non-financial declaration, prepared by the 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, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

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

We have nothing to report in this regard.

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

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

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

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

**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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**Additional matters, required to be reported by the Accountancy Act**

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the consolidated financial statements and Auditors' Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

**Opinion under Art. 37, paragraph 6 of the Accountancy Act**

Based on the procedures performed, in our opinion:

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

**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.

- Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended 31 December 2020 by the general meeting of shareholders held on November 30, 2020 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2020 represents eighth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and fourth total consecutive statutory audit engagement for the Group carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, dated March 9, 2021, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners OOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:

  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2019, in accordance with the requirements of International Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures regarding Financial Information".
- For the period to which our joint statutory audit refers, Deloitte Audit OOD solely has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:

  - Audits of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2019 and December 31, 2020. The audits were performed in accordance with ISA.

- Attest related procedures in relation to follow up on the first time adoption of IFRS 9 – Financial Instruments by the Bank and its subsidiary UniCredit Leasing EAD.
- Audits of the reporting packages of the Bank's subsidiaries UniCredit Leasing EAD and UniCredit Consumer Financing EAD prepared in accordance with the UniCredit Group accounting policies as at and for the years ending December 31, 2019 and December 31, 2020. The audits were performed in accordance with ISA.
- Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 6 months ending June 30, 2020, and the 9 months ending September 30, 2020. The reviews were performed in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Momchil Chergansky
Proxy of the Statutory Manager Sylvia Peneva
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

103, Al. Stamboliyski Blvd
Sofia Tower (Mall of Sofia)
1303 Sofia, Bulgaria

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Galina Lokmadjieva
Registered Auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

Krassimira Radeva
Managing Director

5, Stara Planina Str., 5th floor
1000 Sofia, Bulgaria

March 9, 2021

## Consolidated Income Statement

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest income | | 559 070 | 593 681 |
| Interest expense | | (49 617) | (42 348) |
| **Net interest income** | 7 | **509 453** | **551 333** |
| **Dividend income** | | **752** | **323** |
| Fee and commission income | | 263 781 | 289 556 |
| Fee and commission expense | | (30 101) | (33 245) |
| **Net fee and commission income** | 8 | **233 680** | **256 311** |
| Net gains on financial assets and liabilities held for trading and hedging derivatives | 9 | 78 427 | 98 732 |
| Net gains/(losses) from financial assets mandatory at fair value | 10 | (99) | 4 144 |
| Net income from financial assets measured at FVTOCI | 11 | 10 873 | 34 152 |
| Other operating expenses, net | 12 | (53 396) | (51 855) |
| **TOTAL OPERATING INCOME** | | **779 690** | **893 140** |
| Net income related to property, plant and equipment | 13 | 479 | 3 220 |
| Personnel expenses | 14 | (160 960) | (155 427) |
| General and administrative expenses | 15 | (111 692) | (107 330) |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | 16 | (56 796) | (48 724) |
| Provisions for risk and charges | 17 | (4 308) | (17 554) |
| Net impairment loss on financial assets | 18 | (229 528) | (117 949) |
| **PROFIT BEFORE INCOME TAX** | | **216 885** | **449 376** |
| Income tax expense | 19 | (21 779) | (45 369) |
| **PROFIT FOR THE YEAR** | | **195 106** | **404 007** |

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 24, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
*Registered auditor, in charge of the audit*
09.03.2021

Baker Tilly Klitou & Partners OOD

Galina Lokmadjieva
*Registered auditor, in charge of the audit*
09.03.2021

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
*Managing Director*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

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

## Consolidated Statement of Comprehensive Income

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Profit for the year** | | **195 106** | **404 007** |
| **Other comprehensive income - items that will not be reclassified subsequently to profit or loss** | | | |
| Actuarial losses | 38 | (803) | (1 224) |
| Revaluation reserve on tangible assets | 28 | (3 835) | 78 928 |
| Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss | | 464 | (7 772) |
| | | **(4 174)** | **69 932** |
| **Other comprehensive income - items that may be reclassified subsequently to profit or loss** | | | |
| Investment securities | | (42 327) | 6 402 |
| Cash flow hedge | | (569) | (6 763) |
| Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss | | 4 736 | 23 |
| | | **(38 160)** | **(338)** |
| **Total other comprehensive income net of tax for the year** | | **(42 334)** | **69 594** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **152 772** | **473 601** |

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 24, 2021.

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

Momchil Chergansky
*Registered auditor, in charge of the audit*
09.03.2021

Baker Tilly Klitou & Partners OOD

Galina Lokmadjieva
*Registered auditor, in charge of the audit*
09.03.2021

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
*Managing Director*

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

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

## Consolidated Statement of Financial Position

*In thousands of BGN*

| | Notes | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank | 20 | 6 595 654 | 2 065 169 |
| Non-derivative financial assets held for trading | 21 | 17 007 | 39 090 |
| Derivatives held for trading | 22 | 78 880 | 68 327 |
| Derivatives held for hedging | 23 | 16 | 226 |
| Loans and advances to banks | 24 | 1 428 632 | 3 756 505 |
| Loans and advances to customers | 25 | 12 327 208 | 12 210 454 |
| Investment securities | 26 | 3 676 620 | 3 595 260 |
| Investments in associates | 27 | 3 482 | 3 623 |
| Property, plant, equipment, right of use assets and investment properties | 28 | 306 577 | 332 627 |
| Intangible assets | 29 | 79 989 | 69 967 |
| Current tax assets | 30 | 1 534 | 758 |
| Deferred tax assets | 31 | 4 500 | 4 195 |
| Non current assets and disposal groups classified as held for sale | 32 | 19 357 | 2 324 |
| Other assets | 33 | 80 061 | 98 117 |
| **TOTAL ASSETS** | | **24 619 517** | **22 246 642** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 34 | 101 394 | 53 677 |
| Derivatives used for hedging | 23 | 105 683 | 90 688 |
| Deposits from banks | 35 | 2 048 060 | 864 865 |
| Deposits from customers and other financial liabilities at amortized cost | 36 | 18 728 712 | 17 747 580 |
| Provisions | 37 | 117 765 | 116 578 |
| Current tax liabilities | 30 | 1 317 | 4 970 |
| Deferred tax liabilities | 31 | 5 788 | 4 723 |
| Other liabilities | 38 | 136 338 | 141 873 |
| **TOTAL LIABILITIES** | | **21 245 057** | **19 024 954** |
| **EQUITY** | | | |
| Share capital | | 285 777 | 285 777 |
| Revaluation and other reserves | | 173 358 | 217 203 |
| Retained earnings | | 2 720 219 | 2 314 701 |
| Profit for the year | | 195 106 | 404 007 |
| **TOTAL EQUITY** | 39 | **3 374 460** | **3 221 688** |
| **TOTAL LIABILITIES AND EQUITY** | | **24 619 517** | **22 246 642** |

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 24, 2021

| | | |
|---|---|---|
| Teodora Petkova<br>Chairperson of the Management Board and Chief Executive Officer | Septimiu Postelnicu<br>Deputy Chairman of the Management Board and General Manager | Jasna Mandac<br>Member of the Management Board and Chief Financial Officer |
| Deloitte Audit OOD | Baker Tilly Klitou & Partners OOD | Baker Tilly Klitou & Partners OOD |
| 09.03.2021 | | |
| Momchil Chergansky<br>*Registered auditor, in charge of the audit* | Galina Lokmadjieva<br>*Registered auditor, in charge of the audit* 09.03.2021 | Krassimira Radeva<br>*Managing Director* |

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 129 БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

## Consolidated Statement of Changes in Equity

*In thousands of BGN*

| | Share capital | Statutory reserve | Retained earnings | Revaluation reserves: Financial Assets at FVTOCI | Cash flow hedges reserves | IAS 19 reserve | Revaluation reserve tangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2019** | 285 777 | 342 378 | 2 402 289 | 180 137 | (28 001) | (4 527) | - | 3 178 053 |
| **Profit for the year** | - | - | 404 007 | | | | | 404 007 |
| Actuarial (losses) | | | | | | (1 224) | | (1 224) |
| Change of revaluation reserve on investment securities | - | - | - | 6 402 | - | - | - | 6 402 |
| Change of revaluation reserve on cash flow hedges | - | - | - | - | (6 763) | - | - | (6 763) |
| Change of revaluation reserve on tangible assets | | - | | - | - | - | 78 928 | 78 928 |
| Income tax related to components of other comprehensive income | - | - | - | (653) | 676 | 121 | (7 893) | (7 749) |
| **Total other comprehensive income for the year net of tax** | - | - | - | 5 749 | (6 087) | (1 103) | 71 035 | 69 594 |
| **Total comprehensive income for the year net of tax** | - | - | 404 007 | 5 749 | (6 087) | (1 103) | 71 035 | 473 601 |
| Dividends paid | | | (430 039) | | | | | (430 039) |
| Other changes | - | - | 73 | - | - | - | | 73 |
| **Balance as of December 31, 2019** | 285 777 | 342 378 | 2 376 330 | 185 886 | (34 088) | (5 630) | 71 035 | 3 221 688 |

| | Share capital | Statutory reserve | Retained earnings | Revaluation reserves: Financial Assets at FVOCI | Cash flow hedges reserves | IAS 19 reserve | Revaluation reserve tangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2020** | 285 777 | 342 378 | 2 376 330 | 185 886 | (34 088) | (5 630) | 71 035 | 3 221 688 |
| **Profit for the year** | - | - | 196 106 | - | | | | 196 106 |
| Actuarial (losses) | - | - | - | - | - | (803) | - | (803) |
| Change of revaluation reserve on investment securities | - | - | - | (42 327) | - | - | - | (42 327) |
| Change of revaluation reserve on cash flow hedges | - | - | - | - | (569) | - | - | (569) |
| Change of revaluation reserve on tangible assets | - | - | - | - | - | - | (3 835) | (3 835) |
| Transfers of Revaluation reserve of tangible assets to other net equity items | - | - | 1 678 | - | - | - | (1 678) | - |
| Income tax related to components of other comprehensive income | - | - | (167) | 4 679 | 57 | 80 | 551 | 5 200 |
| **Total other comprehensive income for the year net of tax** | - | - | 1 511 | (37 648) | (512) | (723) | (4 962) | (42 334) |
| **Total comprehensive income for the year net of tax** | - | - | 196 617 | (37 648) | (512) | (723) | (4 962) | 152 772 |
| Dividends paid | - | - | - | - | - | - | - | - |
| Other changes | - | - | - | - | - | - | - | - |
| **Balance as of December 31, 2020** | 285 777 | 342 378 | 2 572 947 | 148 238 | (34 600) | (6 353) | 66 073 | 3 374 460 |

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 24, 2021

Teodora Petkova
Chairperson of the Management Board and Chief Executive Officer

Septimiu Postelnicu
Deputy Chairman of the Management Board and General Manager

Jasna Mandac
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD
09.03.2021
Momchil Cherganski
*Registered auditor, in charge of the audit*

Baker Tilly Klitou & Partners OOD
Galina Lokmadjieva
*Registered auditor, in charge of the audit* 09.03.2021

Baker Tilly Klitou & Partners OOD
Krassimira Radeva
*Managing Director*

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

## Consolidated Statement of Cash Flows

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Net profit** | | **195 106** | **404 007** |
| Current and deferred tax, recognised in income statement | 19 | 21 779 | 45 369 |
| *Adjustments for non-cash items* | | | |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | 16 | 56 796 | 48 724 |
| Impairment of financial assets | 18 | 237 323 | 149 914 |
| Impairment of foreclosed properties | 12 | 263 | 1 492 |
| Provisions, net | 37 | 6 087 | 18 281 |
| Unrealised fair value (gains)/losses through profit or loss, net | | 3 661 | (6 347) |
| Unrealised fair value (gains)/losses on FX revaluation | | (130 625) | 28 989 |
| Net (income)/expense from associates under equity method | | 141 | (392) |
| Net (income) from sale of property, plant and equipment | | (1 486) | (5 453) |
| Net interest income | 7 | (509 453) | (551 333) |
| Dividend income | | (751) | (323) |
| Increase in other accruals | | 22 455 | 16 508 |
| **Cash flows from profits before changes in operating assets and liabilities** | | **(98 704)** | **149 436** |
| **Operating activities** | | | |
| **Change in operating assets** | | | |
| Decrease in loans and advances to banks | | 355 668 | 1 346 137 |
| (Increase) in loans and advances to customers | | (360 649) | (1 053 698) |
| (Increase)/Decrease in investment securities | | (130 188) | 142 260 |
| Decrease in financial instruments held for trading and hedging derivatives | | 70 517 | 28 284 |
| (Increase)/Decrease in non-current assets held for sale | | 2 324 | (2 324) |
| Decrease in other assets | | 15 643 | 2 043 |
| **Change in operating liabilities:** | | | |
| (Decrease)/Increase in deposits from banks | | 1 196 449 | (32 978) |
| Increase in deposits from customers | | 1 114 025 | 1 839 145 |
| Provisions utilization | | (5 823) | (2 171) |
| (Decrease)/Increase in other liabilities | | (27 671) | 2 370 |
| **Interest received** | | 559 034 | 600 984 |
| **Interest paid** | | (48 912) | (41 592) |
| **Dividends received** | | 751 | 323 |
| **Taxes paid** | | (15 060) | (40 940) |
| **Net cash flow from operating activities** | | **2 627 404** | **2 937 279** |

## Consolidated Statement of Cash Flows (continued)

*In thousands of BGN*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Cash flow from investing activities** | | | |
| Cash payments to acquire tangible assets | | (36 217) | (54 492) |
| Cash receipts from sale of tangible assets | | 1 486 | 5 453 |
| Cash payments to acquire intangible assets | | (24 097) | (32 745) |
| Cash payments for the investment in associates | | - | (475) |
| **Net cash flow used in investing activities** | | **(60 828)** | **(82 259)** |
| | | | |
| **Cash flow from financial activities** | | | |
| Dividends paid | | - | (430 039) |
| Cash payments related to lease liabilities | | (7 141) | (5 669) |
| Other cash payments related to financing activities | | - | - |
| **Net cash flows used in financial activities** | | **(7 141)** | **(435 708)** |
| | | | |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(1 803)** | **4 476** |
| **Impairment of cash equivalent** | | **(126)** | **16** |
| **Net increase in cash and cash equivalents** | | **2 557 506** | **2 423 804** |
| **Cash and cash equivalents at the beginning of period** | 43 | **4 999 266** | **2 575 462** |
| **Cash and cash equivalents at the end of period** | 43 | **7 556 772** | **4 999 266** |

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 24, 2021.

| | | |
|---|---|---|
| Teodora Petkova<br>Chairperson of the Management Board and Chief Executive Officer | Septimiu Postelnicu<br>Deputy Chairman of the Management Board and General Manager | Jasna Mandac<br>Member of the Management Board and Chief Financial Officer |
| Deloitte Audit OOD | **Baker Tilly Klitou** & Partners OOD | Baker Tilly **Klitou** & Partners OOD |
| Momchil Chergansky<br>*Registered auditor,*<br>*In charge of the audit*<br>04.03.2021 | Galina Lokmadjieva<br>*Registered auditor,*<br>*in charge of the audit*<br>09.03.2021 | Krassimira Radeva<br>*Managing Director* |

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

# Notes To The Consolidated Financial Statements

## 1. Reporting entity

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

These consolidated financial statements comprise of UniCredit Bulbank AD and its subsidiaries and associates (hereafter together referred as UniCredit Bulbank AD or the Bank).

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

As of December 31, 2020 the Bank operates through its network comprising of 161 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 February 24, 2021.

### (b) Basis of measurement

These consolidated financial statements have been prepared on historical cost basis except for financial instruments measured at fair value or at amortized cost depending on asset classification, as well as property, plant and equipment 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 UniCredit Bulbank AD.

### (d) Use of estimates and judgement

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

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

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

## 3. Significant accounting policies

There have been no changes in significant accounting policies for the periods presented in these consolidated financial statements. 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) 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, 2020 and December 31, 2019.

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, 2020 and December 31, 2019 there are no significant restrictions on the ability of all consolidated subsidiaries and associates to transfer cash or to repay loans to the parent company.

The consolidation scope as of December 31, 2020 has not changed to the one applied as of December 31, 2019 and it covers the following entities:

| COMPANY | PARTICIPATION IN EQUITY AS OF 31.12.2019 | DIRECT/INDIRECT PARTICIPATION | CONSOLIDATION METHOD |
|---|---|---|---|
| UniCredit Factoring EAD | 100,00% | Direct | Full consolidation |
| UniCredit Fleet Management EOOD | 100,00% | Direct | Full consolidation |
| UniCredit Consumer Financing EAD | 100,00% | Direct | Full consolidation |
| UniCredit Leasing EAD | 100,00% | Direct | Full consolidation |
| UniCredit Insurance Broker EOOD | 100,00% | Indirect | Full consolidation |
| Cash Service Company AD | 25,00% | Direct | Equity method |

### (b) Interest income and expense

Interest income and expenses are recognized in the Income statement following the accruing principle, taking into account the effective yield/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 amortised 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.

### (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 portfolio 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, a 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, the 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.

This circumstance, which is not significant, might happen in case of customer loyalty programs that require to provide goods or services for free, or by cashing-in a price not at market condition, if the client reaches a specific volume of fees, or in case of programs to acquire new customers that assign a bonus to the target (in the form of a product or a service) when it becomes a new client.

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

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

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

The Bank concludes derivative deals with customers which represent a margin driven business. The market risk on all such deals is covered through back-to-back deals concluded on the derivatives' primary markets (with counterparties being usually other banks part of UniCredit Group such as UniCredit SpA, UniCredit Bank Austria AG and UniCredit Bank AG). Realized and unrealized gains/losses on derivatives 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, which are stated at historical cost, 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 on net basis 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 realised and unrealised fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

### (g) Dividend income

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

### (h) Leases

The Bank as a lessee applies the requirements of IFRS 16, which introduces a new definition for leases. The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises 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 recognises 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 remeasured 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 recognised 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.

## (i) Financial instruments

### (i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in profit or loss or in equity, 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 recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition cost. If the amount of transaction costs is clearly not material compared to the fair value of the related financial asset at initial recognition, it is possible to recognize them directly in profit or loss.

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 analyse the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortised 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 analyse the contract features with respect to IFRS 9 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 amortised cost in the statement of financial position.

#### b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

Financial assets and derivatives held for trading are carried at fair value in the statement of financial position. 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 recognised in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognised 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 amortised 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 realised or unrealised, are recognised in profit or loss as "Other 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 fair value through comprehensive income 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 revenues 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 recognised 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 recognised in the income statement. Only dividends are recognised 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 and the Bank consider 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 Group and 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 IFRS 9, 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 income 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 the income statement 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 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 the income statement 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 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) Investments in subsidiaries and associates

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

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

Following the above criteria, 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 these consolidated financial statements the Bank has adopted the policy of carrying all investments in associates at equity method. All investments in subsidiaries are fully consolidated.

### i) Deposits from banks and customers

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

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

### (iii) Derecognition

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

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

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

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

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

### a) Contractual modifications and accounting derecognition (IFRS9)

In order to limit the effects of the restriction measures put in place to contain the Covid-19 pandemic, starting from the first half 2020, the Bank has granted to its customers debt moratoria measures. These measures have been granted both:

- following the specific moratoria measures as approved by the Bulgarian National Bank and Association of Bulgarian Banks (EBA Compliant moratoria);
- following the specific moratoria measures as approved by the Bank (non EBA Compliant moratoria leading to forbearance).

These moratoria measures generally allowed to postpone the payment of instalments for a period from 6 to 12 months upon request by the customers, with the consequent increase in the maturity of the loan and the accrual of interests on the capital being postponed.

As a result of the continuing health emergencies, restrictions measures have not been lifted and these initiatives have been renewed in the second half of 2020 allowing the possibility to further postpone payments at a future date up to 31 December 2021.

In accordance with ESMA's declaration which clarified, that it is unlikely that the contractual changes resulting from these moratoria can be considered as substantial, the Bank has not derecognised the related credit exposures and the modification loss is considered close to zero, having in mind the NPV neutrality with regard to cash flows as well as the continuing interest accruals during the grace period.

### (iv) Amortised cost measurement

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

### (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 5).

### (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 recognised on an accrual basis over agreed term of the deal and is included in net interest income.

## (j) 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 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.

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. As a matter of fact, 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) New Definition of Default

The New Definition of Default will be applied in the first quarter of 2021, in line with the deadline for the entry in force (1 January 2021) set out by European Banking Authority in the related Guidelines for Banks adopting Internal Rating Based Approaches. The new classification criteria will envisage as main changes the review of the materiality thresholds of past due and a further 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 (primarily, Group of companies, joint credit obligations among individuals and link among natural persons and unlimited liability companies). Furthermore, a minimum probation period before returning in a non-defaulted status has been set as mandatory.

As at 31 December 2020, therefore, the Non-Performing Exposures do not incorporate the New Definition of Default classification.

Nevertheless, as a result of the application of the new Definition of Default, the Bank is aware of new more stringent criteria for the classification of the counterparty risk, therefore the related effect is already recognised within the determination of the Loan Loss Provisions as at 31 December 2020.

Particularly, the new Definition of Default is considered in terms of quantification of Loan Loss Provisions under the twofold perspective of:

1. portfolio shift from Performing to Non-Performing Loan portfolio, with the consequent impact on the loan losses coverages, stemming from classification of loans according to the New Definition of Default;
2. estimation of the Expected Credit Loss on the single credit exposures including the new Definition of Default.

As far as point 1 is concerned, as above mentioned, as a result of the application of the new Definition of Default, the Bank is aware of new more stricter criteria on the evaluation of the counterparty risk. According to IFRS 9 the presence of additional information leads to assess the increase in credit risk also considering the downgrade therefore increasing the associated Loan Loss provisions. Considering, however, that classification of counterparty as defaulted can occur only starting from 1 January 2021, the additional Loan Loss Provisions are allocated, on a proportional basis, to each single credit positions belonging to the relative homogeneous sub-portfolios, sharing common credit risk characteristics and identified as the ones having higher likeliness of occurrence of new default events.

With reference to point 2 from above, it is worth mentioning that increase in credit risk arising from an expected downgrade of a borrower determines not only an increase in Loan Loss Provisions of that single borrower, but also of all those borrowers sharing common credit risks features.

As a result, IFRS parameters and methodologies used as at 31 December 2020 for estimating the expected credit loss and the associated Loan Loss provisions and, in particular, underlying risk parameters, Probability of Default, Loss Given Default, Exposure-at-Default and assessment of Significant Increase in Credit Risk, have been recalibrated, considering the New Definition of Default.

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

Where a debt asset remeasured at amortized cost is impaired, impairment is recognized in the income statement.

### c) 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 and 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 Bank's 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 available for sale, cumulative changes of the fair value attributable to the hedged risk are recognized in profit and loss against revaluation reserve of the hedged items.

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

#### Cash flow hedge

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

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

### (l) Property, plant, equipment and investment property

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

properties used in business (regulated by IAS 16 Property, plant and equipment), for which the cost model has been changed to the revaluation model for the measurement subsequent to initial recognition;

investment properties (regulated by IAS 40 Investment property), for which the cost model has been changed to the fair value model.

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 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).

Depreciations calculated based on revalued values and the revised remaining useful life.

Other comprehensive income reserve (Including the one, generated at initial application of the new valuation method) 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. As of 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 to be 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 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 amortisation and any impairment losses. As of December 31, 2020 and December 31, 2019 intangible assets include primarily investments in software and related licenses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The average useful life of intangible assets controlled by the Bank is estimated to approximately 5 years, which is an equivalent of approximately 20% annual amortisation rate. For core system software and related applications estimated useful life is 10 years, which is an equivalent of approximately 10% annual amortisation rate.

### (n) Non-current assets held for sale

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

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

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, 2020 and December 31, 2019 Management has reviewed Bank's legal and constructive obligation and to the extent they meet the requirement for recognition, provision is recorded, respectively.

### (p) Employees' benefits

#### (i) Short-term employee's benefits

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

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

#### (ii) Defined benefit obligation

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

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

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

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

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

As of December 31, 2020 and December 31, 2019 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as Other liability.

### (q) Share capital and reserves

#### (i) Share capital

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

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

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

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

No changes in the amount of the share capital were performed in 2020 and 2019.

#### (ii) Reserves

Reserves consist of statutory reserves and retained earnings held within the Bank as well as reserves on investments at FVTOCI, revaluation of properties used in business and investment properties, cash flow hedges and reserve resulted from defined benefit obligation actuarial gains and losses. As of December 31, 2020 and December 31, 2019 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 recognised in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2020 and December 31, 2019 balances of deferred tax are presented net in the Statement of financial position on single entity level within the consolidation scope and then consolidated in the Statement of financial position. All respective netting requirements set out in IAS 12 are fully met on single entity level.

### (s) Segment reporting

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

The following new standards and amendments to the existing standards and new interpretation issued by IASB and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the consolidated financial statements.

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

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

- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 10 "Consolidated Financial Statements"**

**and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

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

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

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

## 4. Financial risk management

### (a) General framework

- UniCredit Bulbank AD is exposed to the following risks from financial instruments:
- market risk;
- liquidity risk;
- credit risk;
- operational and reputational risk.

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

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

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

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

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

The operational risk governance system of UniCredit Bulbank AD is set to identify, manage and mitigate the operational risk exposure, defining a system of clearly outlined responsibilities and controls. Senior management is responsible for the effective oversight over operational risk exposure and approves all material aspects of the framework. Fundamental element of the operational risk system is the existence of an Operational and Reputational Risk Committee, where current operational risk issues and developments are reported and discussed. UniCredit Bulbank AD applies the Advanced Measurement Approach (AMA) for its capital calculation of operational risk on stand-alone level. In these consolidated financial statements total operational risk requirements are presented as the sum of AMA amount calculated for the Bank stand-alone plus the respective additions from consolidated entities, calculated under standardized approach.

Reputational risk governance activities are within the scope of the responsibilities of the Operational and Reputational Risk Unit. All relevant rules and policies for management and monitoring of reputational risk exposure have been adopted in full compliance with the UniCredit Group guidelines. The recently created Reputational Risk Committee is a dedicated decision-making body on reputational risks topics.

### (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 located in Financial Risk and Models Unit. Market risks control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book of UniCredit Bulbank, which is reviewed at least annually. A product development process is established in which the risk managers play a decisive role in approving a new product.

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

UniCredit Bulbank AD applies uniform Group procedures in measuring and monitoring market risk exposures. These procedures make available the major risk parameters for various trading operations at least once a day. Besides Value at Risk, other metrics of equal importance are stress-oriented sensitivities for FX, interest rates, credit spreads, equity. Additional element of the limit system are the loss-warning level 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, 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 traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2020, VaR of FVtOCI positions (measured with 1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD consolidated moved in a range between EUR 2.65 million and EUR 6.57 million, averaging EUR 5.17 million, with credit spreads being main driver. VaR of FVtPL positions moved in a range between EUR 0.15 million and EUR 0.55 million, averaging EUR 0.37 million.

VaR of UniCredit Bulbank AD by portfolio in EUR million for 2020 on consolidated basis is as follows:

| RISK CATEGORY | MINIMUM | MAXIMUM | AVERAGE | YEAR-END |
|---|---|---|---|---|
| FVtPL | 0.15 | 0.55 | 0.37 | **0.40** |
| FVtOCI | 2.65 | 6.57 | 5.17 | **5.71** |

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate 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 sector, 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' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2020 (change in value due to +1 basis point shift, amounts in EUR, trading and banking books):

IR BASIS POINT SHIFT (EUR)

| CCY | 0-3M | 3M-1Y | 1Y-3Y | 3Y-10Y | 10Y- | SUM |
|---|---|---|---|---|---|---|
| EUR | (2,653) | 8,420 | (25,141) | 154,985 | 1,307 | 136,917 |
| BGN | 20,465 | 41,244 | 75,269 | 67,698 | (75,536) | 129,140 |
| USD | (5,063) | 2,885 | 225 | (36) | - | (1,989) |
| CHF | (65) | 252 | 1 | (25) | (7) | 155 |
| GBP | 79 | 372 | 28 | - | - | 479 |
| Other | 8 | (302) | - | - | - | (293) |
| **Total** | **12,771** | **52,871** | **50,382** | **222,621** | **(74,236)** | **264,408** |

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2020 totaled EUR 955,291. Instruments issued by governments account for the largest part of credit spread exposure.

**SP BASIS POINT SHIFT (EUR)**

| ISSUER | 0-3M | 3M-1Y | 1Y-3Y | 3Y-10Y | 10Y- | SUM |
|---|---|---|---|---|---|---|
| Sovereigns | (295) | (13,703) | (124,239) | (708,080) | (75,648) | (921,965) |
| Regional governments | - | - | (199) | (199) | - | (398) |
| Corporates | - | (49) | (15,926) | (16,953) | - | (32,928) |
| **Total Absolute** | **295** | **13,751** | **140,363** | **725,233** | **75,648** | **955,291** |

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings and equity. 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 ALCO. In 2020 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

In response to the outbreak of Covid-19 pandemic the Bank activated from March till October the business continuity management plans to ensure regular execution of its Treasury activities and proper information flows to the senior management and the Supervisor. Three additional stress test scenarios were introduced and monitor for the period, to enhance the close tracking of the pandemic reflection on the bank's liquidity. Impacts on market risk exposures and liquidity were insignificant, thanks to the conservative investment strategy and strong funding profile largely independent from wholesale markets.

A behavioural modelling of non-maturing deposits (NMDs) has been introduced in Q2 2020 in compliance with the respective EBA Guidelines. The model estimates the liquidity and interest rate characteristics of the customer positions follow the real behaviour, 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.

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

As of December 31, 2020 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 | 6 568 631 | 27 023 | **6 595 654** |
| Non-derivative financial assets held for trading | 15 263 | 1 744 | **17 007** |
| Derivatives held for trading | 45 786 | 33 094 | **78 880** |
| Derivatives held for hedging | 16 | - | **16** |
| Loans and advances to banks | 1 278 787 | 149 845 | **1 428 632** |
| Loans and advances to customers | 12 192 233 | 134 975 | **12 327 208** |
| Investment securities | 3 661 995 | 14 625 | **3 676 620** |
| Investments in associates | 3 482 | - | **3 482** |
| Property, plant, equipment, rights of use assets and investment properties | 306 577 | - | **306 577** |
| Intangible assets | 79 989 | - | **79 989** |
| Current tax assets | 1 534 | - | **1 534** |
| Deferred tax assets | 4 500 | - | **4 500** |
| Non current assets and disposal groups classified as held for sale | 19 357 | - | **19 357** |
| Other assets | 79 745 | 316 | **80 061** |
| **TOTAL ASSETS** | **24 257 895** | **361 622** | **24 619 517** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 68 175 | 33 219 | **101 394** |
| Derivatives used for hedging | 105 683 | - | **105 683** |
| Deposits from banks | 1 778 839 | 269 221 | **2 048 060** |
| Deposits from customers and other financial liabilities at amortized cost | 17 206 208 | 1 522 504 | **18 728 712** |
| Provisions | 112 060 | 5 705 | **117 765** |
| Current tax liabilities | 1 317 | - | **1 317** |
| Deferred tax liabilities | 5 788 | - | **5 788** |
| Other liabilities | 132 250 | 4 088 | **136 338** |
| **TOTAL LIABILITIES** | **19 410 320** | **1 834 737** | **21 245 057** |
| **EQUITY** | **3 374 460** | **-** | **3 374 460** |
| Net off-balance sheet spot and forward position | (1 559 025) | 1 479 208 | **(79 817)** |
| **Net position** | **(85 910)** | **6 093** | **(79 817)** |

As of December 31, 2019 the FX balances of UniCredit Bulbank AD are outlined in the table below:

*In thousands of BGN*

| | EUR AND BGN | OTHER CURRENCIES | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank | 2 043 164 | 22 005 | **2 065 169** |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | **39 090** |
| Derivatives held for trading | 62 213 | 6 114 | **68 327** |
| Derivatives held for hedging | 226 | - | **226** |
| Loans and advances to banks | 3 636 494 | 120 011 | **3 756 505** |
| Loans and advances to customers | 12 041 825 | 168 629 | **12 210 454** |
| Investment securities | 3 581 632 | 13 628 | **3 595 260** |
| Investments in associates | 3 623 | - | **3 623** |
| Property, plant, equipment, rights of use assets and investment properties | 332 627 | - | **332 627** |
| Intangible assets | 69 967 | - | **69 967** |
| Current tax assets | 758 | - | **758** |
| Deferred tax assets | 4 195 | - | **4 195** |
| Non current assets and disposal groups classified as held for sale | 2 324 | - | **2 324** |
| Other assets | 98 052 | 65 | **98 117** |
| **TOTAL ASSETS** | **21 891 044** | **355 598** | **22 246 642** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 44 781 | 8 896 | **53 677** |
| Derivatives used for hedging | 90 688 | - | **90 688** |
| Deposits from banks | 603 954 | 260 911 | **864 865** |
| Deposits from customers and other financial liabilities at amortized cost | 16 236 501 | 1 511 079 | **17 747 580** |
| Provisions | 110 251 | 6 327 | **116 578** |
| Current tax liabilities | 4 970 | - | **4 970** |
| Deferred tax liabilities | 4 723 | - | **4 723** |
| Other liabilities | 135 361 | 6 512 | **141 873** |
| **TOTAL LIABILITIES** | **17 231 229** | **1 793 725** | **19 024 954** |
| **EQUITY** | **3 221 688** | **-** | **3 221 688** |
| Net off-balance sheet spot and forward position | (1 445 626) | 1 443 816 | **(1 810)** |
| **Net position** | **(7 499)** | **5 689** | **(1 810)** |

### (c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. The Liquidity risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenarios combining market- and name-driven crisis have shown comfortable coverage during 2020, 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 2020 | UP TO 1 YEAR | OVER 1 YEAR | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Non-derivative financial assets held for trading | 17 007 | - | **17 007** |
| Loans and advances to banks | 1 329 989 | 98 643 | **1 428 632** |
| Loans and advances to customers | 3 181 454 | 9 145 754 | **12 327 208** |
| Investment securities | 130 644 | 3 545 976 | **3 676 620** |
| Other assets | 56 653 | 23 408 | **80 061** |
| **TOTAL FINANCIAL ASSETS** | **4 715 747** | **12 813 781** | **17 529 528** |

*In thousands of BGN*

| MATURITY TABLE AS AT 31 DECEMBER 2019 | UP TO 1 YEAR | OVER 1 YEAR | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | 39 090 |
| Loans and advances to banks | 3 616 686 | 139 819 | 3 756 505 |
| Loans and advances to customers | 3 128 243 | 9 082 211 | 12 210 454 |
| Investment securities | 342 871 | 3 252 389 | 3 595 260 |
| Other assets | 65 352 | 32 765 | 98 117 |
| **TOTAL FINANCIAL ASSETS** | **7 167 096** | **10 872 275** | **17 454 172** |

*In thousands of BGN*

| MATURITY TABLE AS AT 31 DECEMBER 2020 | CARRYING AMOUNT | GROSS IN (OUT) FLOW | UP TO 1 MONTH | FROM 1 TO 3 MONTHS | FROM 3 MONTHS TO 1 YEAR | OVER 1 YEARS |
|---|---|---|---|---|---|---|
| **Non derivative instruments** | | | | | | |
| Deposits from banks | **2 048 060** | (2 047 464) | (1 919 658) | (9 971) | (36 625) | (81 210) |
| Deposits from customers and other financial liabilities at amortize cost | **18 728 712** | (18 728 598) | (16 021 338) | (959 938) | (1 454 518) | (292 804) |
| Unutilized credit lines | **-** | (4 115 840) | (3 895 277) | (42 191) | (178 372) | - |
| **Total non-derivative instruments** | **20 776 772** | **(24 891 902)** | **(21 836 273)** | **(1 012 100)** | **(1 669 515)** | **(374 014)** |
| **Derivatives held for trading net** | **(22 514)** | | | | | |
| Outflow | | (3 975 756) | (2 756 362) | (908 237) | (239 495) | (71 662) |
| Inflow | | 3 956 426 | 2 727 890 | 903 518 | 242 700 | 82 318 |
| **Derivatives used for hedging, net** | **(105 667)** | | | | | |
| Outflow | | (114 063) | - | (10 485) | (12 282) | (91 296) |
| Inflow | | 10 323 | - | 7 | 1 006 | 9 310 |
| **Total derivatives** | **(128 181)** | **(123 070)** | **(28 472)** | **(15 197)** | **(8 071)** | **(71 330)** |
| **Total financial liabilities** | **20 648 591** | **(25 014 972)** | **(21 864 745)** | **(1 027 297)** | **(1 677 586)** | **(445 344)** |

*In thousands of BGN*

| MATURITY TABLE AS AT 31 DECEMBER 2019 | 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 | **864 865** | (864 110) | (661 848) | (20 352) | (52 955) | (128 955) |
| Deposits from customers and other financial liabilities at amortized cost | **17 747 580** | (17 743 166) | (5 371 918) | (1 652 548) | (3 037 125) | (7 681 575) |
| Unutilized credit lines | **-** | (3 696 483) | (483 531) | (203 244) | (918 765) | (2 090 943) |
| **Total non-derivative instruments** | **18 612 445** | **(22 303 759)** | **(6 517 297)** | **(1 876 144)** | **(4 008 845)** | **(9 901 473)** |
| **Derivatives held for trading, net** | **14 650** | | | | | |
| Outflow | | (4 789 347) | (3 390 268) | (1 173 333) | (105 945) | (119 801) |
| Inflow | | 4 807 920 | 3 399 436 | 1 165 777 | 108 796 | 133 911 |
| **Derivatives used for hedging, net** | **(90 462)** | | | | | |
| Outflow | | (98 695) | - | (9 522) | (9 175) | (79 998) |
| Inflow | | 9 262 | - | 1 | 38 | 9 223 |
| **Total derivatives** | **(75 812)** | **(70 860)** | **9 168** | **(17 077)** | **(6 286)** | **(56 665)** |
| **Total financial liabilities** | **18 536 633** | **(22 374 619)** | **(6 508 129)** | **(1 893 221)** | **(4 015 131)** | **(9 958 138)** |

## (f) 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 strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

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

The analysis based on client credit quality and rating (where available) as of December 31, 2020 and December 31, 2019 is as shown in the next table:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Government bonds** | | |
| Rated BBB- | **12 416** | 10 453 |
| **Equities** | | |
| Unrated | 2 847 | 3 491 |
| **Loan** | | |
| Rated BBB | 1 744 | 25 146 |
| **Derivatives (net)** | | |
| Banks and financial institution counterparties | (190 111) | (115 274) |
| Corporate counterparties | 61 930 | 39 462 |
| **Total trading assets and liabilities** | **(111 174)** | **(36 722)** |

Government bonds presented as of December 31, 2020 and December 31, 2019 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 Provisioning and Restructuring Committee (PRC) established in the Bank.

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

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

The financial year 2020 was marked by an unprecedented pandemic situation with significant repercussions on economic and social life, to which the Bank has quickly adapted. To prevent further negative impacts and support its clients in the widespread crisis, the Bank:

- actively participated in the introduced in Bulgaria non-legislative public-like moratorium initiated by the Association of the Banks in Bulgaria and approved by Bulgarian National Bank, which is fully compliant with the EBA "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" and approved as such by the Bulgarian National Bank. As of December 2020 more than 20 800 customers have applied for such moratoria measures and the gross carrying amount of the approved loans is nearly BGN 1.58 billion;
- introduced bank-specific set of stabilization measures for the cases that could not be addressed by the mentioned moratorium (with no preferential regulatory treatment). As of December 2020 over 1 950 customers have applied for such stabilization measures and the gross carrying amount of the approved loans is over BGN 211 million; and
- actively participated in the Covid programs for guaranteed by the Bulgarian Development Bank AD loans to private individuals and companies affected by the pandemic as part of the government response to the crisis. As of December 2020 nearly 4 170 customers have applied for such moratoria measures and gross carrying amount of the approved loans is over BGN 33 million.

With regard to the above mentioned circumstances the Bank and its subsidiaries have adapted an updated baseline economic scenario and adverse and positive scenarios within IFRS 9 model.

Exposures with objective evidence for 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 monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as 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 capital base of the Bank.

The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups of customers as of December 31, 2020 and December 31, 2019:

*In thousands of BGN*

| | CREDIT RISK EXPOSURE BEFORE RISK TRANSFER | | CREDIT RISK EXPOSURE AFTER RISK TRANSFER | | % OF OWN FUNDS | |
|---|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| Biggest credit risk exposure to customers' group | 531 720 | 410 620 | 459 431 | 358 719 | 14,4% | 12,7% |
| Credit risk exposure to top five biggest customers' groups | 1 395 066 | 1 324 636 | 1 078 781 | 1 099 342 | 33,8% | 39,1% |

The table below analyses the breakdown of loss allowances as of December 31, 2020 and December 31, 2019 on different classes:

*In thousands of BGN*

| LOSS ALLOWANCE BY CLASSES | 2020 | 2019 |
|---|---|---|
| Cash and balances with Central Bank | 165 | 39 |
| Loans and advances to banks at amortised cost | 374 | 478 |
| Loans and advances to customers at amortised cost | 847 283 | 656 915 |
| Debt investment securities at amortised cost | 117 | 260 |
| Debt investment securities at FVTOCI | 7 288 | 2 823 |
| Loan commitments | 18 844 | 16 677 |
| **Financial guarantee contracts and other commitments** | **38 612** | **45 925** |
| Accumulated negative changes in fair value due to credit risk on non-performing exposures mandatory at FV | 2 154 | - |
| **Total Loss allowance by classes** | **912 683** | **723 117** |

The tables below analyse the movement of the loss allowance during the year per class of assets:

*In thousands of BGN*

| LOSS ALLOWANCE – LOANS AND ADVANCES TO BANKS AT AMORTISED COST | STAGE 1<br>12-MONTH ECL | STAGE 2<br>LIFETIME ECL | STAGE 3<br>LIFETIME ECL | POCI | TOTAL |
|---|---|---|---|---|---|
| | | | | | |
| **Loss allowance as at 31.12.2019** | **(478)** | **-** | **-** | **-** | **(478)** |
| Changes in the loss allowance | | | | | **-** |
| Transfer to stage 1 | - | - | - | - | **-** |
| Transfer to stage 2 | **-** | **-** | **-** | **-** | **-** |
| Transfer to stage 3 | - | - | - | - | **-** |
| Increases due to change in credit risk | - | - | - | - | **-** |
| Decreases due to change in credit risk | - | - | - | - | **-** |
| Write-offs | - | - | - | - | **-** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | **-** |
| New financial assets originated or purchased | (204) | - | - | - | **(204)** |
| Financial assets that have been derecognised | 308 | - | - | - | **308** |
| Changes in models/risk parameters | - | - | - | - | **-** |
| Foreign exchange and other movements | - | - | - | - | **-** |
| **Loss allowance as at 31.12.2020** | **(374)** | **-** | **-** | **-** | **(374)** |

*In thousands of BGN*

| LOSS ALLOWANCE – LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST | STAGE 1<br>12-MONTH ECL<br>CUM | STAGE 2<br>LIFETIME ECL<br>CUM | STAGE 3<br>LIFETIME ECL<br>CUM | POCI<br>CUM | TOTAL<br>CUM |
|---|---|---|---|---|---|
| **Loss allowance as at 31.12.2019** | **(63 070)** | **(124 690)** | **(468 931)** | **(484)** | **(657 175)** |
| Changes in the loss allowance: | | | | | **-** |
| Transfer to stage 1 | (7 027) | 6 790 | 237 | - | **-** |
| Transfer to stage 2 | 34 991 | (35 392) | 401 | - | **-** |
| Transfer to stage 3 | 73 077 | 84 513 | (157 590) | - | **-** |
| Increases due to change in credit risk | (120 255) | (82 736) | (100 428) | - | **(303 419)** |
| Decreases due to change in credit risk | 18 901 | 44 564 | 45 161 | - | **108 626** |
| Write-offs | - | - | 23 530 | - | **23 530** |
| Changes due to modifications that did not result in derecognition | - | - | - | - | **-** |
| New financial assets originated or purchased | (14 260) | (18 522) | (20 672) | (253) | **(53 707)** |
| Financial assets that have been derecognised | 8 517 | 9 660 | 18 136 | - | **36 313** |
| Changes in models/risk parameters | - | - | - | - | **-** |
| Foreign exchange and other movements | - | - | (1 568) | - | **(1 568)** |
| **Loss allowance as at 31.12.2020** | **(69 126)** | **(115 813)** | **(661 724)** | **(737)** | **(847 400)** |

The tables below analyze the movement of the customers portfolio at amortised cost in terms of quality and respective movements of the gross carrying amounts during 2020 as per IFRS 9 requirements:

*In thousands of BGN*

| LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST | YEAR ENDED 2020 | | | | | YEAR ENDED 2019 |
|---|---|---|---|---|---|---|
| | STAGE 1 | STAGE 2 | STAGE 3 | | | |
| | 12-MONTH ECL | LIFETIME ECL | LIFETIME ECL | POCI | TOTAL | TOTAL |
| Grades 1-3: Low to fair risk | 3 785 145 | 82 008 | - | - | **3 867 153** | **4 565 068** |
| Grades 4-6: Monitoring | 6 546 830 | 1 041 379 | - | - | **7 588 209** | **6 786 127** |
| Substandard | 75 324 | 634 510 | 85 458 | - | **795 292** | **893 939** |
| Grade 9: Doubtful | - | - | 542 100 | 737 | **542 837** | **320 110** |
| Grade 10: Impaired | - | - | 294 290 | - | **294 290** | **291 251** |
| | | | | | | |
| **Total gross carrying amount** | **10 407 299** | **1 757 897** | **921 848** | **737** | **13 087 781** | **12 856 495** |
| Loss allowance | (69 009) | (115 813) | (662 461) | - | **(847 283)** | **(656 915)** |
| **Carrying amount** | **10 338 290** | **1 642 084** | **259 387** | **737** | **12 240 498** | **12 199 580** |

*In thousands of BGN*

| DEBT INVESTMENT SECURITIES AT AMORTISED COST | YEAR ENDED 2020 | | | | | YEAR ENDED 2019 |
|---|---|---|---|---|---|---|
| | STAGE 1 | STAGE 2 | STAGE 3 | | | |
| | 12-MONTH ECL | LIFETIME ECL | LIFETIME ECL | POCI | TOTAL | TOTAL |
| | CUM | CUM | CUM | CUM | CUM | CUM |
| Grades 1-3: Low to fair risk | 80 191 | - | - | - | **80 191** | **6 977** |
| Grades 4-6: Monitoring | 4 263 | - | - | - | **4 263** | **-** |
| Substandard | - | - | - | - | **-** | **-** |
| Grade 9: Doubtful | - | - | - | - | **-** | **-** |
| Grade 10: Impaired | - | - | - | - | **-** | **-** |
| | | | | | | |
| **Total gross carrying amount** | **84 454** | **-** | **-** | **-** | **84 454** | **6 977** |
| Loss allowance | (117) | | | | **(117)** | **(260)** |
| **Carrying amount** | **84 337** | **-** | **-** | **-** | **84 337** | **6 717** |

*In thousands of BGN*

| LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST | STAGE 1 | STAGE 2 | STAGE 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **Gross carrying amount as at 31.12.2019** | **10 729 245** | **1 507 137** | **626 606** | **484** | **12 863 472** |
| **Changes in the gross carrying amount:** | | | | | **-** |
| Transfer to stage 1 | 391 965 | (390 773) | (1 192) | - | - |
| Transfer to stage 2 | (815 786) | 823 746 | (7 960) | - | - |
| Transfer to stage 3 | (193 539) | (174 462) | 368 000 | - | (1) |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| New financial assets originated or purchased | 3 092 229 | 259 743 | 29 148 | 253 | 3 381 373 |
| Financial assets that have been derecognised | (1 259 682) | (95 509) | (15 883) | - | (1 371 074) |
| Write-offs | - | - | (23 531) | - | (23 531) |
| Other changes | (1 452 679) | (171 985) | (53 340) | - | (1 678 004) |
| **Gross carrying amount as at 31.12.2020** | **10 491 753** | 1 757 897 | 921 848 | 737 | **13 172 235** |

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

*In thousands of BGN*

| | LOANS AND ADVANCES TO CUSTOMERS | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| **Defaulted exposures** | | |
| Cash collateral | **6 567** | 4 110 |
| Property | 1 007 847 | 697 121 |
| Debt securities | 463 | 0 |
| Other collateral | 735 348 | 396 623 |
| **Performing exposures** | | |
| Cash collateral | 60 079 | 171 030 |
| Property | 11 070 326 | 11 250 572 |
| Debt securities | 9 509 | 9 972 |
| Other collateral | 8 810 640 | 10 216 177 |
| **Total** | **21 700 779** | **22 745 605** |

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

The concentration of risk exposures in different sectors of the economy as well as geographical spread out is as outlined in table below as of December 31, 2020 and December 31, 2019:

*In thousands of BGN*

| | LOANS AND ADVANCES TO CUSTOMERS | | LOANS AND ADVANCES TO BANKS | | INVESTMENT SECURITIES | |
|---|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| **Concentration by sectors** | | | | | | |
| Sovereign | 463 162 | 373 790 | - | - | 3 523 292 | 3 200 939 |
| Manufacturing | 2 595 487 | 2 577 447 | - | - | 50 923 | 81 915 |
| Commerce | 2 093 692 | 2 202 017 | - | - | - | - |
| Construction and real estate | 1 614 279 | 1 495 756 | - | - | 67 | 67 |
| Agriculture and forestry | 539 997 | 556 531 | - | - | - | - |
| Transport and communication | 749 997 | 645 446 | - | - | 107 | - |
| Tourism | 221 649 | 204 726 | - | - | - | - |
| Services | 496 608 | 434 556 | - | - | - | - |
| Financial services | 67 827 | 119 686 | 1 429 006 | 3 756 983 | 105 713 | 315 962 |
| Retail (individuals) | | | | | - | - |
| Housing loans | 2 370 470 | 2 228 485 | - | - | - | - |
| Consumer loans | 1 765 469 | 1 809 527 | | | | |
| Other loans | 198 125 | 219 662 | - | - | - | - |
| | **13 176 762** | **12 867 629** | **1 429 006** | **3 756 983** | **3 680 102** | **3 598 883** |
| Impairment allowances | (847 400) | (657 175) | (374) | (478) | - | - |
| **Total** | **12 329 362** | **12 210 454** | **1 428 632** | **3 756 505** | **3 680 102** | **3 598 883** |
| **Concentration by geographic location** | | | | | | |
| Europe | 13 107 494 | 12 803 097 | 1 394 764 | 3 687 267 | 3 665 477 | 3 585 255 |
| North America | 18 646 | 16 596 | 9 135 | 12 561 | 14 625 | 13 628 |
| Asia | 49 770 | 47 098 | 24 843 | 56 020 | - | - |
| Africa | 195 | 141 | 131 | 1 081 | - | - |
| South America | 556 | 596 | - | - | - | - |
| Australia | 101 | 101 | 133 | 54 | - | - |
| | **13 176 762** | **12 867 629** | **1 429 006** | **3 756 983** | **3 680 102** | **3 598 883** |
| Impairment allowances | (847 400) | (657 175) | (374) | (478) | - | - |
| **Total** | **12 329 362** | **12 210 454** | **1 428 632** | **3 756 505** | **3 680 102** | **3 598 883** |

### (g) 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 (including legal risk). Examples of events include compensations paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud. Such events are subject to consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital held for operational risk is based.

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

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

The main activities of the OpRepRisk Unit in 2020 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks and ensuring business continuity during the Covid-19 situation.

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; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring. The RCSA, activity was defined in 2019, performed in UniCredit Bulbank on annual basis and further enhanced in 2020. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of ORR Unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

Several OpRisk assessments dedicated to Covid-19 impact were performed in 2020, including:

- 10 most critical processes (identified through the Business Impact Analysis) were evaluated in terms of most important operational risks affecting them;
- several clusters of processes (Payments, Onboarding, Lending, Treasury, etc.) were assessed together with the process owners based on predefined key root causes; risks and controls/ measures were identified and additional update was provided to the Holding;
- OpRisk assessment on moratorium, public guarantees and social wage advance was performed. Sets of root causes predefined by Holding ORM function had to be assessed in terms of mitigation actions existence and risk mitigation level evaluation.

All activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner with no delay.

In 2020 CEE MORO (Markets Operational Risk Optimization) Project review was launched by the Holding. The main goals of the project were to review and update MORO controls as per the latest business and regulatory development and strengthen and optimize those controls to further reduce operational risk. Final overall status was defined as Mostly Satisfactory. Throughout the year, ORR Unit continued its important participation in other risk mitigation and compliance-oriented projects such as GDPR and PSD2.

The established Operational and Reputational Risk Committee greatly enhances the regular exchange of information and promotion of the operational risk awareness within the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Overall, the organization of operational and reputational risk management in UniCredit Bulbank is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible overall rating to the local OpRisk management and internal control framework. The outcome of these assessments also proves full compliance to the regulatory and Group standards. A sound and well-developed risk management system was established with strong focus on pro-activeness with full support of senior management and all functions in the Bank.

During 2020 the OpRepRisk Unit continued to develop and strength 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 Reputational Risk Committee (RRC), which was established in the beginning of 2020, hold regular meeting to discuss deals and issues in the scope of the reputational risk.

The risk culture has been constantly spread out throughout the organization. All the training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness at Bank level. Starting from March 2020 all trainings were organized as remote sessions. In 2020 and 2021 the unit participates in a dedicated training aiming to improve the expertise of the branch managers of the retail network of the bank.

In 2021 the OpRepRisk Unit will further develop and successfully finalize the projects and activities started in 2020 and most of which related to the newly introduced regulatory requirements. Additional efforts will be dedicated to further strengthening the control framework via dedicated projects and processes assessments. The unit will continue the methodological support, training and monitoring of the legal entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards. The monitoring was improved in 2020 via introduction of the new Operational Risk Oversight model of UniCredit Group focused on smaller legal entities like the subsidiaries of UniCredit Bulbank.

The Reputational Risk Management is implemented within the Group 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., GORRIC);
- Rule the necessary escalation / decision-making processes (e.g. material events escalation process)

The overall reputational risk management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies, in all the relevant decisions regarding the Reputational Risk management (i.e., escalation mechanisms);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- An effective system of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model).

During the year new Reputational Risk Policy regarding Non-Conventional Oil & Gas and Arctic Region Oil & Gas Industry Sector was adopted. There were updates within the existing Defense/ Weapons Industry Reputational Risk Global Policy and Coal Sector – Environmental, Social and Reputational Risk Global Policy. In 2021 UniCredit Bulbank will implement new coal-related sector policy.

### (h) Basel III disclosure

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

Starting from July 2016, UniCredit Bulbank AD reports on a stand-alone basis 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). STA is still applied by the Bank's subsidiaries for all their exposures. 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 of 0.5% (or combined buffers additional capital requirement of 6%). In addition to those, starting from 2019 also Countercyclical capital buffer has been introduced at the level of 0.5% and capital buffer for other systemic important institution has been increased to 0.75%. 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, 2020 are 11.5%, 13%, 15% (as of December 31, 2019 – 11.5%, 12.75%, 14.75%), respectively.

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

### Securitization

In 2011 Bank has signed First Loss Guarantee Agreement (FLPG) with European Investment Fund, covering newly disbursed SME loans. In 2012 upon agreement for the regulatory treatment with Bulgarian National Bank, the above mentioned transaction is presented as synthetic securitization under STA for the purposes of allocating capital for credit risk under Basel III. From October 2016 the Bank applies Supervisory Formula Method for calculation for capital allocation purposes. Summary of FLPG as of December 31, 2020 is presented in the table below:

| NAME | EIF JEREMIE | |
|---|---|---|
| Type of securitisation: | First Loss Portfolio Guarantee | |
| Originator: | UniCredit Bulbank | |
| Issuer: | European Investment Fund | |
| Target transaction : | Capital Relief and risk transfer | |
| Type of asset: | Highly diversified and granular pool of newly granted SME loans | |
| Quality of Assets as of December 31, 2020 | Performing loans | |
| Agreed maximum portfolio volume: | EUR 85,000 thousand | |
| Nominal Value of reference portfolio: | BGN 4,235 thousand | |
| Issued guarantees by third parties: | First loss cash coverage by EIF | |
| Amount and Condition of tranching: | | |
| Type of tranche | Senior | Junior |
| Reference Position as of December 31, 2020 | BGN 0 | BGN 3,388 thousand |

## (i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2020 and December 31, 2019 are as follows:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Regulatory own funds** | | |
| Core Equity Tier 1 (CET 1) | 3 143 905 | 2 763 401 |
| Tier 1 capital | 3 143 905 | 2 763 401 |
| Tier 2 capital | 46 533 | 51 419 |
| **Total regulatory own funds** | **3 190 438** | **2 814 820** |
| **Risk Weighted Assets (RWA)** | | |
| RWA for credit risk | 10 108 655 | 11 693 126 |
| RWA for market risk | 85 813 | 100 225 |
| RWA for operational risk | 1 073 550 | 1 068 388 |
| RWA for credit valuation adjustments | 6 388 | 10 025 |
| **Total Risk Weighted Assets (RWA)** | **11 274 406** | **12 871 764** |
| **CET 1 ratio** | **27,89%** | **21,47%** |
| **Tier 1 ratio** | **27,89%** | **21,47%** |
| **Total capital adequacy ratio** | **28,30%** | **21,87%** |
| **Minimum CET 1 capital requirements (4.5%)** | **507 348** | **579 229** |
| **Minimum Tier 1 capital requirements (6%)** | **676 464** | **772 306** |
| **Minimum total capital requirements (8%)** | **901 952** | **1 029 741** |
| Additional capital requirements for conservation buffer (2.5%) | 281 860 | 321 794 |
| Additional capital requirements for systemic risk buffer (3%) | 338 232 | 386 153 |
| Additional capital requirements for other systemic important institution (2019-0.75%, 2020-1%) | 84 558 | 96 538 |
| Additional capital requirements for countercyclical capital buffer (0.5%) | 56 372 | 64 359 |
| **Combined buffers additional capital requirements (2019-6.75%, 2020-7%)** | **761 022** | **868 844** |
| Adjusted minimum CET 1 capital requirements after buffers (11.25% -2019, 11.50% - 2020;) | 1 268 371 | 1 448 073 |
| Adjusted minimum Tier 1 capital requirements, including buffers (12.75% -2019; 13% - 2020 ) | 1 437 487 | 1 641 150 |
| Adjusted minimum total capital requirements after buffers (14.75% -2019; 15%- 2020) | 1 662 975 | 1 898 585 |
| **Free equity, after buffers** | **1 527 463** | **916 235** |

### (g) Climate-related and environmental risks

Climate change-related risks (both physical and transition) and the accompanying shift towards sustainable finance are mounting challenges to the financial sector and may impact other types of risks.

In context of an evolving regulatory framework that in 2020 put even more emphasis on the climate risk topic, the Group aims to continue 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 possible requests of the regulatory authorities.

A very first step in the achievement of this important aspiration was the setting up of a dedicated team within the Group Risk Management (GRM) function, responsible for the supervision and management of issues related to climate change and environmental risks and UniCredit's approach to sensitive sectors. A major step forward put in place by the team is the definition of a dedicated internal methodology aimed at assessing Climate and Environmental exposure and vulnerability of the lending portfolio. Furthermore, UniCredit was one of the participating banks to the Paris Agreement Capital Transition Assessment (PACTA) methodology developed by 2° Investing Initiative (2°ii). The Group also participated to the European Banking Authority 2020 voluntary pilot sensitivity exercise. With reference to physical risk it has been performed a preliminary estimation at Group level of potential impact of some chronic (i.e. sea-level rise) and acute (i.e. Landslide and Flooding) hazards on the value of mortgage collaterals related to properties located on the most exposed areas. UniCredit group endorsed the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, signed up to the Principles for Responsible Banking (PRB), launched by the United Nations Environment Program to help banks align their business strategy with society's goals.

## 5. Use of estimates and judgements

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

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

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

### (a) Fair value determination of financial instruments

As described in note **3 (i) (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 2020 and 2019 see also Note 9).

### Loans and advances to banks and customers

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

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2020, whenever risk-free FV deviates by more than 2% (2% in 2019) from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

### Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2020 and December 31, 2019 all demand deposits are mapped to Level 3 fair value hierarchy.

The table below analyses financial instruments by valuation method applied by the Bank as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| INSTRUMENT CATEGORY | LEVEL 1 | | LEVEL 2 | | LEVEL 3 | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Non-derivative financial assets held for trading | 15 263 | 10 725 | 1 744 | 28 365 | - | - | **17 007** | **39 090** |
| Derivatives held for trading | - | - | 78 880 | 67 732 | - | 595 | **78 880** | **68 327** |
| Derivatives used for hedging | - | - | 16 | 226 | - | - | **16** | **226** |
| Investments sequrities | 2 507 886 | 2 276 481 | 1 125 461 | 1 268 777 | 43 273 | 50 002 | **3 676 620** | **3 595 260** |
| Loans and advances to banks | - | - | 1 237 243 | 3 754 868 | 289 539 | - | **1 526 782** | **3 754 868** |
| Loans and advances to customers | - | - | 3 128 190 | 3 378 312 | 7 642 536 | 9 462 014 | **10 770 726** | **12 840 326** |
| | **2 523 149** | **2 287 206** | **5 571 534** | **8 498 280** | **7 975 348** | **9 512 611** | **16 070 031** | **20 298 097** |
| Financial liabilities held for trading | - | - | 101 394 | 53 677 | - | - | **101 394** | **53 677** |
| Derivatives used for hedging | - | - | 105 683 | 90 688 | - | - | **105 683** | **90 688** |
| Deposits from banks | - | - | - | - | 2 078 542 | 860 365 | **2 078 542** | **860 365** |
| Deposits from customers and other financial liabilities at amortize cost | - | - | - | - | 18 704 295 | 17 748 190 | **18 704 295** | **17 748 190** |
| | **-** | **-** | **207 077** | **144 365** | **20 782 837** | **18 608 555** | **20 989 914** | **18 752 920** |

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2020 is as follows:

*In thousands of BGN*

| | FINANCIAL ASSETS HELD FOR TRADING | INVESTMENT SECURITIES |
|---|---|---|
| **Opening balance (January 1, 2020)** | **595** | **50 002** |
| **Increases** | **-** | **1 710** |
| Profit recognized in income statement | - | 1 179 |
| Profit recognized in equity | - | 240 |
| Other increases | - | 291 |
| Decreases | (595) | (8 439) |
| **Redemption** | | **(748)** |
| Losses recognized in income statement | (595) | - |
| Transfers to other levels | - | (7 073) |
| Other decreases | - | (618) |
| **Closing balance (December 31, 2020)** | **-** | **43 273** |

The tables below analyse the fair value of financial instruments by classification as of December 31, 2020 and December 31, 2019.

*In thousands of BGN*

| DECEMBER 2020 | 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 | - | - | - | - | 6 595 654 | **6 595 654** | **6 596 933** |
| Non-derivative financial assets held for trading | 15 263 | 1 744 | - | - | - | **17 007** | **17 007** |
| Derivatives held for trading | 78 880 | - | - | - | - | **78 880** | **78 880** |
| Derivatives held for hedging | - | - | - | 16 | - | **16** | **16** |
| Loans and advances to banks | - | 1 428 632 | - | - | - | **1 428 632** | **1 526 782** |
| Loans and advances to customers | - | 12 327 208 | - | - | - | **12 327 208** | **10 770 726** |
| Investments securities | - | - | 3 676 620 | - | - | **3 676 620** | **3 676 620** |
| **TOTAL ASSETS** | **94 143** | **13 757 584** | **3 676 620** | **16** | **6 595 654** | **24 124 017** | **22 666 964** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading | 101 394 | - | - | - | - | **101 394** | **101 394** |
| Derivatives used for hedging | - | - | - | 105 683 | - | **105 683** | **105 683** |
| Deposits from banks | - | - | - | - | 2 048 060 | **2 048 060** | **2 078 542** |
| Deposits from customers and other financial liabilities at amortized cost | - | - | - | - | 18 728 712 | **18 728 712** | **18 704 295** |
| **TOTAL LIABILITIES** | **101 394** | **-** | **-** | **105 683** | **20 776 772** | **20 983 849** | **20 989 914** |

*In thousands of BGN*

| DECEMBER 2019 | 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 | - | - | - | - | 2 065 169 | **2 065 169** | **2 065 208** |
| Non-derivative financial assets held for trading | 13 944 | 25 146 | - | - | - | **39 090** | **39 090** |
| Derivatives held for trading | 68 327 | - | - | - | - | **68 327** | **68 327** |
| Derivatives held for hedging | - | - | - | 226 | - | **226** | **226** |
| Loans and advances to banks | - | 3 756 505 | - | - | - | **3 756 505** | **3 754 868** |
| Loans and advances to customers | - | 12 210 454 | - | - | - | **12 210 454** | **12 840 326** |
| Investments securities | - | - | 3 595 260 | - | - | **3 595 260** | **3 595 260** |
| **TOTAL ASSETS** | **82 271** | **15 992 105** | **3 595 260** | **226** | **2 065 169** | **21 735 031** | **22 363 305** |
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading | 53 677 | - | - | - | - | **53 677** | **53 677** |
| Derivatives used for hedging | - | - | - | 90 688 | - | **90 688** | **90 688** |
| Deposits from banks | - | - | - | - | 864 865 | **864 865** | **860 365** |
| Deposits from customers and other financial liabilities at amortized cost | - | - | - | - | 17 747 580 | **17 747 580** | **17 748 190** |
| **TOTAL LIABILITIES** | **53 677** | **-** | **-** | **90 688** | **18 612 445** | **18 756 810** | **18 752 920** |

### (b) Fair value determination of non-financial assets

Fair value determination of non-financial assets is usually applied on non-recurring basis when measuring recoverable amount of investment properties. Bank has adopted the approach whereas recoverable amount for all investment properties is deemed to be their fair value (cost to sell considered immaterial). Fair value is assessed based on external valuation considering highest and best use of the asset. As of December 31, 2020 and December 31, 2019 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note **28**).

### (c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortised 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.

## 6. Segment reporting

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

| 31.12.2020 | RETAIL BANKING | CIB AND PRIVATE BANKING | ALM AND OTHER | TOTAL |
|---|---|---|---|---|
| Net interest income | 314 616 | 233 624 | (38 787) | **509 453** |
| Dividend income | - | - | 752 | **752** |
| Net fee and commission income | 148 855 | 85 021 | (196) | **233 680** |
| Net gains from financial assets and liabilities held for trading | 21 772 | 50 421 | 6 234 | **78 427** |
| Net (losses) from financial assets mandatory at fair value | - | - | (99) | **(99)** |
| Net income from financial assets measured at FVTOCI | - | 9 639 | 1 234 | **10 873** |
| Other operating income/(expense) | (28 152) | (37 328) | 12 084 | **(53 396)** |
| **TOTAL OPERATING INCOME** | **457 091** | **341 377** | **(18 778)** | **779 690** |
| Personnel expenses | (70 130) | (26 407) | (64 423) | **(160 960)** |
| General and administrative expenses | (60 743) | (17 917) | (33 032) | **(111 692)** |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | (22 138) | (6 961) | (27 697) | **(56 796)** |
| **Total direct expenses** | **(153 011)** | **(51 285)** | **(125 152)** | **(329 448)** |
| Allocation of indirect and overhead expenses | (71 388) | (36 092) | 107 480 | **-** |
| **TOTAL OPERATING EXPENSES** | **(224 399)** | **(87 377)** | **(17 672)** | **(329 448)** |
| Provisions for risk and charges | (221) | 3 649 | (7 736) | **(4 308)** |
| Net impairment loss on financial assets | (88 679) | (137 555) | (3 294) | **(229 528)** |
| Net income related to property, plant and equipment | - | 413 | 66 | **479** |
| **PROFIT BEFORE INCOME TAX** | **143 792** | **120 507** | **(47 414)** | **216 885** |
| Income tax expense | (14 379) | (12 051) | 4 651 | **(21 779)** |
| **PROFIT FOR THE YEAR** | **129 413** | **108 456** | **(42 763)** | **195 106** |
| **ASSETS** | **4 687 292** | **10 540 158** | **9 392 067** | **24 619 517** |
| **LIABILITIES** | **11 646 655** | **7 194 736** | **2 403 666** | **21 245 057** |

*In thousands of BGN*

| 31.12.2019 | RETAIL BANKING | CIB AND PRIVATE BANKING | ALM AND OTHER | TOTAL |
|---|---|---|---|---|
| Net interest income | 339 716 | 252 478 | (40 861) | **551 333** |
| Dividend income | - | - | 323 | **323** |
| Net fee and commission income | 165 053 | 91 438 | (180) | **256 311** |
| Net gains (losses) from financial assets and liabilities held for trading | 22 764 | 48 489 | 27 479 | **98 732** |
| Net income from investments | - | - | 4 144 | **4 144** |
| Net income from financial assets measured at FVTOCI | - | 32 828 | 1 324 | **34 152** |
| Other operating income | (24 395) | (33 630) | 6 170 | **(51 855)** |
| **TOTAL OPERATING INCOME** | **503 138** | **391 603** | **(1 601)** | **893 140** |
| Personnel expenses | (67 373) | (25 863) | (62 191) | **(155 427)** |
| General and administrative expenses | (61 602) | (18 943) | (26 785) | **(107 330)** |
| Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale | (20 245) | (6 549) | (21 930) | **(48 724)** |
| **Total direct expenses** | **(149 220)** | **(51 355)** | **(110 906)** | **(311 481)** |
| Allocation of indirect and overhead expenses | (63 857) | (34 534) | 98 391 | **-** |
| **TOTAL OPERATING EXPENSES** | **(213 077)** | **(85 889)** | **(12 515)** | **(311 481)** |
| Provisions for risk and charges | (598) | (6 180) | (10 776) | **(17 554)** |
| Net impairment loss on financial assets | (44 646) | (74 892) | 1 589 | **(117 949)** |
| Net income related to property, plant and equipment | - | 247 | 2 973 | **3 220** |
| **PROFIT BEFORE INCOME TAX** | **244 817** | **224 889** | **(20 330)** | **449 376** |
| Income tax expense | (24 482) | (22 489) | 1 602 | **(45 369)** |
| **PROFIT FOR THE YEAR** | **220 335** | **202 400** | **(18 728)** | **404 007** |
| **ASSETS** | **4 698 290** | **10 003 858** | **7 544 494** | **22 246 642** |
| **LIABILITIES** | **10 564 861** | **7 303 411** | **1 156 682** | **19 024 954** |

## 7. Net interest income

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Financial assets held for trading | 262 | 570 |
| Derivatives held for trading | 28 | 248 |
| Loans and advances to banks | 4 917 | 6 541 |
| Loans and advances to customers | 497 211 | 526 595 |
| Investment sequrities | 56 652 | 59 727 |
| | **559 070** | **593 681** |
| **Interest expense** | | |
| Derivatives held for trading | (17) | - |
| Derivatives used for hedging | (19 345) | (18 037) |
| Deposits from banks | (26 225) | (19 803) |
| Deposits from customers | (4 030) | (4 508) |
| | **(49 617)** | **(42 348)** |
| **Net interest income** | **509 453** | **551 333** |

## 8. Net fee and commission income

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Fee and commission income** | | |
| Collection and payment services | 114 445 | 147 959 |
| Lending business | 34 087 | 34 214 |
| Account services | 34 099 | 26 051 |
| Management, brokerage and securities trading | 10 949 | 7 757 |
| Documentary business | 17 007 | 17 673 |
| Package accounts | 23 534 | 22 020 |
| Other | 29 660 | 33 882 |
| | **263 781** | **289 556** |
| **Fee and commission expense** | | |
| Collection and payment services | (27 452) | (30 248) |
| Management, brokerage and securities trading | (1 360) | (1 129) |
| Lending business | (128) | (158) |
| Other | (1 161) | (1 710) |
| | **(30 101)** | **(33 245)** |
| **Net fee and commission income** | **233 680** | **256 311** |

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| FX trading income, net | 72 354 | 92 170 |
| Net income from debt instruments | 1 223 | 929 |
| Net loss from equity instruments | (428) | (46) |
| Net income from derivative instruments | 2 670 | 513 |
| Net income from other trading instruments | 2 876 | 5 562 |
| Net loss from hedging derivative instruments | (268) | (396) |
| **Net gains on financial assets and liabilities held for trading and hedging derivatives** | **78 427** | **98 732** |

The total CVA (net of DVA) for the years ended December 31, 2020 and December 31, 2019, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 1 351 thousand and BGN 127 thousand, respectively.

## 10. Net gains from financial assets mandatory at fair value

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Equity securities | 1 983 | 3 886 |
| Loans and advances | (2 082) | 258 |
| **Net gains from financial assets mandatory at fair value** | **(99)** | **4 144** |

## 11. Net income from financial assets measured at FVTOCI

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Realised gains on disposal of debt sequrities | 10 532 | 33 819 |
| Other | 341 | 333 |
| **Net income from financial assets measured at FVTOCI** | **10 873** | **34 152** |

## 12. Other operating expenses, net

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Other operating income** | | |
| Income from non-financial services | 5 481 | 5 175 |
| Rental income | 14 764 | 11 307 |
| Other income | 2 340 | 4 614 |
| | **22 585** | **21 096** |
| **Other operating expenses** | | |
| Deposit guarantee fund and RR fund annual contribution | (71 994) | (65 610) |
| Impairment of foreclosed properties | (270) | (1 492) |
| Losses on tangible assets measured at fair value | (263) | (1 513) |
| Other operating expenses | (3 454) | (4 336) |
| | **(75 981)** | **(72 951)** |
| **Other operating (expenses), net** | **(53 396)** | **(51 855)** |

In 2020 and 2019 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their carrying amount, impairment loss has been recognized.

## 13. Net income related to property, plant and equipment

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Net income on disposal of property, plant and equipment | 479 | 3 220 |
| **Net income related to property, plant and equipment** | **479** | **3 220** |

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets.

## 14. Personnel expenses

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | (134 012) | (130 388) |
| Social security charges | (20 143) | (18 285) |
| Pension and similar expenses | (1 779) | (727) |
| Temporary staff expenses | 391 | 439 |
| Share-based payments | (840) | (1 505) |
| Other | (4 577) | (4 961) |
| **Total personnel expenses** | **(160 960)** | **(155 427)** |

As of December 31, 2020 the total number of employees, expressed in full time employee equivalent is 4 206 (December 31, 2019: 4 142).

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

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

*In thousands of BGN*

| | ECONOMIC VALUE AT DECEMBER 31, 2019 | 2020 COST (GAINS) | SETTLED IN 2020 | ECONOMIC VALUE AT DECEMBER 31, 2020 |
|---|---|---|---|---|
| Deferred Short Term Incentive (ordinary shares) | 8 215 | 840 | (1 110) | **7 945** |
| ESOP and shares for Talents | 72 | - | - | **72** |
| **Total Options and Shares** | **8 287** | **840** | **(1 110)** | **8 017** |

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 **37**.

## 15. General and administrative expenses

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Advertising, marketing and communication | (6 386) | (9 479) |
| Credit information and searches | (2 087) | (2 853) |
| Information, communication and technology expenses | (51 468) | (48 694) |
| Consulting, audit and other professionals services | (2 923) | (2 856) |
| Real estate expenses | (15 401) | (13 163) |
| Rents | (8 160) | (8 518) |
| Travel expenses and car rentals | (1 369) | (2 455) |
| Insurance | (1 936) | (1 724) |
| Supply and miscellaneous services rendered by third parties | (13 094) | (12 107) |
| Other costs | (8 868) | (5 481) |
| **Total general and administrative expenses** | **(111 692)** | **(107 330)** |

For 2020 the fees for audit services provided by the auditing companies amount to BGN 1 235 thousand (BGN 1 238 thousand for 2019).

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Depreciation charge | (56 796) | (48 724) |
| Impairment | - | - |
| **Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale** | **(56 796)** | **(48 724)** |

As part of the standard year-end closure procedures, the Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount. For the years ended December 31, 2020 and December 31, 2019 there is no impairment of fixed assets.

## 17. Provisions for risk and charges

Provisions are allocated whenever based on Management 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 **37**).

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it are presented in the income statement.

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| **Additions of provisions** | | |
| Provisions on credit risk on commitments and financial guarantees | (25 250) | (41 265) |
| Restructuring provisions | (6 023) | - |
| Legal cases provisions | (4 424) | (952) |
| Other provisions | (298) | (11 216) |
| | **(35 995)** | **(53 433)** |
| **Reversal of provisions** | | |
| Provisions on credit risk on commitments and financial guarantees | 30 343 | 34 994 |
| Legal cases provisions | 1 344 | 884 |
| Other provisions | - | 1 |
| | **31 687** | **35 879** |
| **Net provisions charge** | **(4 308)** | **(17 554)** |

## 18. Net Impairment loss on financial assets

*In thousands of BGN*

| NET IMPAIRMENT LOSSES LOANS AND ADVANCES TO CUSTOMERS | 2020 | 2019 |
|---|---|---|
| **Balance 1 January** | **657 175** | **647 836** |
| | | |
| *Increase* | 564 059 | 383 587 |
| | | |
| *Decrease* | | |
| Loans and advances to customers | (331 099) | (233 307) |
| Recoveries from loans previously written-off | (7 921) | (32 033) |
| | **(339 020)** | **(265 340)** |
| | | |
| Net impairment losses | 225 039 | 118 247 |
| FX revaluation effect on imparment allowances | (1 566) | 349 |
| | | |
| Other movements | (451) | (1 100) |
| | | |
| *Written-off* | (40 718) | (140 190) |
| | | |
| **Balance December 31** | | |
| **Loans and advances to customers** | **847 400** | **657 175** |

*In thousands of BGN*

| NET IMPAIRMENT LOSSES LOANS AND ADVANCES TO BANKS | 2020 | 2019 |
|---|---|---|
| ***Balance 1 January*** | **478** | **631** |
| | | |
| *Increase* | 295 | 384 |
| *Decrease* | (397) | (537) |
| | | |
| Net impairment losses | (102) | (153) |
| | | |
| FX revaluation effect on imparment allowances | (2) | - |
| | | |
| **Balance December 31** | | |
| **Loans and advances to banks** | **374** | **478** |

*In thousands of BGN*

| PROVISIONS ON BALANCES WITH CENTRAL BANK | 2020 | 2019 |
|---|---|---|
| ***Balance 1 January*** | **39** | **55** |
| | | |
| *Increase* | 126 | - |
| *Decrease* | - | (16) |
| Net impairment losses | 126 | (16) |
| | | |
| **Balance December 31** | | |
| **Balances with Central Bank** | **165** | **39** |

*In thousands of BGN*

| PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI | 2020 | 2019 |
|---|---|---|
| ***Balance 1 January*** | **2 823** | **2 952** |
| | | |
| *Increase* | 7 612 | 4 141 |
| *Decrease* | (3 147) | (4 270) |
| | 4 465 | (129) |
| | | |
| **Balance December 31** | | |
| **Financial assets at fair value through OCI** | **7 288** | **2 823** |

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Net impairment losses on Loans and advances to customers | (225 039) | (118 247) |
| Net impairment losses on Loans and advances to Banks | 102 | 153 |
| Net impairment losses on Balances with Central Bank | (126) | 16 |
| Net impairment losses on Financial assets at fair value through OCI | (4 465) | 129 |
| **Total net impairment loss on financial assets** | **(229 528)** | **(117 949)** |

## 19. Income tax expense

Taxation is payable at a statutory rate of 10% on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10%, applicable for 2020.

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Current tax | (15 612) | (45 035) |
| Deferred tax income (expense) related to origination and reversal of temporary differences | (5 960) | (369) |
| (Overprovided)/underprovided prior year deferred tax | - | - |
| (Overprovided)/underprovided prior year current tax | (207) | 35 |
| **Income tax expense** | **(21 779)** | **(45 369)** |

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*

| | 2020 | 2019 |
|---|---|---|
| Accounting profit before tax | **216 885** | **449 376** |
| Corporate tax at applicable tax rate (10% for 2019 and 2020) | (21 689) | (44 938) |
| Tax effect of non taxable revenue | 113 | 27 |
| Tax effect of non tax deductible expenses | (351) | (458) |
| Underprovided prior year income tax | 148 | - |
| **Income tax expense** | **(21 779)** | **(45 369)** |
| **Effective tax rate** | **10,04%** | **10,10%** |

## 20. Cash and balances with Central bank

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash in hand and in ATM | 252 793 | 233 370 |
| Cash in transit | 152 233 | 169 365 |
| Current account with Central Bank | 6 190 628 | 1 662 434 |
| **Total cash and balance with Central Bank** | **6 595 654** | **2 065 169** |

## 21. Non-derivative financial assets held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Government bonds | 12 416 | 10 453 |
| Equities | 2 847 | 3 491 |
| Loans | 1 744 | 25 146 |
| **Total financial assets held for trading** | **17 007** | **39 090** |

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

Trading loans consist of prepaid forward transaction with customer.

## 22. Derivatives held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Interest rate swaps | 34 214 | 41 651 |
| Equity options | - | - |
| FX forward contracts | 5 484 | 18 507 |
| Other options | - | - |
| FX swaps | 7 778 | 3 243 |
| Commodity swaps | 15 744 | 436 |
| Commodity options | 15 660 | 4 490 |
| **Total derivatives held for trading** | **78 880** | **68 327** |

Derivatives consist of trading instruments that have positive market value as of December 31, 2020 and December 31, 2019. They are traded for Bank's own purposes, including off-setting some FX, interest rate or credit risks in banking and trading book as well as covering Bank customers' business positions.

## 23. Derivatives held/used for hedging

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

Until 2014 the Bank has designated only cash flow hedge relationships with hedging instruments being interest rate swaps and hedged items being highly probable forecasted interest cash flows derived from customers' and banks' business (attracted deposits). Since 2015 the Bank has started to apply Fair Value Hedge accounting also. Hedging instruments are interest rate swaps and respectively hedged items are bonds classified as financial assets at FVTOCI.

As of December 31, 2020 fair value of derivatives used for hedging are as follow:

- Derivative used as hedging instrument for Fair value hedge relationship – Present Value (PV) as of 31.12.2020 is – PV (+) BGN 16 thousand and PV (-) BGN 66 395 thousand.

- Derivative used as hedging instrument for Cash flow hedge relationship – PV (-) as of 31.12.2020 is BGN 39 288 thousand.

## 24. Loans and advances to banks

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Debt securities | 98 315 | 98 555 |
| Loans and advances to banks | 1 220 112 | 3 474 018 |
| Current accounts with banks | 110 579 | 184 410 |
| **Loans and advances to banks at amortized cost** | **1 429 006** | **3 756 983** |
| Less impairment allowances | (374) | (478) |
| **Total loans and advances to banks** | **1 428 632** | **3 756 505** |

## 25. Loans and advances to customers

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Companies | 7 551 858 | 7 379 992 |
| Individuals | | |
| Housing loans | 2 370 470 | 2 228 485 |
| Consumer loans | 1 765 470 | 1 812 524 |
| Other loans | 65 238 | 77 093 |
| Central and local governments | 463 162 | 373 633 |
| Finance leases | 956 037 | 991 745 |
| | **13 172 235** | **12 863 472** |
| Less impairment allowances | (847 400) | (657 175) |
| **Loans and advances to customers at amortized cost** | **12 324 835** | **12 206 297** |
| **Loans and advances to customers mandatory at fair value** | **2 373** | **4 157** |
| thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures | (2 154) | - |
| **Total loans and advances to customers** | **12 327 208** | **12 210 454** |

## 26. Investment securities

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Securities measured at FVTOCI** | | |
| Government bonds | 3 523 292 | 3 198 850 |
| Bonds of other financial institutions | 75 533 | 288 839 |
| Corporate bonds | 50 923 | 81 704 |
| Equities | 11 660 | 11 660 |
| **Securities mandatory measured at FV** | | |
| Equities | 15 212 | 14 207 |
| **Total Investment securities** | **3 676 620** | **3 595 260** |

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2020 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 of minority participation of the Bank in companies where neither control nor significant influence is exercised. These investments are carried at fair value, when such can be reliably measured, otherwise at cost.

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2020 is BGN 1 744 875 thousand and as of 31.12.2019 is BGN 1 232 263 thousand.

As of December 31, 2020 and as of December 31, 2019 there are pledged investments amounting to BGN 1 711 100 thousand and BGN 142 496 thousand respectively (see also Note **41**).

## 27. Investments in associates

As of December 31, 2020 and December 31, 2019 there is only one associated company, where the Bank 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, 2020 and December 31, 2019 are as follows:

| COMPANY | ACTIVITY | SHARE IN CAPITAL | CARRYING VALUE IN THOUSANDS OF BGN DEC 2020 | CARRYING VALUE IN THOUSANDS OF BGN DEC 2019 |
|---|---|---|---|---|
| Cash Service Company AD | Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks | 25% | 3 482 | 3 623 |
| | | **Total** | **3 482** | **3 623** |

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Cash Service Company AD | | |
| Total assets | 15 296 | 16 188 |
| Total liabilities | 791 | 1 098 |
| Revenue | 8 136 | 7 732 |
| Net profit for the year | 1 363 | 1 331 |

## 28. Property, plant, equipment, rights 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, 2019** | **12 117** | **225 777** | **55 913** | **12 765** | **81 721** | **136 429** | **524 722** |
| Additions | **-** | 5 538 | 6 507 | 700 | 9 073 | 22 906 | **44 724** |
| Transfers | - | (1 546) | - | (20) | 172 | 1 394 | **-** |
| Write offs | **-** | (1 716) | (1 175) | (595) | (1 873) | (8 834) | **(14 193)** |
| Disposals | **-** | - | - | - | (221) | (2 898) | **(3 119)** |
| **As of December 31, 2020 before revaluation** | **12 117** | **228 053** | **61 245** | **12 850** | **88 872** | **148 997** | **552 134** |
| Increase in revaluation reserve upon new revaluation | 1 104 | 3 246 | - | - | - | - | **4 350** |
| Decrease in revaluation reserve upon new revaluation | (882) | (7 303) | - | - | - | - | **(8 185)** |
| Decrease in value in profit or loss upon new revaluation | (222) | (250) | - | - | - | - | **(472)** |
| **Revaluation adjustment** | **-** | **(4 307)** | **-** | **-** | **-** | **-** | **(4 307)** |
| **As of December 31, 2020 after revaluation** | **12 117** | **223 746** | **61 245** | **12 850** | **88 872** | **148 997** | **547 827** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2019** | **-** | **87 585** | **5 787** | **9 704** | **54 310** | **55 459** | **212 845** |
| Depreciation charge | - | 5 564 | 6 678 | 752 | 9 953 | 19 780 | **42 727** |
| Impairment | - | - | - | - | - | - | **-** |
| Write offs | - | (1 716) | (221) | (595) | (1 872) | (6 151) | **(10 555)** |
| On disposals | - | - | - | - | (212) | (2 898) | **(3 110)** |
| Transfers | - | - | - | - | - | - | **-** |
| **As of December 31, 2020** | **-** | **91 433** | **12 244** | **9 861** | **62 179** | **66 190** | **241 907** |
| **Net book value as of December 31, 2020** | **12 117** | **132 313** | **49 001** | **2 989** | **26 693** | **82 807** | **305 920** |
| **Net book value as of December 31, 2019** | **12 117** | **138 192** | **50 126** | **3 061** | **27 411** | **80 970** | **311 877** |

*In thousands of BGN*

| | LANDS | BUILDINGS | BUILDINGS – RIGHT OF USE | FURNITURE | ELECTRONIC EQUIPMENT | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost or revalued amount** | | | | | | | |
| **As of December 31, 2018** | **3 591** | **156 265** | **-** | **12 459** | **77 416** | **104 255** | **353 986** |
| Additions | - | 4 415 | 55 913 | 893 | 8 295 | 40 889 | **110 405** |
| Transfers | (90) | (451) | - | 24 | 372 | (702) | **(847)** |
| Write offs | - | (246) | - | (611) | (3 812) | (4 421) | **(9 090)** |
| Disposals | (56) | (4 208) | - | - | (550) | (3 592) | **(8 406)** |
| **As of December 31, 2019 before revaluation** | **3 445** | **155 775** | **55 913** | **12 765** | **81 721** | **136 429** | **446 048** |
| Increase in revaluation reserve upon new revaluation | 8 726 | 70 202 | - | - | - | - | **78 928** |
| Decrease in value in profit or loss upon new revaluation | (54) | (200) | - | - | - | - | **(254)** |
| **Revaluation adjustment** | **8 672** | **70 002** | **-** | **-** | **-** | **-** | **78 674** |
| **As of December 31, 2009 after revaluation** | **12 117** | **225 777** | **55 913** | **12 765** | **81 721** | **136 429** | **524 722** |
| **Depreciation** | | | | | | | |
| **As of December 31, 2018** | **-** | **83 034** | **-** | **8 970** | **51 283** | **46 064** | **189 351** |
| Depreciation charge | - | 7 265 | 5 787 | 1 344 | 7 237 | 16 390 | **38 023** |
| Impairment | - | - | - | - | - | - | **-** |
| Write offs | - | (246) | - | (610) | (3 812) | (3 508) | **(8 176)** |
| On disposals | - | (2 183) | - | - | (398) | (3 559) | **(6 140)** |
| Transfers | - | (285) | - | - | - | 72 | **(213)** |
| **As of December 31, 2019 before revaluation** | **-** | **87 585** | **5 787** | **9 704** | **54 310** | **55 459** | **212 845** |
| **Net book value as of December 31, 2019** | **12 117** | **138 192** | **50 126** | **3 061** | **27 411** | **80 970** | **311 877** |
| **Net book value as of December 31, 2018** | **3 591** | **73 231** | **-** | **3 489** | **26 133** | **58 191** | **164 635** |

*In thousands of BGN*

| | INVESTMENT PROPERTY |
|---|---|
| **Net book value as of December 31, 2019** | **20 750** |
| Additions | 30 |
| Transfers | (20 332) |
| Write offs | - |
| Reductions in fair value | 209 |
| **Net book value as of December 31, 2020** | **657** |

*In thousands of BGN*

| | INVESTMENT PROPERTY |
|---|---|
| **Net book value as of December 31, 2018** | **23 154** |
| Transfers | 6 114 |
| Disposals | (7 259) |
| Reductions in fair value | (1 259) |
| **Net book value as of December 31, 2019** | **20 750** |

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, plant, 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.

As of December 31, 2020 and December 31, 2019 all investment properties have undergone external independent fair valuation and results of revaluation are considered in these consolidated financial statements according to newly applied valuation criterion. Same is in place also for land and buildings used in business as described in **Note 3**.

The following table illustrates the fair value of investment properties as of December 31, 2020 and December 31, 2019, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2020 and December 31, 2019 are ranked Level 3 as per fair value hierarchy.

*In thousands of BGN*

| | FAIR VALUE | |
|---|---|---|
| | **2020** | **2019** |
| **Investment properties** | | |
| Land | 70 | 6 037 |
| Buildings | 587 | 14 713 |
| **Total investment properties** | **657** | **20 750** |

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 after implementation of the new standard as of December 31, 2020, while liabilities under lease contracts are presented in Note **36**:

*In thousands of BGN*

| RIGHT OF USE ASSETS | BUILDINGS – RIGHT OF USE |
|---|---|
| **Cost** | |
| **As of December 31, 2019** | **55 913** |
| Additions | 6 507 |
| Write offs | (1 175) |
| **As of December 31, 2020** | **61 245** |
| **As of December 31, 2019** | **5 787** |
| Depreciation charge | 6 678 |
| Write offs | (221) |
| **As of December 31, 2020** | **12 244** |
| **Net book value as of December 31, 2020** | **49 001** |
| **Net book value as of December 31, 2019** | **50 126** |

## 29. Intangible assets

*In thousands of BGN*

| | |
|---|---|
| **Cost** | |
| **As of December 31, 2019** | **161 941** |
| Additions | 24 097 |
| Write offs | (198) |
| Transfers | - |
| **Depreciation** | |
| **As of December 31, 2019** | **91 974** |
| Depreciation charge | 14 069 |
| Write offs | (192) |
| Transfers | - |
| **As of December 31,2020** | **105 851** |
| **Net book value as of December 31, 2020** | **79 989** |
| **Net book value as of December 31, 2019** | **69 967** |

*In thousands of BGN*

| | |
|---|---|
| **Cost** | |
| **As of December 31, 2018** | **129 478** |
| Additions | 32 745 |
| Write offs | (162) |
| Transfers | (120) |
| **As of December 31,2019** | **161 941** |
| **Depreciation** | |
| **As of December 31, 2018** | **81 555** |
| Depreciation charge | 10 701 |
| Write offs | (162) |
| Transfers | (120) |
| **As of December 31,2019** | **91 974** |
| **Net book value as of December 31, 2019** | **69 967** |
| **Net book value as of December 31, 2018** | **47 923** |

## 30. Current tax

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, 2020 reported current tax assets are in the amount of BGN 1 534 thousand (as of December 31, 2019: BGN 758 thousand), while current tax liabilities represent net payable current tax position for the years 2020 (BGN 1 317 thousand) and 2019 (BGN 4 970 thousand), respectively.

## 31. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2020 and December 31, 2019 is as outlined below:

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Property, plant, equipment, investment property and intangible assets | 15 376 | 14 216 |
| Provisions | (4 872) | (3 685) |
| Actuarial (losses) | (703) | (623) |
| Other liabilities | (7 079) | (9 369) |
| Tax losses carried forward | (1 434) | (11) |
| **Net tax (assets) liabilities** | 1 288 | 528 |

The movements of deferred tax assets and liabilities on net basis throughout 2020 are as outlined below:

*In thousands of BGN*

| | 31.12.2019 | RECOGNISED IN P&L | ECOGNISED IN EQUITY | 31.12.2020 |
|---|---|---|---|---|
| Property, plant, equipment, investment property and intangible assets | 14 216 | 1 544 | (384) | 15 376 |
| Investment securities at fair value through OCI | - | 4 679 | (4 679) | - |
| Provisions | (3 685) | (1 187) | - | (4 872) |
| Actuarial (losses) | (623) | - | (80) | (703) |
| Cash flow hedge | - | 57 | (57) | - |
| Other liabilities | (9 369) | 2 290 | - | (7 079) |
| Tax losses carried forward | (11) | (1 423) | - | (1 434) |
| **Net tax (assets) liabilities** | **528** | **5 960** | **(5 200)** | **1 288** |

## 32. 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*

| | 31.12.2020 |
|---|---|
| Land | 5 660 |
| Buildings | 13 697 |
| **Total non-current assets and disposal groups classified as held for sale** | **19 357** |

As of December 31, 2019 the value of the assets the Bank has classified as non-current assets held for sale is BGN 2 324 thousand and is equal to the agreed price.

## 33. Other assets

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Receivables and prepayments | 39 960 | 46 786 |
| Receivables from the State Budget | 205 | 1 976 |
| Materials, spare parts and consumables | 1 384 | 6 645 |
| Other assets | 15 105 | 9 945 |
| Foreclosed properties | 23 407 | 32 765 |
| **Total other assets** | 80 061 | 98 117 |

## 34. Financial liabilities held for trading

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Interest rate swaps | 20 249 | 24 389 |
| FX forward contracts | 1 360 | 23 246 |
| Equity options | - | - |
| Other options | - | - |
| FX swaps | 48 385 | 1 137 |
| Commodity swaps | 15 724 | 416 |
| Commodity options | 15 676 | 4 489 |
| **Total financial liabilities held for trading** | **101 394** | **53 677** |

## 35. Deposits from banks

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Current accounts and overnight deposits** | | |
| Local banks | 102 008 | 303 548 |
| Foreign banks | 948 015 | 82 391 |
| | **1 050 023** | **385 939** |
| **Deposits** | | |
| Local banks | 246 436 | 248 460 |
| Foreign banks | 745 130 | 225 253 |
| | **991 566** | **473 713** |
| **Other** | **6 471** | **5 213** |
| **Total deposits from banks** | **2 048 060** | **864 865** |

## 36. 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, 2020 and December 31, 2019 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*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Current accounts** | | |
| Individuals | 4 224 923 | 3 442 581 |
| Corporate | 7 149 652 | 7 025 997 |
| Budget and State companies | 405 134 | 305 647 |
| | **11 779 709** | **10 774 225** |
| **Term deposits** | | |
| Individuals | 4 812 738 | 4 803 339 |
| Corporate | 264 138 | 389 272 |
| Budget and State companies | 20 458 | 32 472 |
| | **5 097 334** | **5 225 083** |
| **Saving accounts** | **1 681 588** | **1 604 811** |
| **Lease liabilities** | **50 239** | **50 942** |
| **Transfers in execution process** | **65 856** | **47 796** |
| **Other** | **53 986** | **44 723** |
| **Total deposits from customers and other financial liabilities at amortized cost** | **18 728 712** | **17 747 580** |

The following table represent liabilities under lease contracts, while existing right of use assets are presented in Note **28**:

*In thousands of BGN*

| LEASE LIABILITIES | |
|---|---|
| **As of January 01, 2020** | **50 942** |
| Additions | 6 438 |
| Repayments | (6 407) |
| Accrued interest | (734) |
| **As of December 31,2019** | **50 239** |
| Up to one year | 6 658 |
| From beyond 1 year to 2 years | 7 309 |
| From beyond 2 years to 3 years | 7 219 |
| From beyond 3 years to 4 years | 7 204 |
| From beyond 4 years to 5 years | 6 621 |
| Beyond five years | 17 936 |
| **Total lease payments to be made for finance leases** | **52 947** |
| *Unearned finance expenses (Discounting effect)* | *(2 708)* |
| **Net book value as of December 31, 2020** | **50 239** |
| **Net book value as of December 31, 2019** | **50 942** |

*In thousands of BGN*

| LEASE LIABILITIES | |
|---|---|
| **As of January 01, 2019** | **36 676** |
| Additions | 19 935 |
| Repayments | (4 972) |
| Accrued interest | (697) |
| **As of December 31,2019** | **50 942** |
| Up to one year | 6 219 |
| From beyond 1 year to 2 years | 6 657 |
| From beyond 2 years to 3 years | 6 738 |
| From beyond 3 years to 4 years | 6 522 |
| From beyond 4 years to 5 years | 6 360 |
| Beyond five years | 21 684 |
| **Total lease payments to be made for finance leases** | **54 180** |
| *Unearned finance expenses (Discounting effect)* | *(3 238)* |
| **Net book value as of December 31, 2019** | **50 942** |
| **Net book value as of December 31, 2018** | **-** |

## 37. Provisions for risk and charges

The movement in provisions for the years ended December 31, 2020 and December 31, 2019 is as follows:

*In thousands of BGN*

| | OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES | LEGAL CASES | RETIREMENT BENEFITS | CONSTRUCTIVE OBLIGATIONS | OTHER | RESTRUCTURING PROVISIONS | TOTAL |
|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2018** | **56 313** | **31 131** | **10 247** | **302** | **1 142** | **-** | **99 135** |
| Allocations | 41 265 | 952 | 727 | - | 11 216 | - | 54 160 |
| Releases | (34 994) | (884) | - | - | (1) | - | (35 879) |
| Additions due to FX revaluation | 211 | 1 755 | - | - | - | - | 1 966 |
| Releases due to FX revaluation | (193) | (1 650) | - | - | - | - | (1 843) |
| Actuarial gains/losses recognized in OCI | - | - | 1 224 | - | - | - | 1 224 |
| Utilization | - | (718) | (515) | - | (952) | - | (2 185) |
| Balance as of December 31, 2019 | 62 602 | 30 586 | 11 683 | 302 | 11 405 | - | 116 578 |
| Utilization | - | (397) | (320) | - | (244) | (961) | |
| **Balance as of December 31, 2019** | **62 762** | **29 163** | **11 676** | **302** | **1 146** | **-** | **105 049** |
| Allocations | 25 250 | 4 424 | 1 779 | - | 298 | **6 023** | **37 774** |
| Releases | (30 343) | (1 344) | - | - | - | **-** | **(31 687)** |
| Additions due to FX revaluation | 293 | 2 371 | - | - | - | **-** | **2 664** |
| Releases due to FX revaluation | (346) | (2 826) | - | - | - | **-** | **(3 172)** |
| Actuarial gains/losses recognized in OCI | - | - | 803 | - | - | **-** | **803** |
| Utilization | - | (3 440) | (901) | - | (854) | **-** | **(5 195)** |
| **Balance as of December 31, 2020** | **57 456** | **29 771** | **13 364** | **302** | **10 849** | **6 023** | **117 765** |

### (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, 2020 accumulated provisions are in the amount of BGN 57 456 thousand (as at December 31, 2019: BGN 62 602 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, 2020 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 29 771 thousand has been recognized (BGN 30 586 thousand as of December 31, 2019).

### (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 2020 defined benefit obligation are as follows:

- Discount rate – 0.20% (previous year – 0.30%);
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2020 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 haven`t changed in 2020. 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, 2020 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 | THEREOF PLAN BY LAW | THEREOF PLAN BY COMPANY |
|---|---|---|---|
| **Recognized defined benefit obligation as of December 31, 2019** | **11 676** | **11 676** | **-** |
| Current service costs for 2020 | 1 746 | 732 | 1 014 |
| Interest cost for 2020 | 33 | 33 | - |
| Actuarial losses recognized in OCI in 2020 | 803 | 742 | 61 |
| Benefits paid | (901) | (680) | (221) |
| **Recognized defined benefit obligation as of December 31, 2020** | **13 357** | **12 503** | **854** |
| | | | |
| Interest rate beginning of the year | 0,30% | | |
| Interest rate end of the year | 0,20% | | |
| Future increase of salaries | 5,00% | | |
| Expected 2021 service costs | 1 497 | | |
| Expected 2021 interest costs | 25 | | |
| **Expected 2021 benefit payments** | 1 890 | | |

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

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

*In thousands of BGN*

| | 2020 | 2019 |
|---|---|---|
| Sensitivity – Discount rate +/- % | 0,20% | 0,25% |
| DBO Discount rate - | 13 744 | 12 011 |
| DBO Discount rate + | 12 988 | 11 357 |
| Sensitivity – Salary increase rate +/- % | 0,20% | 0,25% |
| DBO Salary increase rate - | 13 004 | 11 370 |
| DBO Salary increase rate + | 13 725 | 11 995 |

## (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, 2020 and December 31, 2019 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 10 856 thousand as of December 31, 2020 (BGN 11 405 thousand as of December 31, 2019) 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. 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 it will influence 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.

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.

## 38. Other liabilities

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Liabilities to the State budget | 5 074 | 4 018 |
| Liabilities to personnel | 20 784 | 27 395 |
| Liabilities for unused paid leave | 5 772 | 6 365 |
| Dividends | 974 | 1 035 |
| Incentive plan liabilities | 7 775 | 8 111 |
| Other liabilities | 95 959 | 94 949 |
| **Total other liabilities** | **136 338** | **141 873** |

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

Liability to personnel includes accrued not paid liability to employees with regard to additional performance payments. The amounts represent Management best estimate for the goals achieved throughout 2020 and 2019 in accordance with the defined target settings and adopted incentive programs.

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

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

## 39. Equity

### (a) Share capital

As of December 31, 2020 and December 31, 2019 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 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 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 available for sale investments and derivatives designated as effective hedging instrument in cash flow hedge relationship as well as actuarial gains/losses on remeasurement of defined benefit obligation in accordance with IAS 19 "Employee Benefits".

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2020 and December 31, 2019 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 10 873 thousand and BGN 34 152 thousand, respectively.

## 40. Contingent liabilities

*In thousands of BGN*

| | 31.12.2020 | | | | 31.12.2019 |
|---|---|---|---|---|---|
| | STAGE 1 | STAGE 2 | STAGE 3 | TOTAL | |
| Letters of credit and letters of guarantee | 2 102 765 | 322 | 31 467 | 2 134 554 | 1 841 144 |
| Credit commitments | 3 471 217 | 342 533 | 49 780 | 3 863 530 | 3 712 178 |
| **Total contingent liabilities** | **5 573 982** | **342 855** | **81 247** | **5 998 084** | **5 553 322** |

### (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 in the perimeter subject to expected losses calculation for impairment.

### (b) Litigation

As of December 31, 2020 and December 31, 2019 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 consolidated financial statements as of December 31, 2020 are in the amount of BGN 29 771 thousand (BGN 30 586 thousand in 2019), (see also **Note 37**).

### (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, 2020 and December 31, 2019 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

## 41. Assets pledged as collateral

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Securities pledged for budget holders' account service | 164 606 | 80 284 |
| Securities pledged on REPO deals | 1 546 494 | 62 212 |
| Loans pledged for budget holders' account service | 254 864 | 254 864 |
| Loans pledged on other deals | 189 057 | 117 476 |
| | **2 155 021** | **514 836** |
| | | |
| **Pledged assets include** | | |
| Securities received for reverse REPO | 298 800 | - |
| Investment securities | 1 412 300 | 142 496 |
| Loans and advances | 443 921 | 372 340 |
| | **2 155 021** | **514 836** |

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

## 42. 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 associates (see also **Note 27**) 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, 2020 and December 31, 2019 and Income statement items for the years ended then are as follows:

*In thousands of BGN*

| AS OF DECEMBER 31, 2020 | PARENT COMPANIES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Derivatives held for trading | 1 522 | 2 320 | **3 842** |
| Derivatives held for hedging | 16 | - | **16** |
| Current accounts and deposits placed | 707 480 | 147 090 | **854 570** |
| Debt sequrities | 98 159 | - | **98 159** |
| Extended loans | - | 8 603 | **8 603** |
| Other assets | 3 263 | 2 333 | **5 596** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 12 884 | 37 400 | **50 284** |
| Derivatives used for hedging | 56 335 | 49 348 | **105 683** |
| Current accounts and deposits taken | 1 488 765 | 148 694 | **1 637 459** |
| Other liabilities | 10 183 | 983 | **11 166** |
| **Guarantees received by the Group** | 11 288 | 107 764 | **119 052** |

*In thousands of BGN*

| AS OF DECEMBER 31, 2019 | PARENT COMPANIES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|
| **ASSETS** | | | |
| Financial assets held for trading | 2 219 | 8 174 | **10 393** |
| Financial assets held for hedging | 226 | - | **226** |
| Current accounts and deposits placed | 3 152 801 | 222 730 | **3 375 531** |
| Debt securities | 98 471 | - | **98 471** |
| Extended loans | - | 27 934 | **27 934** |
| Other assets | 4 680 | 1 848 | **6 528** |
| **Financial liabilities held for trading** | 10 155 | 25 462 | **35 617** |
| Derivatives used for hedging | 51 975 | 38 713 | **90 688** |
| Current accounts and deposits taken | 11 542 | 209 948 | **221 490** |
| Other liabilities | 9 792 | 1 734 | **11 526** |
| **Guarantees received by the Group** | 11 322 | 120 347 | **131 669** |

*In thousands of BGN*

| YEAR ENDED DECEMBER 31, 2020 | PARENT COMPANIES | ASSOCIATES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|
| Interest incomes | 2 114 | - | 270 | **2 384** |
| Interest expenses | (14 667) | - | (12 576) | **(27 243)** |
| Dividend income | - | 478 | - | **478** |
| Fee and commissions income | 284 | - | 1 356 | **1 640** |
| Fee and commissions expenses | (35) | - | (139) | **(174)** |
| Net gains (losses) on financial assets and liabilities held for trading | (8 184) | - | (40 161) | **(48 345)** |
| Other operating income | 625 | - | 25 | **650** |
| Administrative and personnel expenses | (4 036) | (901) | (16 644) | **(21 581)** |
| **Total** | **(23 899)** | **(423)** | **(67 869)** | **(92 191)** |

*In thousands of BGN*

| YEAR ENDED DECEMBER 31, 2019 | PARENT COMPANIES | ASSOCIATES | OTHER RELATED PARTIES | TOTAL |
|---|---|---|---|---|
| Interest incomes | 3 693 | | 870 | **4 563** |
| Interest expenses | (16 680) | | (13 961) | **(30 641)** |
| Dividend income | | - | | **-** |
| Fee and commissions income | 228 | | 593 | **821** |
| Fee and commissions expenses | (25) | | (559) | **(584)** |
| Net gains (losses) on financial assets and liabilities held for trading | (12 067) | | (3 933) | **(16 000)** |
| Other operating income | 625 | | 42 | **667** |
| Administrative and personnel expenses | 748 | (803) | 7 183 | **7 127** |
| **Total** | **(23 478)** | **(803)** | **(9 765)** | **(34 046)** |

As of December 31, 2020 the loans extended to key management personnel amount to BGN 2 685 thousand (BGN 2 119 thousand in 2019). For the year ended December 31, 2020 the compensation paid to key management personnel amounts to BGN 4 777 thousand (BGN 5 101 thousand in 2019).

## 43. Cash and cash equivalents

*In thousands of BGN*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Cash in hand and in ATM | 252 793 | 233 370 |
| Cash in transit | 152 233 | 169 365 |
| Current account with the Central Bank | 6 190 628 | 1 662 434 |
| Current accounts with banks | 110 579 | 184 410 |
| Placements with banks with original maturity less than 3 months | 850 539 | 2 749 687 |
| **Total cash and cash equivalents** | **7 556 772** | **4 999 266** |

## 44. 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.

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, 2020 the Bank has recognised in these consolidated financial statements right of use assets and lease liabilities as disclosed in Notes **28** and **36**.

Summary of non-cancellable minimum lease payments as of December 31, 2020 and December 31, 2019 are presented in the tables below:

### (a) Financial lease contracts, where the Bank is a lessor

*In thousands of BGN*

| RESIDUAL MATURITY | TOTAL FUTURE MINIMUM LEASE PAYMENT | | NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT | |
|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 |
| Up to one year | 308 152 | 358 820 | 289 681 | 337 802 |
| Between one and five years | 591 384 | 593 411 | 566 626 | 561 472 |
| Beyond five years | 25 850 | 25 749 | 31 878 | 33 890 |
| **Total** | **925 386** | **977 980** | **888 185** | **933 164** |

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

*In thousands of BGN*

| RESIDUAL MATURITY | TOTAL FUTURE MINIMUM LEASE PAYMENT | |
|---|---|---|
| | 31.12.2020 | 31.12.2019 |
| Up to one year | 13 077 | 11 414 |
| Between one and five years | 36 763 | 36 246 |
| **Total** | **49 840** | **47 660** |

## 45. 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, 2020 and December 31, 2019 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*

| | 2020 | 2019 | REFERENCE TO OTHER NOTES AND REPORTS |
|---|---|---|---|
| Total operating income | 779 690 | 893 140 | Consolidated Income Statement and details in Notes 7,8,9,10,11 and 12 |
| Profit before income tax | 216 885 | 449 376 | Consolidated Income Statement |
| Income tax expense | (21 779) | (45 369) | Consolidated Income Statement and details in Notes 19 |
| Return on average assets (%) | 0,8% | 1,9% | 2020 Annual Report on Activity |
| Full time equivalent number of personnel as of December 31 | 4 206 | 4 142 | Note 14 |

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

# Do the right thing!
## For our Environment

Our new sustainability targets, shared at the end of 2019, encouraged several sustainability-focused initiatives in 2020 focusing on protecting our environment.

### CAUSING A BUZZ AT OUR NEW AUSTRIAN HQ

Not only employees moved into UniCredit new Austrian headquarters. They were joined by over one million honeybees, working hard to pollinate the nearby surroundings and make honey which will be harvested by UniCredit employees. What a sweet result!

# Bank Network

### 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 |

# Bank Network (continued)

## 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
| | |
|---|---|
| 10, Zedelvais str. | (0554) 440 81 |
| 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 |

## Sapareva bania

| | |
|---|---|
| 2, Germaneya str. | (0707) 240 54; (0707) 222 28; (0707) 222 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; (02) 805 3166 |
| 147, Tsarigradsko Shosse blvd. | (02) 817 8021; (02) 817 8019 |
| 18, Parva Bulgarska Armiya blvd. | (02) 923 2186 |
| 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 |
| 28, Hristo Smirnenski blvd. | (02) 892 4562; (02) 926 4714 |
| 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 |
| 40, Vasil Levski blvd. | (02) 950 4638 |
| 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 |

# Bank Network (continued)

| | |
|---|---|
| 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 |
| SFA 459, Botevgradsko shosse blvd. | (02) 948 0976 |
| Simeonovo, 14A Momina salza str. | (02) 819 2873 |
| Sofia, 2 Pozitano Sq., Perform Business Center. | (02) 935 7830; (02) 935 7853 |
| Sofia, 36 Gen. Totleben blvd. | (02) 895 4031; (02) 895 4035 |
| 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 |

# Bank Network (continued)

## Corporate offices

### Sofia

| | |
|---|---|
| 8, Aksakov str. | (02) 930 9662 |
| 7 St. Nedelya, floor 1 | (02) 923 2039; (02) 923 2334; (02) 923 2989 |

### 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 |

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