One Bank, One Team, One UniCredit.

Capital and balance sheet management
Transform
Enhanced service model
Ethics and Respect
Team 23
Compliance
Grow and strengthen client franchise
Process optimisation
Sustainable results
Sustainability
Paperless bank
Growth engines
Customer experience
Disciplined risk management
“Go-to” bank for SMEs
“Do the right thing!”

2019

Annual Report and Accounts

Banking that matters. | UniCredit Bulbank

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Financial Highlights (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2019	2018 RESTATED	CHANGE
Net interest income	383 961	400 709	-4.2%
Net fee and commission income	236 986	232 214	2.1%
Net income from financial assets at FT and dividends	256 227	239 684	6.9%
Other operating income/expenses, net	-64 065	-59 588	7.5%
Operating income	813 109	813 019	0.0%
Operating expenses	-269 583	-253 879	6.2%
Gross operating profit	543 526	559 140	-2.8%
Impairment losses on financial assets	-79 557	-57 000	39.6%
Provisions for risk and charges	-7 411	-43 206	-82.8%
Income from PPE	2 941	5 406	-45.6%
Profit before tax	459 499	464 340	-1.0%
Net profit	425 106	429 118	-0.9%

Volume Figures

	YEAR 2018	2018	CHANGE
Total assets (eop)	21 639 060	19 414 579	11.5%
Net customer loans (eop)	11 643 963	10 488 474	11.0%
Customer deposits (eop)	17 706 409	15 808 075	12.0%
Shareholders' equity (eop)	2 894 932	2 830 257	2.3%
RWA (eop)	12 594 018	10 578 210	19.1%

Key Performance Indicators (%)

	YEAR 2019	2018	CHANGE
Return on average assets (ROA)	2.07	2.26	-0.19 pp
Return on average equity (ROE)	14.9	15.5	-0.6 pp
Cost/Income ratio	33.2	31.2	1.9 pp
Net profit margin	52.3	52.8	-0.5 pp
Capital/Asset ratio (eop)	13.4	14.6	-1.2 pp
Total capital adequacy ratio (eop)	19.7	22.9	-3.2 pp
Tier 1 capital ratio (eop)	19.3	22.5	- 3.2 pp
CET 1 capital ratio (eop)	19.3	22.5	- 3.2 pp
Risk weighted assets/Total assets ratio (eop)	58.2	54.5	- 3.7 pp
Non-performing loans/Gross loans	4.5	6.0	-1.5 pp
Net Loan/Deposit ratio	65.8	66.3	- 0.5 pp

Resources (number) – (eop)

	YEAR 2019	2018	CHANGE
Employees	3 555	3 555	0
Branches	161	166	- 5

Financial Highlights (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures

	YEAR 2019	2018 RESTATED	CHANGE
Net interest income	551 333	562 143	- 1.9%
Net fee and commission income	256 311	247 265	3.7%
Net income from financial assets at FT and dividends	137 351	124 390	10.4%
Other operating income/expenses, net	- 51 855	- 54 457	- 4.8 %
Operating income	893 140	879 341	1.6%
Operating expenses	- 311 481	- 288 066	8.1%
Gross operating profit	581 659	591 275	- 1.6%
Impairment losses on financial assets	- 117 949	- 75 611	56.0%
Provisions for risk and charges	- 17 554	- 42 608	- 58.8 %
Income from PPE	3 220	5 562	- 42.1%
Profit before tax	449 376	478 618	- 6.1%
Net profit	404 007	430 563	- 6.2%

Volume Figures

	YEAR 2019	2018	CHANGE
Total assets (eop)	22 246 642	20 216 385	10.0%
Net customer loans (eop)	12 210 454	11 297 096	8.1%
Customer deposits (eop)	17 747 580	15 824 661	12.2%
Shareholders' equity (eop)	3 221 688	3 178 053	1.4%
RWA (eop)	12 871 764	11 008 451	16.9%

Key Performance Indicators (%)

	YEAR 2019	2018	CHANGE
Return on average assets (ROA)	1.9	2.1	- 0.2 pp
Return on average equity (ROE)	12.6	13.5	- 0.9 pp
Cost/Income ratio	34.9	32.8	2.1 pp
Net profit margin	45.2	49.0	- 3.8 pp
Capital/Asset ratio (eop)	14.5	15.7	- 1.2pp
Total capital adequacy ratio (eop)	21.9	25.1	- 3.2 pp
Tier 1 capital ratio (eop)	21.5	24.7	- 3.2 pp
CET 1 capital ratio (eop)	21.5	24.7	- 3.2 pp
Risk weighted assets/Total assets ratio (eop)	57.9	54.5	3.4 pp
Non(performing loans/Gross loans	4.9	6.0	- 1.1 pp
Net Loan/Deposit ratio	68.8	71.4	- 2.6 pp

Resources (number) – (eop)

	YEAR 2019	2018	CHANGE
Employees	4 142	4 138	4
Branches	170	175	-5

Chairman's message

"UniCredit Bulbank is focused to be main partner of households and companies and continued to support the development of the real economy in Bulgaria."

Teodora Petkova
Chairman

Dear Shareholders,

As part of UniCredit Group, **UniCredit Bulbank successfully** concluded the three-year strategic plan, **Transform 2019**, launched in 2016, exceeding many of the initial targets. This success is thanks to the drive and commitment from all our team members and the support you, our shareholders, have shown us throughout the plan. This is a great achievement and I am proud of the results and the truly transformative work that has been done. We will apply the same mindset and dedication to our new plan, **Team 23 which is focused on** strengthening and growing our customer base and positive customer experience.

In 2019 the **Bulgarian economy** recorded GDP growth of roughly 3.7% y/y, driven mainly by accelerating growth in private consumption, supported by solid wages growth, stabilization of inflation to the levels already reached one year earlier, acceleration of credit to the household sector and very strong job creation. Importantly, job creation remained broadly based and included not only domestic-demand-oriented services and construction, but also export-oriented manufacturing, where job numbers rose to their highest level in eight years. Exports posted another increase close to the 2% y/y mark.

In the **banking sector**, leveraging on favorable economic environment last year and in the context of remarkably low interest rates, lending accelerated to its strongest y/y rate of increase (9.4%) since 2008 supported by excellent performance in both Retail and Corporate. Assets quality further improved and non-performing exposures decreased to 9.2% from gross loans. Deposit expansion (9.2% y/y) also posted its strongest reading since 2008. It drew support not only from the stabilization of gross savings rate at a very high levels for the standards of the emerging market economies, but also from the very strong increase in newly extended loan volumes. In terms of financial performance, banking sector recorded solid Net Profit, supported by the strong acceleration of lending volumes and lower loan loss provisions.

Serving more than one million customers through a branch network of 161 units, in 2019 **UniCredit Bulbank** 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), CUSTOMER FRANCHISE (Customer Loans and Customer Deposits) and PROFITABILITY (Revenues and Net Profit) for another year in a row, accumulating more than ¼ from Banking System's 2019 Net Profit. The Bank's Total Assets grew by 11.5% y/y, to BGN 21.6 bln at the end of 2019, accounting for 18.9% from the Total Assets of the Bulgarian banking sector. UniCredit Bulbank confirmed its position of **Top Market Lender** with a market share of 18.9% in Total Gross Loans (or 19.5% if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing – UniCredit Consumer Financing (UCFin) thanks to its outstanding reputation, strong business model and customer centric approach oriented to long-term relations. Moreover, the Bank remained a major partner of households and companies and continued to support the development of the real economy in Bulgaria. On the Deposits market, UniCredit Bulbank continued to be the **most trusted bank** with market share of 19.5%. The Bank's strong liquidity position was further improved and the net loans-to-deposits ratio reached 65.8%. **Capitalization** was confirmed at the very solid levels well above the regulatory minimums: CET 1 ratio reached 19.3% and was very close to the total capital adequacy ratio of 19.7%, thus proving the high quality of the capital instruments – i.e. mainly CET 1 eligible ones.

The Bank achieved **BGN 813.1 mln in Revenues**, thus achieving market share of 20.7%. 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. **Net Fee and Commission** income continued to be one of the key growth drivers increasing moderately by 2.1% y/y, thanks to the strong positioning in traditional fee-generating banking services, combined with focus on digitalization. **Net income from financial assets, measured at fair value** (BGN 136.7 mln) also performed positively, marking growth of 10.1% y/y supported by the strong markets activities as well as treasury services to our core customers, fully plugged into the commercial banking. All these helped to offset 4.2% drop in **Net interest income** as a result of lowest ever offer rates on new loan contracts, margins compression, excess liquidity charges and decreasing yield of fixed income portfolio. **Operating expenses** (BGN 269.6 mln) registered growth of 6.2% y/y driven by labor market trends and investments in strategic operational and business projects.

In 2019 UniCredit Bulbank achieved significant de-risking and further **improvement of assets quality**. Impairment losses on financial assets (BGN -79.6 mln) increased by 39.6% y/y, influenced by lower gains from cession deals. If excluded, impairment losses decreased by 5.6% y/y thanks to improved asset quality (NPE ratio down by 150 bp to 4.5% in 2019 vs 6.0% in 2018). At the same time the NPE coverage increased to a comfortable level of 74.1% (73.0% in 2018).

As a result of the above developments, **Net profit** after tax reached BGN 425.1 mln, or more than ¼ from Banking System's 2019 Net Profit. Profitability generation capacity remained above the market average in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio.

In 2019 the strategic orientation of UniCredit Bulbank remained focused on further strengthening the leadership position and creating value for all its stakeholders. It was supported by various transformation initiatives under the umbrella of Group Transform 2019 Plan, mainly in the area of **maximizing the commercial banking value**. In UniCredit Bulbank, the main transformational pillars remain the focus for creating a positive customer experience as well as **focus on innovations** in all areas and particularly **digitalization** of product services and processes. Digitalization and simplification of back-end processes were in our focus throughout the year. In addition, many resources were dedicated to the successful upgrade of the core banking system. There was strong focus and a number of activities were undertaken in the KYC area aiming to fully comply with the regulatory requirements and eliminate any operational risk for the bank and the customers. We made a complete revision of the processes related to customer registration, data maintenance and review.

In 2019 we continued to follow our strategy related to **increase of 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. The share of active digital banking users for 2019 increased to 45% of total active bank customers and the penetration rate of active mobile banking users for the bank reached 32%. The share of operations performed through different multichannel on total increased to 84.9%.

New remote processes, features and functionalities continue to be created. Using the new way of working we were much faster in new features than before. The main digitalization initiatives throughout the year were focused on the **mobile banking** application. Around 23 developments were completed by the end of 2019 in the mobile banking application, such as: digital overdrafts selling, e-PIN card activation, savings plan and direct investments visualization, electronic signing of documents, Apple pay for mobile users, fast balance check, etc. Investment products became part of the mobile banking service and our customers are able to check the status of their investment portfolio online. The full digitalization of the factoring services and customized solutions through the web-based factoring platform eFactoring.bg continued to be an advantage for the company compared to the local competitors in the market. All these achievements make us feel comfortable entering 2020 while strictly following our strategy for **digital transformation**.

UniCredit Bulbank puts the **customer in the center of all activities**, delivering relevant solution to their real needs. In **Retail banking**, in 2019 was implemented first end-to-end digital process for granting overdrafts to individuals in order to respond to customers' demand for a simple and fast process and significantly decrease the time for service delivery. Product portfolio for small and micro companies was simplified, while continuing to be able to cover all customer needs. The lending process is strongly supported by an individual approach to our customers through portfolio management, covering 100% of all active customers. Increased focus on investment products development continued to be among Retail priorities aiming to offer larger number of opportunities to our customers and their savings considering the zero interest rates on deposits. Improving the customer experience and strengthening our relationship with the customers was still one of the main pillars of business during 2019. The governance model for customer experience management, in place since 2018, has helped us achieve significant improvement in the NPS, measured through instant feedback, across the whole network. In **Corporate Banking** the transformation of the client management system at UniCredit Bulbank was successfully implemented by adding new functionalities in order to sustain a complete overview and information with regard to customer products, activities and respective commercial actions, based on artificially-spotted opportunities. **International Customers** continued to be in the focus, leveraging on the full potential of UniCredit Group unique geographical footprint in order to foster acquisition, reduce attrition and better address customers' needs. Internal lending processes were optimized, aiming at shortened response time to customers. 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 with new investment products.

Concentrating on the development of its **corporate social responsibility** program, during the year the Bank kept the strong focus on already defined key priority areas of education, development of innovations and social entrepreneurship. UniCredit Bulbank supported numerous initiatives of NGOs, institutions, organizations, universities, schools as well as individual causes. As a leader in terms of innovations and digitalization, the Bank became a natural partner of the most respected forums in the country, dedicated to the development of technologies. In 2018 UniCredit Bulbank proved its position as a valued partner by organizing many high profile initiatives and conferences of the business chambers in Bulgaria and actively participated in social and charity events, gathering the business, political and diplomatic elite of the country. In addition, the national volunteering network developed numerous projects around the country, involving colleagues and partners.

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

UniCredit Bulbank remains firmly grounded on UniCredit Group values and principles. We enter 2020 as a robust institution, well positioned for further growth, with outstanding reputation and capable to deliver value-added solutions to customers and society. 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
Chairman

Supervisory Board and Management Board[1]

	Supervisory Board (SB)
Niccolo Ubertalli	**Chairman**
Alberto Devoto	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Silvano Silvestri Monika Rast	**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 Raluca–Mihaela Popescu-Goglea Tsvetanka Mincheva Borislav Bangeev	**Members**

[1] As of December 31st, 2019

Supervisory Board and Management Board (continued)

ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW
(1 Jan. 2019 – 31 Dec. 2019)

Members of the Supervisory Board

Niccolo Ubertalli
- KOC FINANSAL HIZMETLER AS – Deputy Chairman B.D.
- YAPI VE KREDI BANKASI AS – Deputy Chairman B.D.

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

Heinz Meidlinger
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA AS – Deputy Chairman of SB
- UNICREDIT BANK S.A. – Deputy Chairman of SB
- 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) (Executive Director till 6th February 2019)
- 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/

Silvano Silvestri
- UNICREDIT BANK HUNGARY ZRT. – Deputy Chairman of SB till 15.04.2019 and Chairman after 15.04.2019
- UNICREDIT GLOBAL LEASING EXPORT GMBH – Deputy Chairman of SB
- BARN BV – Member of board of directors
- UNICREDIT BANK SERBIA JSC – Member of SB – till 08.12.2019

Monika Rast
- Does not participate in the management of any other entities

SB members released during 2019

Robert Zadrazil
- SCHOELLERBANK AG – Chairman of SB
- OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT – Member and Chairman of SB
- UNICREDIT BANK AUSTRIA AG – Chairman of MB and CEO
- UNICREDIT SERVICES GMBH – Chairman of SB
- CARD COMPLETE SERVICE BANK AG – Chairman of SB
- UniCredit SpA – Member of the Executive Management Committee and representative in the Permanent Establishment in Vienna

Luca Rubaga
- UNICREDIT BANK SERBIA JSC – Member of SB
- UNICREDIT BANK S.A. – Member of SB – till 01.11.2019
- UNICREDIT SERVICES GMBH – Procurator
- V-TSERVICES S.P.A. – Member of the Board of Directors from 17.05.2019

Ivan Vlaho
- UNICREDIT BANK HUNGARY ZRT. – Deputy Chairman of SB – till 05.09.2019
- UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S. – Member of SB – till 20.07.2019
- UNICREDIT CONSUMER FINANCING ROMANIA – Member of SB – till 01.07.2019

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
- ASOCIATION OF BANKS IN BULGARIA – Member of MB

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

Tsvetanka Mincheva
- CASH SERVICE COMPANY AD – Member of BD
- COUNCIL OF THE WOMEN IN THE BUSINESS IN BULGARIA – Member of BD

Supervisory Board and Management Board (continued)

Borislav Bangeev
- UNICREDIT CONSUMER FINANCING EAD – Member of SB
- B and D Consult OOD – 50% ownership and managing partner – till 17.07.2019

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

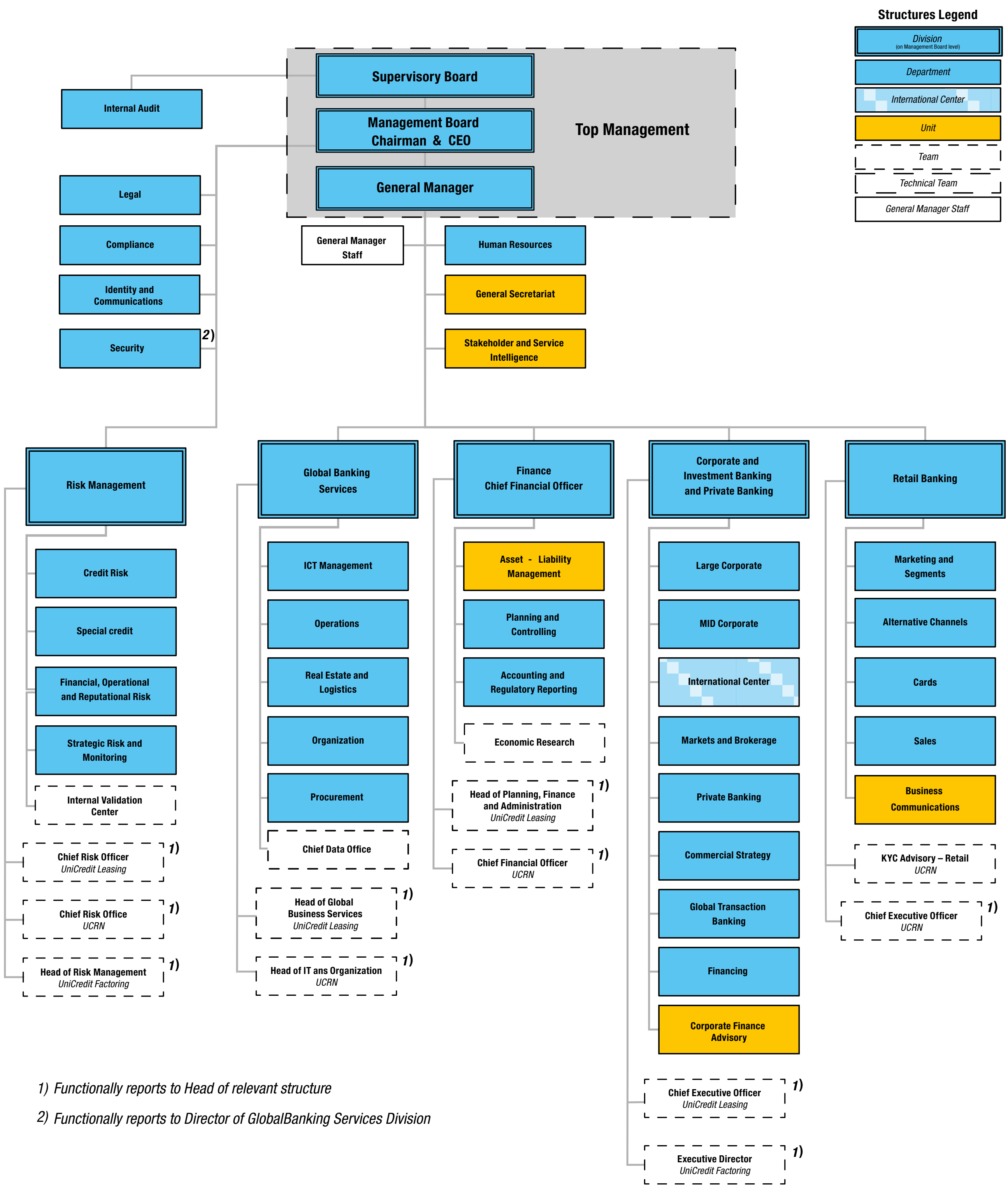
MB members released during 2019

Levon Hampartzoumian
- UNICREDIT CONSUMER FINANCING EAD – Chairman of SB – released as of 12.06.2019
- BORICA AD – Member of BD released as of 21.06.2019
- UNICREDIT LEASING EAD – Chairman of SB released as of 04.06.2019
- ASOCIATION OF BANKS IN BULGARIA released as of 29.05.2019

Enrico Minniti
- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of SB released as of 07.10.2019
- UNICREDIT LEASING EAD – Deputy Chairman of SB released as of 07.10.2019

Antoaneta Curteanu
- UNICREDIT FACTORING EAD – Member of BD released as of 12.11.2019
- UNICREDIT LEASING EAD – Member of SB released as of 12.11.2019

Organisation Chart[2]



1) Functionally reports to Head of relevant structure

2) Functionally reports to Director of GlobalBanking Services Division

[2] As of December 31, 2019

Credit rating

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

Long-term	**BBB-**
Short-term	**F3**
Outlook	**Negative**

2019 AWARDS

- Euromoney: Market leader in trade finance services in Bulgaria
- Top Employers Institute: Top employer in Bulgaria and Europe
- Employer Branding Awards 2019: Employer Branding Innovation, Employer Branding Idea and Innovation in Talent Education for WoMum Academy and business master classes
- Global Finance: Best Bank in Bulgaria 2019
- Global Finance: Best Custodian Bank in Bulgaria 2019
- Bank of the Year Association: Bank of the Year Award in terms of market share
- Global Finance: Best Digital Bank in Bulgaria 2019
- Euromoney: Market leader in Cash Management
- Global Finance: Best Foreign Exchange Provider in Bulgaria
- B2B: Ranked first for the creative office space of the Learning Center
- B2B: Ranked second for an educational project in the business sphere for WowMum Academy
- B2B: Ranked second for the best social project in the charity initiative category by internal voting
- Ranked sixth in the SeeNews TOP 100 SEE 2019 Banks in Southeast Europe
- Mr. and Mrs. Economy Awards of Economy Magazine and the Confederation of Employers and Industrialists in Bulgaria: Teodora Petkova was honoured with Mrs. Economy 2019 Award
- Superbrands Bulgaria: Superbrand 2019–2020
- Ministry of Finance: Primary dealer of government securities which purchased the greatest number of shares on the primary market at its own expense

One Bank,
One UniCredit.

Our strategy is clear and long-term: 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.

Chief Executive Officer's message

"We always favour long-term sustainable outcomes over short-term solutions. This is a key pillar of our new plan, Team 23, which will deliver €16bn of value creation."

Jean Pierre Mustier
Chief Executive Officer

Dear Shareholders,

2019 was a very important milestone for UniCredit, although tinged with sadness for all of us in the Group. Our chairman Fabrizio Saccomanni, who was integral to the success of the Group, suddenly passed away this summer. Fabrizio was a friend of great intelligence and humanity, highly competent with a fine sense of culture and wit. His premature death was a great loss for us all and he is much missed. In September Cesare Bisoni was elected chairman and I am extremely grateful to him for leading the continuing constructive work of the board.

We successfully concluded our three year strategic plan, Transform 2019, launched in 2016, exceeding many of our initial targets. This success is thanks to the drive and unwavering commitment from all our team members and the support you, our shareholders, have shown us throughout the plan. This is a great achievement and I am proud of the results and the truly transformative work that has been done. To share our success and show appreciation to our shareholders, we are pleased to propose an increased capital distribution for 2019, returning 40 per cent – 30 per cent as a cash dividend and 10 per cent through a proposed share buyback.
This is double the target we set ourselves in 2016. We have shown that, no matter what, at UniCredit we say what we do and do what we say. We will apply the same mindset and dedication to our new plan, Team 23.

Although Transform 2019 was based on conservative assumptions, there were some challenges faced by the financial services sector over the past few years that could not have been foreseen.
Headwinds from unexpected geopolitical tensions, macroeconomic volatility and higher regulatory pressure added to an already testing environment.

At UniCredit, we took a series of decisive actions to counter these unforeseen events, enabling us to successfully execute our business strategy, delivering on our key targets.

2016-2019 headwinds

- Interest rate impact
- Slowdown of economic growth
- BTP-Bund spread volatility
- Deterioration of economic environment in Turkey
- Regulatory headwinds
- US sanctions

Decisive actions

Acceleration of balance sheet de-risking

- Acceleration of Non Core run-off
- BTP portfolio reduction
- Intragroup exposure decrease

Additional cost optimisation

- Further cost reduction vs initial 2019 target

Strong capital position

- Trasparent disclosure of regulatory impacts
- Disposal of non-strategic assets*

* Fineco, Mediobanca, Ocean Breeze, selected real estate.

Transform 2019: a strategic plan delivered as promised

Transform 2019 was about restructuring and reshaping the Group, with an emphasis on strengthening capital and improving asset quality. We also strengthened our corporate governance in line with best-in-class European companies. We are the only large listed Italian company where the board of directors presents its own list of candidates. We also lifted voting restrictions and converted savings shares into common shares.

Our hard work was acknowledged by the ECB that, at the end of 2019, lowered our SREP **pillar 2 requirement by a further 25 basis points, to 175**. This is 75 basis points lower than in 2016, an achievement we are very proud of and another recognition of the outstanding work done by the team over these last three years.

SIGNIFICANT DE-RISKING

Gross NPEs down by more than **€50bn** since 2015, to

€25bn

with an end 2019

Gross NPE ratio of 5.0 per cent

and a **Net NPE ratio 1.8 per cent**

MATERIAL COST REDUCTION

€2.3bn

net cost reduction

since 2015 with C/I ratio reduced by more than

7 percentage points to 52.7 per cent in 2019

IMPROVED ROTE

More than doubled our profitability with **underlying RoTE in 2019** of

9.2 per cent

up from 4 per cent in 2015

STRONG CAPITAL POSITION

Pro forma[1] CET1 ratio of

13.1 per cent

as at the end of 2019, equivalent to a pro forma[1] **MDA buffer** of **300 basis points**, **above** our **200 to 250 basis point** target range

[1] Pro forma 2019 CET1 ratio and MDA buffer including deduction of share buyback of €467m, subject to supervisory and AGM approval.

Team 23: a new strategic plan, further building on our pan European strengths

While Transform 2019 represented a strong cost efficiency and de-risking effort, Team 23 focuses on strengthening and growing our customer base. All our key strategic initiatives focus on customer experience, which we will monitor precisely while making sure we increase our process optimisation. We will also continue to manage the business with tight cost discipline, focusing on high asset quality and ensuring we maintain a very strong capital level at all times. We work on this from a position of strength, thanks to Transform 2019. We will deliver a recurring dividend with a mix of cash and share buybacks.

Grow and strengthen client franchise

Transform and maximise productivity

Disciplined risk management & controls

Capital and balance sheet management

Our strategy remains unchanged

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in Corporate & Investment Banking (CIB), delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise

As "One Bank, One UniCredit" we will continue to build on our existing competitive advantages

Truly local with **13 leading commercial banks*** and a unique reach through our fully plugged in CIB and international branch network

Provide "banking that matters" for all our 16 million clients across Europe. UniCredit is:

- Supporting our individual clients and the European mid-market corporate clients, that are the backbone of the European economy, as the second largest corporate lender in Continental Europe
- Ranked in the top three by assets in Italy, Germany and Austria and first by assets in CEE, on a consolidated basis
- We have a well-diversified business with a third of our lending coming from Italy, a third from Germany and Austria, and a third from CEE and CIB

A fully plugged-in CIB business, **focused on supporting the Group's clients**, with top of the league tables rankings, demonstrates our strong product offer and our ability to create significant cross-selling and synergies across the Bank

* Assuming full regulatory deconsolidation of Yapi.

Unique network: pan European footprint

Commercial banks

International branches and representative offices*

* Including UC Luxembourg and UC Ireland. Other International branches and representative offices In Asia and Oceania, North and South America, Middle East and Africa.

"Banking that matters" for our clients

16 m clients

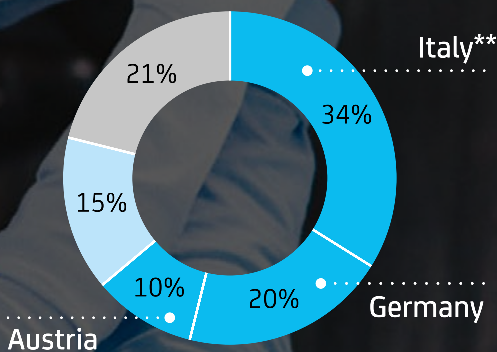
#2 for loans to corporates in Europe

#3 ranking for assets in IGA

#1 by total assets in CEE

Well-diversified business

>430 Commercial loans, bn



Western Europe · CEE · CIB

** Italy including Non Core and Group Corporate Centre.

Market-leading CIB

- **Most active player in EUR Bonds** since 2013 (cumulative)
- **#1** in EUR Bonds in Italy, Germany, Austria

- **#1 All Covered Bonds in EUR**
- **#1** EMEA Corporate Loans EUR denominated
- **#1** Syndicated Loans in Italy, Austria and CEE; #2 in Germany

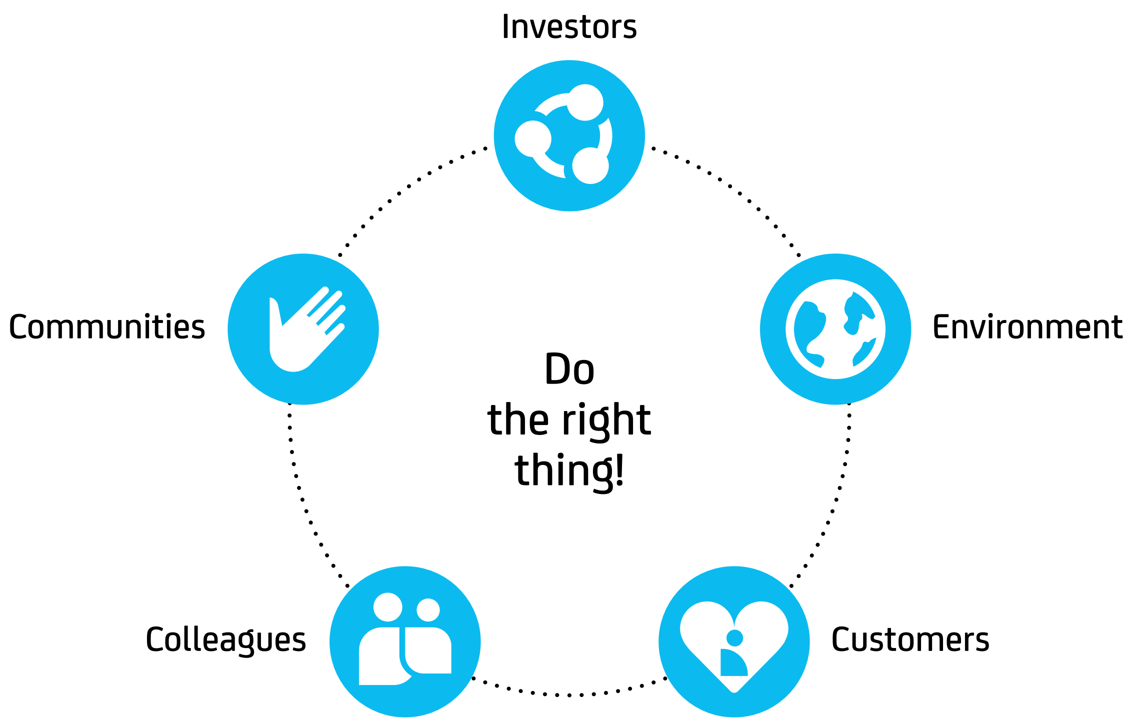
Source: Dealogic, period: 1 Jan-31 Dec 2019.

How we achieve results in UniCredit: Do the right thing!

At UniCredit, our ***corporate*** culture is based on two core values: Ethics and Respect. Our commitment to always "Do the right thing!" is our guiding principle for interactions with all our stakeholders: investors, customers, colleagues and communities.

In the fourth quarter of 2019, we announced new ESG targets as part of our long-term commitment to sustainability – part of our Group's DNA and a key component of our business model. Building a sustainable future is an important challenge for both people and businesses. Every company has to do more than 'business as usual' – it is time to act and make an impact.

"Do the right thing!" to generate sustainable results



We adhere to the highest standards and principles with external monitoring and recognition. This include the Task Force on Climate-Related Financial Disclosures, Principles for Responsible Banking and OECD Business for Inclusive Growth Coalition. Our commitment to ESG places us in the 99th percentile of the FTSE Russell ESG ratings, a constituent of the FTSE4Good Index Series. Standard Ethics identified us as the only bank in Italy with an EE+ rating, strong compliance and the ability to manage key reputational risks.


UniCredit Leadership Team Meeting, Millennial Board presentation, Dec 2019

Environment

Every team member of UniCredit is committed to protect the environment: the entire UniCredit team was involved in “Climate day” on Friday September 20th, submitting more than 1,200 new ideas on what UniCredit can do concretely. All these suggestions will be implemented, under the leadership of the Group “millennial board”, made of 10 millennial team members, who bring a tremendous energy and vision to our Group to “Do the right thing!”. We are committed to reducing our direct environmental impact by further cutting greenhouse gas emissions. By 2023 all electricity consumption in Western Europe will come from renewable energy sources, by when we will also remove all single-use plastic from all our headquarters. We are working to make an ever bigger difference through our indirect emissions, partnering with our customers in the shift to a low carbon economy. As already announced, we will fully exit thermal coal mining projects by 2023 and not finance any new projects in thermal coal mining or coal fired power generation. We will increase our renewable energy sector exposure, granting more energy efficiency loans to our customers.

Social

We have committed € 1 billion to Social Impact Banking (SIB) initiatives throughout the Group between now and end 2023. This builds on our success in Italy, where we have already disbursed over 100 million euros. The programme is now being rolled out in 10 more markets. Art4Future is supporting SIB with the sale of a limited number of expensive pieces to provide the capital to extend more social loans and buy art pieces of young artists from our different countries.

In addition, we will continue to promote culture through important associations and our UniCredit Foundation will carry on addressing important social needs, while supporting study and research.

Governance

All companies looking to grow and thrive must also focus on diversity and inclusion. Different perspectives help improve processes and behaviours, bringing more sustainable organisations. Creating a positive and inclusive workplace is key to innovation and growth. This is why UniCredit is working on different initiatives to ensure diversity and inclusion is at the forefront throughout the Group, to increase the active participation by women and minorities at all levels of the bank.



The future: what lies ahead

UniCredit clearly shows that pan European banking is the future for our industry to support the growth of our clients, and of Europe. We are passionate Europeans, "One Bank, One UniCredit" across all our countries, combining central support and local excellence.

With Transform 2019, we have shown we always favour long-term sustainable outcomes over short-term solutions, and this is also one of the key pillars of Team 23. This is how we will deliver €16bn of value creation during our new plan, €8bn via capital distribution and €8bn from increased tangible equity. Beyond purely economic goals serving our shareholders, we will continue to "Do the right thing!" for all our other stakeholders, from our clients, our team members, to our communities and the environment.

Let me conclude by reiterating how immensely proud I am of all my UniCredit colleagues who work so hard to achieve the success of our Group, making sure we can continue to support the real economy, serve our clients, encourage growth across all our markets, transform our Group, and deliver recurring value to all our stakeholders.

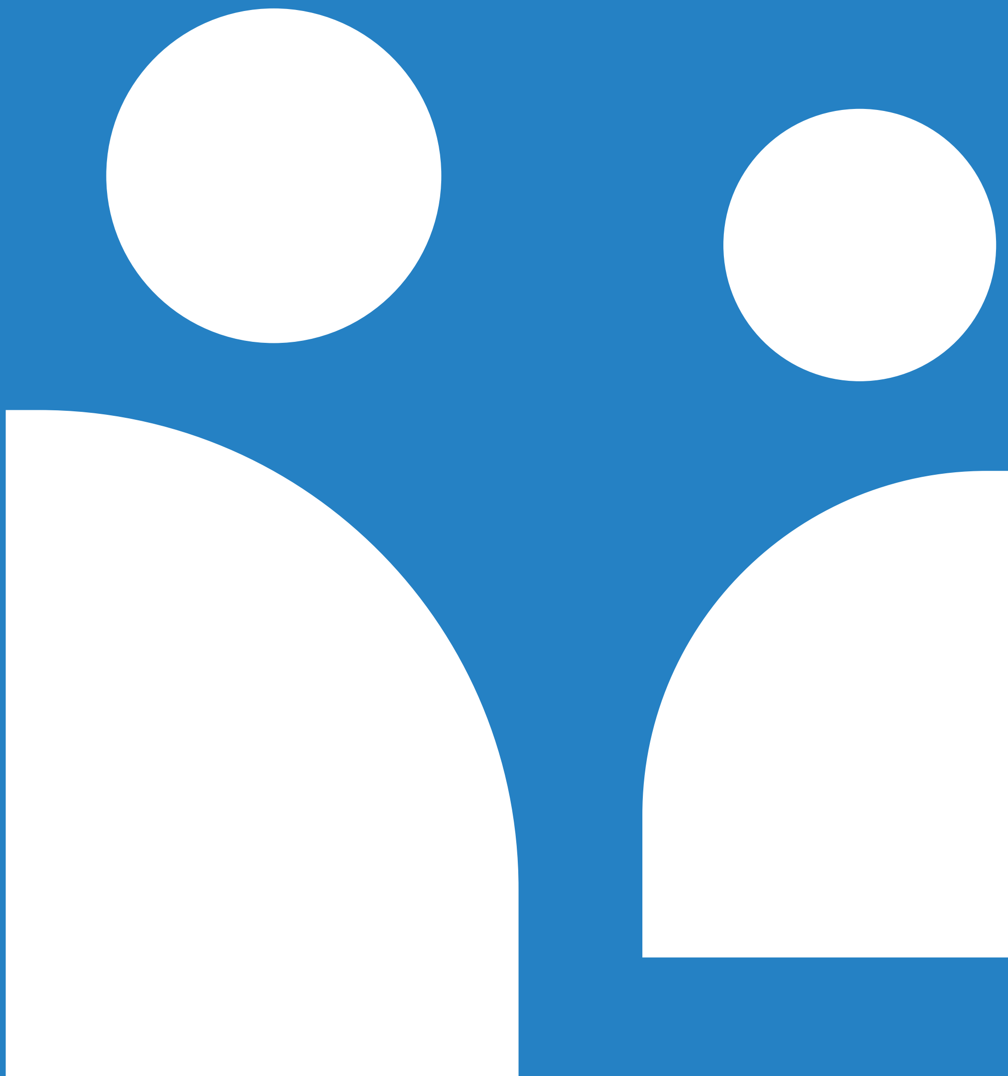
Thank you!

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

> “I am immensely proud of all my UniCredit colleagues, who work so hard to achieve the success of our Group.”

Jean Pierre Mustier
Chief Executive Officer

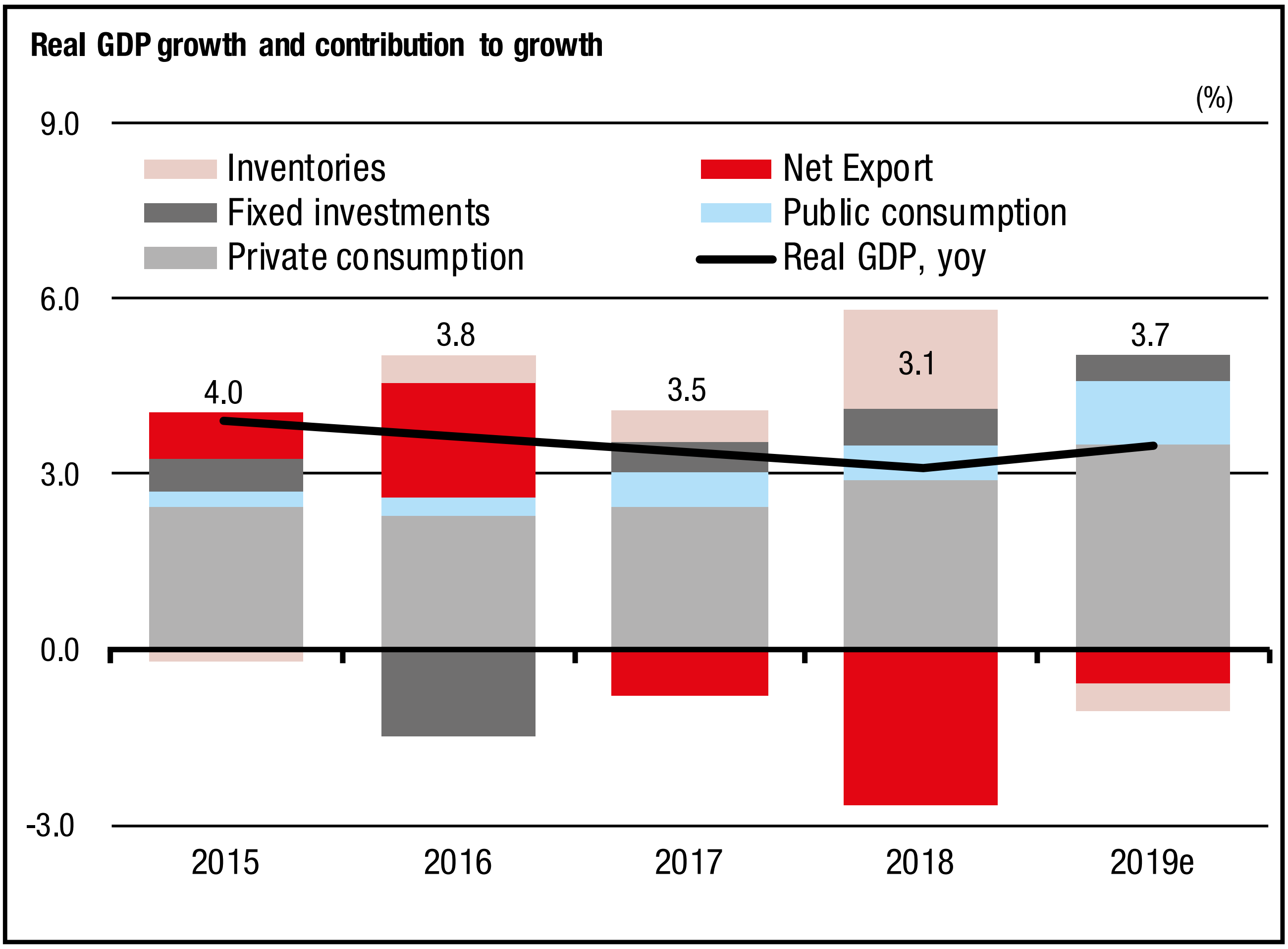
Team 23



Our new plan is called Team 23, in recognition of the outstanding work done together for Transform 2019. Team 23 is based on four strategic pillars:

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

Bulgarian Economy in 2019



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

Real GDP growth accelerated modestly to 3.7% anticipated for 2019, from 3.1% in 2018. **Strong growth** performance last year was above all attributable to the acceleration of **private consumption** to its strongest reading so far since the start of the current expansion phase. **Private consumption** remained the **main growth driver.** It drew support from a combination of factors including, solid wages growth, healthy increase in employment, stabilization of inflation to the levels already reached one year earlier, and acceleration of credit to the household sector to its strongest annual increase in more than a decade. Also importantly, exports growth defied expectation last year and despite weaker external demand, posted another real increase close to the 2% y/y mark.

The biggest positive surprise last year came from jobs creation. **The economy is likely to have created 65K jobs in 2019.** This is very positive for at least two reasons. First, this is **the second strongest annual increase** in job numbers so far in the expansion cycle, which came after economy had already reached full employment in 2018. Second, it was positive to see that jobs creation remained broadly based and included not only domestic-demand-oriented services sectors and particularly construction, but also export-oriented manufacturing, where **job numbers rose to their highest level in eight years.** In response, **unemployment** rate **went down** to its lowest reading since the start of transition, which pushed real **wages growth to exceed productivity** for a third year in a row.

Current account continued to break record. **Bulgaria's trade balance** posted another hefty **surplus**, which was not only one of the highest in the whole CEE region, but was also in line with the proportions seen in some of the largest net export economies such as Japan and Germany. The latter helped gross foreign debt to go down further to an estimated 56% of GDP (almost half relative to its peak in 2009), while the **net international investment position**[3] **improved** to 25% of GDP, or below the 35% mark seen as risk-free for emerging market economies. These positive developments on the external front helped BNB's FX reserves to remain at a very comfortable level of around 41% of country's GDP, which further highlighted the presence of significant buffers that will mitigate the negative impact of new external shocks, if such are to materialize in the years to come.

[3] The balance between international investment assets and liabilities held by a nation's government, the private sector and citizens

Bulgarian Economy in 2019 (continued)

In 2019, **CPI stabilized** close to the levels already reached in 2018. This is very positive because there are no indications that solid increases in wages have started to translate into a debilitating increases in core price inflation. It came as no surprise that fiscal policy remained largely growth neutral, with budget ending the year with a small surplus on an accrual basis for a fourth consecutive years, performance matched only by a handful of countries in EU28 such as Germany and the Netherlands.

Investment growth failed to impress on the positive side last year. This was mostly attributable to weak public sector capex, including EU funds financed project, while investments in housing construction is likely to have accelerated in line with the solid increase in the volume of newly started housing construction. At the same time, investments in machinery and equipment seems to have lost some traction, as export oriented companies became wearier in the context of the synchronized growth deceleration on a large part of the global economy and particularly given elevated concerns regarding possible trade conflicts escalation before US elections. All these developments created an environment where demand for some categories of investment loans remained subdued, which was, however, more than compensated by a solid increase in demand for construction loans and particularly of mortgage and consumer loans for the rapidly expanding household sector.

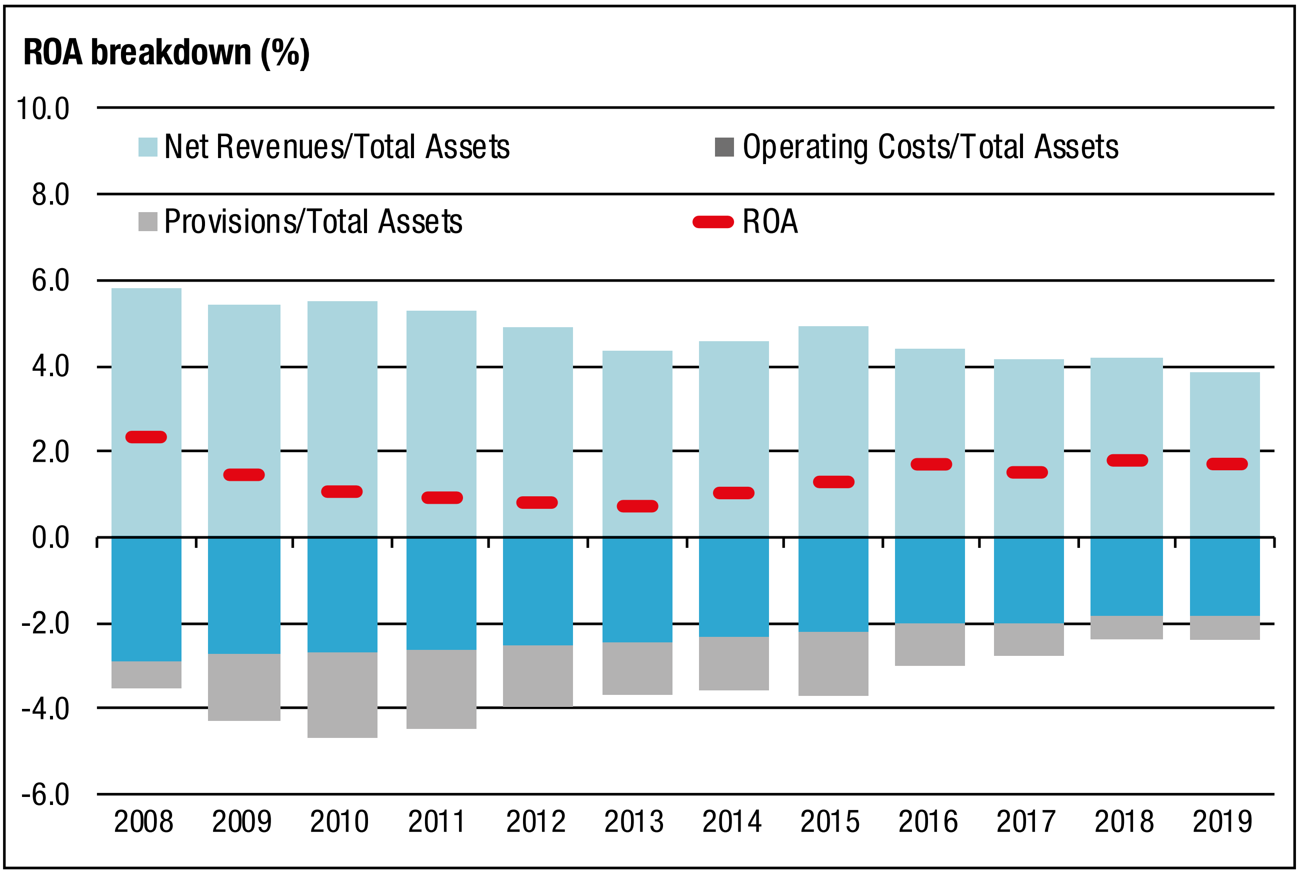
MACROECONOMIC INDICATORS	2019	2018	2017	2016	2015	CHANGE 2019/2018
Nominal GDP[1] (BGN million)	117 157	109 695	102 308	95 092	89 333	6.8%
GDP per capita[1] (BGN)	16 855	15 671	14 512	13 390	12 487	7.6%
Real GDP growth[1], swda (%)	3.7	3.1	3.5	3.8	4.0	+0.6 pp
Basic Interest Rate, avg (%)	-0.48	-0.50	-0.29	-0.16	0.01	+0.0 pp
Inflation, eop (%)	3.8	2.7	2.8	0.1	-0.4	+1.1 pp
Inflation, avg (%)	3.1	2.8	2.1	-0.8	-0.1	+0.3 pp
Unemployment rate[2], SA, eop (%)	4.1	5.2	6.2	7.6	9.1	-1.1 pp
Official exchange rate, eop (BGN/USD)	1.76	1.71	1.63	1.86	1.79	3.0%
Official exchange rate, avg (BGN/USD)	1.75	1.66	1.74	1.77	1.76	5.4%
Current account balance[2] (BGN millions)	11 504	5 872	3 569	3 033	108	96.7%
Current account balance[2]/GDP[1] (%)	9.8	5.4	3.5	3.2	0.1	+4.5 pp
Net foreign direct investments[2] (BGN millions)	1 358	611	2 568	1 092	3 619	120.8%
Net foreign direct investments[2]/GDP[1] (%)	1.2	0.6	2.5	1.1	4.1	+0.6 pp
Gross foreign debt[2], eop (BGN millions)	67 578	64 847	66 209	66 931	65 507	1.4%
Gross foreign debt[2]/GDP[1] (%)	57.7	59.1	64.7	70.4	73.3	-3.1 pp
Public debt[2], eop (BGN millions)	23 556	23 893	25 616	26 954	22 762	-1.4%
Public debt[2]/GDP[1] (%)	20.1	21.8	25.0	28.3	25.5	-1.7 pp
BNB FX reserves (BGN millions)	48 574	49 037	46 279	46 742	39 675	-0.9 %
Budget balance/GDP[1] (%)	-1.0	0.1	0.9	1.6	-2.8	-1.1 pp

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

[1] UniCredit Bulbank forecast for 2019.

[2] Data as of November 2019.

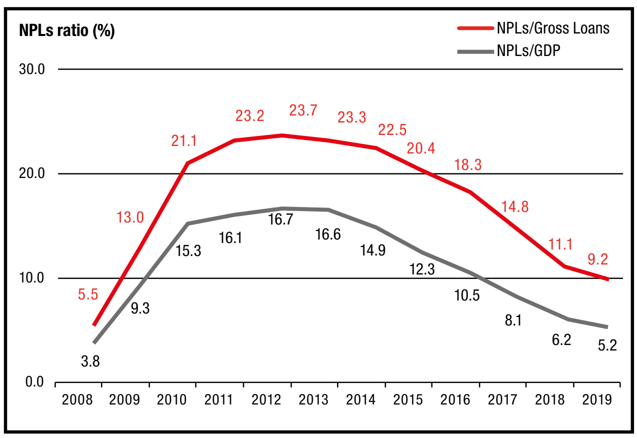
Bulgarian banking sector in 2019



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

The **economic environment remained favorable** last year, as **GDP** posted another **solid** real **growth**, while newly created jobs reported their second highest annual increase so far in the current expansion. In the context of **remarkably low interest rates**, the savings owners continued to **shift** an increasing part **of** their **deposits and other financial assets into real estate**, which pushed the national house price index 5.4% y/y higher in September 2019. While national house price index increased at a rate lower than real GDP growth for a second consecutive year, regional differences are rising. In the most preferred locations in the capital and on the seaside, strong demand for real estate helped to engineer double-digit increases in y/y prices, whereas in other areas, such as in the regions with the slowest labour market recovery, the upward pressure on housing prices was much smaller.

Marked increase in demand and real estate demand in particular helped **lending to accelerate to its strongest y/y rate of increase** (9.4%) since 2008. When adjusted with the recycling of NPL exposures, lending growth would have been even stronger (11.9% y/y) with both retail and corporate segments contributing almost equally to the pace of lending growth acceleration last year. In the same vein, **deposit growth** (9.2% y/y) also posted its strongest reading since 2008. It drew support



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

not only from the stabilization of gross savings rate at very high levels for the standards of the emerging market economies, but also from the very strong increase in newly extended loan volumes.

Competition pushed the **spread between interest rates on loans and deposits further downward** last year. The spread contraction in 2019 (35bp) was close to the one seen in 2018 (34bp) and somewhat smaller when compared with 2017 (49bp). While real interest rates on retail loans remained at more or less reasonable levels at the end of last year, those on some categories of corporate loans declined dangerously low, raising concerns about the capacity of some of the underlying projects to remain profitable, when abnormally long period of ultra-low interest rates eventually ends.

It came as no surprise in this environment that NII growth came to standstill (0.1% up y/y) last year. Although consolidated full year data for the banking system are not available yet, the **sales of distressed assets are likely to have reached their highest volume ever.** The latter helped NPLs (BGN 6.1 bln) drop to its lowest level since 2009, which was also less than half of the peak posted in 2012 (BGN 13.7 bln). When compared to total gross loans in the banking sector the **share of loans overdue more than 30 days declined** to 9.2% respectively. In the context of continuing **contraction in the cost of risk** (to 0.8% in 2019, from 0.9% in 2018 and 1.7% on average calculated for the whole period since such data started to be compiled in 2005), **NPLs provisions coverage stabilized** at 59% in 2019, close to the very **healthy level of 60%** that had already been reached in 2018.

In 2019, **after tax profit** (BGN 1 675 mln) was only a tad weaker when compared with the record high result posted in 2018 (BGN 1 678 mln). Solid profitability performance was above all attributable to lower loan loss provisions and solid 3.8% y/y rise in fee and commission income, as business volumes grew rapidly. These two helped to balance stagnation in NII and somewhat weaker NOI, as one-offs boosting this particular income category in 2019 seems to have been smaller when compared with 2018. **Ongoing consolidation and digitalization processes** in the banking sector, on the other hand, helped staff costs to increase at their lowest pace in three consecutive years (2.8% y/y), while, at the same time, the increase in non-staff cost last year was even smaller – just 1.5% y/y.

BANKING SYSTEM KEY FIGURES	2019	2018	2017	2016	2015	CHANGE 2019/2018
INCOME STATEMENT (BGN MILLION)						
Operating income	4 232	4 223	3 886	4 080	4 198	0.2%
incl. Net interest income	2 746	2 742	2 675	2 805	2 771	0.1%
incl. Net non-interest income	1 486	1 480	1 212	1 274	1 427	0.4%
Operating costs	1 933	1 893	1 789	1 762	2 022	2.1%
Operating profit	2 299	2 330	2 098	2 317	2 176	-1.3%
Provisions (net)	511	529	805	911	1 169	-3.5%
Pre-tax profit	1 789	1 800	1 292	1 406	1 007	-0.6%
Net profit	1 675	1 678	1 174	1 262	898	-0.2%
BALANCE SHEET (BGN MILLION)						
Total assets	114 201	105 557	97 808	92 095	87 524	8.2%
Loans to customers (incl. non-residents)	66 293	60 908	56 084	54 467	54 121	8.8%
thereof: Non-performing loans	6 120	6 790	8 288	9 956	11 021	-9.9%
Deposits from customers (incl. non-residents)	91 853	84 571	78 406	74 129	69 276	8.6%
Shareholders' equity	14 397	13 858	12 597	12 133	11 523	3.9%
KEY PERFORMANCE INDICATORS (%)						
Loans-to-Deposits ratio (on residents)	72.5	72.3	71.9	73.2	77.0	+0.1 pp
Cost/Income ratio	45.7	44.8	46.0	43.2	48.2	+0.8 pp
NPLs ratio	9.2	11.1	14.8	18.3	20.4	-1.9 pp
Cost of Risk[1]	0.8	0.9	1.5	18.	2.3	-0.1 pp
ROAE (after tax)	11.9	12.7	9.5	10.7	8.0	-0.8 pp
ROAA (after tax)	1.5	1.7	1.2	1.4	1.0	-0.1 pp
RESOURCES (NUMBER, EOP)						
Acting commercial banks at the end of the period	24	25	27	27	28	-1

Source: Bulgarian National Bank

[1] Provisions flow/Avg gross loans

Market Positioning

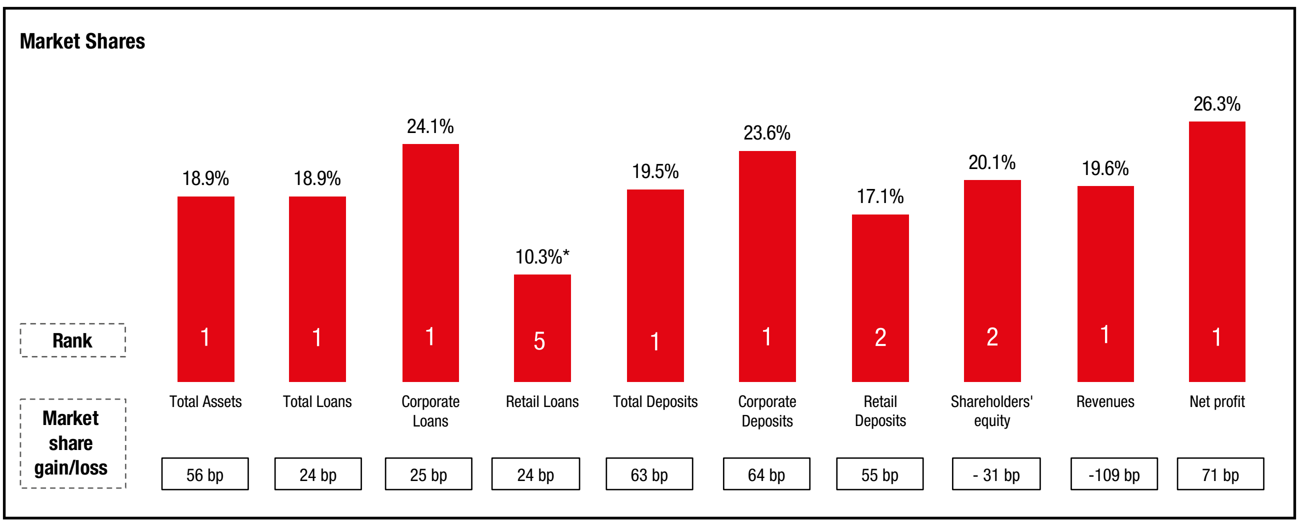
In 2019 UniCredit Bulbank (UCB) successfully managed to preserve its leadership position on the Bulgarian Banking Market closing the year as **NUMBER ONE BANK** in terms of SIZE (Total Assets), CUSTOMER FRANCHISE (Customer Loans and Customer Deposits) and PROFITABILITY (Revenues and Net Profit) for another year in a row, **accumulating more than ¼ from Banking System's 2019 Net Profit.**

The Bank **not only topped the rankings in all key indicators**: Total Assets, Gross Customer Loans, Customer Deposits, Revenues, Gross Operating Profit and Net Profit. In addition, in CUSTOMER FRANCHISE (Customer Loans and Customer Deposits), **UniCredit improved** its positive variance vs the main peers.

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 and particularly digitalization of products, services and processes.

Serving more than one million customers through a branch network of 161 units **UniCredit Bulbank** is part of UniCredit, a Pan European commercial bank with inherent competitive advantages servicing more than 25 mln clients. It provides unique commercial banking model throughout Western, Central and Eastern European network to extensive Retail and Corporate client franchise. UniCredit Bulbank's **synergies with its parent** are very strong thus building another competitive advantage especially in terms of robust positioning in international businesses.

In 2019 UCB recorded **further growth in Total Assets** (+11.5% y/y vs growth of 8.2% for the Banking System) achieving 18.9% market share.



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

Although 100% of Net Profit for fiscal 2018 has been transformed into **Dividends** paid in 2019, UCB **recorded y/y growth of 2.3% in Shareholders' Equity** supported by strong growth in 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 2019 UniCredit Bulbank remained the most important institution among the financial intermediators keeping leading position in bonds and customer loans. During 2019 the bank continued to keep its leading position in the field of the **Bonds Trading** reaching 25.8% market share and keeping more than 7p.p. distance vs the main peer.

UCB's CET1 capital ratio remained much higher (19.31% as of Dec'19) than the minimum BNB requirement of 11.25% (including applicable capital buffers) and was further aided by a net profit of BGN 425.1 mln, which accounted for 26.3% 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 confirmed its position of **Top Market Lender** with a market share of 18.9% in Total Gross Loans (or 19.5% if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing – UniCredit Consumer Financing (UCFin).

In line with the economic activity gaining momentum with real GDP growth stabilizing at around 3.7% y/y, Banking System recorded a positive y/y lending growth of 9.4% vs growth of 10.8% for UniCredit Bulbank, improving the market share by 0.24p.p. y/y.

Market Positioning (continued)

In **Corporate Loans sector** UCB continues to be **absolute market leader** with 24.1% market share adding another 0.25p.p. The bank remained the main partner of companies operating in Bulgaria as indicated by the indisputable leadership position in the sector of non-financial corporations, where the bank holds about 1/5 of total exposure in the banking system (20.1% market share as of Dec'19).

Following further market activisation in **Retail Loans**, UniCredit Bulbank (including UCFin) recorded 14.0% y/y increase (16.1% Market Share) supported by sustainable growth in both Mortgage and Consumer Loans. Thanks to continuing the process of projects simplification, new service model implementation and enhancement of the alternative channels functionalities, UCB achieved growth of 15.1% y/y in Mortgage Loans (vs 14.5% for the Banking System) keeping its Market Share stable at 20.7%. Consumer Loans (supported by UniCredit Consumer Financing's banking business contribution) closed another successful year announcing growth of 13.7% y/y clearly preserving the second position in this segment marking 13.0% Market Share.

In 2019 UCB continues to be market leader and **the most trusted bank on the Deposit market** with market share of 19.5% (0.63p.p increase y/y).

The positioning in **Retail segment** was further strengthened recording growth of 11.6% y/y, Market Share reached 17.1% gaining 55bp y/y. Thanks to its outstanding reputation, the bank clearly established itself as **one of the most trusted bank on the Deposit Market accumulating 24% of the new deposits net inflow throughout 2019.**

Within **Corporate segment** UCB remains **indisputable market leader** with market share of 23.6% keeping its distinguished position vs the second largest competitor at 13.1p.p.

In an environment of lowest ever offer rates on new loan contracts, margins compression and excess liquidity charges, UniCredit Bulbank **reconfirmed its NUMBER ONE POSITION** in Total Revenues, Gross Operating Profit and Net Profit.

The strong market position contributed to enhanced revenue generation. UniCredit Bulbank kept its market share in **revenues** strong at 19.6%, supported by a dividend received from a subsidiary as well as by a traditional strong growth in Trading income (+4.3% y/y growth to 40.0% market share). In particular in Net fees and commission income the bank recorded 2.1% y/y growth reaching 21.1% market share.

With a Net Profit of BGN 425.1 mln., the bank **accumulated more than ¼ from Banking System's 2019 Net Profit** and achieved 26.3% 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

Despite the pressure coming from banking market conditions of declining margins, excess liquidity and intensified competition in lending, UniCredit Bulbank successfully managed to protect its profitability, keeping its operating income flat y/y and strengthening its market leadership position in Net Profit to 26.3%.

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

Operating Income stayed substantially high, amounting to BGN 813.1 mln, flat y/y, as the growth in Non-Interest components offsets the drop in Interest Income.

Net interest income (BGN 384.0 mln) decreased by 4.2% y/y. Interest expenses (BGN -36.8 mln) remained flat y/y, while interest income (BGN 420.7 mln) decreased by 3.8% y/y, mainly due to customer loans (-2.9% y/y), which despite the growing volumes, were negatively impacted by competitive pressure on spread. Interest income from investment securities also decreased (-10.0% y/y).

Dividend income (BGN 119.5 mln) from consolidated entities grows by 3.4% y/y, driven by the strong contribution of UniCredit Consumer Financing.

Fees and commission income (BGN 237.0 mln) increased by 2.1% y/y, driven by fees from collections and payments services, account services and bankassurance products.

Net income from financial assets, measured at fair value (BGN 136.7 mln) also performed positively, marking growth of 10.1% y/y thanks to higher gains from forex transactions and sale of bonds.

Net other operating expenses (BGN -64.1 mln) increased by 7.5% y/y, due to higher contributions to Deposit Guarantee and Recovery and Resolution Funds, in line with the growing deposit volumes.

Net income related to property, plant and equipment (BGN 2.9 mln) decreased by 45.6% y/y, mainly due to lower gains from the sale of real estate.

Operating expenses (BGN -269.6 mln) increased by 6.2% y/y, driven by investments in human capital, operational and strategic projects.

Gross Operating Profit reached BGN 543.5 mln, down by 2.8% y/y.

Impairment losses on financial assets (BGN -79.6 mln) increase by 39.6% y/y, influenced by lower gains from cession deals. If excluded, impairment losses decrease by 5.6% y/y thanks to improved asset quality (NPE ratio down to 4.5%).

Provisions for risk and charges (BGN -7.4 mln) declined by 82.8% y/y, due to lower provisions on financial guarantees given.

Net Profit reached BGN 425.1 mln, slightly decreasing y/y (-0.9%).

In 2019 the strong operating performance of the Bank was further confirmed by the **best in class cost/income ratio** at 33.2% which is significantly better than the market average of 46%. Moreover, 2019 was another successful year in which UniCredit Bulbank recorded significantly **better profitability indicators** compared to the ones for the banking system.

Return on equity (ROE) reached 14.9% (vs 11.6% for the banking system), Return on assets (ROA) was 2.1% (vs 1.5% for the market) and Net profit margin reached 52.3% (vs 38.0% for the system).

Net interest income (BGN 384 mln) decreased by 4.2% y/y, in interest income from loans and bonds. The share of Net Interest Income in total revenues decreased to 47% in 2019 (49% in 2018). UniCredit Bulbank remains the market leader in terms of net interest income with market share of 17.0%.

INCOME STATEMENT	YEAR		CHANGE	
	2019	2018 RESTATED	%	AMOUNT
Net interest income	383 961	400 709	-4.2%	-16 748
Net fee and commission income	236 986	232 214	2.1%	4 772
Net gains on financial assets and liabilities held for trading and hedging derivatives	98 737	96 902	1.9%	1 835
Dividends and net gain from financial assets M FVPLand at FVOCI	157 490	142 782	10.3%	14 708
Other operating income/expenses, net	-64 065	-59 588	7.5%	-4 477
OPERATING INCOME	**813 109**	**813 019**	**0.0%**	**90**
Operating expenses	-269 583	-253 879	6.2%	-15 704
GROSS OPERATING PROFIT	**543 526**	**559 140**	**-2.8%**	**-15 614**
Impairment losses on financial assets	-79 557	-57 000	39.6%	-22 557
Provisions for risk and charges	-7 411	-43 206	-82.8%	35 795
Income from property, plant and equipment	2 941	5 406	-45.6%	-2 465
Income tax expense	-34 393	-35 222	-2.4%	829
NET PROFIT	**425 106**	**429 118**	**-0.9%**	**-4 012**

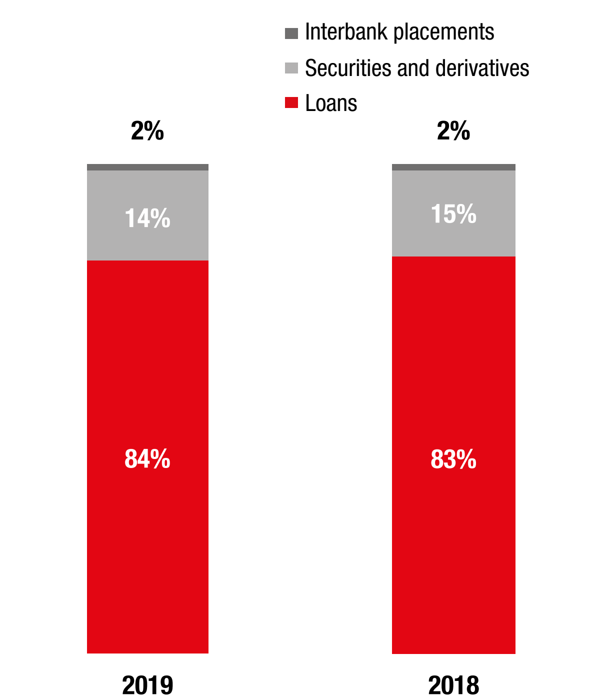
UniCredit Bulbank Activity Review (continued)

Unconsolidated Financial Results (continued)

REVENUE STRUCTURE	YEAR	
	2019	2018
Net interest income	47%	49%
Net fee and commission income	29%	29%
Net result from trading, securities, dividends and other income	24%	22%
OPERATING INCOME	**100%**	**100%**

Interest income (BGN 420.7 mln) decreased by 3.8% as a result of falling interest income from loans and bonds, which accounts for 98% of total interest income. **Interest income from customer loans** (BGN 353.7 mln) dropped by 2.9% y/y triggered by both general decline in loan rates and competition driven pressure on margins. **Interest income from securities and derivatives** (BGN 61 mln) recorded 9% y/y drop and account for 14% from interest revenues (compared to 15% in 2018). **Interest income from interbank business** (BGN 6.5 mln) remained almost flat y/y.

Share in Interest Income



Interest expenses (BGN -36.8 mln) are almost flat y/y, as the higher excess liquidity costs are offset by lower expenses on hedging derivatives. Interest expenses on customer deposits represent only 9% of total interest expenses and further decreased by 7.7% y/y, despite the growing deposit volumes (+12.0% y/y). In particular, **interest expenses on derivatives used for hedging** (BGN -18.0 mln) decreased by 8.0% y/y and account for 49% of total interest expenses (53% in 2018). **Interest expenses on interbank business** (BGN -15.4 mln) increased by 13.0% y/y (42% share in total interest expenses vs 37% a year ago).

Net fee and commission income (BGN 237.0 mln) continued to be a key driver of revenues' growth, keeping 29% share in total operating income. They increased by 2.1% y/y, driven by transactional and account services, as well as bankassurance products. The Bank successfully preserved its leading market position, achieving 21.1% market share in net fees and commissions, putting special focus on further digitalization and leveraging on its external factories for consumer financing, leasing and factoring.

Net gains on financial assets held for trading and hedging derivatives (BGN 98.7 mln) increased by 1.9% y/y, driven by higher FX trading income, which grew by 4.0% y/y to BGN 92.2 mln.

Dividends and net gains from financial assets mandatorily at fair value and at fair value through other comprehensive income (BGN 157.5 mln) increased by 10.3% y/y, driven by higher dividend income from subsidiaries and gains from the sale of bonds, measured at FVTOCI.

Net other operating expenses (BGN -64.1 mln) increased by 7.5% y/y, mainly due to higher contributions to the Deposit Guarantee and Resolution Funds, in line with increased volumes of attracted funds. Total systemic charges amount to BGN -65.6 mln, of which BGN -43.6 mln for the Resolution Fund and BGN -22.0 mln for the Deposit Guarantee Fund.

Operating expenses (BGN -269.6 mln) increased by 6.2% y/y. **Personnel expenses** (BGN -135.5 mln) account for 50% of total operating expenses and grow by 6.3% y/y, following the labor market trends. **Non-personnel costs** (BGN -134.1 mln) increased by 6.1% y/y, driven by new investments and the implementation of strategic business and operational projects.

Impairment losses on financial assets (BGN -79.6 mln) increased by 39.6% y/y, due to lower gains from cession deals. Normalized impairment losses improve y/y, thanks to better asset quality. Non-performing exposures decreased and account for 4.5% of gross loans (6.0% in 2018) and NPE coverage ratio increased to 74.1% (73.0% in 2018).

Profit before tax decreased by 1.0% y/y, reaching BGN 459.5 mln and **Net profit** reached BGN 425.1 mln (-0.9% y/y), which represents more than 25% from the Net profit of the Bulgarian banking system.

UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities

Despite the ongoing process of banking sector consolidations, in 2019 UniCredit Bulbank kept its leadership position on the market in terms of **Total Assets** which reached BGN 21 639 mln., growing by 11.5% y/y supported by the increase in customer deposits (+12.0% y/y). 2019 was another year of the bank's strict strategy for liquidity optimization. On the assets side increase of customer loans was recorded (+11.0%) while cash balances with central banks decreased by 16.0% y/y.

Net loans and advances to customers increased by 11.0% y/y to BGN 11 644 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. As a result of the strong growth, **net loans and advances to customers** constitute more than half (54%) of total assets of the bank, confirming its strategic commitment on **sustainable development of traditional commercial banking**.

Securities portfolio decreased to BGN 3 609 mln, (-3.6% y/y), with share in total assets of 16.7% (19.3% in 2018). Almost the entire portfolio (89%) comprised of Bulgarian government bonds.

Customer deposits reached BGN 17 706 mln and kept their very high share in total liabilities (excl. equity) of 94%. 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 12.0% y/y supported by both Retail and Corporate. In 2019 the share of Retail deposits to Total Deposits was stable at 56%, thus showing the potential which the Bank could unroll among individual customers along with maintaining its pronounced corporate profile.

The **net loans/deposits ratio** decreased to 65.8% in 2019. It is better than the market average of 68.7% and positions the Bank favourably for successful exploration of further growth opportunities.

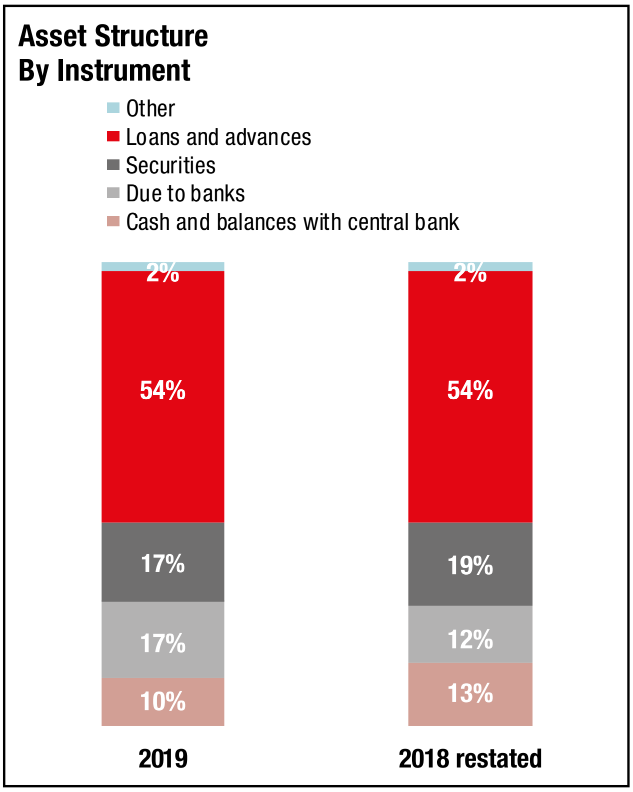
Deposits from banks reached BGN 661 mln remaining with insignificant share in total liabilities (3.5%). The increase of 38.2% y/y mainly relates to business volumes with banks operating in the country.

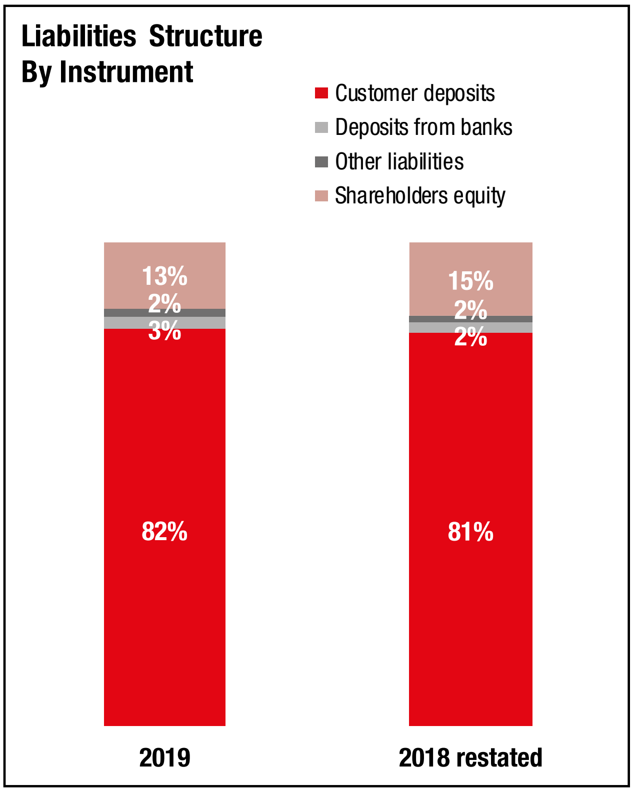
Shareholders' equity reached BGN 2 895 mln, with 13.4% share in total assets. The increase of 2.3% y/y is influenced by the change in accounting policy related to IAS 16.

In thousands of BGN

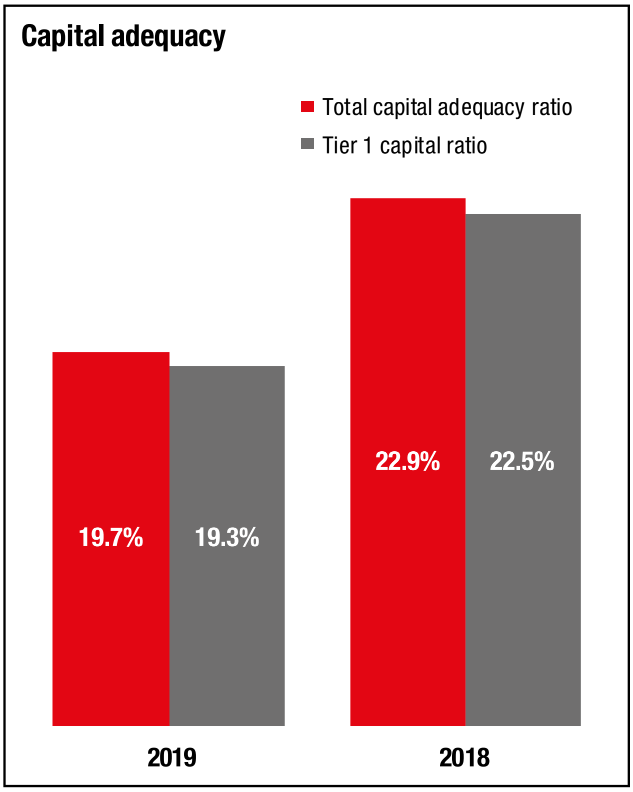
BALANCE SHEET STRUCTURE	YEAR 2019	YEAR 2018 RESTATED	CHANGE %	CHANGE AMOUNT
ASSETS				
Cash and balances with Central Bank	2 065 166	2 457 234	-16.0%	-392 068
Loans and advances to banks	3 754 103	2 286 612	64.2%	1 467 491
Securities	3 609 204	3 743 866	-3.6%	-134 662
Loans and advances to customers	11 643 963	10 488 474	11.0%	1 155 489
Property, plant, equipment and investment properties	254 910	145 093	75.7%	109 817
Other assets, net	311 714	293 300	6.3%	18 414
TOTAL ASSETS	**21 639 060**	**19 414 579**	**11.5%**	**2 224 481**
LIABILITIES AND EQUITY				
Customer deposits	17 706 409	15 808 075	12.0%	1 898 334
Deposits from banks	660 687	478 028	38.2%	182 659
Other liabilities	377 032	298 219	26.4%	78 813
TOTAL LIABILITIES	**18 744 128**	**16 584 322**	**13.0%**	**2 159 806**
SHAREHOLDERS' EQUITY	**2 894 932**	**2 830 257**	**2.3%**	**64 675**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**21 639 060**	**19 414 579**	**11.5%**	**2 224 481**

Unconsolidated Assets and Liabilities (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2019 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 14.75% for total capital adequacy ratio and 12.75% for Tier 1 ratio. The **total capital adequacy ratio marked 19.7%** (22.9% in 2018) and **Tier 1 ratio reached 19.3%** (22.5% in 2018). For both ratios the y/y trend is driven by the growth in RWAs associated with higher customer loans as well as regulatory driven increase in risk weight of government exposures in EUR. 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 Assets and Liabilities (continued)

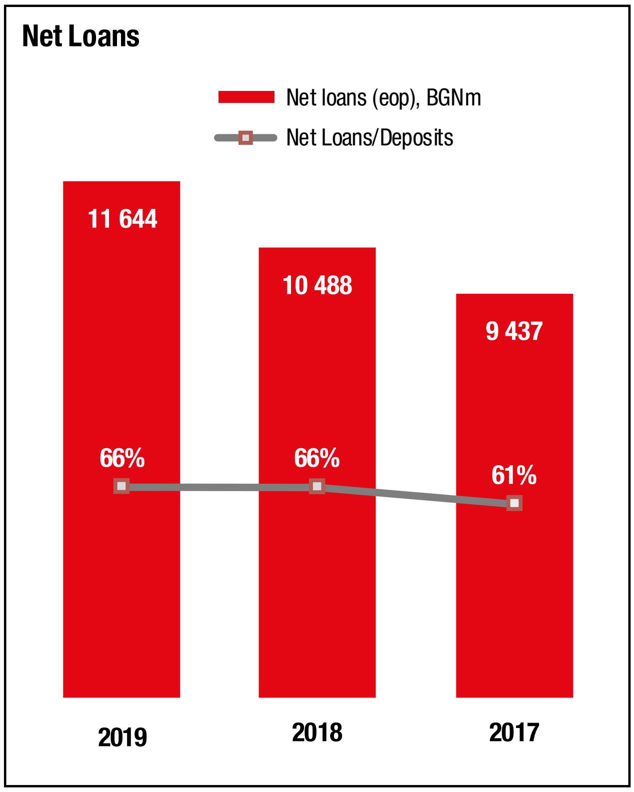
Customer Loans

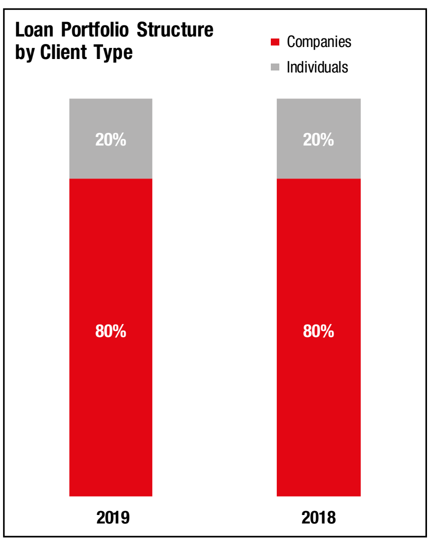
In 2019 the Bulgarian economy further expanded supported by strong acceleration of private consumption. Backed by it, lending growth also accelerated while at the same time lending conditions further improved, helped also by a favourable combination of abundant liquidity and the falling cost of borrowings. In this environment UniCredit Bulbank successfully retained its existing clients and further focused on new businesses. **The commercial initiatives were addressed to providing a comprehensive range of 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.

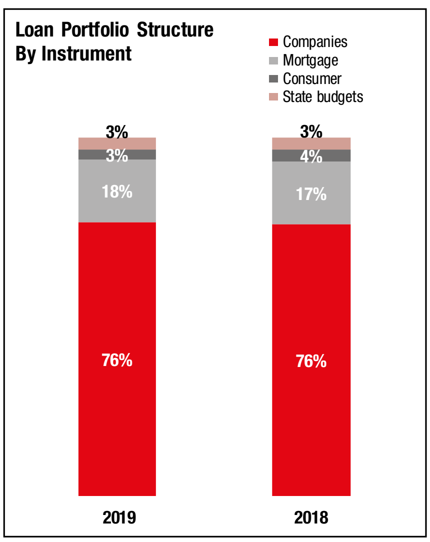
UniCredit Bulbank affirmed its leading market position with **net customer loans** at the amount of BGN 11 644 mln and **gross customer loans** amounting to BGN 12 199 mln. The Bank continued to be the biggest player in the Bulgarian lending market with a share of 18.9% (18.7% in 2018).

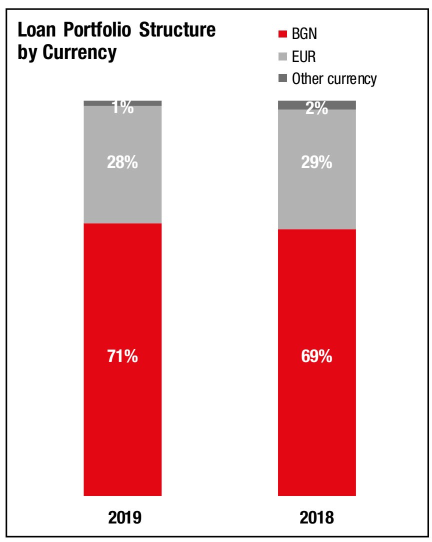
Loans to companies and government represented the largest portion (80%) of the Bank's loan portfolio and amounted to BGN 9 699 mln. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. The growth in volumes by 10.0% y/y was supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. **Loans to individuals** amounted to BGN 2 499 mln, keeping a 20% share of total volume.

In 2019 mortgage loans marked a positive trend of 15.5% y/y, reflecting the revival of the real estate market. Their share in loans to individuals increased to 89% (18% share in total loans) from 86% in 2018. As in the prior year, the strategic decision to transfer the new consumer loans' generation to Bank's subsidiary specialized in consumer



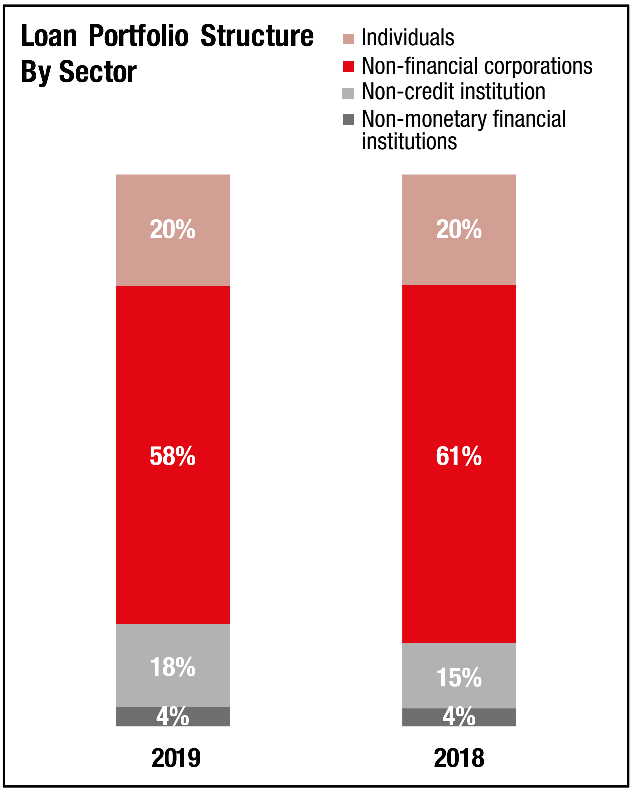






UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (continued)

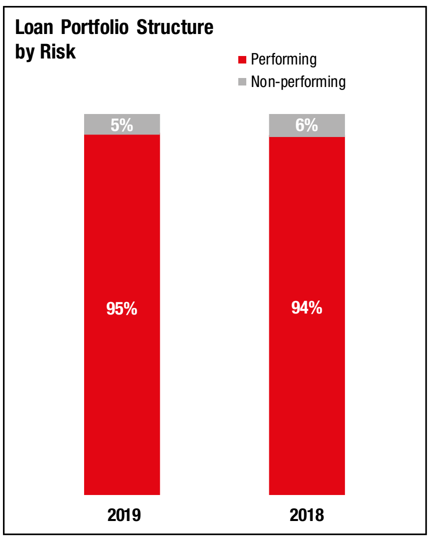


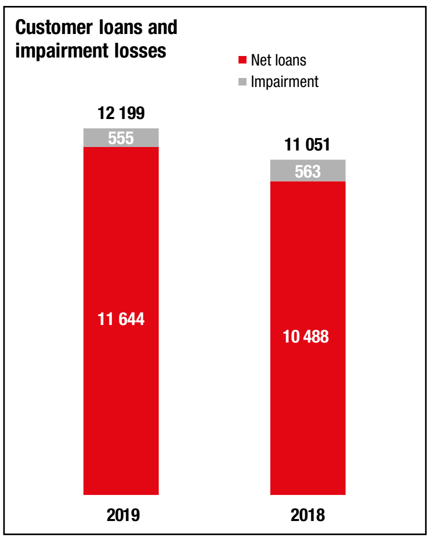
financing UCFin led to decrease in the Bank's stand-alone consumer loans portfolio by 10.4% to BGN 271 mln, which represent 3% share of total loans (11% share in loans to individuals vs 14% in 2018). If adding the consumer loans produced via UniCredit Consumer Financing, the growth of consolidated consumer loans portfolio approached 13.7% y/y which is above the market average annual growth of 11.5%.

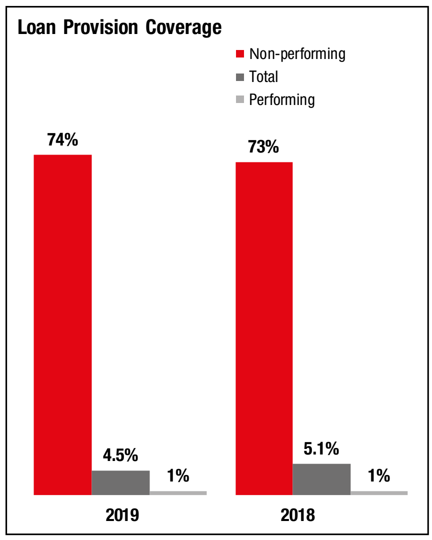
At the end of 2019 the share of loans in EUR shrank to 28% (29% in 2018) of Bank's gross loan portfolio and amounted to BGN 3 367 mln. Loans in BGN grew by 13.3% y/y, offsetting the EUR loan portfolio, and took a share of 71% (69% in 2018). Loans in other currencies remained immaterial with 1% share.

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 shrank to 58% (from 61% in 2018) at the expense of share of loans to non-banking financial institutions (18% in 2019 vs. 15% in 2018), due to direct funding provided to local financial institutions. The share of loans to individuals remained flat at 20%, while the loans to central government represented only 4% in both 2019 and 2018.

In compliance with the set strategic goals related to **assets quality** and thanks to strong recovery activities the performing loans portfolio represented 95% (+12.0% y/y growth) and amounted to BGN 11 640 mln. On the other hand, the non-performing loans marked a significant decline by 15.6% y/y to BGN 555 mln.







Unconsolidated Assets and Liabilities (continued)

As of December 2019 the Bank reported NPL ratio of 4.5%. The loan loss provision coverage of non-performing exposures acquired additional 105bp and reached 74%. Total loan loss impairment decreased by 1.5% on an annual basis and reached BGN 555 mln. Total coverage ratio reached 4.5% (5.1% for 2018).

In terms of industry structure, in 2019 the most significant growth in share was achieved by Financial Services, supported by increased direct funding to local subsidiaries performed at a market price and in accordance with the Group transfer policy. The biggest decline is recorded in the sectors of Tourism (decrease by 21.7% y/y), Agriculture and forestry (decrease by 5.3% y/y) and Commerce (decrease by 3.2% y/y). In line with the Bank's strategy Housing loans registered an increase by 15.5% y/y with share of 18%. At the end of 2019 the largest areas of concentration were Manufacturing (18%), Financial services (18%) and Housing loans (18%).

Thousands of BGN

INDUSTRY STRUCTURE	2019		2018	
	AMOUNT	SHARE	AMOUNT	SHARE
Manufacturing	2 256 088	18%	2 273 738	21%
Commerce	1 915 963	16%	1 980 229	18%
Financial services	2 246 056	18%	1 672 059	15%
Construction and real estate	1 405 028	12%	1 152 842	10%
Agriculture and forestry	451 645	4%	476 904	4%
Sovereign	373 633	3%	373 565	3%
Services	396 424	3%	342 625	3%
Transport and communication	456 446	4%	295 328	3%
Tourism	198 010	2%	252 973	2%
Retail (individuals)	**2 499 344**	**20%**	**2 231 060**	**20%**
Housing loans	2 228 485	18%	1 928 599	17%
Consumer loans	193 766	2%	215 840	2%
Other	77 093	1%	86 621	1%
TOTAL LOAN PORTFOLIO	**12 198 637**	**100%**	**11 051 323**	**100%**

UniCredit Bulbank Activity Review (continued)

Unconsolidated Assets and Liabilities (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 **19.5% market share (+63bp y/y)** leveraging on its distinguished reliability and faithfulness.

In 2019 UniCredit Bulbank's **Deposits from customers** grew by 12.0% y/y to BGN 17 706 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 2019 UniCredit Bulbank outperformed the market of Retail Deposits achieving y/y growth of 11.0% vs growth of 8.0% for the Banking System while in Corporate Deposits UCB achieved growth of 13.3% vs growth of 11.2% for the Banking System.

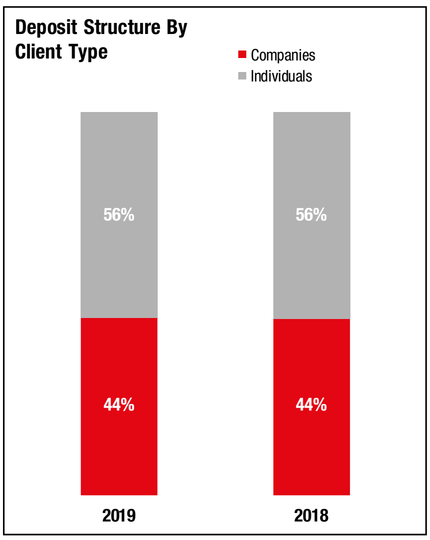
UniCredit Bulbank became the bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.

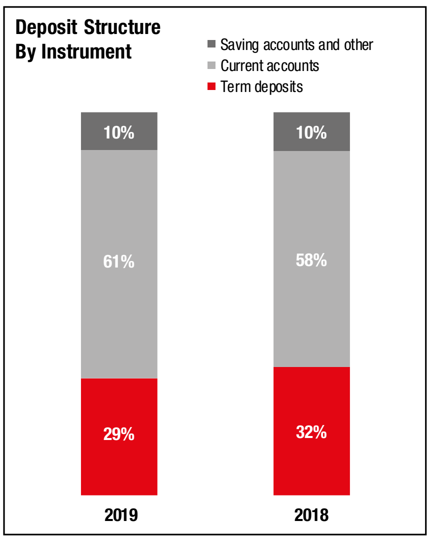
In terms of **clients type**, deposits of Individuals had an upward momentum of 11.0% y/y ending 2019 at BGN 9 851 mln and the company's deposits registered an increase of 13.3% y/y to BGN 7 856 mln. In 2019 deposits of Individuals kept the 56% share in customer deposits, compared to 44% share of deposits from companies, signalling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

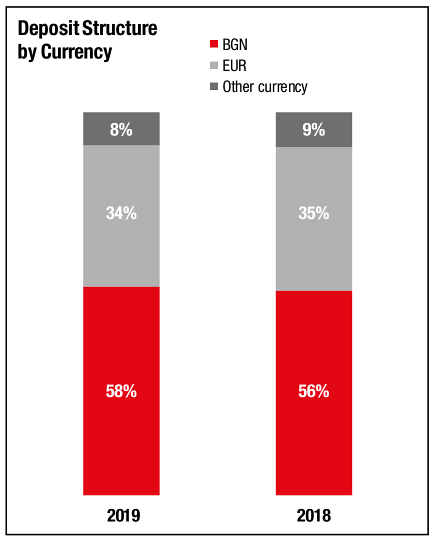
With regard to the **product structure**, current accounts increased by 18.4% y/y and reached 61% share (58% in 2018). Term deposits slightly increased by 1.6% y/y resulting in decreasing share of total funds to 29% in 2019 vs 32% in 2018. Saving accounts remain with 10% share similar to 2018.

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 15.7% y/y, increasing their share to 58% in 2019 (56% in 2018).

Following customer behavior trends, the Bank continuously enriched its product portfolio. Besides the standard deposits, a variety of long-term investment and saving solutions are offered to customers, such as structured deposits, mutual funds of Amundi Investments, life insurances and pension funds of Allianz.







Consolidated Financial Results

As of 31 December 2019 UniCredit Bulbank's subsidiaries, 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 2019 was at BGN 404.0 mln, down by 6.2% y/y, mainly due to higher impairment losses on financial assets.

The **consolidated operating income** increased by 1.6% y/y, with the strong contribution of the consumer lending channelled through UniCredit Consumer Financing. Net interest income decreased by 1.9% y/y, due to competitive driven pressure on loan customer rates and lower income from investment securities. Non-interest income reached 38% from operating income growing by 7.8% y/y. Net fees and commissions increased by 3.7% y/y, in lending, payments, accounts services and bank assurance. Net income from financial assets, measured at fair value improved by 10.2% y/y, driven by the gains from the sale of bonds and FX trading.

The **consolidated operating expenses** increased by 8.1% y/y to BGN 311.5 mln and **gross operating profit** decreased by 1.6% y/y to BGN 581.7 mln.

The **consolidated impairment losses on financial assets** marked an increase of 56.0% y/y to BGN -118.0 mln, influenced by lower gains from cession deals and in line with the conservative provisioning policy. The consolidated NPE ratio dropped to 4.9% and NPE coverage increased to 74.9%.

Total **consolidated assets** (BGN 22 247 mln) increased by 10.0% y/y, driven by the growth of customer business. **Customer deposits** (BGN 17 748 mln) remain the main source of financing, growing by 12.2% y/y. **Net customer loans** increased by 8.1% y/y to BGN 12 210 mln.

In thousands of BGN

	YEAR		CHANGE %
	2019	2018 RESTATED	
INCOME STATEMENT FIGURES			
Operating income	893 1401	879 341	1.6%
Operating expenses	- 311 481	- 288 066	8.1%
Gross operating profit	581 659	591 275	- 1.6%
Impairment losses on financial assets	-117 949	- 75 611	56.0%
Net profit	404 007	430 563	-6.2%
BALANCE SHEET FIGURES			
Total assets (eop)	22 246 642	20 216 385	10.0%
Net customer loans (eop)	12 210 454	11 297 096	8.1%
Customer deposits (eop)	17 747 580	15 824 661	12.2%

Risk Management

Credit Risk

In 2019, the Bank performed its credit activities in compliance with the governing rules and internal policies, in line with the defined risk appetite framework.

The credit underwriting activity in 2019 was performed in accordance with the adopted local Credit Risk Policies, based on UniCredit Group Credit Risk and Industry Strategies as well as Economic Sectors Outlooks. In the origination of new loans, the Bank conformed to the prescribed financing principles for probability of defaults, transactions structural features, covenants and conditions and provision of collateral.

During the year, the **improvement in the performance of the borrowers** from the Corporate and Small Business segments compared with previous periods was notable as well as the very stable performance in Private Individual segment. **The level of the cost-of-risk ratio** in the customer loan portfolio **improved** by 20bp from -98bp to -78bp.

The improvement of asset quality remained a major focus. Debt collection, disposal of loan packages and write-offs were the main instruments used for continuous reduction of the impaired portfolio. The bank repeated its success from last years and disposed packages of loans to external investors. Due to a decrease of inflow to non-performing exposures compared with previous periods and the already mentioned measures, there is a **decrease of the NPL ratio** by 150bp from 6.0% to 4.5%.

Following Bulgaria's submission of a request for close cooperation with the European Central Bank (ECB), the **ECB conducted a comprehensive assessment**, including an **asset quality review** and a stress test, of six Bulgarian banks, including UniCredit Bulbank AD.

The Credit File Review was one of the major work blocks in the Asset Quality Review (AQR). It was quite a resource-intensive exercise under which more than a thousand non-retail and residential real estate files were delivered to and analyzed by the AQR providers. The quality and the consistency of the files and the documentation were found to be satisfactory. The Asset Quality Review component of the Comprehensive Assessment **confirmed UniCredit Bulbank's balance sheet resilience** and prudential approach towards the classification and provisioning of the Non-Performing Loans portfolio, an approach to which the Bank continuously adhered to also in 2019.

In line with the results of the challenging exercise, part of the AQR, in the context of the Comprehensive Assessment, the Bank put a **strong focus on the coverage of the performing portfolio** in the corporate segment and the parameters of the implemented IFRS9 models were updated accordingly. The overall coverage of the performing customer portfolio as of the year-end is 1.2%. The coverage of the impaired portfolio remained at a comparable level of 74.1%.

An application package on Material Model change on New Definition of Default was prepared in compliance with the EBA/ECB requirements and submitted for approval to the regulators in the end of September 2019. The Bank is progressing on the update of its internal risk processes and policies and the IT infrastructure in order to implement the new approach.

Additionally, the existing credit risk models are being modified to meet the updated EBA guidelines and the forthcoming changes in the definition of default. In the end of September 2019, the Bank submitted to the regulators applications for approval of three PD models.

The Monitoring team continues to be strongly focused on streamlining the overall monitoring and Watch List (WL) process, where in the second half of 2019 back test and sensitivity analysis of the monitoring triggers were performed. Considering the expected impact of the developed new credit models aiming to improve the rating ageing discipline, a new report for automatically generated ratings and forthcoming application of ageing restrictions has been designed specifically focused on the Corporate segment.

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.

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 the regulatory capital calculation, the Bank also maintains a full-scale economic capital quantification, reporting and stress testing as part of its Internal Capital Adequacy Assessment Process (ICAAP). Along with 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 the regulatory requirements.

Market, Counterparty and Liquidity Risks

In the area of risk appetite and strategy, the Financial Risk Management 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 2019, the Bank continued to implement new Group reporting tools in the area of liquidity risks. During 2019, the Bank participated in a comprehensive assessment of six Bulgarian banks, performed by ECB, following Bulgaria's request to establish close cooperation between the ECB and the Bulgarian National Bank. The exercise was comprised of an asset quality review (AQR) and a stress test, both of which were based on the methodologies applied by ECB Banking Supervision in its regular comprehensive assessments of banks that have recently been classified as significant or could potentially become significant. The AQR for the Bulgarian banks was carried out on the basis of the ECB's updated AQR methodology, which was published in June 2018 and takes account of

Risk Management (continued)

the impact of accounting standard IFRS 9. The AQR was complemented by a stress test exercise, which looked at how the banks' capital positions would evolve under hypothetical baseline and adverse scenarios over the next three years (2019-21). **The comprehensive assessment outcome for Bulbank ascertained that it doesn't face any capital shortfall**. Regarding risk control activities, the Financial Risk management 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 the 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 the area of market risk controls, UniCredit Bulbank makes use of the Group's internal model IMOD for daily managerial control and economic capital assessment, leveraging on UCI Group market risk methodology and architecture. In 2019, the bank further enhanced the valuation of embedded options for customer loans and deposits to enable granular simulations of interest rate risks in the banking book. A major step ahead in the area of interest rate risks in the banking book was the adoption of new managerial IRRBB stress test metrics in line with the respective EBA Guidelines, EBA/GL/2018/02, issued in July 2018. Regarding the **liquidity risk management** systems, the main efforts were focused on maintaining sound quality of local data control processes to facilitate reliable calculation of regulatory and managerial metrics.

The activities of financial risk management function in 2020 will be focused on further adaptation of tools and processes related to fair valuation and to the regulatory-driven Fundamental Review of the Trading Book. Another milestone in the regulatory-driven agenda will be the upgrade of risk systems to facilitate adoption of the new Standardised Approach for counterparty credit risk as part of the CRR II that will come into force by the end of Q2 2021. Enhancements will be made on the liquidity risk monitoring systems, whereas the methodology for calculation of the LCR will be adopted in close observance of the Delegated Act's stipulations. Further refinements of the behavioral models under liquidity and interest rate risk perspective will be another area for development.

An important activity that will continue in 2020 will be the integration of Consumer Financing, Leasing and Factoring operations in terms of risk infrastructure, management and reporting tools.

Operational and Reputational Risk (OpRepRisk)

The main activities of the OpRepRisk Unit in 2019 were focused on **maintaining excellence in managing the operational and reputational risks**.

The OpRisk tasks are: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Monitoring Key Risk Indicators; Scenario Analysis; OpRisk Assessment for ICT Risk; OpRisk Assessment of Relevant Outsourcing Transactions; Operational and Reputational Risk Strategies Definition and Monitoring. With regard to the strategies' definition and monitoring, this is a newly defined activity performed at UniCredit Bulbank. The activity's main goal is to involve the process owners in performing a thorough self-assessment of already pre-defined risk bearing processes; an important element of this assessment is the role of the OpRepRisk Unit – being in the driving seat in running the activity and challenging the process owners in evaluating the processes from a risk perspective.

In 2019, OpRepRisk Unit continued its important participation in several 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; its 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 it serves as a platform for discussion of unresolved issues, with the purpose of finding risk mitigation solutions.

Overall, the organization of the operational and reputational risk management at UniCredit Bulbank is well established, **with 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 led to the **highest possible rating** for the local OpRisk management and internal control framework. The Group Internal Validation (GIV) function also rated the operational risk governance framework and control activities as "Fully Adequate" (the highest possible rating). The outcome of these independent assessments also proves **full compliance with the regulatory and Group standards**. A sound and well developed risk management system was established with a strong focus on pro-activeness with the full support of the senior management and all the functions in the bank.

In 2019, the OpRepRisk Unit continued to develop the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure. The main change is the creation of the Reputational Risk Committee (RRC), which is responsible for the assessment of the reputational risks initiatives.

The activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner. The risk culture has been promoted throughout the organization constantly. All training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness on bank level.

In 2020, the OpRepRisk unit will further develop and successfully finalize the projects and activities that started in 2019 and the greater part of which are related to the introduced new regulatory requirements.

The unit will continue to provide methodological support, training and monitoring for the legal entities that are consolidated and constitute UniCredit Bulbank Group in regard to the identification, reporting and mitigation of the operational and reputational risk according to the regulatory and UniCredit Group standards.

Corporate, Investment and Private Banking

Overview

The **GDP growth** for 2019 is estimated at 3.7% (UniCredit Research), driven mainly by accelerating growth in consumption, supported by rising incomes and very strong job creation. Importantly, job creation remained broadly based and included not only domestic-demand-oriented services and construction, which drew support from a surge in new housing and infrastructure projects, but also export-oriented manufacturing, where job numbers rose to their highest level in eight years. Still, export and investment growth were soft in 2019, as external demand remained weak and EU funds utilization was likely slower compared to the previous year. Despite slower growth in some of the main trading partners, there have been no signs of labor-market easing in the export-oriented part of the economy.

The Transform 2019 Group initiative to be substituted by Team 23 Plan

Transform 2019 showed that UniCredit relies on long-term sustainable outcomes and its success confirms an ability to execute and deliver the **Team 23 plan**, which will substitute the latter.

New international clients were attracted in 2019 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 as well as driving and facilitating international business and also local businesses willing to expand abroad.

The transformation of the client management system at UniCredit Bulbank, was successfully implemented by adding new functionalities in order to sustain a complete overview and information with regard to customer products, activities and respective commercial actions, based on artificially-spotted opportunities. Projects related to forecasting analysis and pricing are going to be finalized in 2020. Business Intelligence usage carried through business steering dashboards for commercial activities in the client management system along with monitoring of business initiatives.

Financial Result

CIB&PB net **revenues**, including the leasing, factoring and fleet management subsidiaries, increased slightly (by 0.1% y/y in 2019), mainly due to higher non-interest income (+5.4% y/y), while net interest income declined by 3.3%. Profit before tax decreased by 6% compared with the previous year, as a result of higher provisioning costs due to the more conservative risk strategy and capital efficiency.

Performance by Segments

The corporate business in 2019 faced significant competition, imposing continuously declining loan spreads and refinancing of large exposures. However, the decline in the net interest income was compensated by the non-interest revenue – particularly in the Large and the International segment. The real estate business performed significantly better in terms of revenues, due to successful deals' closure in 2019. The business with financial institutions increased by 6% y/y in revenues, stemming from interest income, which almost doubled in 2019. Private banking registered a decline in interest income compared with the previous year following market trends, where non-interest income remains flat.

Business Lines Performance

Markets and Brokerage, Leasing, Factoring and Fleet Management marked a growth in revenues y/y, in line with UniCredit's strategy for delivering to its customers a broad range of capital-light financial solutions and promoting their growth.

Deposits

Deposits in corporate banking increased by 15.2% y/y, as a result of an increase in current accounts in the Large and the International segment. Deposits in Private Banking increased marginally, in current and saving accounts predominantly.

Loans

In 2019, both investment (+3.9% y/y) and working capital (+6.8% y/y) loan volumes (EoP) gained a momentum compared with 2018, resulting in an aggregate corporate banking increase by 5.1% y/y in 2019. The NPL ratio continued to improve and dropped by 40bp y/y.

Cross-Sales

The focus on **cross-selling** opportunities remains the most effective tool for improvement of the customer experience through offering a broad range of products and services to customers. The considerable efforts in this direction have resulted in an improvement of the cross selling index by 0.5p.p. in 2019 compared with 2018.

Service Model (including Team 23 initiatives)

Product/Coverage Model

The CIB&PB Division differentiates itself in the local market through a service model that integrates 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 2019, the product factories remained focused on **innovation and digitalization**. This practice will be applied also in 2020.

The Trade Finance Module as part of Bulbank Online (a functionality for accepting corporate client orders and processing trade finance deals) was actively used by corporate clients. For 2020, the aim is to enhance the applications and requests in the 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 clients with a solution that allows them to perform online all of their daily factoring operations.

In the beginning of 2020, we are expecting to launch a new module

Corporate, Investment and Private Banking (continued)

in Bulbank Online. It allows customers to trade securities remotely, through our online banking platform.

In 2019, the corporate branch network consisted of 10 branches in all major regions of the country and ensures a high-class professional operational services exclusively dedicated to corporate clients.

Multi-Year Plan 2020-23 Initiatives

In Corporate Banking, the Multi-Year Plan 2020-23 is implemented through several initiatives:

- **Leadership in SME:**
  - Internal processes enhancements – efficiency through automations
  - Focus on digital channels – further improvement of the Bulbank Online platform (administration, functionalities, design) and remote exchange of documents for corporate clients
- **2nd tier** – implementing a new service model for international groups with relevant CEE presence, by leveraging the full potential of UniCredit's unique geographical footprint in order to boost acquisition, reduce the clients' attrition rate and achieve a better understanding of the clients' risk profile.
- **WOCA** – focusing on solutions for working capital optimization
- **Big Data** – additional enhancements and functionalities for the web-based solutions were implemented in 2019, aiming at an in-depth analysis of complex business trends, building up long-term relationships and spotting market opportunities. New business intelligence (BI) tools were further introduced for management reporting purposes and sophisticated in-depth market analysis.
- **EU Funds**
  - A wider scope and coverage of the newly agreed risk-sharing instruments within all segments, including Large Corporate;
  - Maintain a strong position and focus on the current EU guarantee instrument facilities utilization;
  - Leverage on the negotiation and implementation of 3 new upcoming financial engineering instruments;
  - Increase the impact of the European Competence Center as a single point of contact for all EU products and topics.
- In Private Banking, the Team 23 plan targets a further development of the client service model and advisory services via several initiatives:
  - Optimizing the service model focusing on the clients' needs by clusters
  - Providing best-in-class products, financial solutions and services reflecting the client's individual needs

Bulbank United Initiative

Another joint initiative between Retail Banking Division and Corporate, Investment and Private Banking Division – Bulbank United was carried out and monitored in 2019 and continues to be in our focus in 2020. The combined commercial efforts between CIB and Retail resulted in an increase in the number of individuals with payroll accounts at UCB and use of additional products and services. In 2020, the commercial efforts will be even more focused as Retail Banking will prepare tailor-made offers for every potential retail customer who is an employee of one of our CIB clients.

European Funds

UniCredit Bulbank is a **leader in the market in Bulgaria,** providing a variety of financing products with preferential conditions for small and medium-sized enterprises. Some products are based on a partnership with the European Investment Fund, the European Bank for Reconstruction and Development, the European Investment Bank and local institutions such as the Bulgarian Development Bank, the National Guarantee Fund, State Fund Agriculture, the Fund Manager of Financial Instruments in Bulgaria (FMFIB), etc.

Currently, UniCredit Bulbank has more than 17% coverage of corporate loans with agreements (regarding financial instruments), signed with the European Investment Fund (EIF), the National Guarantee Fund (NGF) and the European Bank for Reconstruction and Development.

The main products are SME Initiative, InnovFin, NGF, NGF – Rural Development Programme and RSF EBRD:

- SME Initiative – provides 60% guarantee, supplementing the collateral for investment and working capital loans for SMEs (including start-ups). The scheme ended on 31.12.2019 and the utilization is 92% of the total portfolio volume, whereas all conditions for utilization were met.
- InnovFin – provides 50% paid guarantee, supplementing the collateral for investment and working capital loans for innovative, research and development-oriented SMEs and Small Mid-caps (up to 499 employees).
- National Guarantee Fund (NGF) – The Guarantee Scheme was prolonged with an inclusion period until 30.09.2019 due to market interest. The scheme provides 50% paid guarantee, supplementing the collateral for investment and working capital loans for SMEs from a large range of economic sectors (including agriculture) that are ineligible under other available guarantee instruments. This product provides options for bridging loans with EU grant programmes.
- National Guarantee Fund (Rural Development Program) – guarantees up to 50% of the outstanding credit exposures, granted by UCB to micro companies and SMEs for financing approved projects under the Rural Development Program, as well as enterprises that are active in the agricultural sector. The Agreement was prolonged with an inclusion period until 31.07.2021.
- EBRD Risk-sharing Facility – suitable for large companies, MidCaps. Main advantages – 50% guarantee, applicable to existing exposures, not only for new transactions. A capital relief for the guaranteed part, with eligibility approval by EBRD on a case-by-case basis.
- COSME – CAPPED guarantee scheme, suitable for SMEs and

start-ups. Main advantages – 50% guarantee, reduction of the collateral for revolving and investment loans, lower client participation in the investment – not more than 5% of the net investment project. CAP 10%. No guarantee fee.

The focus of the EU funds team for 2020 is to finalize the negotiations for three new external guarantee lines as follows:

- Documentary Finance Facility – suitable for SMEs and MidCaps (up to 499 employees). 50% guarantee, a capital relief for the guaranteed part, CAP 25%. A specialized instrument for trade finance transactions – bank guarantees, letters of credit.
- NGF 5 – suitable only for SMEs. 50% guarantee, no capital relief.
- Microfinance instrument– Still going through a public procurement procedure for the CAPPED Guarantee Scheme (CAP 25%) for Microfinance, organized by the FMFIB – the Fund Manager of Financial Instruments in Bulgaria. UCB has applied for 3 lots for the guarantee. This upcoming scheme for micro loans for Retail segment, including social entrepreneurs and projects with 80% guaranteed part.

Markets and Brokerage

In 2019, UniCredit Bulbank retained a **leading position** on the interbank market for local currency denominated products and was the main first-class-liquidity provider for local and international banks.

The 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 Commodity Risk Management. The unit explored new opportunities in order to develop CTS services in a way to enhance customer experience, leveraging on a team of experienced professionals and taking advantage of the digitalization. The CTS related activities are set to grow further in 2020, mainly supported by an expected growth in investments, while the external environment and competition are likely to become more challenging.

UniCredit Bulbank reaffirmed its leading position as a securities broker in Bulgaria. The bank offered high-quality services in investment intermediation, including wide coverage in CEE and the emerging markets. The brokerage team provided services for equity, fixed income and exchange-traded financial instruments and derivatives services to Institutional, Private Banking and Retail clients.

Financing

The Financing Department has a deep and vast expertise and know-how in providing complex financing solutions to professional real estate clients as well as to corporate clients, being part of the leading bank in the local market. Throughout the past year, all viable market opportunities in both Real Estate Financing and Project and Structured Finance were assessed for bankability, following our credit risk matrix and internal policies. Our clients were provided with high quality services, supporting their growth strategies for developing new projects, finance deals and M&A transactions in various industries.

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 has been 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. A balanced mix of transactions in all sub-sectors characterizes the activity in Real Estate throughout 2019. The extensive pipeline materializes in utilized investment loans for high quality office developments, top located residential projects, city and holiday hotel constructions as well as retail park acquisitions. The RE loan portfolio has been further strengthened by materializing numerous good opportunities for new financings, in a market with growing expectations. The continuous low interest rates environment, together with near-to-zero deposit rates as well as sustainable economic growth prospects, is keeping up the demand for good quality housing. The robust demand for IT and BPO industry for high quality office spaces (primarily Class A) and stable office rents additionally support both local and international investors' activity. The transactional volume had been driven mainly by existing well-known local clients and professional international RE investors and developers.

In 2019, several sizeable Real Estate developments were re-financed at market conditions. The trend of big worldwide real estate investors looking to diversify their property portfolio in CEE, stepping in/or extending their presence into the Bulgarian market, which started in 2017, continued also in 2019.

During the year, the RE Team continued to support with expertize both RE clients and general corporate clients in structuring, executing, and advising real estate transactions. Starting from 2017, the RE Unit launched a hospitality knowledge hub and played a key role in several hotel transactions in all corporate segments.

The 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 unit takes strictly into account the bank's risk appetite and manages the market risks associated with the local environment and the various transactions.

The strong focus on diversifying the existing financing portfolio by providing our expertise and know-how to all corporate segments (MID, LARGE, INTL) with prospects for growth has proven to be efficient. Our origination abilities to capture financing opportunities were demonstrated in closing several large transactions in 2019.

Our constant monitoring of the existing portfolio for responding to the challenging market environment was of paramount importance in order to maintain the revenues and keep our sustainability levels.

The strategy for 2020 foresees further growth, supporting all our corporate segments and with a sectoral focus in line with our credit risk matrix and policies. Emphasis will be put on fostering our arranging and advising capabilities, providing full debt refinancing, 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 2019 and particularly in CEE remained stable in terms of number of deals, despite the lower transaction values compared to 2018. The biggest deals on the Bulgarian market were dominated by sectors: "Information and Communication Technology (ITC)", "Real estate", "Financial Institutions" and "Energy and Infrastructure".

Another main trend observed during the year was the substitution of foreign capital with investments from local players.

The main drivers of the M&A deals in Bulgaria were the positive economic outlook, stable financial system, favorable financing conditions and strong internal consumption.

For the Investment Banking Unit, 2019 was a 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 2019 was on the implementation of a landmark and highly complex infrastructural concession project launched in 2018, of vital importance for the Bulgarian economy and its competitiveness.

During the year, the Investment Banking Unit further established its position as a leading advisor on projects in "Energy and Infrastructure" by signing a new major mandate in the sector.

The focused 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 two cross border mandates in "Healthcare" sector, two mandates in "Renewable Energy" sector as well as closing of two deals in "ICT" and "Logistics" sectors.

In 2019, two milestones and complex transactions in the "Real Estate" sector were successfully completed. The first of its kind, a two-component transaction on the Bulgarian capital market, included public offering of shares (capital increase) and private placement of bonds. The transaction provided the required financing for an investment of a growing REIT (a special purpose investment company with a focus on acquisition and leasing of commercial property).

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

Being a part of the leading commercial bank in Bulgaria, in 2020 the Investment Banking Division will continue to leverage on the existing client base of UniCredit Bulbank, while being focused on the close collaboration with the international Corporate Finance Advisory (CFA) platform within UniCredit Group in order to generate new business opportunities.

In 2020 large deals are expected in "Energy and Infrastructure" "Healthcare" and "ITC" 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

Being the Bank of choice for both domestic and international clients UniCredit Bulbank confirmed its leading position in Cash Management, Trade Finance, Transactional Sales and Global Security Services segments of the transaction banking area.

Even in a highly regulated environment the service quality and the ability of the dedicated product teams to provide the best-in-class standardized products in combination with tailor-made solutions to the clients, was again recognized by both our clients and reputable international financial sources. In 2019 UniCredit Bulbank was named:

- Market leader in trade finance services in Bulgaria – Euromoney;
- Market leader in Cash Management – Euromoney;
- And Best Custodian Bank in Bulgaria – Global Finance Magazine.

In 2020 the bank will continue investing in its team of professionals and product portfolio to further enhance the value proposition to its customers, supporting both their daily business needs as well as strategic goals execution in a dynamic and highly regulated environment.

Private Banking

Private Banking (PB) Department keeps its strong focus and commitment towards core goals for 2020, leveraging on the results in 2019:

Providing best-in-class products, financial solutions and services reflecting customers' individual needs.

- Widening the opportunities for investments through:
  - New insurance products with Allianz as well as
  - Launching of the new Mutual Funds Providers.
- Enhancing department revenue management.

Along with the core goals, PB aims at constantly improving investment efficiency by raising investment volumes and its profitability.

In 2019, investments in Amundi decreased with 4% while on the life insurance side we reached an increase of 17%. Assets under Custody grew by 27% y/y.

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

In the area of Assets under Custody (AuC), with the increasing volumes and complexity of corporate actions events, including dividend and interest payments that require extensive expertise on the different foreign market's specifics, double tax treaties, and securities trading regimes, PB has implemented a front-end custodian service as part of the overall goal to improve the quality of AuC.

Corporate, Investment and Private Banking (continued)

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 with new investment products.

Outlook for 2020

The GDP growth for 2020 is forecasted at 3.0% (UniCredit Research), as strong wage growth and easing inflation are expected to boost private consumption further. Growth is likely to draw support mostly from a 10% increase in public-sector wages, which in the context of the tight labor market is likely to spill over into the rest of the economy. Households' disposable income will also benefit from slowly decreasing debt-servicing costs. Persistently weak external demand will likely weigh on export performance though and is expected to adversely affect industrial production and wage bargaining in some export-oriented sectors. Investment in equipment lost momentum in 2019 and is expected to remain soft, but investment in infrastructure could pick up in 2020, if the absorption of EU funds increases as planned, as the final stage of the ongoing planning period draws near and fund absorption is likely to surge. Additionally, Bulgaria will be among the EU countries with the largest free fiscal space in 2020, and commitment to fiscal prudence seems even more likely now when the country looks very close to receiving an invitation to join ERM II.

CIB&PB is fully dedicated to deliver Team 23 plan. The division continues to be a **market leader** with strong results from the customer satisfaction survey and focus on attracting foreign investments by leveraging on the International Center. In 2020, CIB&PB strategy is to strengthen corporate governance and retain strong capital position. New innovative products and services are planned to be offered on the market in 2020 in order to grow and strengthen client franchise.

The EU Funds Strategy for 2020 includes:

- Wider scope and coverage of the newly agreed risk-sharing instruments within all segments, including Large Corporate;
- Maintaining a strong position and focus on the current EU guarantee instrument facilities utilization;
- Leverage on the negotiation and implementation of 3 new upcoming financial engineering instruments;
- Increasing the impact of European Competence Center as the single point of contact for all EU products and topics.

UniCredit Bulbank Activity Review (continued)

Retail Banking

General Overview

Retail Revenues continue to outperform the average market growth driven by increasing lending to households and number of customer transactions.

The results during the year continue the sustainable business growth trend leveraging on mortgage lending, consumer financing as well as developments in the Investment product offer and alternative distribution channels.

The growth in Retail revenues in 2019 was 3%, vs. 2% for the market. The main growth contributor is still non-interest income (up by 4.7% y/y), supported by the raised number of insurance and alternative investment products chosen by the customers, as well as the increased number of customer transactions (+3.4% y/y). Despite the growth of the loan portfolio by more than 11% y/y, net interest income levels off due to overall low and negative IR environment.

Stable growth in lending better than the market and on conservative pricing

Retail loan portfolio grew by 11.4% y/y compared to 9.5% average growth in the banking system. The main contributor was the segment of households where the volumes increased by 14.7% compared to 10.8% growth in the market. The consumer-lending portfolio grew by 14.1% thanks to the product specialization of UniCredit Consumer Financing and its fast and simple lending process. We sustained the leading position in mortgage lending and the housing loan portfolio grew by more than 16%.

In 2019 we implemented our first end-to-end digital process for granting overdrafts to individuals in order to respond to customers' demand for a simple and fast process and significantly decrease the time for service delivery. We are fast in Time to Yes and Time to Cash, leveraging on simple and fast process for granting loans for individuals and high level of employee expertise especially in the structure of complex deals.

We simplified the product portfolio for small and micro companies, while continuing to be able to cover all customer needs. The lending process is strongly supported by an individual approach to our customers through portfolio management, covering 100% of all active customers.

Deposit base grew steadily, even though interest rates remained close to zero.

The bank is still a partner of choice when it comes to customers' deposits. Attracted funds from households increased by 11.4% (vs. 8.0% growth for the market), and by 8.1% from small and micro enterprises. As interest rates remain close to zero, the demand deposits continue to be the preferred product increasing by 26.6% y/y and reaching a 33.7% share in attracted funds from individuals. The trend of saving mainly in BGN is preserved.

Meanwhile, there was also an increase of demand for alternative investment opportunities. As a result the number of customers holding investment products increased by 27.2% in 2019 and the share of investments grew by 20.2% of total financial assets.

The customer satisfaction surveys show that customers recognize our focus on them and their needs and suggest that the bank managed to strengthen its leading position in retail banking in terms of Net Promoter Score (NPS) levels.

Main Activities, Initiatives and Achievements

The **digitalization and simplification** of back-end processes were in our focus throughout the year. In addition, many resources were dedicated to the successful upgrade of the core banking system. There was strong focus and a number of activities were undertaken in the KYC area aiming to fully comply with the regulatory requirements and eliminate any operational risk for the bank and the customers. We made a complete revision of the processes related to customer registration, data maintenance and review.

Flowing our "Easy to deal with" motto, we made a significant simplification in the product catalog and in the tariff for individuals aiming to keep the tariff short, clear and understandable for customers.

Package programs that aim to optimize customers' costs are one of the most recognized and appreciated products for both segments.

Increased focus on investment products development continued to be among Retail priorities aiming to offer larger number of opportunities to our customers and their savings considering the zero interest rates on deposits. A dedicated team of regional experts had the responsible task to increase the level of investment products expertise in the sales network, ensure a sustainable level of investment products sales, structured post-sales service and build up a sound customer/investor relationship, providing immediate support. In addition, we continued holding frequent and structured events for customers on related topics – Investment seminars, discussing market trends, impact, suitable investment strategies and applicable product solutions. We sustained our efforts to further increase financial literacy of our customers in terms of saving and investing in cooperation with our partners – Amundi and Allianz.

We were focused on promoting more accessible investment products to a wider range of customers, such as saving plans which require very low entry amounts for a long-term personal investment strategy. UniCredit Bulbank started to offer mutual funds under nominee concept – the most popular worldwide distribution practice. The change will allow us to enrich the product portfolio and offer different investment solutions according to customer needs.

The insurance business in 2019 was characterized by strict compliance and legal requirements at national level after IDD was transposed in the local law. The entire existing insurance portfolio was revised according to IDD requirements providing the customers with transparent and comparable information in accordance with customer`s knowledge and competence. In order to respond to the customers' needs, the development of new insurance products kept its course and several new products were implemented in the product catalogue in partnership with Allianz Bulgaria.

Retail Banking (continued)

With respect to high-quality post-sales service, investment products became part of the mobile banking service and our customers are able to check the status of their investment portfolio online.

Improving the customer experience and strengthening our relationship with the customers was still one of the main pillars of business during 2019. The governance model for customer experience management, in place since 2018, has helped us achieve significant improvement in the NPS, measured through instant feedback, across the whole network. Core messages are transparency, engagement, politeness, respect and competence. The results are monitored on a monthly basis and communicated regularly across the hierarchy vertically. To further empower the employees, a lot of attention was directed towards development of practical trainings, coaching on site and mentoring. Academy for branch managers was launched in the last quarter of 2019.

Cooperation between Retail and Corporate is considered key element for business growth. The dedicated initiative “Bulbank United” was maintained during 2019, supported by focused campaigns with customer selection and targeting, using a tailor-made value proposition. In 2019 the number of individuals with regular payments in the bank increased by 5.2%.

Synergy between the bank and the subsidiaries UniCredit Leasing and UniCredit Consumer Financing aimed at attracting new active customers kept its strong focus on providing a 360-degree service in 2019. UCFin provided a significant boost to the net growth of active customers.

Service Model

The Retail service model manages two main segments – individuals and small and micro enterprises. There are two separate segments within the individuals segment – affluent and mass customers. Distinction between them is made by using quantitative and qualitative criteria with regular annual and monthly processes established in previous years. Each segment is serviced by a dedicated commercial position, and affluent customers are included in a portfolio of limited number of customers with a personal relationship manager. The Retail branches are servicing customers from all segments, including Corporate. In 2019 we launched a new pilot service – remote relationship managers for affluent customers.

Channels Overview

In 2019 we continued to follow our strategy related to **increase of 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.

The share of active digital banking users for 2019 increased to 45% of total active bank customers and the penetration rate of active mobile banking users for the bank reached 32%.

Customer interactions kept shifting away from the physical branches to the digital channels, with the role of the mobile banking application becoming more important. The share of operations performed through different channels increased to 84.9% in total.

The multichannel sales opportunities continue to be developed and adopted by the customers. More than 27% of new cash loans for individuals, and about 30% of overdrafts and credit cards for individuals were sold through the channels – Call Center, web site, internet, mobile.

The main drivers of growth were new developments in the channels as well as strong commercial activities.

New remote processes, features and functionalities continue to be created. Using the agile methodology we were much faster in new features than before. The main digitalization initiatives throughout the year were focused on the mobile banking application. Around 23 developments were completed by the end of 2019 in the mobile banking application, such as: digital overdrafts selling, e-PIN card activation, savings plan and direct investments visualization, electronic signing of documents, Apple pay for mobile users, fast balance check, birthday greetings, etc.

Moreover, the channels result was boosted by two important big projects related to them: an entirely new design (user experience interface) of the internet banking service and PSD2 developments.

The Call Centre activity grew by more than 5% annually in terms of number of interactions and more than 28% in terms of number of sales (reaching 60 000 sales). Besides the post-selling support and customer care the major focus of the Call Centre throughout 2019 was on selling loan products for individuals – cash loans, credit cards, overdrafts, limit increase of existing loans, etc.

In addition, in the middle of 2019 remote relationship management model was launched in the Call Centre. A new sector with remote relationship managers who service their individual portfolios of customers completely remotely – via call, video or other channels and provide full range of services through them in order to guarantee unique customer experience and increased efficiency.

In line with the transaction migration strategy we managed to increase the number of locations providing 24/7 self-service areas to 51 (23% of branch network) at the end of the year. In addition, in 2019 we managed to expand our network with deposit ATMs to 151 machines (68% of UCB points of presence). Thus, we ensured 50.1% y/y increase in deposits made by the customers through BNAs and the deposit migration index reached 32.5%. The SME share in ATM deposits increased to 50.6% and the segment growth reached 83.7% y/y.

The actions dedicated to third-party network and partnerships in 2019 allowed us to keep the important contribution of this channel to the significant volumes of Retail sales of loans. In 2019 the growth of overall lending reached 36% of retail sales and especially of new sales of mortgage loans, increasing by 35% and reaching a 47% share.

UniCredit Bulbank continued to maintain efficient physical presence on the market by a broad branch network. At the end of the year it consisted of 229 points of presence in the country.

Retail Banking (continued)

Card Business Overview

Throughout the year the card business strategy was focused on increase of card usage, higher internal and external customer satisfaction in all segments via improvement of communication with all parties and simplification of product portfolio. Compliance with regulatory standards and ICO mandates was in strong focus.

The net revenue from cards on bank level registered a growth of over 9.4% y/y. Debit cards registered a 5.9% y/y growth and credit cards increased by 7.8% y/y. The number of transactions on our ATMs and POS devices by holders of cards issued by other banks registered a record growth of 30.5% y/y.

A key project in terms of reputation and strengthening the market position of UCB in digital channels and innovations was the project on enabling Mastercard cards for registration and proximity contactless payment through Apple Pay. An extremely complex development in the card management system and other applications of UCB related to the Apple Pay project opens up the great opportunity to enhance the service for Visa cards and implement issuer wallet in Bulbank Mobile for Android. This is expected to create a peak in number and volume of POS transactions in 2020.

2020 Outlook

All these achievements make us feel comfortable entering 2020 while strictly following our strategy for **digital transformation**. The focus will be on some of the key initiatives in the digital area for 2020, such as digital on-boarding of individual customers, redesign of mobile banking, increasing the share of digital sales and SME banking initiatives (digital sales for companies; SME remote relationship managers; enhanced services for companies etc.)

The further development of alternative financial solutions for diversification of customers' assets will continue to be a key focus throughout 2020. The strategic banc assurance partnership with Allianz will enhance the insurance products offer.

Strategic initiatives that will support us and improve our performance in the card risk area include the implementation of Dynamic 3D Secure password for Internet card payments which will enhance the security of all UCB cards for Internet shopping and keep us compliant with PSD 2 and RTS SCA.

Digitalization of card claim forms through the electronic channels will provide the UCB customers with an easy and quick way to file card–related claims without visiting the branch. Self-management of card transaction limits (increase and decrease) through the electronic channels is also an on-going project.

Other initiatives like strategic business trainings, on-site coaching support and a large portfolio of e-learning topics will continue to support our people development and engagement in 2020.

Increasing brand awareness and customer satisfaction, to strengthen the leading position in terms of the reputation index and to raise the level of advocacy and the net promoting score, supported by efforts into simplification of the branch network, productivity and efficiency improvement; focusing strongly on compliance and legal requirements related to customer protection will remain our key success goals.

Asset and Liability Management

In 2019, 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 is planned for 2020 either, as the Bank is able to take advantage of gradually increasing opportunities for a sound lending growth on its own, without deviating from the prudent liquidity management policy pursued so far. Since UniCredit Bulbank Group includes local subsidiaries (Leasing, Consumer Financing, Factoring etc.), the consolidated 2020 Funding Plan covers their liquidity needs, too.

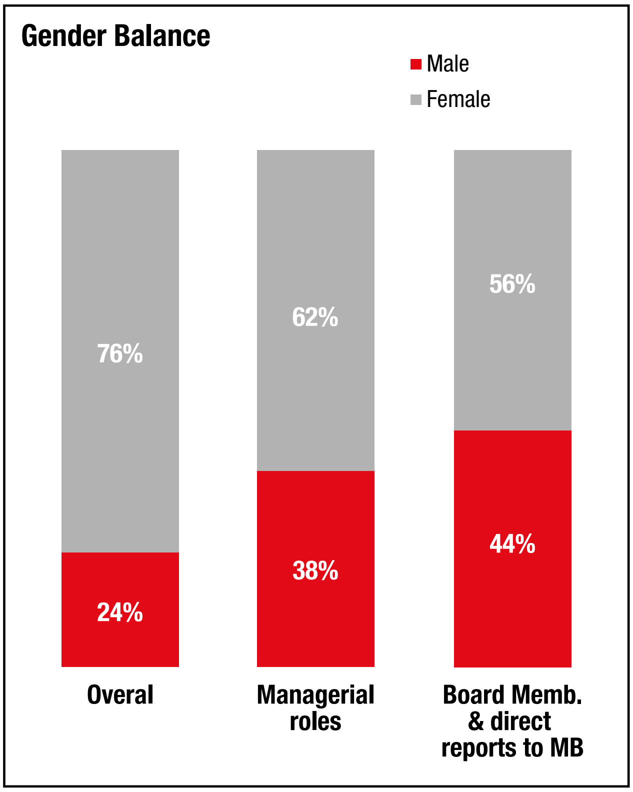
Customer deposits remained the main funding source for the Bank, growing steadily throughout 2019 and contributing to an increase of the customer deposits market share and a decrease of the loan/deposit ratio compared to 2018. UniCredit Bulbank will maintain its focus on retail and corporate deposits in 2020, too, 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 2019 or planned for 2020.

Over the course of the year 2019, 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 2019 HR department continued following its **strong human capital development** focus and promoting UniCredit Bulbank as the best place to work, a great people developer and a quality rewarder company. At the same time, targeted actions were taken in support of education in Bulgaria and manifesting our way of being an employer of choice for the employees of tomorrow. All activities were intended to support reaching the strategic goals of UniCredit Bulbank.



At the end of last year the number of full time employees (FTEs) of the Bank remained 3 555, unchanged vs the end of 2018. In terms of gender distribution, the overall proportion of female/male 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 56%/44%. Not only **gender diversity** is one of the priorities of the HR team, but it is also part of the managerial agenda across all functions. It is implicated in various internal requirements and procedures, covering not only the gender balance, but also 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 a higher education degree (over 75%).

The HR costs remained under control, keeping the conservative approach, but also being at a level that ensures competitive remuneration in comparison with the market, and also considering the positive commercial performance during the year. Dedicated compensation actions were carried out in order to be aligned with the increasing dynamics of the local labor market development and the country average salary growth. The voluntary turnover was affected a bit by the labor market situation and increased slightly from 8.3% to 8.8%, still being far below the market. Only Retail registered higher rates – 9.9%, but indeed lower than in 2018 (10.4%).

The bank continued to be considered a good place to work and a stable and reliable employer, supported by the strong brand of UniCredit. It participated actively in career events and events of students' organizations. This resulted in a sufficient number of job applications, which supported the ability of the HR Department to provide candidates for open positions. Particularly challenging, already becoming 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 labor market specifics – for example the capital city and the seaside. Almost 470 new people were hired in 2019. The major employer branding initiatives, aimed at increasing the popularity and attractiveness of UniCredit Bulbank as an employer and a good place to work, were continued: a series of lectures given by managers and experts from the bank in order to spread banking knowledge among high-school students and boost the interest for career in the banking business, scholarships for the best students from universities of economics to support the well-educated and proactive young people in the country, competitions for students (IT and banking business related). As usual, the internship program was one of the key priorities and affirmed its position of a very strong channel to feed the hiring pipeline. UniCredit Bulbank conducts probably the largest internship program on the local market with around 250 participants; around 70 of them have been hired for permanent jobs (including in the subsidiary companies). Thus, the program is one of the key sources for recruiting new employees. These initiatives are also an expression of the socially responsible approach of the bank towards society. It gives students opportunities to obtain practical knowledge and experience, thus increasing the quality of their education and giving them better chances.

The compensation policy was in line with the Group approach and with the European and local legislative requirements. Market trends were closely monitored through participation in a 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 as well as meeting the challenges of higher turnover and local labor market macroeconomic trends. The actions in the area of compensation proved to be efficient as they contributed to the successful management of the voluntary turnover – only slight increase and keeping it below the market trends despite the very challenging labor market and demographic situation in the country. The benefits portfolio is of top class and is an important additional factor for attracting and retaining employees.

The HR Department maintains the focus on fostering employee engagement by encouraging meritocratic and instant feedback-driven environment, sustaining a focused talent-oriented culture for growth of future leaders, increasing awareness and understanding

Human Resources (continued)

of career development opportunities in the company and last but not least by creating various cross learning and sharing experience opportunities for our people. In 2019 the focus on fostering our employees' professional and personal growth was again at the core of our people development strategy, supported by various continuous and also brand new initiatives. We keep a sustainable number of overall training hours per employee, as the percent of e-trainings is continuously increasing in line with our strategy for developing digital awareness culture and skills. We continue diversifying our internal and external training portfolio with new and innovative learning solutions, leveraging on innovative and creative learning instruments and different kinds of blended learning. Our innovative education strategy has been supported also by the newly established data science community of professionals in different areas in the organization, and a special data science academy. It was expanded to further strengthen the skills in that area. Following our strive to further foster the curiosity and self-driven development of our people, we provided 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, and can visit voluntarily other structures to understand more about the activities there. All these initiatives aim for further increase of our employees' satisfaction and engagement to the company.

We continued with the career consultation services for our employees realized through individual career coaching meetings available for all employees. This initiative aims at strengthening transparency of career and development opportunities; helping employees identify the concrete steps needed to take the next career step and explore better the career opportunities in the Bank; contributing to fulfilling employees' needs to be supported by the Bank in their development and increasing people engagement. In order to additionally support our employees' professional development we also enlarged our mentoring program with more mentors, so that we can offer this development opportunity to more people. The encouragement of meritocratic and feedback-driven environment has been further fostered and strengthened by implementing a mobile app for instant feedback that is measuring the employee engagement and motivation through collecting everyday feedback. In parallel, we continue promoting the usage and benefits of cross-functional feedback opportunities as part of our performance management system. We sustainably develop our initiative "LIVE Motives", which is designed to enhance the personal growth of our employees and to support their abilities to manage successfully the dynamics in their professional and personal life and which enjoys a continuous and intense interest and positive feedback from our employees. Other groups of actions, facilitating professional excellence, practical learning and growth, were the ongoing trainings for financial analysis/modelling/corporate structured finance for CIB and Risk structures, the brand new Retail Branch Managers Academy, "Meet to learn" for GBS, numerous trainings on working with our new core banking system, etc. Compliance and Security related topics have been another tangible part of the training agenda for 2019.

The **leadership development** was another key pillar for sustainable people and business development represented through initiatives supporting 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.. The efficiency of these initiatives was proved through the rate of internal promotions to managerial positions, which is more than 90%.

Our continuous initiatives on the internal employees' community were accompanied by a focus on external communities. In this direction, we continued to develop the "WoMum" initiative, aimed at supporting the community of mothers that are about to come back to work after maternity through increasing their communication and selling skills, financial awareness and last but not least their confidence and agility. An important external acknowledgement for "WoMum" in 2019 was the 2nd place for "Project with an educational focus in the business sphere" of b2b Media Awards.

An acknowledgment of the high quality of HR practices is the **Top Employer award** given by the Top Employers Institute based in the Netherlands, which was awarded to the bank for a fourth 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 HR department, as well as a solid base to build our image as an attractive employer, providing excellent conditions to its employees.

In 2020 HR Department will continue to act as a trusted consultant for sustainable business and leadership growth, to empower the positive attitude and culture and to strengthen the open communication with our colleagues and local communities. Employer branding initiatives will continue in order to maintain the good image as an employer. New HR initiatives will be launched in order to ensure premium employee experience for our people.

Global Banking Services

2019 marked several successful milestones in our ambition of delivering a sustainable change through process redesign and through a portfolio of new project initiatives aiming at assuring both innovation and business growth, as well as compliance with the regulatory framework.

During the year, we have successfully finalized the project for upgrade of our core banking system, FlexCube 12.4, which sets the ground for a higher speed of service, improved flexibility and capability in the area of IT innovations, as well as improved customer service.

Our actions were aiming at delivering a continuous boost on the business growth and innovation side with the following focus areas:

- **Improving customer experience through our digital channels** with a multi-million investment in new features in our leading Mobile Banking application;
- **Launching multiple new services, including ApplePay;**
- **Business analytics and data-driven** (Big Data) solutions to support delivering more **focused and tailor-made services to customers;**
- **Speeding up the lending process** and other processes improvements.

In parallel with the business focus, we successfully implemented heavy regulatory-driven projects in the area of data protection (GDPR) and open banking (PSD2) in due time opening a whole new horizon of business opportunities to be exploited in the way we use and manage data and the overall banking experience we deliver to our customers.

In 2019 we boosted significantly our investments in the area of ICT Security. Among many other cyber-security initiatives we deployed industry-best solutions for identity and access management, data leakage prevention, security information and event management, data encryption, network security and other.

Outlook

The success described above confirms our ability to execute and deliver the newly-defined strategic plan 2020-2023 called "Team 23".

Beyond our commercial focus our plan embeds:

New way of working: in priority areas, we will dedicate fully committed teams, leveraging on the agile methodology (E2E), to assure the utmost attention to customer needs, end-to-end improvement of business processes, speed of delivery, boost of innovation mindset.

Priority value streams are further boost of digital channels; speed in lending processes for companies; become a paperless bank; apply the easiest customer on-boarding experience to our customers and other.

Focus on Information and Communications Technologies (ICT)

In 2019, ICT achieved the target for upgrade of the core banking system and establishment of a customer layer development. Migration was done in 48 hours without downtime and without performance degradation due to the technological approach applied for setting the different application layers. Daily operations and EOD duration were decreased up to 3 times. Post go live support was effective, recovering all raised issues in a timely manner and with no major or critical incidents and impact on business and operations.

Redesign of monolithic systems continued ensuring PSD2 compliance and readiness for business opportunities realization. The first system based on containerization and micro services was implemented.

Security technological initiatives were a priority in 2019. On top of other regulatory solutions, UCB perimeter firewall infrastructure was upgraded to Next-Generation CheckPoint FW. Sandblast solution was integrated with mail and web gateways providing the ability to analyze wide-ranging file types and web objects and malwares.

Business Continuity Management and Disaster recovery capabilities were improved with the establishment of a 3rd copy of critical data in a long distance Data center.

As a base for adoption of new ways of working (Agile and DevOps methodologies), automation of testing was significantly enhanced, supporting the execution of huge volumes of test scenarios for the core system upgrade.

In parallel with the significant technological and business related changes, the KPI targets for the critical services were kept on a very high level – 99.93% availability, which clearly shows that the bank was operating in a stable and predictable production environment.

Focus on Operations

In close alignment with the bank business ambitions and strategic goals Operations department contributed by improving productivity and efficiency by more than 5%, including operational excellence and cost optimization.

Notwithstanding the constant volume growths (in payments, cash, loans, funds distribution and cards operations), we managed to assure the adequate production capacity covering demanding KPIs and SLAs set with top priority customers in all segments, where breaches and claims are handled with priority.

The main achievements during the last year were clustered around the high quality and business continuity of services, best-in-class internal customer satisfaction, on the top of operational risk free transaction execution, thus assuring proper support to the bank's business development.

Leveraging on the extensive expertise, collaboration and accountability for results, several important priorities were managed, such as upgrading the bank core system, coping with the regulative and compliance requirements emerging from PSD 2, GDPR, EMIR reporting, SEPA and Target consolidation.

In line with our desire, drive and strong ambition to address efficiency demand we managed to establish an RPA (Robotic process automation) excellence team leveraging on agile and LSS approach to process optimization, thus preparing the baseline for the bank's future AI automation plans.

Global Banking Services (continued)

Focus on Real Estate and Logistics

In 2019 our Real Estate strategy and execution efforts, in line with the priorities of the business divisions, were finding the best locations for the business and working on further transformation of branches into "Branches of the Future". Among the most significant projects delivered during the year were the full redesign and reconstructions of some of our largest business centers: Sveta Nedelya Business and Corporate Center, Varna Cherno More, Plovdiv Ivan Vazov and others.

The focus for 2020 is on the strategic alignment between the priorities of all structures of the bank related to the Real Estate Project Portfolio and on the better planning and execution of projects. In parallel, REL target is to support all initiatives related to the digitalization of the bank and the optimal usage of available resources – for example paper usage reduction, options for energy efficient technologies etc. Constant efforts will be focused on efficiency and cost optimization initiatives.

Chief Data Office

The development of the data and information governance area continued to be a focus for the bank through the year. Data and information governance is viewed as a long-term program aimed at ensuring the main pillars for data and information governance are in place in the organization, such as data ownership, data quality, data dictionary, etc.

Efforts were made in the direction to define data ownership on a lower level for several key data areas of the bank, which are to continue in 2020, according to the data governance roadmap, which lays out the steps and targets for development in the field for the next years, and is an important part of the bank's data and information governance framework.

Implementation of a data governance tool was also launched in 2019.

Customer Satisfaction Management

In the course of the **successfully executed Transform 2019 and the upcoming Team 23 Plan**, customer centricity and the focus on improving the customer experience remain one of the main strategic pillars when it comes to the mission of UniCredit Bulbank.

Stakeholder and Service Intelligence (S&SI) Unit carries out a high volume of projects to support the execution of Team 23 Plan, leveraging on customer insights (mainly via Net Promoter Scores) and better prioritization of initiatives to enhance the customer journey. S&SI unit is continuously adopting new ways of working and methodologies to optimize processes, enhance the customer experience and deliver further efficiency gains. The main focus is to actively identify the business issues to be addressed, synthesize from disparate sources to provide a comprehensive view on the customers' needs and marketplace as well as to provide actionable insights.

In 2019, the S&SI unit was focused on utilizing insights from external and internal Customer Satisfaction, Mystery Shopping, Instant Feedback and other surveys among external customers and employees to drive innovation and support mid- and long-term strategic decisions and business model development.

External Customer Satisfaction

In **Retail Banking**, nearly 1 100 existing customers and 2 000 prospective customers among individual customers were interviewed for the purpose of obtaining a valuable feedback and reliable benchmarking to competitors in the area of customer satisfaction. Important topics such as recommendation, satisfaction, preferences in regard to banks, attrition risk, cross-selling, acquisition potential and other were covered.

The main metric for monitoring the customer experience was Net Promoter Score.

The results for individual customers in 2019 show a NPS of 29 points (+6 points, a significant increase y/y), which is by 5 points higher than the average results of the competitors.

To support the local programs related to customer experience with relationship management, during the year, the S&SI team provided results on NPS and Satisfaction for Individual and SME clients, based on more than 12,000 interviews among clients with a dedicated Relationship Manager. The average NPS for Individual clients is 47 points (4 points increase y/y) and 48 points for SME clients (4 points increase y/y).

In the Corporate segment, UniCredit Bulbank's NPS is 30 points (+ 7 points increase y/y and 22 points above the competitors).

Instant Feedback

In the context of an organization, which aims at becoming increasingly customer-centric, our ability to collect and act upon the voice of the customer in a structured way is one of the key enablers to excel in the customer experience.

In 2019, UniCredit Bulbank succeeded to collect more than 31 000 valuable feedbacks about customers' experience through different channels and touchpoints. The results show very positive trends during the year. Retail branches achieved a NPS of 70 points compared with 62 points in 2018.

In addition to the initiatives within Retail and Corporate Banking, in 2019, UniCredit Bulbank continued to monitor the mobile banking users' experience, where NPS is 63.

This year, Bulgaria was nominated a pilot country in CEE for implementing an Instant Feedback platform. With this initiative, UniCredit Bulbank will enable constant improvement of the customer experience through data collection, advanced analytics, CX design and strategy as well as case management through a Close-the-Loop possibility.

Mystery Shopping

In 2019, several scenarios for individuals (credit card, overdraft, insurance) were conducted. The results were monitored by all branch and regional managers as well as all the responsible managers from the Head Office of the bank via an online platform.

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 the structures within the bank. Therefore, an Internal Customer Satisfaction Survey was conducted for the tenth consecutive year. The Cooperation and Synergies Index, measuring the level of cooperation between the structures and the effort they put into dealing with each other, increased up to 69, with a gap of +2 points y/y, confirming a high level of satisfaction and engagement in the daily communication and support to the colleagues within the bank.

Reputation Management

The reputation of UniCredit Bulbank remains at the peers' level for corporate clients, and in the Individuals segment, the bank outperforms its peers.

The bank is considered to be solid, innovative and strategic for the country by both existing and prospective clients, working in a professional manner with clients and being a trusted partner.

Strategy/Outlook for 2020

- Development and management of a NPS system across the bank, spreading a customer-centric culture and expertise to achieve the strategic goals of Team 23 Plan.
- Actively leveraging on information (custom research, analytics, customers' feedback and insights) to develop a holistic market and consumer understanding that is actionable and impactful.
- Delivery of knowledge that is integrated and synthesized to provide clear business recommendations within the launched E2E rooms and thus ensuring potential opportunities are grounded in understanding consumers and their needs.

Corporate Social Responsibility and Sustainable Development

In 2019, **UniCredit Bulbank reaffirmed its leading position** not only in terms of the key financial indicators, but also as an institution that strives to support significant initiatives and to be a responsible corporate entity. The bank became a main partner of several projects in the area of education and innovations, art and culture, business and social entrepreneurship. In this way, UniCredit Bulbank demonstrated its commitment to pay due regard to the importance of its impact on society and the environment and to operate responsibly.

Education and Innovations

The focus on education and innovations is constantly present in the corporate social responsibility of UniCredit Bulbank. Among the numerous projects, the following stand out:

- UniCredit Bulbank provided support to the eighth edition of the official award ceremony for "2019 University Ratings in Bulgaria". It was organised in collaboration with Open Society Institute Sofia, the Ministry of Education and one of the Bulgarian daily newspapers.
- Once again, the bank was a partner of the TEDx event, organized by the students of the American University in Bulgaria (TEDxAUBG).
- The innovative science festival called "Ratio", which has the aim to show the beauty, mystery and inspiration, which science creates in the world around us by presenting scientific topics in understandable terms was yet another project supported by the bank;
- UniCredit Bulbank was a main partner of the Innovations Financial Forum, organised by the Bank of the Year Association;
- For another consecutive year, the bank funded the artistic journey of institutionalised children who portrayed their experiences in drawings. The initiative was organised by the Order of Malta.
- DigitalK was one of the leading European events for digital transformation, a forum gathering together influential people in technology, inspiring, ambitious entrepreneurs and representatives of corporate organisations who strive to support innovative projects. UniCredit Bulbank was the official bank of this authoritative forum.
- The InnoStart forum, which was organized by the American Chamber of Commerce in Bulgaria welcomed more than 320 guests from Bulgaria, Israel, USA, North Macedonia and Serbia. It was attended by representatives of the business circles, politicians and social leaders, start-up companies and other institutions, and the main topic of discussion was credit risk management. UniCredit Bulbank AD was one of the leading partners of the event.
- The bank supported also the Education 2030 initiative, hosting the first meeting with school headmasters.

Voluntary Initiatives

In 2019, the traditional Christmas and Easter charity bazaars took place with the involvement of bank employees at various locations. The proceeds from those events are donated to charitable causes, proposed by the employees themselves.

Art and Culture

The partnerships of the bank in various initiatives in the area of art and culture continued through its hosting activities at the space for contemporary art and community meetings, UniCredit Studio. In the pursuit of its mission to provide support to young talents, this art space in the center of Sofia made it possible for many artists to present their work in 2019.

In March, at the Studio, a provocative exhibition was displayed, dedicated to the virtual reality, under the title "VR=TR?".

In April 2019, the Studio opened its doors to the works of Vihren Georgiev, "People of Sofia", as part of the sixth edition of the international festival "Fotofabrika" – contemporary and reportage photography. The bank has been supporting the organizing of the festival for several years now.

UniCredit Studio was the host of the event presenting the award-winning authors in the Stoyan Kambarev Flight in Art competition.

In the middle of the year, the tenth commemorative edition of the Month of Photography was held, once again supported by UniCredit Bulbank. The Copy/Paste photographic exhibition by Kseniya Margaret, as part of the festival, was presented at UniCredit Studio.

For a third consecutive year, UniCredit Bulbank supported the International Book and Movie Festival CineLibri, organized by Colibri publishing. The festival takes place in ten cities in Bulgaria.

Another notable partnership on the cultural arena was the support for the Camerata Orphica concert cycle.

Business and Social Entrepreneurship

An important business event during the year was the ICAP conference with its discussions, summarizing the last decade, marked by challenges, economic crisis and insecurity.

How Bulgarian companies managed credit risk in the last ten years and what is the current economic situation in the context of automation and digitalization of products and services were some of the topics discussed at the conference on credit risk management.

In 2019, UniCredit Bulbank continued its support to one of the most significant initiatives of the Bulgarian Council of Women in Business – the Leadership Academy. The initiative is focused on women working in the SME segment and middle management staff, aiming at enhancement of the leadership and management skills of the participants.

Another event that was carried out with the support of the bank was the Ambassadors Meeting, organised by the Bulgarian Business Leaders Forum (BBLF). The meeting had strategic importance and the main discussed topic was the forthcoming accession of Bulgaria to the Eurozone.

As a sponsor of the specialized Sound of Money Financial Forum,

Corporate Social Responsibility and Sustainable Development (continued)

UniCredit Bulbank promoted the improvement of the financial culture of society.

The commitment of the bank to the technological development was confirmed by its sponsorship to the IT Manager of the Year ceremony, which distinguishes the best achievements in this area.

The technological topic was in the focus also of two other events, supported by the bank – Digital Trends and Industry 4.0, the latter of which was held in Plovdiv.

In line with the tradition reserved for UniCredit Bulbank, the bank maintained its position as a valuable partner of numerous high-level initiatives and conferences of the business chambers operating in Bulgaria such as the Austrian Business Circle (ABC), the German-Bulgarian Chamber of Industry and Commerce, Confindustria Bulgaria, the Bulgarian Business Leaders Forum, etc.

UniCredit Bulbank took part in the search for and the financing of the Best Social Entrepreneurship Programme for NGOs in Bulgaria. This annual competition is initiated by the Bulgarian Center for Not-for-Profit Law and has the aim to foster the entrepreneurial spirit within the non-governmental sector so that foundations find a sustainable way to fund their activities. Besides its financial support, the bank facilitated the initiative through the involvement of some of its employees as mentors of the foundations.

Social Impact Banking (SIB)

During the year, UniCredit Bulbank started its programme for social impact banking and the first few projects were realized.

The SIB project demonstrates UniCredit's commitment to build a more equitable society with greater opportunities for social inclusion. Its aim is to identify, provide funding and encouragement to people and enterprises that may have a positive social impact. The project aims to generate economic return on the Group's investments as well as bring greater social benefits. In addition to providing an opportunity to be involved in projects and organisations, which are generally excluded from the traditional banking products and services, social impact banking activities allow UniCredit to share its financial and business expertise through educational initiatives dedicated to micro entrepreneurs, social enterprises and vulnerable groups, including youths, adults and other people who are at the risk of social exclusion.

The commitment shown by UniCredit's employees is the main driving force of the training and support activities that are provided in relation to social impact banking, which helps to build valuable relations between the communities where the bank operates and allows people to share positive experiences and increase their awareness of relevant projects in order to accelerate their potential social impact.

In 2019, UniCredit Bulbank took the first few active steps towards the development of this Group initiative by signing partnership agreements with Teenovator and Junior Achievement Bulgaria.

In addition, a large number of colleagues from the bank were engaged as volunteers and delivered lectures to students, thus helping to expand their financial culture. This initiative is called "Practical Finance".

Major Subsidiaries and Associates

UniCredit Consumer Financing

2019 was another year in which the consumer lending market continued to grow at a significant pace. Once again, the operating environment remained unchanged (record low interest rates and fierce competition). Despite the market pressure, UniCredit Consumer Financing EAD (UCFin) closed the year successfully, reporting a moderate growth in total operating income (6.1%), while due to risk methodology calibration and prudential coverage of other risks, net profit shrank by 25.1%.

The revenues reached BGN 150.4 mln (+6.1% y/y), with net interest income (NII) being the usual main contributor with a share of 84.5%. The three channels (Banking, POS and CVM) kept their steady performance, with NII coming from the banking channel preserving its dominant position (67.1% from the total NII for 2019). The operating costs of UCFin for 2019 amounted to BGN 20.4 mln. (+7.1% y/y). Cost growth was entirely volume driven. For another consecutive year, UCFin carried on with its prudential risk management policy, optimizing the revenues, while keeping the risk costs unchanged. Impairment cost shifted to a normal level and comparison with the previous year is irrelevant because of IFRS 9 first-time adoption.

The company maintained a high quality of the loan portfolio, resulting from methodical underwriting activities and outstanding collection performance. As of December 31, 2019 performing loans portfolio was stable, representing 98.7% of the total outstanding loans. During the year, the outstanding portfolio increased by 16.9%, driven by an overall increase in new volumes by 6.6%. POS financing continued to be the major customer acquisition engine for the company and the growth of new sales in that channel (+7.4% y/y) were strong enough to position again the company as the number one in the segment.

In 2019, UniCredit Consumer Financing EAD continued the combined commercial activities with the bank, focused on acquisition of new clients and cross-selling, strategically promoting mobile banking and the alternative channels. During the year, the company carried on with Customer Value Management (CVM), commercial activities focused on banking clients as well as on POS customers. Both resulted in an outstanding CVM performance (43.7% growth y/y) with a record-high amount of new loans (BGN 227.5 mln). In 2019, CVM sales account for 20.6% of the total sales, up from 15.3% in the previous year.

In 2019, the company successfully migrated together with UniCredit Bulbank AD to a new core IT system. The migration was successful and with no critical post-migration issues and no business disruption.

In 2020, the growth of the economy is expected to be at a slower pace and the competition among the banking and non-banking players to remain fierce. The company is committed to improving its internal processes and making them more efficient, where possible. In the light of this, some of the goals for 2020 will be automation and process simplification, engaging opportunities arising from RPA (Robotic Process Automation) and LSS (Lean Six Sigma). A main focus during 2020 will be the launch of a new product.

UniCredit Leasing

In 2019, UniCredit Leasing's consolidated net profit reached BGN 14.1 mln, marking a 23.3% increase compared with 2018. Total revenues are on the increase y/y by 3.7%, up to BGN 35 mln. Net financing has grown by 11.7% compared with the previous year, up to BGN 946 mln.

In regard to Risk Management, a continuously positive trend of asset quality improvement is manifested. Gross defaulted loans decreased by 15.6% y/y down to BGN 47 mln in December 2019 (vs. BGN 55.6 mln a year earlier). The share of defaulted loans is 4.7% at the end of 2019 (vs. 6.3% in December 2018). At the same time, gross performing loans increased by 13% y/y in 2019, reaching BGN 958.5 mln.

The improvement in terms of performance and efficiency continued in 2019. The number of signed new leasing contracts grew by 9.4% and reached 4 819 new contracts, increasing the total volume of the financed amount.

UniCredit Leasing has kept its leading market position, facilitated mainly by the excellent collaboration and cross sales with UniCredit Bulbank and the strong cooperation with international vendors of equipment and car dealers, resulting in improvement of the product portfolio. The main drivers for the sound performance are found in the following areas:

- Manufacturing sector: UCL has a strong market share, supported by:
  - The positive development of the construction sector and the launched infrastructural projects facilitated new leasing opportunities.
  - UCL and UCB together provided structured solutions for international clients – leasing plus all the relevant banking products and services. The significant number of foreign investments, especially in the export-oriented sectors, additionally enlarge the client base for this product mix.
- Transportation sector: UCL has been traditionally strong in this sector, keeping its leading market position. The financed amount under newly signed leasing contracts in the transportation sector remains stable. Car dealer cooperation attracted new clients and the adequate pricing policy contributed to this result.
- Agricultural sector: UCL is the market leader, supported by cooperation with leading vendors in the agricultural machinery cluster and flexible financial products.

UniCredit Insurance Broker strengthened further its position as a leading provider of insurance and brokerage services in the Bulgarian market. The close cooperation with UniCredit Leasing, UniCredit Factoring and CIB resulted in a 10% growth of broker revenues and net profit increased by 9% to BGN 7.1 mln. The current insurance portfolio of UCIB amounts to 63 000 policies which generate BGN 51.4 mln of gross written premium.

UniCredit Factoring

For UniCredit Factoring EAD (UCF), 2019 was a year of stable market environment and good potential for growth of factoring business. The

Major Subsidiaries and Associates (continued)

company continued with the positive trend of development, enlarging and diversifying the client portfolio and penetrating the market, achieving a significant growth in terms of business generation and main KPIs. The increase of the company's outstanding debt by 24 % on average y/y and the strong commercial focus on boosting the utilization level were the main drivers for interest income generation in the situation of a continuous downtrend in the margins. The factoring business volumes grew by 12% y/y, which resulted in a growth of net commission revenue by 7.5% y/y. The local competition in the market was mainly oriented to possibilities of optimizing price conditions for the clients, giving an advantage of simplified services and opportunities for their customization, following individual demand.

The volumes of the domestic factoring solutions continue to have the greatest share in the factoring portfolio, registering a significant growth in non-recourse factoring products by ~44% y/y. The positive trend of development of the international factoring business, influenced by the clients' demand for sophisticated services, resulted in a well-diversified portfolio and growth of international business by ~9% y/y. The company relies on its excellent expertise in the international area, very good practices within UC Group and worldwide partners within FCI as a major factoring business network. In 2019, easy and transparent processes positioned UCF at the top of clients' preferences.

The full digitalization of the factoring services and customized solutions through the web-based factoring platform eFactoring.bg continued to be an advantage for the company compared to the local competitors in the market. During the whole year, UCF continued to work on application enhancements, providing smooth, easy and transparent process at every stage of the factoring transactions, making it even more comprehensive and useful for clients. The growth in electronically assigned turnover in every consecutive year confirms clients' choice of using the platform and reaffirms the benefits for the company and its counterparties.

In terms of penetration in the market sectors and industries, UniCredit Factoring continued to reaffirm its leading position in economic sectors traditionally strong for factoring, such as trade and production. The good practices of factoring opportunities with suppliers of services to public institutions, agencies and municipalities continued in 2019 as well. In terms of foreign markets, the attractive EU economies and the neighbouring markets' opportunities presented an environment for further penetration and good business generation and were preferred markets for growth in international business. UCF successfully answered the demand for sophisticated factoring services and increasing business opportunities, while maintaining a strong risk policy and discipline amid increasing regulatory requirements, leveraging on the synergy with UniCredit Bulbank.

In 2020, the company will continue to enlarge its client portfolio, offering and providing simple but flexible solutions, which is the right approach for client acquisition. The trend of increasing client demand for factoring products is expected to continue and it creates good conditions for business generation and further growth. During the year, key drivers for the business will be diversity of the product portfolio, fully digitalized products, further enhancements of the web-based factoring platform and the best expertise in the area of receivables financing, which the company will continue to leverage on. The speed and transparency as well as the high quality of the services are considered to be market advantages and opportunities for a leading position and achievement of business goals.

UniCredit Fleet Management

UniCredit Fleet Management EOOD is a non-financial company specialized in providing **full service operational leasing** to external clients, as well as transport and fleet management services to companies within UniCredit Group in Bulgaria.

In 2019 the motor vehicles which are under the managemnt of the company increased by 40% while the client base increased on a annual base by 35% based on active customer targeting approach through participation in **numerous tender procedures**, as well as active targeting and **penetration within the customer portfolio of UniCredit Bulbank**. The product offers excellent opportunities for risk diversification and serves as solid ground for expanding the portfolio of offered valuable financial products and services by UniCredit Bulgaria to its customers.

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 Shareholders:

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

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

Corporate Governance Declaration (continued)

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 2019 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) Investment committee

To make transactions preselection and an in-depth analysis over the different projects prior to the formal decision making which is going to take place on a dedicated Management Board (MB) level. Cover all deals related to venture capital arm – investments in startups and later stage companies, where the supporting facility is a convertible loan.

(xv) 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.

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

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

(xvii) 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.

(xviii) 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.

(xix) 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.

(xx) Disciplinary Committee

Corporate Governance Declaration (continued)

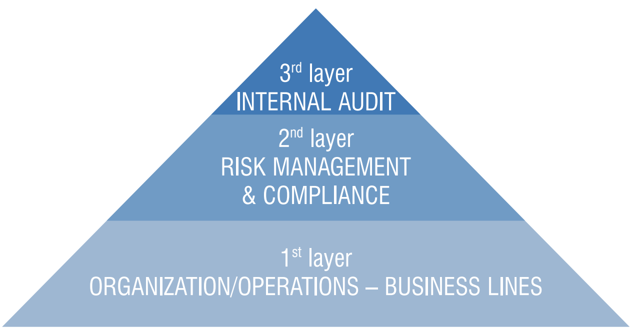
The Disciplinary Committee is the body that examines and analyses the collected evidence, ascertaining a breach of discipline / material liability of the defaulting employee and fault.

(xxi) Quality Assurance Committee

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

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.

Information on proposals for acquisitions/ mergers in 2019

As at the end of 2019 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 2019 on an individual and consolidated basis.

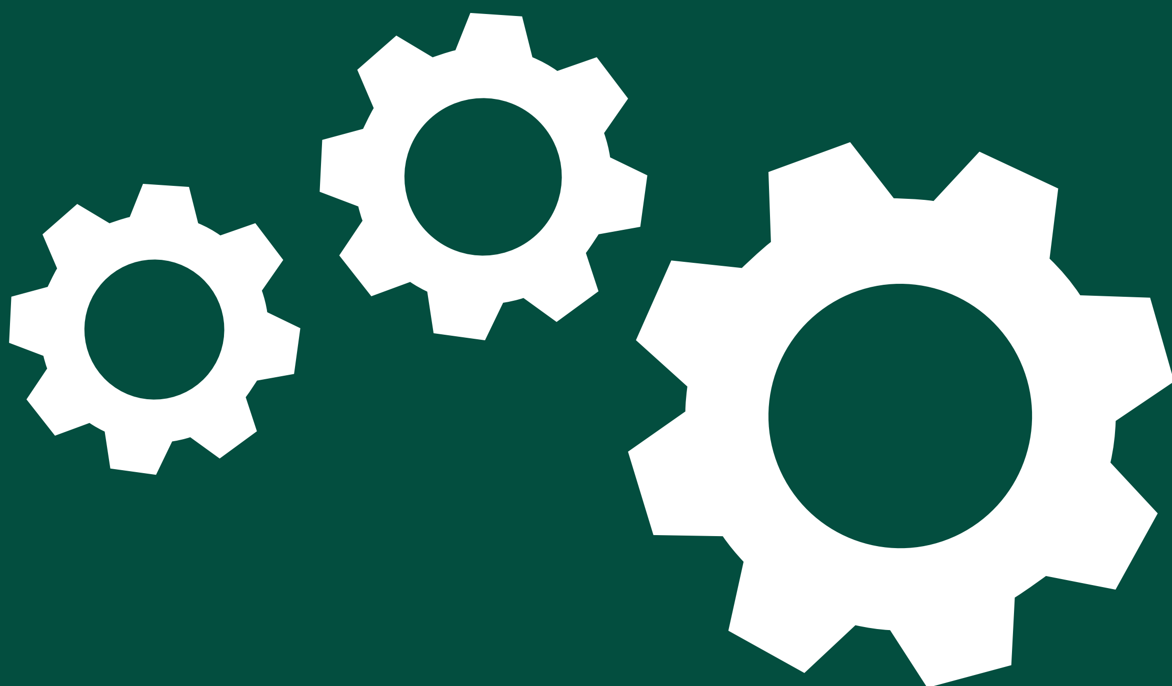
For UniCredit Bulbank AD:

Teodora Petkova	Septimiu Postelnicu
Chairman of the Management Board and Chief Executive Officer	Deputy Chairman of the Management Board and General Manager

Grow and strengthen client franchise.

Team 23 focuses on strengthening and growing our client franchise across all segments: SMEs, individuals and corporates.
Our strategic initiatives focus on the customer experience, to improve customer satisfaction and service quality. This is how we will increase our Net Promoter Score at Group-level.

Transform and Maximise Productivity.



Our customer focus drives the right process optimisation, leading to new ways of working. We will continue to maximise productivity across the value chain, improving processes and products while minimising operational risk. A great example of our transformation is the paperless bank, currently being rolled out across our networks.

Independent Auditors' Report

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, 2019, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources. 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. The assessment of classification to impairment stages is a result of combination of relative and absolute factors: • Relative comparison between the probability of default at the original date of the receivable and the date of financial statements, • Absolute factors such as limits set by related regulations (30 days past due or 90 days past due), • Other factors with internal relevance for the Bank (such as forbearance or watch list classification). The expected credit losses are calculated using available historical data and anticipated future development determined by using macroeconomic indicators. 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. For loans of individual financial significance as per the Bank's policy impairment assessment aims at calculating the exposure's recoverable amount and	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. We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances for the significant loan portfolios. 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: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We involved auditors' experts in the areas which required specific expertise. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment on a sample of exposures based on the risk parameters resulted from the models. On a sample of exposures we evaluated appropriateness of impairment methodologies and their application. We formed an independent view on the levels of impairment allowances required by examining available external and internal information. We developed own expectation regarding impairment of loans and advances to customers as at December 31, 2019 and comparison of this expectation to impairment recognized by the

compares it with the gross carrying amount in order to quantify the impairment allowances. As described in note 26 to the separate financial statements, the Bank has recorded as at December 31, 2019 impairment allowances on loans and advances to customers amounting to BGN 554,674 thousand. 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, we identified impairment of loans and advances to customers as a key audit matter.	management and reported in the financial statements. 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. We analysed 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, the valuation of collaterals, and other factors that may affect the recoverability of loans. 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 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 (ICPA) 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 and Public Offering of Securities 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 Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 4, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

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

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

Information in accordance with Art. 33 of Ordinance 38/2007 and Art. 11 of Ordinance 58/2018 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries

- Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 of FSC regarding the Bank's activity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- 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 December 31, 2019 by the general meeting of shareholders held on April 09, 2019 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2019 represents seventh total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and third 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, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- 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 Bulgaria EOOD (an entity part of the Deloitte network) solely has provided to the Bank the following services which have not been disclosed in the Bank's management report or separate financial statements:
  - Assistance in performing a review of the Bank's readiness in view of Asset Quality Review (AQR) requirements as per AQR Manual issued in June 2018 by the European Central 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, 2018, 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, 2018 and December 31, 2019. 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, 2018 and December 31, 2019. 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 3 months ending March 31, 2019, the 6 months ending June 30, 2019, and the 9 months ending September 30, 2019. 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. Stambolijski Blvd
Sofia Tower (Mall of Sofia)
1303 Sofia, Bulgaria

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

Krassimira Radeva
Statutory Manager
Registered Auditor, in charge of the audit

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

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

March 6, 2020

Income Statement

In thousands of BGN

	Notes	2019	2018
Interest income		420 747	437 575
Interest expense		(36 786)	(36 866)
Net interest income	7	**383 961**	**400 709**
Dividend income	9	**119 527**	**115 543**
Fee and commission income		269 526	260 292
Fee and commission expense		(32 540)	(28 078)
Net fee and commission income	8	**236 986**	**232 214**
Net gains on financial assets and liabilities held for trading and hedging derivatives	10	98 737	96 902
Net gains from financial assets mandatorily at fair value	11	4 144	2 094
Net income from financial assets measured at FVTOCI	12	33 819	25 145
Other operating (expenses), net	13	(64 065)	(59 588)
TOTAL OPERATING INCOME		**813 109**	**813 019**
Net income related to property, plant and equipment	14	2 941	5 406
Personnel expenses	15	(135 516)	(127 471)
General and administrative expenses	16	(98 234)	(95 913)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	(35 833)	(30 495)
Provisions for risk and charges	18	(7 411)	(43 206)
Net impairment loss on financial assets	19	(79 557)	(57 000)
PROFIT BEFORE INCOME TAX		**459 499**	**464 340**
Income tax expense	20	(34 393)	(35 222)
PROFIT FOR THE YEAR		**425 106**	**429 118**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 29, 2020.

Teodora Petkova
Chairman 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
06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor,
in charge of the audit
06.03.2020

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.

Statement of Comprehensive Income

In thousands of BGN

	Notes	2019	2018
Profit for the year		**425 106**	**429 118**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)	38	(1 210)	(888)
Revaluation reserve on properties	29	78 928	-
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(7 772)	89
		69 946	**(799)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities at fair value through other comprehensive income		6 402	(97 607)
Cash flow hedge		(6 763)	57
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		23	9 850
		(338)	**(87 700)**
Total other comprehensive income net of tax for the year		69 608	(88 499)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**494 714**	**340 619**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 29, 2020.

Teodora Petkova
Chairman 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
06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit
06.03.2020

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 Financial Statements (continued)

Statement of Financial Position

In thousands of BGN

	Notes	31.12.2019	31.12.2018
ASSETS			
Cash and balances with Central Bank	21	2 065 166	2 457 234
Non-derivative financial assets held for trading	22	39 090	31 946
Derivatives held for trading	23	68 327	57 942
Derivatives held for hedging	24	226	496
Loans and advances to banks	25	3 754 103	2 286 612
Loans and advances to customers	26	11 643 963	10 488 474
Investment securities	27	3 595 260	3 736 749
Investments in subsidiaries and associates	28	55 479	55 004
Property, plant, equipment, rights of use assets and investment properties	29	254 910	145 093
Intangible assets	30	67 407	45 257
Deferred tax assets	32	-	3 963
Non-current assets and disposal groups classified as held for sale	33	2 324	-
Other assets	34	92 805	105 809
TOTAL ASSETS		**21 639 060**	**19 414 579**
LIABILITIES			
Financial liabilities held for trading	35	53 677	31 206
Derivatives used for hedging	24	90 688	56 901
Deposits from banks	36	660 687	478 028
Deposits from customers and other financial liabilities at amortized cost	37	17 706 409	15 808 075
Provisions	38	105 049	97 660
Current tax liabilities	31	3 662	2 395
Deferred tax liabilities	32	4 546	-
Other liabilities	39	119 410	110 057
TOTAL LIABILITIES		**18 744 128**	**16 584 322**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		217 235	147 627
Retained earnings and statutory reserves		1 966 814	1 967 735
Profit for the year		425 106	429 118
TOTAL EQUITY	40	**2 894 932**	**2 830 257**
TOTAL LIABILITIES AND EQUITY		**21 639 060**	**19 414 579**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 29, 2020.

Mandac

Teodora Petkova
Chairman 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 06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit 06.03.2020

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.

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserves	Retained earnings	Revaluation reserves: Financial Assets at FVTOCI	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of December 31, 2017	**285 777**	**342 378**	**1 988 720**	**268 142**	**(28 052)**	**(3 710)**	**2 853 255**
IFRS 9 First Time Adoption (FTA) Effect	-	-	(67 612)	(254)	-		**(67 866)**
Balance as of January 1, 2018	**285 777**	**342 378**	**1 921 108**	**267 888**	**(28 052)**	**(3 710)**	**2 785 389**
Effect from change in valuation method for Investment properties	-	-	1 902	-	-	-	**1 902**
Balance as of January 1, 2018	285 777	342 378	1 923 010	267 888	(28 052)	(3 710)	**2 787 291**
Profit for the year (restated)	-	-	429 118	-	-		**429 118**
Actuarial (losses)	-	-	-	-	-	(888)	**(888)**
Change of revaluation reserve on investment securities	-	-	-	(97 607)	-	-	**(97 607)**
Change of revaluation reserve on cash flow hedges	-	-	-	-	57	-	**57**
Income tax related to components of other comprehensive income	-	-	-	9 856	(6)	89	**9 939**
Total other comprehensive income for the year net of tax	-	-	-	**(87 751)**	**51**	**(799)**	**(88 499)**
Total comprehensive income for the year net of tax	-	-	**429 118**	**(87 751)**	**51**	**(799)**	**340 619**
Dividends paid	-	-	(297 653)	-	-	-	**(297 653)**
Balance as of December 31, 2018	**285 777**	**342 378**	**2 054 475**	**180 137**	**(28 001)**	**(4 509)**	**2 830 257**

	Share capital	Statutory reserves	Retained earnings	Revaluation reserves: Financial Assets at FVTOCI	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 PPE	-	-	-	-	-	-	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**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 29, 2020.

Mandac

Teodora Petkova
Chairman 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
06.03.2020

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit
06.03.2020

ОДИТОРСКО ДРУЖЕСТВО
София
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

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

Statement of Cash Flows

In thousands of BGN

	Notes	2019	2018
Net profit		**425 106**	**429 118**
Current and deferred tax, recognised in income statement		34 393	35 222
Adjustments for non-cash items			
IFRS 9 FTA effect on retained earnings		-	(67 612)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	35 833	30 495
Impairment of financial assets	19	111 184	120 013
Impairment of foreclosed properties	13	1 492	2 145
Provisions, net	38	8 138	56 111
Unrealised fair value (gains)/losses through profit or loss, net		(5 555)	1 633
Unrealised fair value losses on FX revaluation		28 989	52 622
Net (gains) from sale of property, plant and equipment		(4 484)	(7 417)
Net interest income		(383 961)	(400 709)
Dividend income		(119 526)	(115 543)
Increase in other accruals		14 213	39 751
Cash flows from profits before changes in operating assets and liabilities		**145 822**	**175 829**
Operating activities			
Change in operating assets			
Decrease/(Increase) in loans and advances to banks		1 348 074	(1 204 768)
(Increase) in loans and advances to customers		(1 260 844)	(1 178 535)
Decrease/(Increase) in investment securities		142 259	(72 919)
Decrease/(Increase) in financial instruments held for trading and hedging derivatives		28 283	(12 742)
(Increase) in non-current assets held for sale		(2 324)	-
Decrease in other assets		14 439	25 300
Change in operating liabilities			
Increase in deposits from banks		178 567	16 650
Increase in deposits from customers		1 823 665	236 094
Provisions utilization		(2 082)	(961)
Increase in other liabilities		(612)	8 788
Interest received		429 318	452 228
Interest paid		(36 030)	(37 276)
Dividends received		119 526	115 543
Taxes paid		(30 000)	(13 700)
Net cash flow from/(used in) operating activities		**2 898 061**	**(1 490 469)**

Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2019	2018
Cash flow from investing activities			
Cash payments to acquire PPE		(15 880)	(23 258)
Cash receipts from sale of PPE		4 484	9 983
Cash payments to acquire intangible assets		(32 054)	(17 835)
Cash payments for the investment in associates		(475)	-
Net cash flow used in investing activities		**(43 925)**	**(31 110)**
Cash flow from financial activities			
Dividends paid		(430 039)	(297 653)
Cash payments related to lease liabilities		(4 787)	-
Net cash flows used in financial activities		**(434 826)**	**(297 653)**
Effect of exchange rate changes on cash and cash equivalents		**4 476**	**2 088**
Impairment of cash equivalent		**16**	**56**
Net increase/(decrease) in cash and cash equivalents		**2 423 802**	**(1 817 088)**
Cash and cash equivalents at the beginning of period	44	**2 575 461**	**4 392 549**
Cash and cash equivalents at the end of period	44	**4 999 263**	**2 575 461**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on January 29, 2020.

Teodora Petkova
Chairman 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
06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor,
in charge of the audit
05.03.2020

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.

Notes to the Separate Financial Statements

1. Reporting entity

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

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

As of December 31, 2019 the Bank operates through its network comprising of 161 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 January 29, 2020. They should be read in conjunction with the consolidated financial statements which will be approved by the Management Board of the Bank in February 2020.

(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 recognised in the financial statements are described in notes **4** and **5**.

3. Significant accounting policies

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

Change in the method for valuation of property, plant and equipment: properties used in business (IAS 16) and properties held for investment (IAS 40).

On December 2, 2019 UniCredit S.p.A. Board of Directors approved the adoption for UniCredit Group (the Group) of the current value model for the measurement of the Real Estate portfolio, both held for investment and used in business (i.e. fair value & revaluation model respectively). Same was confirmed by the Bank's Management Board for local application.

Based on the above, for the purposes of preparing the financial statements as of December 31,2019, the Group has decided to change the evaluation criterion of the following assets:

- properties used in business (ruled by IAS 16 "Property, plant and machinery") providing for the transition from the cost model to the revaluation model for the measurement subsequent to initial recognition;
- properties held for investment (ruled by IAS 40 "Investment property") providing for the transition from the cost model to the fair value model.

In this context, the Bank has considered that the possibility of expressing real estate assets at current values (and no longer at cost) allows, in line with the provisions of IAS 8 concerning changes in accounting principles, to provide reliable and more relevant information on the effects of business management as well as the Bank's financial position and economic result.

More specifically, it is believed that the change in the valuation criterion of properties may allow:

- a more significant representation of the financial position since the expression at current values allows to represent the value, updated on the basis of the current appreciation of properties by the market, which the Group expects to achieve as a result of the enhancement and/or disposal of the properties, accounting for timely at assets and equity level (in the form of valuation reserves or profit of the year), the stock of value that will be created by the planned initiatives.

This circumstance is verified both in the case of properties to be disposed, for which the representation at current values allows to evidence their expected realization values, and for the instrumental properties considering that a significant part of these properties is exposed in the financial statements at historical values that are not representative of current market conditions due to their not recent acquisition.

In addition, the adoption of a valuation criterion at current values allows a more significant representation of the financial position since it allows to represent the value of the real estate assets assuming a single reference date (the date of preparation of the financial statements) thus overcoming the time lag due the adoption of the cost criterion which implies the enhancement of the real estate assets at different times (the purchase dates) which are not homogeneous in terms of market conditions.

- a more relevant representation of the Bank's economic dynamics since the adoption of a criterion at current values allows to represent the changes in value at the moment in which they arise, in compliance with the objectives of active management of the initiatives mentioned above. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in sale price) and cost which, as mentioned, may no longer be meaningful when the acquisition of real estate assets did not take place recently.

In substance, the change in the method for valuation of properties determines both a higher alignment of the financial information with the strategies of the real estate asset management and a more reliable, relevant and immediate representation of the economic substance, and the related accounting impacts, of the actions that will be taken.

The representation of voluntary changes in accounting principles (accounting policies) is regulated by IAS 8 which establishes, as a general rule, that these changes have to be represented retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. IAS 8, in fact, at paragraph 17, establishes that for the purposes of the valuation of the property, plant and equipment, regulated by IAS 16, the transition from the cost criterion to the revaluation model must be represented as a normal application in continuity of the revaluation mode. As a result the revaluation model has been applied prospectively and not retrospectively as required by the general principle reported in IAS 8 without, therefore, making any adjustment of the opening balances of the comparative year and of the comparative data.

Consequently, for the properties used in business, regulated by IAS 16, the transition from a cost valuation to a valuation at current values, required the determination of the related fair value as of December 31, 2019.

The differences between this value and the previous value determined by applying the "cost" criterion are recognized:

- if negative, in the income statement,
- if positive, in the other comprehensive income statement, and accumulated in equity under the item revaluation reserve, unless impairment was accounted for on that asset; in this case the positive differences between fair value and book value are recognized in the income statement.

As the change in the evaluation criterion took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made with the previous cost criterion.

From 2020 onwards, properties used in business, measured according to IAS 16 revaluation model, will continue to be depreciated over their estimated remaining useful life.

Unlike what is envisaged for used in business properties, IAS 8 does not mention investment properties among the assets for which a deviation from the retroactive application rule for the change in standards is envisaged. As a result, except for cases where it is not feasible to determine the related effects, it was decided to apply the change in accounting principle retrospectively. However, the retrospective application does not have a material effect on the statement of financial position at the beginning of the preceding period, and the opening balance sheet for the prior period has not been presented.

This has determined:

- the book value of the land and properties held for investment as of January 01, 2018 adjusted to their fair value with the recognition of the difference in retained earnings (item Reserves), which can be used to cover losses and are included in the calculation of CET1 ratio;
- the measurement at fair value, instead of depreciation and impairment recognition, is accounted for in the income statement for the positive and negative differences, both in 2018 and in 2019, a circumstance that led to the restatement of the comparative data as of December 31, 2018.

Starting from 2020, investment properties continue to be measured at fair value with recognition of the differences in the income statement and will no longer be subject to depreciation and / or impairment.

With reference to the methods for determining the market value (fair value), it should be noted that this value was determined through the use of independent expert evaluators through the preparation of specific appraisals.

These appraisals, based on the relevance of the single real estate item, consisted of:

- "full / on site" appraisals based on a physical inspection of the property by the expert; or
- "desktop" appraisals based on an assessment conducted without carrying out a physical inspection of the real estate property and, therefore, based exclusively on reference market values.

For the preparation of the appraisals relating to the properties, the rents, the sale prices, the discount rates and the capitalization rates for the properties that compose the Banks's portfolio were estimated. More specifically, to determine fair value, the Bank alternatively uses the so-called Market Comparable Approach taking into consideration the prices observable in the market for comparable transactions or the Income Approach taking into account the present value of the rent.

At the date of initial application of the change in the valuation method, 100% of the properties owned by the Bank were appraised with a percentage of coverage with "full / on site" appraisals of over 80% of their market value.

Impacts deriving from the change in the method for valuation of properties, plant and equipment

In the separate financial statements as of December 31, 2019, the change in the valuation criterion of the properties resulted in an overall positive effect to the statement of financial position at the amount of BGN 78 999 thousand (equivalent to approx. 50 basis points with CET1 ratio) as detailed below:

- for properties, used in business, the recognition of a revaluation of BGN 78 928 thousand gross of tax effect. This value, net of deferred tax, equal to BGN 71 035 thousand was attributed to a specific valuation reserve in the equity. In addition to this higher value, net losses for BGN 254 thousands were recognized in the income statement gross of the tax effect.
- for investment properties:
  - the recognition of a revaluation of BGN 2 113 thousands gross of tax effect as a restatement of the opening balances of equity as of January 1, 2018 (as a reserve from initial application of the new accounting policy). This value, net of deferred tax, equal to BGN 1 902 thousand was attributed to a specific reserve in the equity as of January 1, 2018;
  - the restatement of retained earnings relating to December 31, 2018 as a consequence of changes in the fair value of properties during the previous year, recalculated results from sales during the year and the fact that investment properties are no longer subject to depreciation, amounts to BGN (1 023) thousand gross of tax effect (BGN (921) thousand net of tax effect);
  - the recognition in 2019 income statement of a result equal to BGN (764) thousands gross of tax effect (BGN (688) thousand net of the tax effect);

For completeness purposes, it should be noted that property, plant and equipment other than real estate, real estate items accounted for in accordance with IAS 2 Inventories and investment properties (IAS 40) under construction have not been subject to modification of the valuation model.

The following tables summarize the effects on the balance sheet assets and liabilities as of January 1, 2018 and December 31, 2018 as well as the changes in the income statement for the year then ended following the retrospective application of the change in the valuation model of the investment properties:

Separate statement of Financial Position	Reported 01.01.2018	Restatement due to change in the accounting policy on investment properties valuation	Restated amount 01.01.2018
Property, plant, equipment and investment properties	181 364	2 113	183 477
Deferred tax assets	5 669	(211)	5 458
Retained earnings	2 033 445	1 902	2 035 347

Separate statement of Financial Position	Reported 31.12.2018	Restatement due to change in the accounting policy on investment properties valuation	Restated amount 31.12.2018
Property, plant, equipment and investment properties	144 003	1 090	145 093
Deferred tax assets	4 072	(109)	3 963
Retained earnings	1 965 833	1 902	1 967 735
Profit for the year	430 039	(921)	429 118

Separate income statement	Reported for 2018	Restatement due to change in the accounting policy on investment properties valuation	Restated amount for 2018
Other operating income (expenses), net	(58 818)	(770)	(59 588)
Net income related to property, plant and equipment	7 972	(2 566)	5 406
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(32 808)	2 313	(30 495)
Income tax expense	(35 324)	102	(35 222)
PROFIT FOR THE YEAR	**(430 039)**	**(921)**	**(429 118)**

Transition to IFRS16 “Leases”

IFRS 16, effective from January 1, 2019 and subject to the completion of the endorsement process by the European Union on 31 October 2017, modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as 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.

At the initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right of use asset is measured on the basis of the rules set for the assets by IAS 16, IAS 38 or by IAS 40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable.

In this context, the Bank has performed the activities aimed to ensure compliance with this accounting principle, in particular with reference to the calculation and accounting for right of use asset and Lease Liability that represent the main change compared to the current accounting model required by IAS17.

The activities aimed to development of rules, principles and IT systems to be used for the proper valuation of new assets and liabilities and the subsequent calculation of the related economic effects have been finalised.

With reference to the first time adoption of IFRS 16 the Group and the Bank decided, as allowed by the standard, to calculate the lease liability as the present value of future lease payments as at 1 January 2019 and to determine the right of use on the asset on the basis of the value of the lease liability.

As a result comparative information has not been restated. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

(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 through 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.

(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 Group and the Bank account 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 recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities.

(g) Leases

Until December 31, 2018 payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term and so producing a constant periodic rate of interest on the remaining balance of the lease liability.

Starting from January 01, 2019 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 mor e 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 Bank did not make any such adjustments during the periods presented.

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.

As a result of the entry into force of the new accounting standard, the Bank has reclassified financial assets and liabilities as at 1 January 2018 into the new envisaged categories.

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 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 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.

(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 new 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 new 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 was 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.

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.

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 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.

As of 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. When the property is revalued, any accumulated depreciation at the date of the revaluation is kept and the change in the fair value results in adjustment of the gross carrying amount of the asset.

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).

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. 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 (see also Note **34**).

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

Depreciation on all items of property, plant and equipment (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, 2019 and December 31, 2018 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 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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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 2019 and 2018.

(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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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:

- **IFRS 16 "Leases"** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on February 8, 2019 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on March 14, 2019 (effective for annual periods beginning on or after January 1, 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any other then described above material changes in the Banks separate financial statements.

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

At the date of authorisation of these financial statements, the following new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU, but are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after January 1, 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** issued on 29 March 2018 (effective for annual periods beginning on or after January 1, 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation BMR, UniCredit Group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation.

Accordingly, a multiyear roadmap has been defined based on both Group Exposure (mainly focused on Euro) and transition timeline. The project governance involves the main internal stakeholders, both at Group and at main Legal Entities level. The program is also monitored by ECB as Regulator for the Holding Company, and progresses are shared with the Group top management.

In 2019, UniCredit Group has ensured compliance, for EURIBOR and €STR/Eonia outstanding contracts, to the following main market changes:

- ◦ discontinuation of some EURIBOR tenors and basis, according to the deadline set by European Money Markets Institute - EMMI (3 December 2018 for tenors and 1 April 2019 for Act/365 and 30/360 basis decommissioning);
- ◦ changes requested by Euribor administrator (EMMI) on contribution process, following its new methodology;
- ◦ introduction of the new €STR overnight rate (EONIA substitute), which has been published for the first time on 2 October 2019.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liability and derivatives however cannot be excluded.

On this regard, on 15 January 2020 the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" (the Amendment) have been endorsed by the European Commission for use in the European Union (EU).

The Amendment solves a potential source of uncertainty on the effects of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, UniCredit Group has adopted the Amendment with reference to 2019 financial statements for its existing hedge accounting relationships involving other IBORs. Considering that UniCredit Bulbank AD has hedge accounting-linked exposure only to EURIBOR that is transitioned to EU BMR compliant definitions, it is considered that early adoption will not have any impact on the separate financial statements of the Bank.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations.

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, if applied as at the reporting date.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at January 29, 2020 (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"** (effective for annual periods beginning on or after January 1, 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (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 January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **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 IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current** (issued on 23 January 2020).

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.

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, 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 applied to cumulative results for a specific period, the stressed VaR (SVaR), the incremental default risk charge (IRC) and granular sensitivities.

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 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. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined and integrated in the presentation of performance results.

During 2019, VaR (1 day holding period, confidence interval of 99 %) of UniCredit Bulbank AD moved in a range between EUR 2.13 million and EUR 5.41 million, averaging EUR 3.40 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2019 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.13	2.07	1.44	1.99
Credit spread	2.53	5.67	3.39	2.77
Exchange rate risk	0.01	0.03	0.01	0.01
Equity risk	-	0.07	0.07	0.07
Vega risk	0.00	0.00	0.00	0.00
VaR overall[1]	**2.13**	**5.41**	**3.40**	**2.59**

[1] Including diversification effects between risk factors

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

The sensitivities' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2019 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(13 664)	(306)	(82 684)	(137 247)	(432)	**(234 333)**
BGN	(2 113)	67 638	(148 831)	(271 344)	(92 456)	**(447 106)**
USD	(4 984)	5 628	(230)	(23)	-	**391**
CHF	(195)	239	11	(22)	(13)	**20**
GBP	(247)	408	7	-	-	**168**
Other	(10)	(83)	-	-	-	**(93)**
Total Absolute	**21 213**	**74 302**	**231 763**	**408 636**	**92 901**	**682 111**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2019 totalled EUR 859 951. Instruments issued by governments continue to 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	(206)	(2 087)	(129 618)	(600 101)	(92 747)	**(824 759)**
Regional governments	-	-	-	(647)	-	**(647)**
Corporates	-	(8 175)	(310)	(26 060)	-	**(34 545)**
Total Absolute	**206**	**10 262**	**129 928**	**626 808**	**92 747**	**859 951**

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 2019 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

As of December 31, 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**
Investment securities	3 581 632	13 628	**3 595 260**
Investments in subsidiaries and associates	55 479	-	**55 479**
Property, plant, equipment, rights of use assets 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 and other financial liabilities at amortized cost	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)**

As of December 31, 2018 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	2 442 042	15 192	**2 457 234**
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Derivatives held for trading	51 000	6 942	**57 942**
Derivatives held for hedging	496	-	**496**
Loans and advances to banks	2 230 796	55 816	**2 286 612**
Loans and advances to customers	10 295 628	192 846	**10 488 474**
Available for sale investments	3 727 196	9 553	**3 736 749**
Investments in subsidiaries and associates	55 004	-	**55 004**
Property, plant, equipment and investment properties	145 093	-	**145 093**
Intangible assets	45 257	-	**45 257**
Deferred tax assets	3 963	-	**3 963**
Other assets	105 744	65	**105 809**
TOTAL ASSETS	**19 109 336**	**305 243**	**19 414 579**
LIABILITIES			
Financial liabilities held for trading	26 398	4 808	**31 206**
Derivatives used for hedging	56 901	-	**56 901**
Deposits from banks	230 267	247 761	**478 028**
Deposits from customers and other financial liabilities at amortized cost	14 373 426	1 434 649	**15 808 075**
Provisions	91 668	5 992	**97 660**
Current tax liabilities	2 395	-	**2 395**
Other liabilities	107 869	2 188	**110 057**
TOTAL LIABILITIES	**14 888 924**	**1 695 398**	**16 584 322**
EQUITY	**2 830 257**	**-**	**2 830 257**
Net off-balance sheet spot and forward position	(1 382 591)	1 399 695	17 104
Net position	**7 564**	**9 540**	**17 104**

(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 2019, 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).

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**

MATURITY TABLE AS AT 31 DECEMBER 2019	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Loans and advances to banks	2 095 647	190 965	**2 286 612**
Loans and advances to customers	3 954 857	6 533 617	**10 488 474**
Investment Securities	156 497	3 580 252	**3 736 749**
Other assets	54 865	50 944	**105 809**
TOTAL FINANCIAL ASSETS	**6 268 983**	**10 380 607**	**16 649 590**

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	**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)**

MATURITY TABLE AS AT 31 DECEMBER 2018	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	**478 028**	(478 047)	(458 953)	-	-	(19 094)
Deposits from customers	**15 808 075**	(15 808 721)	(4 584 516)	(1 766 239)	(2 836 097)	(6 621 869)
Unutilized credit lines	**-**	(2 163 908)	(341 943)	(65 103)	(292 962)	(1 463 900)
Total non-derivative instruments	**16 286 103**	**(18 450 676)**	**(5 385 412)**	**(1 831 342)**	**(3 129 059)**	**(8 104 863)**
Derivatives held for trading, net	**26 736**					
Outflow	**-**	(3 936 564)	(2 520 511)	(1 212 012)	(48 635)	(155 406)
Inflow	**-**	3 970 730	2 530 077	1 219 244	53 259	168 150
Derivatives used for hedging, net	**(56 405)**					
Outflow	**-**	(118 810)	-	(10 321)	(9 207)	(99 282)
Inflow	**-**	62 844	-	2	-	62 842
Total derivatives	**(29 669)**	**(21 800)**	**9 566**	**(3 087)**	**(4 583)**	**(23 696)**
Total financial liabilities	**16 256 434**	**(18 472 476)**	**(5 375 846)**	**(1 834 429)**	**(3 133 642)**	**(8 128 559)**

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

Treasury credit lines utilisation for derivatives and security financing business is available on-line in the central treasury system operated on group-wide basis. Additionally, UniCredit Bulbank limits the credit risk arising from its derivatives and repo-based business through strict use of master agreements, ongoing monitoring of documentation standards by legal experts, and application of break clauses and collateral agreements.

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

The analysis based on client credit quality and rating (where available) as of December 31, 2019 and December 31, 2018 is as shown in the next table:

In thousands of BGN

	31.12.2019	31.12.2018
Government bonds		
Rated BBB-	10 453	3 400
Equities		
Unrated	3 491	3 717
Loan		
Rated BBB	25 146	24 829
Derivatives (net)		
Banks and financial institution counterparties	(115 274)	(58 746)
Corporate counterparties	39 462	29 077
Total trading assets and liabilities	**(36 722)**	**2 277**

Government bonds presented as of December 31, 2019 and as of December 31, 2018 include bonds issued by Republics 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.

As a result of the activities related to IFRS 9 conversion project we have full implementation of the loan loss provision model. The IFRS 9 framework was enhanced with models for Exposure at Default and Loss Given Default, estimation of present value of the expected credit losses as well as Overlay Factor, based on predefined macroeconomic scenarios.

Additionally the existing Credit risk models are being modified to meet the updated EBA guidelines and forthcoming changes in the default definition.

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, 2019 and December 31, 2018.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2019	2018	2019	2018	2019	2018
Biggest credit risk exposure to customers' group	410 327	271 648	358 426	271 648	14,4%	11,2%
Credit risk exposure to top five biggest customers' groups	1 320 743	1 002 527	1 095 449	828 611	44,1%	34,2%

The table below analyses the breakdown of loss allowances as of December 31, 2019 and December 31, 2018 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2019	2018
Cash and balances with Central Bank	39	55
Loans and advances to banks at amortised cost	478	631
Loans and advances to customers at amortised cost	554 414	562 797
Debt investment securities at amortised cost	260	52
Debt investment securities at FVTOCI	2 823	2 952
Loan commitments	16 212	1 688
Financial guarantee contractss	46 550	54 763
Total Loss allowance by classes	**620 776**	**622 938**

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 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	POCI	TOTAL
	CUM	CUM	CUM	CUM	CUM
Loss allowance as at 01.01.2019	**(631)**	-	-	-	**(631)**
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	(384)	-	-	-	**(384)**
Financial assets that have been derecognised	537	-	-	-	**537**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2019	**(478)**	-	-	-	**(478)**

In thousands of BGN

LOSS ALLOWANCE - LOANS AND ADVANCES TO CUSTOMERS AND DEBT SECURITIES AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 01.01.2019	**(14 715)**	**(67 827)**	**(472 079)**	**(8 228)**	**(562 849)**
Changes in the loss allowance:					**-**
Transfer to stage 1	(2 371)	2 326	45	-	**-**
Transfer to stage 2	46 206	(46 774)	568	-	**-**
Transfer to stage 3	42 317	27 345	(69 662)	-	**-**
Increases due to change in credit risk	(105 774)	(31 982)	(58 852)	-	**(196 608)**
Decreases due to change in credit risk	2 171	19 192	64 618	-	**85 981**
Write-offs	-	-	118 961	-	**118 961**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(14 919)	(18 006)	(13 526)	-	**(46 451)**
Financial assets that have been derecognised	1 907	17 254	19 037	7 744	**45 942**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	350	-	**350**
Loss allowance as at 31.12.2019	**(45 178)**	**(98 472)**	**(410 540)**	**(484)**	**(554 674)**

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 2019 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	YEAR ENDED 2019					YEAR ENDED 2018
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	4 878 397	1 859	-	-	**4 880 256**	**4 362 288**
Grades 4-6: Monitoring	5 331 285	542 953	-	-	**5 874 238**	**6 016 898**
Substandard	195 313	682 894	-	-	**878 207**	**63 770**
Grade 9: Doubtful	-	-	304 782	484	**305 266**	**253 961**
Grade 10: Impaired	-	-	249 536	-	**249 536**	**339 923**
Total gross carrying amount	**10 404 995**	**1 227 706**	**554 318**	**484**	12 187 503	11 036 840
Loss allowance	(44 918)	(98 472)	(410 540)	(484)	**(554 414)**	**(562 797)**
Carrying amount	**10 360 077**	**1 129 234**	**143 778**	**-**	11 633 089	10 474 043

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTISED COST	YEAR ENDED 2019					YEAR ENDED 2018
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	6 977	-	-	-	**6 977**	**9 866**
Grades 4-6: Monitoring	-	-	-	-	**-**	**-**
Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**6 977**	**-**	**-**	**-**	6 977	9 866
Loss allowance	(260)				**(260)**	**(52)**
Carrying amount	**6 717**	**-**	**-**	**-**	6 717	9 814

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Gross carrying amount as at 01.01.2019	**9 305 428**	**1 083 624**	**638 279**	**19 375**	**11 046 706**
Changes in the gross carrying amount					
Transfer to stage 1	250 842	(240 245)	(10 597)	-	**-**
Transfer to stage 2	(596 141)	608 432	(12 291)	-	**-**
Transfer to stage 3	(68 255)	(55 644)	123 899	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	3 061 231	177 815	15 506	-	**3 254 552**
Financial assets that have been derecognised	(968 866)	(266 204)	(33 996)	(18 891)	**(1 287 957)**
Write-offs	-	-	(118 961)	-	**(118 961)**
Other changes	(572 267)	(80 072)	(47 521)	-	**(699 860)**
Gross carrying amount as at 31.12.2019	**10 411 972**	**1 227 706**	**554 318**	**484**	**12 194 480**

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	31.12.2019	31.12.2018
Defaulted exposures		
Cash collateral	4 110	2 830
Property	697 121	901 324
Other collateral	349 667	428 764
Performing exposures		
Cash collateral	171 030	96 749
Property	11 250 572	10 994 796
Debt securities	9 972	11 064
Other collateral	9 271 388	9 311 541
Total	**21 753 860**	**21 747 068**

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, 2019 and December 31, 2018.

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Concentration by sectors						
Sovereign	373 633	373 565	-	-	3 200 939	3 317 798
Manufacturing	2 256 088	2 273 738	-	-	81 915	135 880
Commerce	1 915 963	1 980 229	-	-	-	-
Construction and real estate	1 405 028	1 152 842	-	-	67	67
Agriculture and forestry	451 645	476 904	-	-	-	-
Transport and communication	456 446	295 328	-	-	-	-
Tourism	198 010	252 973	-	-	-	-
Services	396 424	342 625	-	-	655	655
Financial services	2 246 056	1 672 059	3 754 581	2 287 243	367 163	337 353
Retail (individuals)						
Housing loans	2 228 485	1 928 599	-	-	-	-
Consumer loans	193 766	215 840	-	-	-	-
Other	77 093	86 621	-	-	-	-
	12 198 637	**11 051 323**	**3 754 581**	**2 287 243**	**3 650 739**	**3 791 753**
Impairment allowances	(554 674)	(562 849)	(478)	(631)	-	-
Total	**11 643 963**	**10 488 474**	**3 754 103**	**2 286 612**	**3 650 739**	**3 791 753**
Concentration by geographic location						
Europe	12 166 235	11 010 193	3 684 865	2 239 293	3 637 111	3 782 200
North America	16 596	24 182	12 561	10 208	13 628	9 553
Asia	15 662	16 232	56 020	37 417	-	-
Africa	21	25	1 081	294	-	-
South America	22	16	-	-	-	-
Australia	101	675	54	31	-	-
	12 198 637	**11 051 323**	**3 754 581**	**2 287 243**	**3 650 739**	**3 791 753**
Impairment allowances	(554 674)	(562 849)	(478)	(631)	-	-
Total	**11 643 963**	**10 488 474**	**3 754 103**	**2 286 612**	**3 650 739**	**3 791 753**

(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 activities of the OpRepRisk Unit in 2019 were focused on maintaining the excellence in managing the operational and reputational risks.

The OpRisk tasks are: 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 Risk; OpRisk Assessment of Relevant Outsourcing Transactions; Operational and Reputational Risk Strategies Definition and Monitoring. With regards to the Strategies Definition and Monitoring, there is a newly defined activity performed in UniCredit Bulbank - Risk and Controls Self-Assessment. The activity's main goal is to involve process owners in performing a thorough self-evaluation of already pre-defined risk bearing processes; important element of this assessment is the role of OpRepRisk Unit – being in the driving seat in running the activity and challenging the process owners in evaluating the processes from risk perspective.

In 2019 OpRepRisk Unit continued its important participation in few 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; its meetings are held quarterly and attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, responsible for the reporting of current operational risk issues and developments, and it also 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 rating to the local OpRisk management and internal control framework. Group Internal Validation (GIV) function also evaluated the Operational risk governance framework and control activities as "Fully Adequate" (the highest possible evaluation). The outcome of these independent 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 2019 the OpRepRisk Unit continued to develop the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure. The main change is the creation of the Reputational Risk Committee (RRC), which is responsible for the assessment of the reputational risks initiatives.

The activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner. 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.

In 2020 the OpRepRisk unit will further develop and successfully finalize the projects and activities started in 2019, most of them are related to the newly introduced regulatory requirements.

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's standards.

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);

The presence of Reputational Risk Committee in order to assess the topics related to the business activity that could affect significantly the Reputational Risk profile of the Banks.

(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, 2019 are 11.25%, 12.75%, 14.75% (as of December 31, 2018 – 10.5%, 12% and 14%), 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, 2019 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, 2019		Performing loans
Agreed maximum portfolio volume:		EUR 85,000 thousand
Nominal Value of reference portfolio:		BGN 11,363 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, 2019	BGN 0	BGN 9,090 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2019 and December 31, 2018 are as follows:

In thousands of BGN

	31.12.2019	31.12.2018
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 431 871	2 375 874
Tier 1 capital	2 431 871	2 375 874
Tier 2 capital	52 110	45 612
Total regulatory own funds	**2 483 981**	**2 421 486**
Risk Weighted Assets (RWA)		
RWA for credit risk	11 670 005	9 823 259
RWA for market risk	100 225	48 750
RWA for operational risk	813 763	701 738
RWA for credit valuation adjustments	10 025	4 463
Total Risk Weighted Assets (RWA)	**12 594 018**	**10 578 210**
CET 1 ratio	**19,31%**	**22,46%**
Tier 1 ratio	**19,31%**	**22,46%**
Total capital adequacy ratio	**19,72%**	**22,89%**
Minimum CET 1 capital requirements (4.5%)	**566 731**	**476 019**
Minimum Tier 1 capital requirements (6%)	**755 641**	**634 693**
Minimum total capital requirements (8%)	**1 007 521**	**846 257**
Additional capital requirements for conservation buffer (2.5%)	314 850	264 455
Additional capital requirements for systemic risk buffer (3%)	377 821	317 346
Additional capital requirements for other systemic important institution (2018-0.5%, 2019-0.75%)	94 455	52 891
Additional capital requirements for countercyclical capital buffer (0.5%)	62 970	-
Combined buffers additional capital requirements (2018-6%, 2019-6.75%)	**850 096**	**634 693**
Adjusted minimum CET 1 capital requirements after buffers (10.5% - 2018; 11.25% -2019)	1 416 827	1 110 712
Adjusted minimum Tier 1 capital requirements, including buffers (12% - 2018; 12.75% -2019)	1 605 737	1 269 385
Adjusted minimum total capital requirements after buffers (14%- 2018; 14.75% -2019)	1 857 618	1 480 949
Free equity, after buffers	**626 363**	**940 537**

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 2019 and 2018 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 2019, whenever risk-free FV deviates by more than 2% (2% in 2018) 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, 2019 and December 31, 2018 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, 2019 and December 31, 2018.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non derivative financial assets held for trading	10 725	7 083	28 365	23 607	-	1 256	**39 090**	**31 946**
Derivatives held for trading	-	-	67 732	56 648	595	1 294	**68 327**	**57 942**
Derivatives held for hedging	-	-	226	496	-	-	**226**	**496**
Investment securities	2 276 481	2 516 718	1 268 777	1 198 818	50 002	21 213	**3 595 260**	**3 736 749**
Loans and advances to banks	-	-	3 752 466	1 741 842	-	542 347	**3 752 466**	**2 284 189**
Loans and advances to customers	-	-	3 868 052	5 455 487	8 210 462	5 027 042	**12 078 514**	**10 482 529**
	2 287 206	**2 523 801**	**8 985 618**	**8 476 898**	**8 261 059**	**5 593 152**	**19 533 883**	**16 593 851**
Financial liabilities held for trading	-	-	53 677	31 206	-	-	**53 677**	**31 206**
Derivatives used for hedging	-	-	90 688	56 901	-	-	**90 688**	**56 901**
Deposits from banks	-	-	-	-	665 374	408 153	**665 374**	**408 153**
Deposits from customers and lease liabilities	-	-	-	-	17 702 236	15 797 433	**17 702 236**	**15 797 433**
	-	**-**	**144 365**	**88 107**	**18 367 610**	**16 205 586**	**18 511 975**	**16 293 693**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2019 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	INVESTMENT SECURITIES
Opening balance (January 1, 2019)	**2 550**	**21 213**
Increases	**-**	**29 162**
Purchase	-	24 759
Profit recognized in income statement	-	3 954
Profit recognized in equity	-	150
Other increases	**-**	299
Decreases	**(1 955)**	**(373)**
Loses recognized in income statement	(615)	-
Transfer to other levels	(1 256)	-
Other decreases	(84)	(373)
Closing balance (December 31, 2019)	**595**	**50 002**

The tables below analyse the fair value of financial instruments by classification as of December 31, 2019 and December 31, 2018.

In thousands of BGN

DECEMBER 2019	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	HEDGING 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**
Investment securities	-	-	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 and other financial liabilities at amortized cost	-	-	-	-	17 706 409	**17 706 409**	**17 702 236**
TOTAL LIABILITIES	**53 677**	**-**	**-**	**90 688**	**18 367 096**	**18 511 461**	**18 511 975**

In thousands of BGN

DECEMBER 2018	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	HEDGING DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank		-	-	-	2 457 234	**2 457 234**	**2 457 234**
Non-derivative financial assets held for trading	7 117	24 829	-	-	-	**31 946**	**31 946**
Derivatives held for trading	57 942	-	-	-	-	**57 942**	**57 942**
Derivatives held for hedging				496		**496**	**496**
Loans and advances to banks	-	2 286 612	-	-	-	**2 286 612**	**2 284 189**
Loans and advances to customers	-	10 488 474	-	-	-	**10 488 474**	**10 482 529**
Investment securities	-	-	3 736 749	-	-	**3 736 749**	**3 736 749**
TOTAL ASSETS	**65 059**	**12 799 915**	**3 736 749**	**496**	**2 457 234**	**19 059 453**	**19 051 085**
LIABILITIES							
Financial liabilities held for trading	31 206	-	-	-	-	**31 206**	**31 206**
Derivatives used for hedging		-	-	56 901	-	**56 901**	**56 901**
Deposits from banks	-	-	-	-	478 028	**478 028**	**408 153**
Deposits from customers	-	-	-	-	15 808 075	**15 808 075**	**15 797 433**
TOTAL LIABILITIES	**31 206**	**0**	**0**	**56 901**	**16 286 103**	**16 374 210**	**16 293 693**

(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, 2019 and December 31, 2018 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 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**

In thousands of BGN

DECEMBER 2018	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	199 569	223 831	(22 691)	**400 709**
Dividend income	-	-	115 543	**115 543**
Net fee and commission income	154 758	77 738	(282)	**232 214**
Net gains from financial assets and liabilities held for trading and hedging derivatives	23 518	47 907	25 477	**96 902**
Net gains from financial assets mandatorily at fair value	-	-	2 094	**2 094**
Net income from financial assets measured at FVTOCI	-	25 145	-	**25 145**
Other operating expenses, net	(22 038)	(31 331)	(6 219)	**(59 588)**
TOTAL OPERATING INCOME	**355 807**	**343 290**	**113 922**	**813 019**
Personnel expenses	(56 918)	(17 814)	(52 739)	**(127 471)**
General and administrative expenses	(59 681)	(11 838)	(24 394)	**(95 913)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 223)	(5 229)	(8 043)	**(30 495)**
Total direct expenses	**(133 822)**	**(34 881)**	**(85 176)**	**(253 879)**
Allocation of indirect and overhead expenses	(51 475)	(30 078)	81 553	**-**
TOTAL OPERATING EXPENSES	**(185 297)**	**(64 959)**	**(3 623)**	**(253 879)**
Provisions for risk and charges	-	-	(43 206)	**(43 206)**
Net impairment loss on financial assets	-	-	(57 000)	**(57 000)**
Net income related to property, plant and equipment	-	-	5 406	**5 406**
PROFIT BEFORE INCOME TAX	170 510	278 331	15 499	**464 340**
Income tax expense	(17 051)	(27 833)	9 662	**(35 222)**
PROFIT FOR THE YEAR	**153 459**	**250 498**	**25 161**	**429 118**
ASSETS	**2 880 043**	**8 824 733**	**7 709 803**	**19 414 579**
LIABILITIES	**9 586 605**	**6 637 308**	**360 409**	**16 584 322**

7. Net interest income

In thousands of BGN

	2019	2018
Interest income		
Non-derivative financial assets held for trading	570	227
Derivatives held for trading	248	209
Loans and advances to banks	6 541	6 615
Loans and advances to customers	353 661	364 153
Investment securities	59 727	66 371
	420 747	**437 575**
Interest expense		
Derivatives held for trading	-	(16)
Derivatives used for hedging	(18 037)	(19 595)
Deposits from banks	(15 391)	(13 618)
Deposits from customers	(3 358)	(3 637)
	(36 786)	**(36 866)**
Net interest income	**383 961**	**400 709**

For the financial years ended December 31, 2019 and December 31, 2018 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 12 674 thousand and BGN 13 150 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2019	2018
Fee and commission income		
Collection and payment services	147 959	141 911
Lending business	14 184	14 649
Account services	26 051	25 202
Management, brokerage and securities trading	7 757	7 862
Documentary business	17 673	18 933
Package accounts	22 020	21 469
Other	33 882	30 266
	269 526	**260 292**
Fee and commission expense		
Collection and payment services	(29 543)	(25 198)
Management, brokerage and securities trading	(1 129)	(930)
Lending business	(158)	(167)
Other	(1 710)	(1 783)
	(32 540)	**(28 078)**
Net fee and commission income	**236 986**	**232 214**

9. Dividend income

In thousands of BGN

	2019	2018
Dividend income from subsidiaries	119 205	115 342
Divident income from other equity participations	322	201
Dividend income	**119 527**	**115 543**

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

In thousands of BGN

	2018	2017
FX trading income, net	92 175	88 590
Net income from debt instruments	929	465
Net expenses from equity instruments	(46)	(207)
Net income from derivative instruments	513	7 061
Net income from other trading instruments	5 562	1 046
Net expenses from hedging derivative instruments	(396)	(53)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**98 737**	**96 902**

The total CVA (net of DVA) for the years ended December 31, 2019 and December 31, 2018, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 127 thousand and BGN 444 thousand, respectively.

11. Net gains from financial assets mandatorily at fair value

In thousands of BGN

	2019	2018
Equity securities	3 886	2 192
Loans and advances	258	(98)
Net gains from financial assets mandatorily at fair value	**4 144**	**2 094**

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, 2019 and December 31, 2018 the gains are in the amount of BGN 33 819 thousand and BGN 25 145 thousand, respectively.

13. Other operating expenses, net

In thousands of BGN

	2019	2018
Other operating income		
Income from non-financial services	1 285	928
Rental income	1 805	1 430
Other income	3 333	3 779
	6 423	**6 137**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(65 610)	(60 766)
Impairment of foreclosed properties	(1 492)	(2 145)
Losses on tangible assets measured at fair value	(1 513)	(770)
Other operating expenses	(1 873)	(2 044)
	(70 488)	**(65 725)**
Other operating expenses, net	**(64 065)**	**(59 588)**

In 2019 and 2018 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, 2019 and December 31, 2018 the gains are in the amount of BGN 2 941 thousand and BGN 7 972 thousand respectively. Considering new valuation model with regards to investment properties has been applied retrospectively (for 2018 as well) the restated amount as of December 31, 2018 is BGN 5 406 thousand.

15. Personnel expenses

In thousands of BGN

	2019	2018
Wages and salaries	(112 369)	(105 660)
Social security charges	(15 805)	(14 732)
Pension and similar expenses	(727)	(667)
Temporary staff expenses	(1 543)	(1 505)
Share-based payments	(1 411)	(1 709)
Other	(3 661)	(3 198)
Total personnel expenses	**(135 516)**	**(127 471)**

As of December 31, 2019 the total number of employees, expressed in full time employee equivalent is 3 555 (December 31, 2018: 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, 2018	2019 COST (GAINS)	SETTLED IN 2019	ECONOMIC VALUE AT DECEMBER 31, 2019
Deferred Short Term Incentive (ordinary shares)	6 698	1 411	(741)	7 368
ESOP and shares for Talents	135	-	(71)	64
Total Shares	**6 833**	**1 411**	**(812)**	**7 432**

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

	2019	2018
Advertising, marketing and communication	(7 792)	(7 852)
Credit information and searches	(1 132)	(1 062)
Information, communication and technology expenses	(46 691)	(39 174)
Consulting, audit and other professionals services	(2 538)	(3 150)
Real estate expenses	(12 900)	(11 765)
Rents	(8 407)	(13 305)
Travel expenses and car rentals	(3 149)	(3 185)
Insurance	(1 187)	(1 192)
Supply and miscellaneous services rendered by third parties	(12 107)	(12 749)
Other costs	(2 331)	(2 479)
Total general and administrative expenses	**(98 234)**	**(95 913)**

For 2019 the fees for audit services provided by the auditing companies amount to BGN 1 000 thousand (BGN 870 thousand for 2018).

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

In thousands of BGN

	2019	2018
Depreciation charge	(30 876)	(30 495)
Depreciation charge with regards to "Right-of-Use" assets	(4 957)	-
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(35 833)	(30 495)

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, 2019 and December 31, 2018 (after restatements for new valuation model for investment properties) 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**).

Starting from 2018, 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

	2019	2018
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(41 036)	(73 093)
Legal cases provisions	(952)	(8 295)
Other provisions	(1 050)	(682)
	(43 038)	**(82 070)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	34 743	32 113
Legal cases provisions	884	6 751
	35 627	**38 864**
Net provisions charge	**(7 411)**	**(43 206)**

19. Net Impairment loss on financial assets

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS	2019	2018
Balance 1 January	**562 849**	**653 797**
IFRS 9 FTA efect		**62 732**
Increase	261 177	290 452
Decrease		
Loans and advances to customers	(149 627)	(170 529)
Recoveries from loans previously written-off	(31 695)	(63 881)
	(181 322)	(234 410)
Net impairment losses	**79 855**	**56 042**
FX revaluation effect on imparment allowances	349	811
Other movements	(1 113)	(2 494)
Write-off	(118 961)	(271 920)
Balance December 31		
Loans and advances to customers	**554 674**	**562 849**

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO BANKS	2019	2018
Balance 1 January	**631**	**-**
IFRS 9 FTA efect		**541**
Increase	384	568
Decrease	(537)	(478)
Net impairment (income) losses	**(153)**	**90**
Balance December 31		
Loans and advances to banks	**478**	**631**

In thousands of BGN

PROVISIONS ON BALANCES WITH CENTRAL BANK	2019	2018
Balance 1 January	**55**	**-**
IFRS 9 FTA efect		**137**
Increase	-	37
Decrease	(16)	(119)
Net impairment (income)	**(16)**	**(82)**
Balance December 31		
Balances with Central Bank	**39**	**55**

In thousands of BGN

PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI	2019	2018
Balance 1 January	**2 952**	**-**
IFRS 9 FTA efect		**2 002**
Increase	4 141	1 604
Decrease	(4 270)	(654)
Net impairment (income) losses	**(129)**	**950**
Balance December 31		
Financial assets at fair value through OCI	**2 823**	**2 952**

In thousands of BGN

	2019	2018
Net impairment losses on Loans and advances to customers	79 855	56 042
Net impairment (income) losses on Loans and advances to Banks	(153)	90
Net impairment (income) on Balances with Central Bank	(16)	(82)
Net impairment (income) losses on Financial assets at fair value through OCI	(129)	950
Total net impairment loss on financial assets	**79 557**	**57 000**

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 2019.

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

In thousands of BGN

	2019	2018
Current tax	(33 668)	(24 150)
Deferred tax (expense) related to origination and reversal of temporary differences	(760)	(11 242)
(Overprovided)/underprovided prior year deferred tax	-	101
(Overprovided)/underprovided prior year current tax	35	69
Income tax expense	**(34 393)**	**(35 222)**

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

	2019	2018
Accounting profit before tax	**459 499**	**464 340**
Corporate tax at applicable tax rate (10% for 2019 and 2018)	(45 950)	(46 434)
Tax effect of non-taxable revenue	11 947	11 547
Tax effect of non-tax deductible expenses	(387)	(506)
Overprovided (underprovided) prior year income tax	(3)	171
Income tax expense	**(34 393)**	**(35 222)**
Effective tax rate	**7,48%**	**7,59%**

21. Cash and balances with Central bank

In thousands of BGN

	31.12.2019	31.12.2018
Cash in hand and in ATM	233 367	231 125
Cash in transit	169 365	140 491
Current account with Central Bank	1 662 434	2 085 618
Total cash and balance with Central Bank	**2 065 166**	**2 457 234**

22. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2019	31.12.2018
Government bonds	10 453	3 400
Equities	3 491	3 717
Loans	25 146	24 829
Total non-derivative financial assets held for trading	**39 090**	**31 946**

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

Trading loans consist of prepaid forward transaction with customer.

23. Derivatives held for trading

In thousands of BGN

	31.12.2019	31.12.2018
Interest rate swaps	41 651	33 516
FX forward contracts	18 507	17 484
FX swaps	3 243	3 338
Commodity swaps	436	192
Commodity options	4 490	3 412
Total derivatives held for trading	**68 327**	**57 942**

Derivatives consist of trading instruments that have positive market value as of December 31, 2019 and December 31, 2018. 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, 2019 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 31.12.2019 is – PV(+) BGN 226 thousands and PV (-) 52 005 thousands.
- Derivative used as hedging instrument for Cash flow hedge relationship – PV (-) as of 31.12.2019 is BGN 38 683 thousands.

25. Loans and advances to banks

In thousands of BGN

	31.12.2019	31.12.2018
Debt securities	98 555	-
Loans and advances to banks	3 471 616	2 183 013
Current accounts with banks	184 410	104 230
Loans and advances to banks at amortized cost	**3 754 581**	**2 287 243**
Less impairment allowances	*(478)*	*(631)*
Total loans and advances to banks	**3 754 103**	**2 286 612**

At December 2019 the Bank purchased fixed-rate bond issued by UniCredit S.p.A. with Face value EUR 50 million, coupon 0.01%, yield to maturity -0.242%, rated Aa3 by Moody's. The bond is classified at Amortized cost/AC portfolio. The Bank plans to steadily remain a net lender to UniCredit S.p.A. by the time of the maturity of the bond, so the bond will represent an opportunity of optimizing – in terms of risk-weighted assets and return – respective portion of the excess liquidity placed with the issuer in the form of money market instruments. Hence, subject to a positive SPPI test, the intent is to keep it until maturity in the Amortised Cost (AC) Portfolio, collecting contractual cash flows. According to AC portfolio requirements the Bank should not sell the bond until maturity.

26. Loans and advances to customers

In thousands of BGN

	31.12.2019	31.12.2018
Companies	9 321 503	8 442 081
Individuals		
Housing loans	2 228 485	1 928 599
Consumer loans	193 766	215 840
Other loans	77 093	86 621
Central and local governments	373 633	373 565
	12 194 480	**11 046 706**
Less impairment allowances	*(554 674)*	*(562 849)*
Loans and advances to customers at amortized cost	**11 639 806**	**10 483 857**
Loans and advances to customers mandatory at fair value	**4 157**	**4 617**
Total loans and advances to customers	**11 643 963**	**10 488 474**

27. Investment securities

In thousands of BGN

	31.12.2019	31.12.2018
Securities measured at FVTOCI		
Government bonds	3 198 850	3 315 220
Bonds of other financial institutions	288 839	263 958
Corporate bonds	81 704	135 711
Equities	11 660	11 660
Securities mandatorily measured at FV		
Equities	14 207	10 200
Total Investment securities	**3 595 260**	**3 736 749**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2019 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 31.12.2019 is BGN 1 232 263 thousand.

As of December 31, 2019 and as of December 31, 2018 there are pledged investments amounting to BGN 142 496 thousand and BGN 101 962 thousand respectively (see also Note **42**).

28. Investments in subsidiaries and associates

In thousands of BGN

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2019	SHARE IN CAPITAL DECEMBER 2018	CARRYING VALUE IN THOUSANDS OF BGN DEC 2019	CARRYING VALUE IN THOUSANDS OF BGN DEC 2018
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%	20%	2 975	2 500
		Total		**55 479**	**55 004**

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	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	775	8 076	2 614	**15 880**
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**	**11 432**	**79 689**	**51 714**	**302 055**
Increase in value via revaluation reserve upon new revaluation	8 726	70 202	-	-	-	**78 928**
Decrease in value in via income statement 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**	**11 432**	**79 689**	**51 714**	**380 729**
Depreciation						
As of December 31, 2018	**-**	**83 034**	**8 185**	**49 720**	**37 931**	**178 870**
Depreciation charge	-	7 265	1 221	6 992	5 494	**20 972**
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**	**8 832**	**52 993**	**38 320**	**187 730**
Net book value as of December 31, 2019	**12 117**	**138 192**	**2 600**	**26 696**	**13 394**	**192 999**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 046**	**25 764**	**16 307**	**121 939**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost						
As of December 31, 2017	**3 591**	**151 360**	**10 374**	**65 958**	**50 462**	**281 745**
Additions	-	5 892	1 003	11 869	8 124	**26 888**
Transfers	-	-	1	(1)	-	**-**
Write offs	-	(849)	(147)	(2 111)	(2 713)	**(5 820)**
Disposals	-	(138)		(231)	(1 635)	**(2 004)**
As of December 31, 2018	**3 591**	**156 265**	**11 231**	**75 484**	**54 238**	**300 809**
Depreciation						**-**
As of December 31, 2017	**-**	**76 973**	**6 492**	**43 921**	**36 663**	**164 049**
Depreciation charge	-	6 983	1 840	8 141	5 616	**22 580**
Impairment	-	-	-	-	-	**-**
Write offs	-	(849)	(147)	(2 111)	(2 713)	**(5 820)**
On disposals	-	(73)	-	(231)	(1 635)	**(1 939)**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**
As of December 31, 2018	**-**	**83 034**	**8 185**	**49 720**	**37 931**	**178 870**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 046**	**25 764**	**16 307**	**121 939**
Net book value as of December 31, 2017	**3 591**	**74 387**	**3 882**	**22 037**	**13 799**	**117 696**

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**

In thousands of BGN

	INVESTMENT PROPERTY
Cost	
Net book value as of December 31, 2017	**63 668**
Effect from chamge in valuation model	**2 113**
Revalued	
Net book value as of January 1, 2018	**65 781**
Transfers	9 933
Disposals	(51 790)
Reductions in fair value	(770)
Net book value as of December 31, 2018	**23 154**

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, 2019 and December 31, 2018 all investment properties have undergone external independent fair valuation and results of revaluation are considered in these separate financial statements according to newly applied valuation criterion. Same is in place as of December 31, 2019 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, 2019 and December 31, 2018, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2019 and December 31, 2018 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	FAIR VALUE	
	2019	**2018**
Investment properties		
Land	6 037	8 297
Buildings	14 713	14 857
Total investment properties	**20 750**	**23 154**

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, 2019, while liabilities under lease contracts are presented in Note **37**:

In thousands of BGN

RIGHT OF USE ASSETS	
Cost	
As of January 01, 2019	**26 882**
Additions	19 236
Write offs	-
As of December 31,2019	**46 118**
Depreciation	
As of January 01, 2019	**-**
Depreciation charge	4 957
Write offs	-
As of December 31, 2019	**4 957**
Net book value as of December 31, 2019	**41 161**
Net book value as of December 31, 2018	**-**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2018	**122 985**
Additions	32 054
Write offs	(29 128)
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**

In thousands of BGN

Cost	
As of December 31, 2017	**105 298**
Additions	17 835
Write offs	(148)
As of December 31,2018	**122 985**
Depreciation	
As of December 31, 2017	**69 961**
Depreciation charge	7 915
Write offs	(148)
As of December 31,2018	**77 728**
Net book value as of December 31, 2018	**45 257**
Net book value as of December 31, 2017	**35 337**

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, 2019 and as of December 31, 2018 there are no current tax assets reported by the Bank, while current tax liabilities represent net payable current tax position for the years 2019 and 2018 respectively (2019: BGN 3 662 thousand and 2018: BGN 2 395 thousand).

FTA tax effect (tax reduction) of IFRS 9 is amounting to BGN 8 056 and is considered in full in the 2018 as first year of implementation.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2019 and December 31, 2018 is as outlined below:

In thousands of BGN

	31.12.2019	31.12.2018
Property, plant, equipment, investment properties and intangible assets	13 429	5 174
Provisions	(3 195)	(3 208)
Actuarial gains (losses)	(622)	(501)
Other liabilities/Other assets	(5 066)	(5 428)
Net tax (assets)/liabilities	4 546	(3 963)

The movements of deferred tax assets and liabilities on net basis throughout 2019 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2018	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	BALANCE 31.12.2019
Property, plant, equipment, investment properties and intangible assets	5 174	362	7 893	13 429
Investment securities at fair value through OCI	-	(653)	653	-
Provisions	(3 208)	13	-	(3 195)
Actuarial gains (losses)	(501)	-	(121)	(622)
Cash flow hedge	-	676	(676)	-
Other liabilities	(5 428)	362		(5 066)
Net tax (assets)/ liabilities	**(3 963)**	**760**	**7 749**	**4 546**

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.

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.

As of the end of 2018 the Bank has not classified any assets as non-current assets held for sale.

34. Other assets

In thousands of BGN

	31.12.2019	31.12.2018
Receivables and prepayments	51 931	48 280
Receivables from the State Budget	-	47
Materials, spare parts and consumables	739	830
Other assets	7 370	5 708
Foreclosed properties	32 765	50 944
Total other assets	**92 805**	**105 809**

35. Financial liabilities held for trading

In thousands of BGN

	31.12.2019	31.12.2018
Interest rate swaps	24 389	18 979
FX forward contracts	23 246	7 738
FX swaps	1 137	891
Commodity swaps	416	189
Commodity options	4 489	3 409
Total financial liabilities held for trading	**53 677**	**31 206**

36. Deposits from banks

In thousands of BGN

	31.12.2019	31.12.2018
Current accounts and overnight deposits		
Local banks	303 548	261 708
Foreign banks	82 391	54 549
	385 939	**316 257**
Deposits		
Local banks	248 460	122 674
Foreign banks	**21 075**	**29 792**
	269 535	**152 466**
Other	**5 213**	**9 305**
Total deposits from banks	**660 687**	**478 028**

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, 2019 and December 31, 2018 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

	31.12.2019	31.12.2018
Current accounts		
Individuals	3 442 581	2 805 041
Corporate	7 057 792	6 049 763
Budget and State companies	305 647	269 018
	10 806 020	**9 123 822**
Term deposits		
Individuals	4 803 339	4 562 579
Corporate	370 135	508 390
Budget and State companies	32 472	52 866
	5 205 946	**5 123 835**
Saving accounts	**1 604 811**	**1 507 163**
Lease liabilities	**41 836**	**-**
Transfers in execution process	**47 796**	**53 255**
Total deposits from customers and other financial liabilities at amortized cost	**17 706 409**	**15 808 075**

The following table represent liabilities under lease contracts after implementation of the new standard as of December 31, 2019, while existing right of use assets are presented in Note **29**:

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

The movement in provisions for the years ended December 31, 2019 and December 31, 2018 is as follows:

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2017	**3 208**	**28 320**	**9 012**	**302**	**514**	**41 356**
IFRS 9 FTA efect	**12 238**	**-**	**-**	**-**	**-**	**12 238**
Balance as of December 31, 2017	**15 446**	**28 320**	**9 012**	**302**	**514**	**53 594**
Allocations	73 093	8 295	667	-	682	**82 737**
Releases	(32 113)	(6 751)	-	-	-	**(38 864)**
Additions due to FX revaluation	242	2 565	-	-	-	**2 807**
Releases due to FX revaluation	(217)	(2 324)	-	-	-	**(2 541)**
Actuarial gains/losses recognized in OCI	-	-	888	-	-	**888**
Utilization	-	(397)	(320)	-	(244)	**(961)**
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)**
Balance as of December 31, 2019	**62 762**	**29 163**	**11 676**	**302**	**1 146**	**105 049**

(a) Provisions on letters of guarantees and credit commitment

Starting from 2018, 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, 2019 accumulated provisions are in the amount of BGN 62 762 thousand (as at December 31, 2018: BGN 56 451 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, 2019 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 29 163 thousand has been recognized (BGN 29 708 as of December 31, 2018).

(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 2019 defined benefit obligation are as follows:

- Discount rate – 0.30% (previous year – 0.75%);
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years and 2 months, women 61 years and 4 months for 2019 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 movement of the defined benefit obligation for the year ended December 31, 2019 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2018	**10 247**
Current service costs for 2019	655
Interest cost for 2019	72
Actuarial losses recognized in OCI in 2019	1 210
Benefits paid	(508)
Recognized defined benefit obligation as of December 31, 2019	**11 676**
Interest rate beginning of the year	1,00%
Interest rate end of the year	0,30%
Future increase of salaries	5,00%
Expected 2020 service costs	732
Expected 2020 interest costs	33
Expected 2020 benefit payments	**1 572**

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 +/- %	0,25%	0,25%
DBO Discount rate -	12 011	10 528
DBO Discount rate +	11 357	9 979
Sensitivity - Salary increase rate +/- %	0,25%	0,25%
DBO Salary increase rate -	11 370	9 989
DBO Salary increase rate +	11 995	10 515

(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, 2019 and December 31, 2018 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 1 146 thousand as of December 31, 2019 (BGN 952 thousand as of December 31, 2018) relates to coverage of claims related to credit cards business as well as other claims.

39. Other liabilities

In thousands of BGN

	31.12.2019	31.12.2018
Liabilities to the State budget	2 451	3 762
Liabilities to personnel	24 102	24 999
Liabilities for unused paid leave	6 006	6 198
Dividends	1 035	820
Incentive plan liabilities	7 432	6 833
Other liabilities	78 384	67 445
Total other liabilities	**119 410**	**110 057**

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 2019 and 2018 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** above.

40. Equity

a) Share capital

As of December 31, 2019 and December 31, 2018 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.

In 2018 IFRS 9 FTA effect amounting net to BGN 67 612 thousand was booked against retained earnings of the Bank.

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, 2019 and December 31, 2018 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 33 819 thousand and BGN 25 145 thousand, respectively, net of tax.

In 2018 IFRS 9 FTA effect amounting net to BGN 254 thousand was booked against the Revaluation reserves of the Bank.

In 2019 introduced change in the valuation of properties used in business and investment properties resulted in accumulation of additional reserve. The breakdown of the amounts by type of property is presented in **Note 3** above.

41. Contingent liabilities

In thousands of BGN

	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	STAGE 1		STAGE 2		STAGE 3		TOTAL	
Letters of credit and letters of guarantee	1 817 409	1 627 293	340	61 482	37 872	58 710	1 855 621	1 747 485
Credit commitments	4 073 433	2 076 475	228 905	87 431	9 781	3 192	4 312 119	2 167 098
Total contingent liabilities	**5 890 842**	**3 703 768**	**229 245**	**148 913**	**47 653**	**61 902**	**6 167 740**	**3 914 583**

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.

Starting from 2018, 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, 2019 and December 31, 2018 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these separate financial statements as of December 31, 2019 are in the amount of BGN 29 163 thousand (BGN 29 708 thousand in 2018), (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, 2019 and December 31, 2018 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

Following Bulgarian National Bank supervisory prescription and treatment, UniCredit Bulbank AD, as of the end of 2019, has reported and booked respectively as committed engagements the following off balance sheet items:

- All unutilized limits under multipurpose credit lines, independently of the fact whether a contractual disbursement (or particular product) is negotiated with the client or not. These engagements are treated as loan commitments, subject also to IFRS 9 provisioning and off balance sheet booking. At the end of 2019 their total amount is BGN 1.6 billion, out of which BGN 0.7 million are cancellable/revocable engagements to local subsidiaries and the rest present irrevocable commitments. The amount of allocated loan loss provisions for credit risk is BGN 10 million. The amount of the off balance sheet loan commitment is automatically calculated as a difference of the approved and negotiated limit with the client and all disbursed amounts (depending on the disbursement rights/period and revolving conditions). The abovementioned loan commitments give rise to off balance sheet items, nevertheless the Bank needs not only to approve the initial but also each subsequent product usage and disbursement conditions.
- Conditional loans, presenting available limit for derivative deals amounting at BGN 269 million – and also subject to IFRS 9 provisioning (provisions amounting at BGN 0.5 million). The amount of free limit is calculated automatically as a difference between the approved limit as the maximum loss given default and the potential future exposure calculated following the Group model.
- Engagements arising from agreements between trade and settlement date, which settlement date is still not reached and money transfer is not performed respectively by the Bank. Their total amount is BGN 391 million with allocated as of 31.12.2019 loan loss provisions for BGN 7 thousand. The amount of the engagement represents the amount to be transferred by the Bank when the settlement date is reached.

42. Assets pledged as collateral

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

As of December 31, 2019 the Bank has receivables under repurchase agreements with banks amounting to BGN 2 444 988 thousand with collateral value of the same at BGN 2 443 850 thousand (as of December 31, 2018 - none).

In thousands of BGN

	31.12.2019	31.12.2018
Securities pledged for budget holders' account service	80 284	49 455
Securities pledged on REPO deals	62 212	52 507
Loans pledged for budget holders' account service	254 864	254 886
Loans pledged on other deals	117 476	55 602
	514 836	**412 450**
Pledged assets include:		
Investment securities	142 496	101 962
Loans and advances	372 340	310 488
Total assets pledged as collateral	**514 836**	**412 450**

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, 2019 and December 31, 2018 and Income statement items for the years ended then are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2019	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS					
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 securities	98 471	-	-	-	**98 471**
Extended loans	-	2 167 955	-	12 011	**2 179 966**
Other assets	4 117	16 445	-	1350	**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, 2018	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS					
Derivatives held for trading	455	-	-	15 508	**15 963**
Derivatives held for hedging	-	-	-	496	**496**
Current accounts and deposits placed	2 142 491	-	-	57 441	**2 199 932**
Extended loans	-	1 581 758	-	19 689	**1 601 447**
Other assets	4 503	16 406	-	1 966	**22 875**
LIABILITIES					
Financial liabilities held for trading	3 049	-	-	16 218	**19 267**
Derivatives used for hedging	37 960	-	-	18 941	**56 901**
Current accounts and deposits taken	2 783	33 486	-	19 196	**55 465**
Other liabilities	7 953	50		735	**8 738**
Guarantees received by the Group	**38 407**	**-**	**-**	**129 781**	**168 188**

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**

In thousands of BGN

AS OF DECEMBER 31, 2018	PARENT COMPANIES	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	4 213	9 376		542	**14 131**
Interest expenses	(14 617)	(1)	0	(13 133)	**(27 751)**
Dividend income		115 342	128		**115 470**
Fee and commissions income	165	17 097	0	575	**17 837**
Fee and commissions expenses	(19)	0		(73)	**(92)**
Net gains (losses) on financial assets and liabilities held for trading	6 277	0		50 640	**56 917**
Other operating income	0	593		(329)	**264**
Administrative and personnel expenses	(2 209)	(1 765)	(898)	(9 728)	**(14 600)**
Total	**(6 190)**	**140 642**	**(770)**	**28 494**	**162 176**

As of December 31, 2019 the loans extended to key management personnel amount to BGN 999 thousand (BGN 25 thousand in 2018). For the year ended December 31, 2019 the compensation paid to key management personnel amounts to BGN 3 314 thousand (BGN 3 834 thousand in 2018).

44. Cash and cash equivalents

In thousands of BGN

	31.12.2019	31.12.2019
Cash in hand and in ATM	233 367	231 125
Cash in transit	169 365	140 491
Current account with the Central Bank	1 662 434	2 085 618
Current accounts with banks	184 410	104 230
Placements with banks with original maturity less than 3 months	2 749 687	13 997
Total cash and cash equivalents	**4 999 263**	**2 575 461**

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 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, 2019 the Bank has recognised in these separate financial statements the right of use assets for an amount of BGN 46 118 thousand relating to lease contracts of buildings less accumulated depreciation for the year amounting to BGN 4 957 thousand (net book value BGN 41 161 thousand). At the same date the Bank has also recognised lease liabilities for an amount of BGN 41 836 thousand (pls refer to Notes **29 and 37**).

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

Summary of non-cancellable minimum lease payments as of December 31, 2019 and December 31, 2018 are presented in the tables below.

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2019	31.12.2018
Up to one year	143	170
Total	**143**	**170**

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, 2019 and December 31, 2018 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

	2019	2018	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	813 109	813 019	Separate Income Statement and details in Notes 7, 8, 9, 10, 11 and 12
Profit before income tax	459 499	464 340	Separate Income Statement
Income tax expense	(34 393)	(35 222)	Separate Income Statement and details in Note 20
Return on average assets (%)	2.07%	2.26%	2019 Annual Report on Activity
Full time equivalent number of personnel as of December 31	3 555	3 555	Note 15

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

Disciplined risk management. & controls

We run the business with disciplined origination, enhanced business accountability and in-depth monitoring by control functions. Our reinforced governance and steering ensure targeted actions wherever necessary.
A Group culture driven by the principle: “Do the right thing!” means that each employee is part of the first line of defense.

Capital and balance sheet management.

We will continue to take decisive actions to increase our flexibility, with a proactive approach to capital allocation, both top down and bottom up. In Team 23, one key commitment is to maintain a CET1 MDA buffer between 200 to 250 basis points.

Independent Auditors' Report

Deloitte. bakertilly

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, 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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	
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. To assess the amount of allowances for expected credit losses, the Group applies statistical models with input parameters obtained from internal and external sources. 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. The assessment of classification to impairment stages is a result of combination of relative and absolute factors: • Relative comparison between the probability of default at the original date of the receivable and the date of financial statements, • Absolute factors such as limits set by related regulations (30 days past due or 90 days past due), • Other factors with internal relevance for the Group (such as forbearance or watch list classification). The expected credit losses are calculated using available historical data and anticipated future development determined by using macroeconomic indicators. 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. We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances for the significant loan portfolios. 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: - timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages, - regular client creditworthiness review processes, - creation and regular review of watch-lists, - approval of experts' collateral valuation, - management review and approval of the impairment assessment results. We involved auditors' experts in the areas which required specific expertise. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment on a sample of exposures based on the risk parameters resulted from the models. On a sample of exposures we evaluated appropriateness of impairment methodologies and their application. We formed an independent view on the levels of impairment allowances required by examining available external and internal information. We developed own expectation regarding impairment of loans and advances to customers as at December 31, 2019 and comparison of this expectation to impairment recognized by the

Independet Auditors' Report (continued)

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 allowances. As described in note 25 to the consolidated financial statements, the Group has recorded as at December 31, 2019 impairment allowances on loans and advances to customers amounting to BGN 657,175 thousand. 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, we identified impairment of loans and advances to customers as a key audit matter.	management and reported in the financial statements. 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 Group. We analysed 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, the valuation of collaterals, and other factors that may affect the recoverability of loans. 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 (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 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 jointly 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 (ICPA) 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 and Public Offering of Securities 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 Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 4, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

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

Information in accordance with Art. 33 of Ordinance 38/2007 and Art. 11 of Ordinance 58/2018 of the Financial Supervisory Commission (FSC) outlining the Requirements for the Activities of the Investment Intermediaries

- Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 of FSC regarding the Bank's activity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- 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 December 31, 2019 by the general meeting of shareholders held on April 09, 2019 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2019 represents seventh total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and third 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, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- 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 Bulgaria EOOD (an entity part of the Deloitte network) solely has provided to the Bank the following services which have not been disclosed in the Group's management report or consolidated financial statements:
  - Assistance in performing a review of the Bank's readiness in view of Asset Quality Review (AQR) requirements as per AQR Manual issued in June 2018 by the European Central Bank.

Independet Auditors' Report (continued)

- 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 Group, 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, 2018, 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, 2018 and December 31, 2019. 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, 2018 and December 31, 2019. 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 3 months ending March 31, 2019, the 6 months ending June 30, 2019, and the 9 months ending September 30, 2019. 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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

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

Baker Tilly Klitou and Partners OOD

On behalf of
Baker Tilly Klitou and Partners OOD

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

Krassimira Radeva
Statutory Manager
Registered Auditor, in charge of the audit

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

March 6, 2020

Consolidated Income Statement

in thousands of BGN

	Notes	2019	2018
Interest income		593 681	607 516
Interest expense		(42 348)	(45 373)
Net interest income	7	**551 333**	**562 143**
Dividend income		**323**	**73**
Fee and commission income		289 556	276 120
Fee and commission expense		(33 245)	(28 855)
Net fee and commission income	8	**256 311**	**247 265**
Net gains on financial assets and liabilities held for trading and hedging derivatives	9	98 732	96 906
Net gains from financial assets mandatorily at fair value	10	4 144	2 094
Net income from financial assets measured at FVTOCI	11	34 152	25 317
Other operating (expenses), net	12	(51 855)	(54 457)
TOTAL OPERATING INCOME		**893 140**	**879 341**
Net income related to property, plant and equipment	13	3 220	5 562
Personnel expenses	14	(155 427)	(146 118)
General and administrative expenses	15	(107 330)	(105 284)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	(48 724)	(36 664)
Provisions for risk and charges	17	(17 554)	(42 608)
Net impairment loss on financial assets	18	(117 949)	(75 611)
PROFIT BEFORE INCOME TAX		**449 376**	**478 618**
Income tax expense	19	(45 369)	(48 055)
PROFIT FOR THE YEAR		**404 007**	**430 563**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2020.

Teodora Petkova Chairman 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	Baker Tilly Klitou & Partners OOD
Momchil Chergansky *Registered auditor, in charge of the audit* 06.03.2020	Krassimira Radeva *Registered auditor, in charge of the audit* 06.03.2020

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	2019	2018
Profit for the year		**404 007**	**430 563**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)	37	(1 224)	(895)
Revaluation reserve on properties	28	78 928	-
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(7 772)	89
		69 932	**(806)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities at fair value through other comprehensive income		6 402	(97 607)
Cash flow hedge		(6 763)	61
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		23	9 850
		(338)	**(87 696)**
Total other comprehensive income net of tax for the year		**69 594**	**(88 502)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**473 601**	**342 061**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2020.

Teodora Petkova
Chairman 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
06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit
06.03.2020

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	31.12.2019	31.12.2018
ASSETS			
Cash and balances with Central Bank	20	2 065 169	2 457 235
Non-derivative financial assets held for trading	21	39 090	31 946
Derivatives held for trading	22	68 327	57 942
Derivatives held for hedging	23	226	496
Loans and advances to banks	24	3 756 505	2 287 077
Loans and advances to customers	25	12 210 454	11 297 096
Investment securities	26	3 595 260	3 736 749
Investments in associates	27	3 623	2 756
Property, plant, equipment, rights of use assets and investment properties	28	332 627	187 789
Intangible assets	29	69 967	47 923
Current tax assets	30	758	368
Deferred tax assets	31	4 195	7 704
Non-current assets and disposal groups classified as held for sale	32	2 324	-
Other assets	33	98 117	101 304
TOTAL ASSETS		**22 246 642**	**20 216 385**
LIABILITIES			
Financial liabilities held for trading	34	53 677	31 206
Derivatives used for hedging	23	90 688	56 901
Deposits from banks	35	864 865	893 751
Deposits from customers and other financial liabilities at amortized cost	36	17 747 580	15 824 661
Provisions	37	116 578	99 135
Current tax liabilities	30	4 970	2 941
Deferred tax liabilities	31	4 723	114
Other liabilities	38	141 873	129 623
TOTAL LIABILITIES		**19 024 954**	**17 038 332**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		217 203	147 609
Retained earnings and statutory reserves		2 314 701	2 314 104
Profit for the year		404 007	430 563
TOTAL EQUITY	39	**3 221 688**	**3 178 053**
TOTAL LIABILITIES AND EQUITY		**22 246 642**	**20 216 385**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2020.

Teodora Petkova Chairman 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	Baker Tilly Klitou & Partners OOD
Momchil Chergansky *Registered auditor, in charge of the audit*	Krassimira Radeva *Registered auditor, in charge of the audit*

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

Consolidated Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserves	Retained earnings	Revaluation reserves: Financial Assets at FVTOCI	Cash flow hedges reserves	IAS 19 reserve	Total
Balance as of December 31, 2017	285 777	342 378	2 335 226	268 142	(28 056)	(3 721)	3 199 746
IFRS 9 FTA Effect	-	-	(67 749)	(254)	-	-	(68 003)
Balance as of January 1, 2018	285 777	342 378	2 267 477	267 888	(28 056)	(3 721)	3 131 743
Effect from new valuation method for investment properties	-	-	1 902	-	-	-	1 902
Balance as of January 1, 2018	285 777	342 378	2 269 379	267 888	(28 056)	(3 721)	3 133 645
Profit for the year (restated)	-	-	430 563	-	-	-	430 563
Actuarial (losses)	-	-	-	-	-	(895)	(896)
Change of revaluation reserve on investment securities	-	-	-	(97 607)	-	-	(97 607)
Change of revaluation reserve on cash flow hedges	-	-	-	-	61	-	61
Income tax related to components of other comprehensive income	-	-	-	9 856	(6)	89	9 939
Total other comprehensive income for the year net of tax	-	-	-	(87 751)	55	(806)	(88 502)
Total comprehensive income for the year net of tax	-	-	430 563	(87 751)	55	(806)	342 061
Dividends paid	-	-	(297 653)	-	-	-	(297 653)
Balance as of December 31, 2018	285 777	342 378	2 402 289	180 137	(28 001)	(4 527)	3 178 053

	Share capital	Statutory reserves	Retained earnings	Revaluation reserves: Financial Assets at FVTOCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve on PPE	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 gains (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 PPE	-	-	-	-	-	-	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 period net of tax	-	-	-	5 749	(6 087)	(1 103)	71 035	69 594
Total comprehensive income for the period 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

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2020.

Teodora Petkova
Chairman 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
06.03.2020

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 033
ДЕЛОЙТ ОДИТ ООД

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit
06.03.2020

София
Рег. № 129

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	2019	2018
Net profit		**404 007**	**430 563**
Current and deferred tax, recognised in income statement		45 369	48 055
Adjustments for non-cash items			
IFRS 9 FTA effect on retained earnings		-	(67 749)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	16	48 724	36 664
Impairment of financial assets	18	149 914	138 412
Impairment of foreclosed properties	12	1 492	2 145
Provisions, net	37	18 281	57 036
Unrealised fair value (gains)/losses through profit or loss, net		(6 347)	1 633
Unrealised fair value losses on FX revaluation		28 989	52 630
Net income from associates under equity method		(392)	(39)
Net income from sale of property, plant and equipment		(5 453)	(5 562)
Net interest income		(551 333)	(400 709)
Dividend income		(323)	(73)
Increase in other accruals		16 508	38 981
Cash flows from profits before changes in operating assets and liabilities		**149 436**	**331 987**
Operating activities			
Change in operating assets			
(Increase)/Decrease in loans and advances to banks		1 346 137	(1 205 233)
(Increase) in loans and advances to customers		(1 053 698)	(816 318)
(Increase)/Decrease in investment securities		142 260	(72 919)
(Increase)/Decrease in financial instruments held for trading and hedging		28 284	(12 742)
(Increase) in non-current assets held for sale		(2 324)	-
Decrease in other assets		2 043	19 121
Change in operating liabilities:			
(Decrease) in deposits from banks		(32 978)	(373 835)
Increase in deposits from customers		1 839 145	260 390
Provisions utilization		(2 171)	(1 009)
Increase in other liabilities		2 370	23 502
Interest received		600 984	452 228
Interest paid		(41 592)	(37 276)
Dividends received		323	73
Taxes paid		(40 940)	(26 868)
Net cash flow from/(used in) operating activities		**2 937 279**	**(1 458 899)**

Consolidated Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2019	2018
Cash flow from investing activities			
Cash payments to acquire PPE		(54 492)	(56 478)
Cash receipts from sale of PPE		5 453	8 898
Cash payments to acquire intangible assets		(32 745)	(17 835)
Cash payments for the investment in associates		(475)	-
Net cash flow used in investing activities		**(82 259)**	**(65 415)**
Cash flow from financial activities			
Dividends paid		(430 039)	(297 653)
Cash payments related to lease liabilities		(5 669)	-
Net cash flowsused in financial activities		**(435 708)**	**(297 653)**
Effect of exchange rate changes on cash and cash equivalents		**4 476**	**2 088**
Impairment of cash equivalents		**16**	**56**
Net increase/(decrease) in cash and cash equivalents		**2 423 804**	**(1 819 823)**
Cash and cash equivalents at the beginning of period	43	**2 575 462**	**4 395 285**
Cash and cash equivalents at the end of period	43	**4 999 266**	**2 575 462**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 27, 2020.

Teodora Petkova
Chairman 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
06.03.2020

Baker Tilly Klitou & Partners OOD

Krassimira Radeva
Registered auditor, in charge of the audit
06.03.2020

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

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, 2019 the Bank operates through its network comprising of 170 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 27, 2020.

(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.

Change in the method for valuation of property, plant and equipment: properties used in business (IAS 16) and investment properties (IAS 40)

On December 2, 2019 UniCredit S.p.A. Board of Directors approved the adoption for UniCredit Group (the Group) of the current value model for the measurement of the Real Estate portfolio, both held for investment and used in business (i.e. fair value & revaluation model respectively). Same was confirmed by the Bank's Management Board for local application.

Based on the above, for the purposes of preparing the financial statements as of December 31, 2019, the Group has decided to change the method for valuation of the following assets:

- properties used in business (regulated by IAS 16 "Property, plant and equipment") providing for the transition from the cost model to the revaluation model for the measurement subsequent to initial recognition;
- investment properties (regulated by IAS 40 "Investment property") providing for the transition from the cost model to the fair value model.

In this context, the Bank has considered that the possibility of expressing real estate assets at current values (and no longer at cost) allows, in line with the provisions of IAS 8 concerning changes in accounting principles, to provide reliable and more relevant information on the effects of business management as well as the Bank's financial position and economic result.

More specifically, it is believed that the change in the method for valuation of properties may allow:

- a more significant representation of the financial position since the expression at current values allows to represent the value, updated on the basis of the current appreciation of properties by the market, which the Group expects to achieve as a result of the enhancement and/or disposal of the properties, accounting for timely at assets and equity level (in the form of valuation reserves or profit of the year), the stock of value that will be created by the planned initiatives.

This circumstance is verified both in the case of properties to be disposed, for which the representation at current values allows to evidence their expected realization values, and for the instrumental properties considering that a significant part of these properties is exposed in the financial statements at historical values that are not representative of current market conditions due to their not recent acquisition.

In addition, the adoption of a valuation criterion at current values allows a more significant representation of the financial position since it allows to represent the value of the real estate assets assuming a single reference date (the date of preparation of the financial statements) thus overcoming the time lag due the adoption of the cost criterion which implies the enhancement of the real estate assets at different times (the purchase dates) which are not homogeneous in terms of market conditions.

- a more relevant representation of the Bank's economic dynamics since the adoption of a criterion at current values allows to represent the changes in value at the moment in which they arise, in compliance with the objectives of active management of the initiatives mentioned above. In this way, the recognition of capital gains and losses is not deferred at the time of sale of the real estate assets and is not influenced by the difference between market value (embedded in sale price) and cost, which, as mentioned, may no longer be meaningful when the acquisition of real estate assets did not take place recently.

In substance, the change in the valuation criterion of properties determines both a higher alignment of the financial information with the strategies of the real estate asset management and a more reliable, relevant and immediate representation of the economic substance, and the related accounting impacts, of the actions that will be taken.

The presentation of voluntary changes in accounting principles (accounting policies) is regulated by IAS 8 which establishes, as a general rule, that these changes have to be represented retrospectively starting from the most remote date when this is feasible.

This means that, based on the general principle, at the date on which the change takes place, the opening balances of the comparative year and the data of that year shown in the financial statements and in the notes must be restated.

However, this general rule allows for exceptions. IAS 8, in fact, at paragraph 17, establishes that for the purposes of the valuation of the property, plant and equipment, regulated by IAS 16, the transition from the cost criterion to the revaluation model must be presented as a normal application in continuity of the revaluation mode. As a result the revaluation model has been applied prospectively and not retrospectively as required by the general principle reported in IAS 8 without, therefore, making any adjustment of the opening balances of the comparative year and of the comparative data.

Consequently, for the properties used in business, regulated by IAS 16, the transition from a cost valuation to a valuation at current values, required the determination of the related fair value as of December 31, 2019.

The differences between this value and the previous value determined by applying the "cost" model are recognized:

- if negative, in the income statement,
- if positive, in the other comprehensive income statement, and accumulated in equity under the item revaluation reserve, unless impairment was accounted for on that asset; in this case the positive differences between fair value and book value are recognized in the income statement.

As the change in the valuation method took place at the end of the year, the calculation of the depreciation for the 2019 financial year was made with the previous cost criterion.

From 2020 on, properties used in business, measured according to IAS 16 revaluation model, will continue to be depreciated over their estimated remaining useful life.

Unlike what is envisaged for used in business properties, IAS 8 does not mention investments properties among the assets for which an exception from the retroactive application rule for the change in standards is envisaged. As a result, except for cases where it is not feasible to determine the related effects, it was decided to apply the change in accounting policy retrospectively. However, the retrospective application does not have a material effect on the statement of financial position at the beginning of the preceding period, and the opening balance sheet for the prior period has not been presented.

This has determined:

- the book value of the land and investment properties as of January 01, 2018 adjusted to their fair value with the recognition of the difference in retained earnings (item Reserves), which can be used to cover losses and are included in the calculation of CET1 ratio;
- the measurement at fair value, instead of depreciation and impairment recognition, is accounted for in the income statement for the positive and negative differences, both in 2018 and in 2019, a circumstance that led to the restatement of the comparative data as of December 31, 2018.

Starting from 2020, investment properties will continue to be measured at fair value with recognition of the differences in the income statement and will no longer be subject to depreciation and / or impairment.

With reference to the methods for determining the market value (fair value), it should be noted that this value was determined through the use of independent expert evaluators through the preparation of specific appraisals.

These appraisals, based on the relevance of the single real estate item, consisted of:

- "full / on site" appraisals based on a physical inspection of the property by the expert; or
- "desktop" appraisals based on an assessment conducted without carrying out a physical inspection of the real estate property and, therefore, based exclusively on reference market values.

For the preparation of the appraisals relating to the properties, the rents, the sale prices, the discount rates and the capitalization rates for the properties that compose the Banks's portfolio were estimated. More specifically, to determine fair value, the Bank alternatively uses the so-called Market Comparable Approach taking into consideration the prices observable in the market for comparable transactions or the Income Approach taking into account the present value of the rent.

At the date of initial application of the change in the valuation method, 100% of the properties belonging to the Bank were appraised with a percentage of coverage with "full / on site" appraisals of over 80% of their market value.

Impacts deriving from the change in the method for valuation of property, plant and equipment

In the consolidated financial statements as of December 31, 2019, the change in the valuation criterion of the properties resulted in an overall positive effect to the statement of financial position at the amount of BGN 78 999 thousand (equivalent to approx. 50 basis points with CET1 ratio) as detailed below:

- for properties used in business, the recognition of a revaluation of BGN 78 928 thousand gross of tax effect. This value, net of deferred tax, equals to BGN 71 035 thousand was attributed to a specific valuation reserve in equity. In addition to this higher value, net losses for BGN 254 thousand were recognized in the income statement gross of tax effect.
- for investment properties:
  - the recognition of a revaluation of BGN 2 113 thousand gross of tax effect as a restatement of the opening balances of equity as of January 1, 2018 (as a reserve from the initial application of the new accounting policy). This value, net of deferred tax, equals to BGN 1 902 thousand was attributed to a specific reserve in the equity as of January 1, 2018;
  - the restatement of retained earnings reserves relating to December 31, 2018 as a consequence of changes in the fair value of properties during the previous year, recalculated results from sales during the year and the fact that properties held for investment are no longer subject to depreciation, for an equal amount BGN (1 023) thousand gross of tax effect (BGN (921) thousand net of the tax effect);
  - the recognition in 2019 income statement of a result equal to BGN (764) thousand gross of tax effect (BGN (688) thousand net of the tax effect).

For completeness purposes, it should be noted that property, plant and equipment other than real estate, real estate items accounted for in accordance with IAS 2 (Inventories) and investment properties (IAS 40) under construction have not been subject to modification of the evaluation criteria.

The following tables summarize the effects on the balance sheet assets and liabilities as of January 1 and December 31, 2018 as well as the changes in the income statement for the year then ended following the retrospective application of the change in the valuation method of the investment properties:

In thousands of BGN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	REPORTED 01.01.2018	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON INVESTMENT PROPERTIES VALUATION	RESTATED AMOUNT 01.01.2018
Property, plant, equipment and investment properties	196 345	2 113	198 458
Deferred tax assets	8 673	(211)	8 462
Retained earnings	2 265 362	1 902	2 267 264

In thousands of BGN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	REPORTED 31.12.2018	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON INVESTMENT PROPERTIES VALUATION	RESTATED AMOUNT 31.12.2018
Property, plant, equipment and investment properties	186 699	1 090	187 789
Deferred tax assets	7 813	(109)	7 704
Retained earnings	2 312 202	1 902	2 314 104
Profit for the year	431 484	(921)	430 563

In thousands of BGN

CONSOLIDATED INCOME STATEMENT	REPORTED FOR 2018	RESTATEMENT DUE TO CHANGE IN THE ACCOUNTING POLICY ON INVESTMENT PROPERTIES VALUATION	RESTATED AMOUNT FOR 2018
Other operating income (expenses), net	(53 687)	(770)	(54 457)
Net income related to property, plant and equipment	8 128	(2 566)	5 562
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(38 977)	2 313	(36 664)
Income tax expense	(48 157)	102	(48 055)
PROFIT FOR THE YEAR	**431 484**	**(921)**	**430 563**

Transition to IFRS16 “Leases”

IFRS 16, effective from January 1, 2019 and subject to the completion of the endorsement process by the European Union on 31 October 2017, modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor.

With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, the recognition as 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.

At initial recognition such asset is measured on the basis of the lease contract cash flows. After the initial recognition the right of use asset is measured on the basis of the rules set for assets by IAS 16, IAS 38 or by IAS 40 and therefore applying the cost model, less any accumulated depreciation and any accumulated impairment losses, the revaluation model or the fair value model as applicable.

In this context, the Bank has performed the activities aimed to ensure compliance with this accounting principle, in particular with reference to the calculation and accounting for right of use asset and lease liability that represent the main discontinuity compared to the current accounting model required by IAS17.

The activities aimed to development of rules, principles and IT systems to be used for the proper evaluation of new assets and liabilities and the subsequent calculation of the related economic effects have been finalised.

With reference to the first time adoption of IFRS 16 the Group and the Bank decided, as allowed by the standard, to calculate the lease liability as the present value of future lease payments as at 1 January 2019 and to determine the right of use asset on the basis of the value of the lease liability.

As a result comparative information has not been restated. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

(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, 2019 and December 31, 2018.

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, 2019 and December 31, 2018 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, 2019 has not changed to the one applied as of December 31, 2018 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

Until December 31, 2018 payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense was allocated to each period during the lease term and so produced a constant periodic rate of interest on the remaining balance of the lease liability.

Starting from January 01, 2019 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 Bank did not make any such adjustments during the periods presented.

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.

As a result of the entry into force of the new accounting standard, the Bank has reclassified financial assets and liabilities as at 1 January 2018 into the new envisaged categories.

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 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.

(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 new 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 new 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 was 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.

Assets carried at amortized cost

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by 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.

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 P&L.

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.

As of 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. When the property is revalued, any accumulated depreciation at the date of the revaluation is kept and the change in the fair value results in adjustment of the gross carrying amount of the asset.

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 (see also Note 33).

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

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

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

	ANNUAL DEPRECIATION RATES (%)	EQUIVALENT EXPECTED USEFUL LIFE (YEARS)
Buildings	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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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 2019 and 2018.

(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, 2019 and December 31, 2018 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, 2019 and December 31, 2018 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 the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 “Leases”** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement – adopted by the EU on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on February 8, 2019 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on March 14, 2019 (effective for annual periods beginning on or after January 1, 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any other then described above material changes in the Bank's 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 nor interpretations which are issued by IASB and adopted by the EU, but are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after January 1, 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** issued on 29 March 2018 (effective for annual periods beginning on or after January 1, 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation BMR, UniCredit Group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation.

Accordingly, a multiyear roadmap has been defined based on both Group Exposure (mainly focused on Euro) and transition timeline. The project governance involves the main internal stakeholders, both at Group and at main Legal Entities level. The program is also monitored by ECB as Regulator for the Holding Company, and progresses are shared with the Group top management.

In 2019, UniCredit Group has ensured compliance, for EURIBOR and €STR/Eonia outstanding contracts, to the following main market changes:

- discontinuation of some EURIBOR tenors and basis, according to the deadline set by European Money Markets Institute - EMMI (3 December 2018 for tenors and 1 April 2019 for Act/365 and 30/360 basis decommissioning);
- changes requested by Euribor administrator (EMMI) on contribution process, following its new methodology;
- introduction of the new €STR overnight rate (EONIA substitute), which has been published for the first time on 2 October 2019.

Possible uncertainties, involving other IBORs, with timing and/or fallback rules applied to outstanding stock of assets, liability and derivatives however cannot be excluded.

On this regard, on 15 January 2020 the "Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform" (the Amendment) have been endorsed by the European Commission for use in the European Union (EU).

The Amendment solves a potential source of uncertainty on the effects of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships that are affected by the IBOR reform, clarifying that the reform does not require to terminate such hedge relationships.

The EU effective start date for Amendment is the annual period beginning on or after 1 January 2020. As the earlier adoption is permitted, UniCredit Group has adopted the Amendment with reference to 2019 financial statements for its existing hedge accounting relationships involving other IBORs. Considering that UniCredit Bulbank AD has hedge accounting-linked exposure only to EURIBOR that is transitioned to EU BMR compliant definitions, it is considered that early adoption will not have any impact on the separate financial statements of the Bank.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group will continuously monitor the market, also attending the European Working Groups, the industry working groups (e.g. International Swaps and Derivatives Association ISDA) and participating to the relevant public consultations.

(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 February 27, 2020 (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"** (effective for annual periods beginning on or after January 1, 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (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 January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after January 1, 2020).

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 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 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, 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 unit and compared with the risk limits set by the Management Board and ALCO. The risk control function also includes ongoing monitoring and reporting of the risk positions, limit utilization, and daily presentation of results of Markets & Brokerage and Assets and Liabilities Management (ALM) operations.

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

For internal risk management and Group compliant risk measurement, the Bank applies UniCredit Group's internal model IMOD. It is based on historical simulation with a 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. Internal model also includes quantification of Stressed VaR and Incremental risk charge values. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. The use of credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments in UniCredit Bulbank AD was further refined and integrated in the presentation of performance results.

During 2019, VaR (1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD consolidated moved in a range between EUR 2.09 million and EUR 5.40 million, averaging EUR 3.37 million, with credit spreads being main driver of total risk in both, trading and banking books. VaR of UniCredit Bulbank AD by risk category in EUR million for 2019 on consolidated basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
Interest rate risk	1.14	2.38	1.60	1.91
Credit spread	2.53	5.67	3.39	2.77
Exchange rate risk	0.01	0.03	0.01	0.01
Equity risk	-	0.07	0.07	0.07
Vega risk	0.00	0.00	0.00	0.00
VaR overall[1]	**2.09**	**5.40**	**3.37**	**2.60**

[1] Including diversification effects between risk factors

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

The sensitivities' table below provide summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2019 (change in value due to 1 basis point shift, amounts in EUR):

IR BASIS POINT SHIFT (EUR)						
CCY	**0-3M**	**3M-1Y**	**1Y-3Y**	**3Y-10Y**	**10Y-**	**SUM**
EUR	(14 413)	4 725	(76 953)	(134 741)	(432)	(221 814)
BGN	4 825	72 220	(126 199)	(276 616)	(92 496)	(418 266)
USD	(4 984)	5 628	(230)	(23)	-	391
CHF	(195)	239	11	(22)	(13)	20
GBP	(247)	408	7	-	-	168
Other	(10)	(83)	-	-	-	(93)
Total Absolute	**24 674**	**83 303**	**203 400**	**411 402**	**92 941**	**640 752**

Measured by total absolute basis-point value, the credit spread sensitivity measure for UniCredit Bulbank AD as of December 31, 2019 totalled EUR 859,951. Instruments issued by governments continue to account for the largest part of credit spread exposure.

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SP BASIS POINT SHIFT (EUR)						
ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(206)	(2 087)	(129 618)	(600 101)	(92 747)	**(824 759)**
Regional governments	-	-	-	(647)	-	**(647)**
Corporates	-	(8 175)	(310)	(26 060)	-	**(34 545)**
Total Absolute	**206**	**10 262**	**129 928**	**626 808**	**92 747**	**859 951**

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 2019 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

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

As of December 31, 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	2 043 164	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)**

As of December 31, 2018 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	2 442 043	15 192	**2 457 235**
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Derivatives held for trading	51 000	6 942	**57 942**
Derivatives held for hedging	496	-	**496**
Loans and advances to banks	2 231 261	55 816	**2 287 077**
Loans and advances to customers	11 127 063	170 033	**11 297 096**
Investment securities	3 727 196	9 553	**3 736 749**
Investments in associates	2 756	-	**2 756**
Property, plant, equipment and investment properties	187 789	-	**187 789**
Intangible assets	47 923	-	**47 923**
Current tax assets	368	-	**368**
Deferred tax assets	7 704	-	**7 704**
Other assets	101 239	65	**101 304**
TOTAL ASSETS	**19 933 955**	**282 430**	**20 216 385**
LIABILITIES			
Financial liabilities held for trading	26 398	4 808	**31 206**
Derivatives used for hedging	56 901	-	**56 901**
Deposits from banks	645 990	247 761	**893 751**
Deposits from customers	14 390 018	1 434 643	**15 824 661**
Provisions	93 143	5 992	**99 135**
Current tax liabilities	2 941	-	**2 941**
Deferred tax liabilities	114	-	**114**
Other liabilities	127 396	2 227	**129 623**
TOTAL LIABILITIES	**15 342 901**	**1 695 431**	**17 038 332**
EQUITY	**3 178 053**	**-**	**3 178 053**
Net off-balance sheet spot and forward position	(1 382 591)	1 399 695	**17 104**
Net position	**30 410**	**(13 306)**	**17 104**

(c) Liquidity risk

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

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

Integral part of liquidity management process is monitoring the results of regular stress tests. Market risks control function performs liquidity stress tests on regular basis, using standardised Group-wide scenarios and specific local set. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behaviour of non-financial customers. The liquidity outflows expected to occur are compared with available collateral (essentially, securities eligible as collateral at the central bank) to examine banks' ability to withstand liquidity shock over two months horizon. The results of extreme scenario combining market- and name-driven crisis have shown comfortable coverage during 2019, 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 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**	**12 532 330**	**19 699 426**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	7 117	24 829	**31 946**
Loans and advances to banks	2 096 112	190 965	**2 287 077**
Loans and advances to customers	4 271 811	7 025 285	**11 297 096**
Available for sale investments	156 497	3 580 252	**3 736 749**
Other assets	50 360	50 944	**101 304**
TOTAL FINANCIAL ASSETS	**6 581 897**	**10 872 275**	**17 454 172**

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 hedging, 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)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2018	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	**893 751**	**(895 001)**	(461 984)	(66 869)	(150 265)	(215 883)
Deposits from customers	**15 824 661**	**(15 825 307)**	(4 592 975)	(1 773 449)	(2 837 014)	(6 621 869)
Unutilized credit lines	**-**	**(2 274 447)**	(354 280)	(74 205)	(333 923)	(1 512 039)
Total non-derivative instruments	**16 718 412**	**(18 994 755)**	**(5 409 239)**	**(1 914 523)**	**(3 321 202)**	**(8 349 791)**
Derivatives used for hedging, net	**26 736**					
Outflow		**(3 936 564)**	(2 520 511)	(1 212 012)	(48 635)	(155 406)
Inflow		**3 970 730**	2 530 077	1 219 244	53 259	168 150
Derivatives used for hedging, net	**(56 405)**					
Outflow		**(118 810)**	-	(10 321)	(9 207)	(99 282)
Inflow		**62 844**	-	2	-	62 842
Total derivatives	**(29 669)**	**(21 800)**	**9 566**	**(3 087)**	**(4 583)**	**(23 696)**
Total financial liabilities	**16 688 743**	**(19 016 555)**	**(5 399 673)**	**(1 917 610)**	**(3 325 785)**	**(8 373 487)**

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

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

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2019 and December 31, 2018 is as shown in the next table:

In thousands of BGN

	31.12.2019	31.12.2018
Government bonds		
Rated BBB-	10 453	3 400
Equities		
Unrated	3 491	3 717
Loan		
Rated BBB	25 146	24 829
Derivatives (net)		
Banks and financial institution counterparties	(115 274)	(58 746)
Corporate counterparties	39 462	29 077
Total trading assets and liabilities	**(36 722)**	**2 277**

Government bonds presented as of December 31, 2019 and December 31, 2018 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.

As a result of the activities related to IFRS 9 conversion project we have full implementation of the loan loss provision model. The IFRS 9 framework was enhanced with models for Exposure at Default and Loss Given Default, estimation of present value of the expected credit losses as well as Overlay Factor, based on predefined macroeconomic scenarios.

Additionally, the existing Credit risk models are being modified to meet the updated EBA guidelines and forthcoming changes in the default definition.

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, 2019 and December 31, 2018:

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2019	2018	2019	2018	2019	2018
Biggest credit risk exposure to customers' group	410 620	271 648	358 719	271 648	12,7%	9,8%
Credit risk exposure to top five biggest customers' groups	1 324 636	-1 043 279	1 099 342	858 992	39,1%	31,1%

The table below analyses the breakdown of loss allowances as of December 31, 2019 and December 31, 2018 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2019	2018
Cash and balances with Central Bank	39	55
Loans and advances to banks at amortised cost	478	631
Loans and advances to customers at amortised cost	656 915	647 784
Debt investment securities at amortised cost	260	52
Debt investment securities at FVTOCI	2 823	2 952
Loan commitments	16 677	1 909
Financial guarantee contractss	45 925	54 404
Total Loss allowance by classes	**723 117**	**707 787**

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 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 01.01.2019	**(631)**	**-**	**-**	**-**	**(631)**
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	(384)	-	-	-	**(384)**
Financial assets that have been derecognised	537	-	-	-	**537**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31.12.2019	**(478)**	**-**	**-**	**-**	**(478)**

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES TO CUSTOMERS AND DEBT SECURITIES AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Loss allowance as at 01.01.2019	**(25 224)**	**(74 264)**	**(540 120)**	**(8 228)**	**(647 836)**
Changes in the loss allowance:					**-**
Transfer to stage 1	(4 134)	3 895	239	-	**-**
Transfer to stage 2	55 999	(57 470)	1 471	-	**-**
Transfer to stage 3	43 911	27 893	(71 804)	-	**-**
Increases due to change in credit risk	(118 561)	(38 578)	(69 480)	-	**(226 619)**
Decreases due to change in credit risk	5 610	16 952	75 493	-	**98 055**
Write-offs	-	-	126 048	-	**126 048**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(25 928)	(22 152)	(15 218)	-	**(63 298)**
Financial assets that have been derecognised	5 257	19 034	24 090	7 744	**56 125**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	350	-	**350**
Loss allowance as at 31.12.2019	**(63 070)**	**(124 690)**	**(468 931)**	**(484)**	**(657 175)**

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 2019 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	YEAR ENDED 2019					YEAR ENDED 2018
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	4 446 211	118 857	-	-	**4 565 068**	**3 681 794**
Grades 4-6: Monitoring	6 080 741	705 386	-	-	**6 786 127**	**7 511 627**
Substandard	195 313	682 894	15 732	-	**893 939**	**76 986**
Grade 9: Doubtful	-	-	319 626	484	**320 110**	**275 773**
Grade 10: Impaired	-	-	291 251	-	**291 251**	**384 269**
Total gross carrying amount	**10 722 265**	**1 507 137**	**626 609**	**484**	**12 856 495**	**11 930 449**
Loss allowance	(62 808)	(124 690)	(468 933)	(484)	**(656 915)**	**(647 784)**
Carrying amount	**10 659 457**	**1 382 447**	**157 676**	**-**	**12 199 580**	**11 282 665**

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTISED COST	YEAR ENDED 2019					YEAR ENDED 2018
	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM	TOTAL CUM
Grades 1-3: Low to fair risk	6 977	-	-	-	**6 977**	**9 866**
Grades 4-6: Monitoring	-	-	-	-	**-**	**-**
Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**6 977**	**-**	**-**	**-**	**6 977**	**9 866**
Loss allowance	(260)	-	-	-	**(260)**	**(52)**
Carrying amount	**6 717**	**-**	**-**	**-**	**6 717**	**9 814**

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AND DEBT SECURITIES AT AMORTISED COST	STAGE 1 12-MONTH ECL CUM	STAGE 2 LIFETIME ECL CUM	STAGE 3 LIFETIME ECL CUM	POCI CUM	TOTAL CUM
Gross carrying amount as at 01.01.2019	**9 717 816**	**1 485 472**	**717 653**	**19 375**	**11 940 315**
Changes in the gross carrying amount					
Transfer to stage 1	450 577	(439 217)	(11 360)	-	**-**
Transfer to stage 2	(738 827)	752 453	(13 626)	-	**-**
Transfer to stage 3	(77 820)	(62 043)	139 863	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	3 649 019	233 766	15 897	-	**3 898 682**
Financial assets that have been derecognised	(1 388 829)	(342 197)	(35 220)	(18 891)	**(1 785 137)**
Write-offs	-	-	(126 667)	-	**(126 667)**
Other changes	(882 694)	(121 097)	(59 931)	-	**(1 063 722)**
Gross carrying amount as at 31.12.2019	**10 729 242**	**1 507 137**	**626 609**	**484**	**12 863 472**

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	
	31.12.2019	31.12.2018
Defaulted exposures		
Cash collateral	4 110	2 830
Property	697 121	901 324
Other collateral	396 623	484 367
Performing exposures		
Cash collateral	171 030	96 749
Property	11 250 572	10 994 796
Debt securities	9 972	11 064
Other collateral	10 216 177	10 150 015
Total	**22 745 605**	**22 641 145**

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, 2019 and December 31, 2018:

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Concentration by sectors						
Sovereign	373 790	373 565	-	-	3 200 939	3 317 798
Manufacturing	2 577 447	2 561 243	-	-	81 915	135 880
Commerce	2 202 017	2 249 173	-	-	-	-
Construction and real estate	1 495 756	1 229 028	-	-	67	67
Agriculture and forestry	556 531	568 597	-	-	-	-
Transport and communication	645 446	486 554	-	-	-	-
Tourism	204 726	262 011	-	-	-	-
Services	434 556	370 050	-	-	-	-
Financial services	119 686	123 216	3 756 983	2 287 708	315 962	285 760
Retail (individuals)					-	-
Housing loans	2 228 485	1 928 599	-	-	-	-
Consumer loans	1 809 527	1 597 723				
Other loans	219 662	195 173	-	-	-	-
	12 867 629	**11 944 932**	**3 756 983**	**2 287 708**	**3 598 883**	**3 739 505**
Impairment allowances	(657 175)	(647 836)	(478)	(631)	-	-
Total	**12 210 454**	**11 297 096**	**3 756 505**	**2 287 077**	**3 598 883**	**3 739 505**
Concentration by geographic location						
Europe	12 803 097	11 877 543	3 687 267	2 239 758	3 585 255	3 729 952
North America	16 596	24 689	12 561	10 208	13 628	9 553
Asia	47 098	41 667	56 020	37 417	-	-
Africa	141	342	1 081	294	-	-
South America	596	16	-	-	-	-
Australia	101	675	54	31	-	-
	12 867 629	**11 944 932**	**3 756 983**	**2 287 708**	**3 598 883**	**3 739 505**
Impairment allowances	(657 175)	(647 836)	(478)	(631)	-	-
Total	**12 210 454**	**11 297 096**	**3 756 505**	**2 287 077**	**3 598 883**	**3 739 505**

(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 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 activities of the OpRepRisk Unit in 2019 were focused on maintaining the excellence in managing the operational and reputational risks.

The OpRisk tasks are: 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 Risk; OpRisk Assessment of Relevant Outsourcing Transactions; Operational and Reputational Risk Strategies Definition and Monitoring. With regards to the Strategies Definition and Monitoring, there is a newly defined activity performed in UniCredit Bulbank - Risk and Controls Self-Assessment. The activity's main goal is to involve process owners in performing a thorough self-evaluation of already pre-defined risk bearing processes; important element of this assessment is the role of OpRepRisk Unit – being in the driving seat in running the activity and challenging the process owners in evaluating the processes from risk perspective.

In 2019 OpRepRisk Unit continued its important participation in few 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; its meetings are held quarterly and attended by the Bank's senior management. The Operational and Reputational Risk Committee acts also as a Permanent Workgroup, responsible for the reporting of current operational risk issues and developments, and it also 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 rating to the local OpRisk management and internal control framework. Group Internal Validation (GIV) function also evaluated the Operational risk governance framework and control activities as "Fully Adequate" (the highest possible evaluation). The outcome of these independent 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 2019 the OpRepRisk Unit continued to develop the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure. The main change is the creation of the Reputational Risk Committee (RRC), which is responsible for the assessment of the reputational risks initiatives.

The activities included in the annual plan, defined by the Group, were performed following the Group methodology and in a timely manner. 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.

In 2020 the OpRepRisk unit will further develop and successfully finalize the projects and activities started in 2019, most of them are related to the newly introduced regulatory requirements.

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's standards.

The Reputational Risk Management is implemented within the Group through a dedicated set of policies wit 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);

The presence of Reputational Risk Committee in order to assess the topics related to the business activity that could affect significantly the Reputational Risk profile of the Banks.

(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 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, 2019 are 11.5%, 12.75%, 14.75% (as of December 31, 2018 - 10.5%, 12% and 14%), 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, 2019 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, 2019	Performing loans	
Agreed maximum portfolio volume:	EUR 85,000 thousand	
Nominal Value of reference portfolio:	BGN 11,363 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, 2019	BGN 0	BGN 9,090 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2019 and December 31, 2018 are as follows:

In thousands of BGN

	31.12.2019	31.12.2018
Regulatory own funds		
Core Equity Tier 1 (CET 1)	2 763 401	2 715 438
Tier 1 capital	2 763 401	2 715 438
Tier 2 capital	51 419	44 576
Total regulatory own funds	**2 814 820**	**2 760 014**
Risk Weighted Assets (RWA)		
RWA for credit risk	11 693 126	10 031 488
RWA for market risk	100 225	48 750
RWA for operational risk	1 068 388	923 750
RWA for credit valuation adjustments	10 025	4 463
Total Risk Weighted Assets (RWA)	**12 871 764**	**11 008 451**
CET 1 ratio	**21,47%**	**24,67%**
Tier 1 ratio	**21,47%**	**24,67%**
Total capital adequacy ratio	**21,87%**	**25,07%**
Minimum CET 1 capital requirements (4.5%)	**579 229**	**495 380**
Minimum Tier 1 capital requirements (6%)	**772 306**	**660 507**
Minimum total capital requirements (8%)	**1 029 741**	**880 676**
Additional capital requirements for conservation buffer (2.5%)	321 794	275 211
Additional capital requirements for systemic risk buffer (3%)	386 153	330 254
Additional capital requirements for other systemic important institution (2018-0.5%, 2019-0.75%)	96 538	55 042
Additional capital requirements for countercyclical capital buffer (0.5%)	64 359	-
Combined buffers additional capital requirements (2018-6%, 2019-6.75%)	**868 844**	**660 507**
Adjusted minimum CET 1 capital requirements after buffers (10.5% - 2018; 11.25% -2019)	1 448 073	1 155 887
Adjusted minimum Tier 1 capital requirements, including buffers (12% - 2018; 12.75% -2019)	1 641 150	1 321 014
Adjusted minimum total capital requirements after buffers (14%- 2018; 14.75% -2019)	1 898 585	1 541 183
Free equity, after buffers	**916 235**	**1 218 831**

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 2019 and 2018 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 2019, whenever risk-free FV deviates by more than 2% (2% in 2018) 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, 2019 and December 31, 2018 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, 2019 and December 31, 2018.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Non-derivative financial assets held for trading	10 725	7 083	28 365	23 607	-	1 256	**39 090**	**31 946**
Derivatives held for trading	-	-	67 732	56 648	595	1 294	**68 327**	**57 942**
Derivatives used for hedging	-	-	226	496	-	-	**226**	**496**
Investments sequrities	2 276 481	2 516 718	1 268 777	1 198 818	50 002	21 213	**3 595 260**	**3 736 749**
Loans and advances to banks	-	-	3 754 868	1 741 842	-	542 812	**3 754 868**	**2 284 654**
Loans and advances to customers	-	-	3 378 312	6 610 778	9 462 014	4 874 601	**12 840 326**	**11 485 379**
	2 287 206	**2 523 801**	**8 498 280**	**9 632 189**	**9 512 611**	**5 441 176**	**20 298 097**	**17 597 166**
Financial liabilities held for trading	-	-	53 677	31 206	-	-	**53 677**	**31 206**
Derivatives used for hedging	-	-	90 688	56 901	-	-	**90 688**	**56 901**
Deposits from banks	-	-	-	-	860 365	757 463	**860 365**	**757 463**
Deposits from customers and lease liabilities	-	-	-	50 019	17 748 190	15 763 947	**17 748 190**	**15 813 966**
	-	**-**	**144 365**	**138 126**	**18 608 555**	**16 521 410**	**18 752 920**	**16 659 536**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2019 is as follows:

In thousands of BGN

	FINANCIAL ASSETS HELD FOR TRADING	INVESTMENT SECURITIES
Opening balance (January 1, 2019)	**2 550**	**21 213**
Increases	**-**	**29 162**
Purchase	-	24 759
Profit recognized in income statement	-	3 954
Profit recognized in equity	-	150
Other increases	-	299
Decreases	**(1 955)**	**(373)**
Loses recognized in income statement	(615)	-
Transfers to other levels	(1 256)	-
Other decreases	(84)	(373)
Closing balance (December 31, 2019)	**595**	**50 002**

The tables below analyse the fair value of financial instruments by classification as of December 31, 2019 and December 31, 2018.

In thousands of BGN

DECEMBER 2019	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	DERIVATIVES HELD FOR HEDGING	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 lease liabilities	-	-	-	-	17 747 580	**17 747 580**	**17 748 190**
TOTAL LIABILITIES	**53 677**	**-**	**-**	**90 688**	**18 612 445**	**18 756 810**	**18 752 920**

In thousands of BGN

DECEMBER 2018	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	CFH DERIV.	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	0	-	-	-	2 457 235	**2 457 235**	**2 457 235**
Non-derivative financial assets held for trading	7 117	24 829	-	-	-	**31 946**	**31 946**
Derivatives held for trading	57 942	-	-	-	-	**57 942**	**57 942**
Derivatives held for hedging	0	0	0	496	0	**496**	**496**
Loans and advances to banks	-	2 287 077	-	-	-	**2 287 077**	**2 284 654**
Loans and advances to customers	-	11 297 096	-	-	-	**11 297 096**	**11 485 379**
Investment securities	-	-	3 736 749	-	-	**3 736 749**	**3 736 749**
TOTAL ASSETS	**65 059**	**13 609 002**	**3 736 749**	**496**	**2 457 235**	**19 868 541**	**20 054 401**
LIABILITIES							
Financial liabilities held for trading	31 206	-	-	-	-	**31 206**	**31 206**
Derivatives used for hedging	0	-	-	56 901	-	**56 901**	**56 901**
Deposits from banks	-	-	-	-	893 751	**893 751**	**757 463**
Deposits from customers	-	-	-	-	15 824 661	**15 824 661**	**15 813 966**
TOTAL LIABILITIES	**31 206**	**0**	**0**	**56 901**	**16 718 412**	**16 806 519**	**16 659 536**

(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, 2019 and December 31, 2018 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

31.12.2019	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	341 521	247 545	(37 733)	**551 333**
Dividend income	-	-	323	**323**
Net fee and commission income	167 140	89 350	(179)	**256 311**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	23 823	80 257	(5 348)	**98 732**
Net gains from financial assets mandatorily at fair value	-	-	4 144	**4 144**
Net income from financial assets measured at FVTOCI	-	32 828	1 324	**34 152**
Other operating (expenses), net	(27 318)	(33 053)	8 516	**(51 855)**
TOTAL OPERATING INCOME	**505 166**	**416 927**	**(28 953)**	**893 140**
Personnel expenses	(67 374)	(25 863)	(62 190)	**(155 427)**
General and administrative expenses	(61 803)	(18 948)	(26 579)	**(107 330)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(20 428)	(6 512)	(21 784)	**(48 724)**
Total direct expenses	**(149 605)**	**(51 323)**	**(110 553)**	**(311 481)**
Allocation of indirect and overhead expenses	(63 815)	(34 301)	98 116	**-**
TOTAL OPERATING EXPENSES	**(213 420)**	**(85 624)**	**(12 437)**	**(311 481)**
Provisions for risk and charges	-	-	(17 554)	**(17 554)**
Net impairment loss on financial assets	(44 848)	(81 460)	8 359	**(117 949)**
Net income related to property, plant and equipment	-	-	3 220	**3 220**
PROFIT BEFORE INCOME TAX	**246 898**	**249 843**	**(47 365)**	**449 376**
Income tax expense	(24 690)	(24 984)	4 305	**(45 369)**
PROFIT FOR THE YEAR	**222 208**	**224 859**	**(43 060)**	**404 007**
ASSETS	**4 736 962**	**7 480 145**	**10 029 535**	**22 246 642**
LIABILITIES	**10 607 017**	**7 035 657**	**1 382 280**	**19 024 954**

In thousands of BGN

31.12.2018	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	509 120	370 065	(317 042)	**562 143**
Dividend income	-	-	73	**73**
Net fee and commission income	232 363	122 958	(108 056)	**247 265**
Net gains (losses) from financial assets and liabilities held for trading and hedging derivatives	124 140	(10 352)	(16 882)	**96 906**
Net gains from financial assets mandatorily at fair value	-	-	2 094	**2 094**
Net income from financial assets measured at FVTOCI	-	25 317	-	**25 317**
Other operating (expenses), net	(42 887)	(35 177)	23 607	**(54 457)**
TOTAL OPERATING INCOME	**822 736**	**472 811**	**(416 206)**	**879 341**
Personnel expenses	(63 367)	(24 650)	(58 101)	**(146 118)**
General and administrative expenses	(63 171)	(15 706)	(26 407)	**(105 284)**
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(17 691)	(6 625)	(12 348)	**(36 664)**
Total direct expenses	**(144 229)**	**(46 981)**	**(96 856)**	**(288 066)**
Allocation of indirect and overhead expenses	(51 238)	(30 728)	81 966	**-**
TOTAL OPERATING EXPENSES	**(195 467)**	**(77 709)**	**(14 890)**	**(288 066)**
Provisions for risk and charges	-	-	(42 608)	**(42 608)**
Net impairment loss on financial assets	(35 343)	(79 336)	39 068	**(75 611)**
Net income related to property, plant and equipment	-	-	5 562	**5 562**
PROFIT BEFORE INCOME TAX	**591 926**	**315 766**	**(429 074)**	**478 618**
Income tax expense	(23 626)	(25 039)	610	**(48 055)**
PROFIT FOR THE YEAR	**568 300**	**290 727**	**(428 464)**	**430 563**
ASSETS	**4 237 460**	**9 899 292**	**6 079 633**	**20 216 385**
LIABILITIES	**9 666 173**	**6 543 450**	**828 709**	**17 038 332**

7. Net interest income

In thousands of BGN

	2019	2018
Interest income		
Financial assets held for trading	570	227
Derivatives held for trading	248	209
Loans and advances to banks	6 541	6 615
Loans and advances to customers	526 595	534 094
Available for sale investments	59 727	66 371
	593 681	**607 516**
Interest expense		
Derivatives held for trading	-	(16)
Derivatives used for hedging	(18 037)	(19 595)
Deposits from banks	(19 803)	(21 319)
Deposits from customers	(4 508)	(4 443)
	(42 348)	**(45 373)**
Net interest income	**551 333**	**562 143**

For the financial years ended December 31, 2019 and December 31, 2018 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 15 253 thousand and BGN 13 356 thousand, respectively.

8. Net fee and commission income

In thousands of BGN

	2019	2018
Fee and commission income		
Collection and payment services	147 959	141 911
Lending business	34 214	30 477
Account services	26 051	25 202
Management, brokerage and securities trading	7 757	7 862
Documentary business	17 673	18 933
Package accounts	22 020	21 469
Other	33 882	30 266
	289 556	**276 120**
Fee and commission expense		
Collection and payment services	(30 248)	(25 975)
Management, brokerage and securities trading	(1 129)	(930)
Lending business	(158)	(167)
Other	(1 710)	(1 783)
	(33 245)	**(28 855)**
Net fee and commission income	**256 311**	**247 265**

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

In thousands of BGN

	2019	2018
FX trading income, net	92 170	88 594
Net income from debt instruments	929	465
Net expenses from equity instruments	(46)	(207)
Net income from derivative instruments	513	7 061
Net income from other trading instruments	5 562	1 046
Net expenses from hedging derivative instruments	(396)	(53)
Net gains (losses) on financial assets and liabilities held for trading and hedging derivatives	**98 732**	**96 906**

The total CVA (net of DVA) for the years ended December 31, 2019 and December 31, 2018, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 127 thousand and BGN 444 thousand, respectively.

10. Net gains from financial assets mandatorily at fair value

In thousands of BGN

	2019	2018
Equity securities	3 886	2 192
Loans and advances	258	(98)
Net gains from financial assets mandatorily at fair value	**4 144**	**2 094**

11. Net income from financial assets measured at FVTOCI

In thousands of BGN

	2019	2018
Realised gains on disposal of debt sequrities	33 819	25 145
Other	333	172
Net income from financial assets measured at FVTOCI	**34 152**	**25 317**

12. Other operating expenses, net

In thousands of BGN

	2019	2018
Other operating income		
Income from non-financial services	5 175	3 026
Rental income	11 307	5 487
Other income	4 614	4 884
	21 096	**13 397**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(65 610)	(60 766)
Impairment of foreclosed properties	(1 492)	(2 145)
Losses on tangible assets measured at fair value	(1 513)	(770)
Other operating expenses	(4 336)	(4 173)
	(72 951)	**(67 854)**
Other operating income (expenses), net	**(51 855)**	**(54 457)**

In 2019 and 2018 Bank has assessed net realizable value of foreclosed properties and to the extent that it is lower than their arrying amount, impairment loss has been recognized.

13. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2019 and December 31, 2018 the gains are in the amount of BGN 3 220 thousand and BGN 8 128 thousand respectively. Considering that new valuation model with regards to investment properties has been applied retrospectively (for 2018 as well), the restated amount as of December 31, 2018 is BGN 5 562 thousand.

14. Personnel expenses

In thousands of BGN

	2019	2018
Wages and salaries	(130 388)	(122 619)
Social security charges	(18 285)	(16 995)
Pension and similar expenses	(727)	(667)
Temporary staff expenses	439	492
Share-based payments	(1 505)	(1 868)
Other	(4 961)	(4 461)
Total personnel expenses	**(155 427)**	**(146 118)**

As of December 31, 2019 the total number of employees, expressed in full time employee equivalent is 4 142 (December 31, 2018: 4 138).

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, 2018	2019 COST (GAINS)	SETTLED IN 2019	ECONOMIC VALUE AT DECEMBER 31, 2019
Deferred Short Term Incentive (ordinary shares)	7 610	1 504	(938)	**8 176**
ESOP and shares for Talents	152	-	(79)	**73**
Total Options and Shares	**7 762**	**1 504**	**(1 017)**	**8 249**

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

	2019	2018
Advertising, marketing and communication	(9 479)	(9 422)
Credit information and searches	(2 853)	(2 567)
Information, communication and technology expenses	(48 694)	(40 928)
Consulting, audit and other professionals services	(2 856)	(3 470)
Real estate expenses	(13 163)	(12 025)
Rents	(8 518)	(14 289)
Travel expenses and car rentals	(2 455)	(2 342)
Insurance	(1 724)	(1 543)
Supply and miscellaneous services rendered by third parties	(12 107)	(12 749)
Other costs	(5 481)	(5 949)
Total general and administrative expenses	**(107 330)**	**(105 284)**

For 2019 the fees for audit services provided by the auditing companies amount to BGN 1 238 thousand (BGN 1 102 thousand for 2018).

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

In thousands of BGN

	2019	2018
Depreciation charge (incl. depreciation of right of use assets)	(48 724)	(36 664)
Amortisation, depreciation and impairment losses on tangible and intangible fixed assets, right of use assets, investment properties and assets held for sale	**(48 724)**	**(36 664)**

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, 2019 and December 31, 2018 (after restatements for new valuation model for investment properties) 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**).

Starting from 2018, 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

	2019	2018
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(41 265)	(73 101)
Legal cases provisions	(952)	(8 295)
Other provisions	(11 216)	(867)
	(53 433)	**(82 263)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	34 994	32 758
Legal cases provisions	884	6 897
Other provisions	1	-
	35 879	**39 655**
Net provisions charge	**(17 554)**	**(42 608)**

18. Net Impairment loss on financial assets

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS	2019	2018
Balance 1 January	**647 836**	**761 864**
IFRS 9 FTA efect		**61 528**
Increase	383 587	401 801
Decrease		
Loans and advances to customers	(233 307)	(263 479)
Recoveries from loans previously written-off	(32 033)	(63 669)
	(265 340)	(327 148)
Net impairment losses	**118 247**	**74 653**
FX revaluation effect on imparment allowances	349	811
Other movements	(1 100)	(2 494)
Write-off	(140 190)	(312 195)
Balance December 31		
Loans and advances to customers	**657 175**	**647 836**

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO BANKS	2019	2018
Balance 1 January	**631**	**-**
IFRS 9 FTA efect		**541**
Increase	384	568
Decrease	(537)	(478)
Net impairment losses / (income)	**(153)**	**90**
Balance December 31		
Loans and advances to banks	**478**	**631**

In thousands of BGN

PROVISIONS ON BALANCES WITH CENTRAL BANK	2019	2018
Balance 1 January	**55**	**-**
IFRS 9 FTA efect		**137**
Increase	-	37
Decrease	(16)	(119)
Net impairment (income)	**(16)**	**(82)**
Balance December 31		
Balances with Central Bank	**39**	**55**

In thousands of BGN

PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI	2019	2018
Balance 1 January	2 952	-
IFRS 9 FTA efect		2 002
Increase	4 141	1 604
Decrease	(4 270)	(654)
Net impairment losses / (income)	**(129)**	**950**
Balance December 31		
Financial assets at fair value through OCI	**2 823**	**2 952**

In thousands of BGN

	2019	2018
Net impairment losses on Loans and advances to customers	118 247	74 653
Net impairment losses on Loans and advances to Banks	(153)	90
Net impairment losses on Balances with Central Bank	(16)	(82)
Net impairment losses on Financial assets at fair value through OCI	(129)	950
Total net impairment loss on financial assets	**117 949**	**75 611**

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 2019.

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

In thousands of BGN

	2019	2018
Current tax	(45 035)	(37 665)
Deferred tax (expense) related to origination and reversal of temporary differences	(369)	(10 560)
(Overprovided)/underprovided prior year deferred tax	-	101
(Overprovided)/underprovided prior year current tax	35	69
Income tax expense	**(45 369)**	**(48 055)**

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

	2019	2018
Accounting profit before tax	**449 376**	**478 618**
Corporate tax at applicable tax rate (10% for 2019 and 2018)	(44 938)	(47 862)
Tax effect of non taxable revenue	27	560
Tax effect of non tax deductible expenses	(458)	(753)
Income tax expense	**(45 369)**	**(48 055)**
Effective tax rate	**10,10%**	**10,04%**

20. Cash and balances with Central bank

In thousands of BGN

	31.12.2019	31.12.2018
Cash in hand and in ATM	233 370	231 126
Cash in transit	169 365	140 491
Current account with Central Bank	1 662 434	2 085 618
Total cash and balance with Central Bank	**2 065 169**	**2 457 235**

21. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2019	31.12.2018
Government bonds	10 453	3 400
Equities	3 491	3 717
Loans	25 146	24 829
Total financial assets held for trading	**39 090**	**31 946**

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

	31.12.2019	31.12.2018
Interest rate swaps	41 651	33 516
FX forward contracts	18 507	17 484
FX swaps	3 243	3 338
Commodity swaps	436	192
Commodity options	4 490	3 412
Total derivatives held for trading	**68 327**	**57 942**

Derivatives consist of trading instruments that have positive market value as of December 31, 2019 and December 31, 2018. 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, 2019 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 31.12.2019 is – PV (+) BGN 226 thousand and PV (-) 52 005 thousand.
- Derivative used as hedging instrument for Cash flow hedge relationship – PV (-) as of 31.12.2019 is BGN 38 683 thousand.

24. Loans and advances to banks

In thousands of BGN

	31.12.2019	31.12.2018
Debt securities	98 555	-
Loans and advances to banks	3 474 018	2 183 478
Current accounts with banks	184 410	104 230
Loans and advances to banks at amortized cost	**3 756 983**	**2 287 708**
Less impairment allowances	(478)	(631)
Total loans and advances to banks	**3 756 505**	**2 287 077**

At December 2019 the Bank purchased fixed-rate bond issued by UniCredit S.p.A. with Face value EUR 50 million, coupon 0.01%, yield to maturity -0.242%, rated Aa3 by Moody's. The bond is classified at Amortized cost/AC portfolio. The Bank plans to steadily remain a net lender to UniCredit S.p.A. by the time of the maturity of the bond, so the bond will represent an opportunity of optimizing – in terms of risk-weighted assets and return – respective portion of the excess liquidity placed with the issuer in the form of money market instruments. Hence, subject to a positive SPPI test, the intent is to keep it until maturity in the Amortised Cost (AC) Portfolio, collecting contractual cash flows. According to AC portfolio requirements the Bank should not sell the bond until maturity.

25. Loans and advances to customers

In thousands of BGN

	31.12.2019	31.12.2018
Companies	7 379 992	7 059 730
Individuals		
Housing loans	2 228 485	1 928 599
Consumer loans	1 812 524	1 597 723
Other loans	77 093	86 621
Central and local governments	373 633	373 565
Finance leases	991 745	894 077
	12 863 472	**11 940 315**
Less impairment allowances	(657 175)	(647 836)
Loans and advances to customers at amortized cost	**12 206 297**	**11 292 479**
Loans and advances to customers mandatory at fair value	**4 157**	**4 617**
Total loans and advances to customers	**12 210 454**	**11 297 096**

26. Investment securities

In thousands of BGN

	31.12.2019	31.12.2018
Securities measured at FVTOCI		
Government bonds	3 198 850	3 315 220
Bonds of other financial institutions	288 839	263 958
Corporate bonds	81 704	135 711
Equities	11 660	11 660
Securities mandatory measured at FV		
Equities	14 207	10 200
Total Investment securities	**3 595 260**	**3 736 749**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2019 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 31.12.2019 is BGN 1 232 263 thousand.

As of December 31, 2019 and December 31, 2018 there are pledged investments amounting to BGN 142 496 thousand and BGN 101 962 thousand respectively (see also Note **41**).

27. Investments in associates

As of December 31, 2019 and December 31, 2018 there is only one associated company, where the Bank exercises significant influence by holding 25% of the share capital of that company (20% - for 2018). This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2019 and December 31, 2018 are as follows:

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2019	CARRYING VALUE IN THOUSANDS OF BGN DEC 2018
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	"2018-20% 2019-25%"	3 623	2 756
		Total	**3 623**	**2 756**

In thousands of BGN

Cash Service Company AD	2019	2018
Total assets	16 188	14 462
Total liabilities	1 098	679
Revenue	7 733	6 906
Net profit for the year	1 331	858

28. Property, plant, equipment, rights of use assets and investment properties

In thousands of BGN

	LANDS	BUILDINGS	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	893	8 295	40 889	**54 492**
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**	**12 765**	**81 721**	**136 429**	**390 135**
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**	**12 765**	**81 721**	**136 429**	**468 809**
Depreciation						
As of December 31, 2018	**-**	**83 034**	**8 970**	**51 283**	**46 064**	**189 351**
Depreciation charge	-	7 265	1 344	7 237	16 390	**32 236**
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	**-**	**87 585**	**9 704**	**54 310**	**55 459**	**207 058**
Net book value as of December 31, 2019	**12 117**	**138 192**	**3 061**	**27 411**	**80 970**	**261 751**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 489**	**26 133**	**58 191**	**164 635**

In thousands of BGN

	LANDS	BUILDINGS	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost						
As of December 31, 2017	**3 591**	**151 360**	**11 570**	**67 707**	**70 054**	**304 282**
Additions	-	5 892	1 086	12 049	41 081	**60 108**
Transfers	-	-	(37)	78	(1 150)	**(1 109)**
Write offs	-	(849)	(160)	(2 187)	(3 271)	**(6 467)**
Disposals	-	(138)	-	(231)	(2 459)	**(2 828)**
As of December 31, 2018	**3 591**	**156 265**	**12 459**	**77 416**	**104 255**	**353 986**
Depreciation						**-**
As of December 31, 2017	**-**	**76 973**	**7 506**	**45 398**	**41 728**	**171 605**
Depreciation charge	-	6 983	1 945	8 301	10 759	**27 988**
Write offs	-	(849)	(160)	(2 185)	(2 919)	**(6 113)**
On disposals	-	(73)	-	(231)	(2 317)	**(2 621)**
Transfers	-	-	(321)	-	(1 187)	**(1 508)**
As of December 31, 2018	**-**	**83 034**	**8 970**	**51 283**	**46 064**	**189 351**
Net book value as of December 31, 2018	**3 591**	**73 231**	**3 489**	**26 133**	**58 191**	**164 635**
Net book value as of December 31, 2017	**3 591**	**74 387**	**4 064**	**22 309**	**28 326**	**132 677**

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**

In thousands of BGN

	INVESTMENT PROPERTY
Cost	
Net book value as of December 31, 2017	**63 668**
FTA efect	**2 113**
Revaluated	
Net book value as of January 1, 2018	**65 781**
Transfers	9 933
Disposals	(51 790)
Reductions in fair value	(770)
Net book value as of December 31, 2018	**23 154**

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, 2019 and December 31, 2018 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 as of December 31, 2019 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, 2019 and December 31, 2018, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2019 and December 31, 2018 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	Fair value	
	2019	2018
Investment properties		
Land	6 037	8 297
Buildings	14 713	14 857
Total investment properties	**20 750**	**23 154**

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, 2019, while liabilities under lease contracts are presented in Note **36**:

In thousands of BGN

Right of use assets	
Cost	
As of January 01, 2019	**36 677**
Additions	19 236
Write offs	-
As of December 31,2019	**55 913**
Depreciation	
As of January 01, 2019	**-**
Depreciation charge	5 787
Write offs	-
As of December 31, 2019	**5 787**
Net book value as of December 31, 2019	**50 126**
Net book value as of December 31, 2018	**-**

29. Intangible assets

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**

In thousands of BGN

Cost	
As of December 31, 2017	**111 051**
Additions	18 550
Write offs	(148)
Transfers	25
As of December 31,2018	**129 478**
Depreciation	
As of December 31, 2017	**73 027**
Depreciation charge	8 676
Write offs	(148)
As of December 31,2018	**81 555**
Net book value as of December 31, 2018	**47 923**
Net book value as of December 31, 2017	**38 024**

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, 2019 reported current tax assets are in the amount of BGN 758 thousand (as of December 31, 2018: BGN 368 thousand), while current tax liabilities represent net payable current tax position for the years 2019 (BGN 4 970 thousand) and 2018 (BGN 2 941 thousand), respectively.

FTA tax effect (tax reduction) of IFRS 9 is amounting to BGN 8 163 and is considered in full in the 2018 as first year of implementation.

31. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2019 and December 31, 2018 is as outlined below:

In thousands of BGN

	31.12.2019	31.12.2018
Property, plant, equipment, investment proparty and intangible assets	14 216	5 464
Provisions	(3 685)	(4 187)
Actuarial gains (losses)	(623)	(502)
Other liabilities/Other assets	(9 369)	(8 365)
Tax losses carried forward	(11)	-
Net tax (assets)/liabilities	**528**	**(7 590)**

The movements of deferred tax assets and liabilities on net basis throughout 2019 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2018	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	BALANCE 31.12.2019
Property, plant, equipment, rights of use assets, investment property and intangible assets	5 464	859	7 893	14 216
Investment securities at fair value through OCI	-	(653)	653	-
Provisions	(4 187)	502	-	(3 685)
Actuarial (losses)	(502)	-	(121)	(623)
Cash flow hedge	-	676	(676)	-
Other liabilities	(8 365)	(1 004)	-	(9 369)
Tax losses carried forward	-	(11)	-	(11)
Net tax (assets)/ liabilities	**(7 590)**	**369**	**7 749**	**528**

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.

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.

As of the end of 2018 the Bank has not classified any assets as non-current assets held for sale.

33. Other assets

In thousands of BGN

	31.12.2019	31.12.2018
Receivables and prepayments	46 786	40 878
Receivables from the State Budget	1 976	1 430
Materials, spare parts and consumables	6 645	1 723
Other assets	9 945	6 329
Foreclosed properties	32 765	50 944
Total other assets	**98 117**	**101 304**

34. Financial liabilities held for trading

In thousands of BGN

	31.12.2019	31.12.2018
Interest rate swaps	24 389	18 979
FX forward contracts	23 246	7 738
FX swaps	1 137	891
Commodity swaps	416	189
Commodity options	4 489	3 409
Total financial liabilities held for trading	**53 677**	**31 206**

35. Deposits from banks

In thousands of BGN

	31.12.2019	31.12.2018
Current accounts and overnight deposits		
Local banks	303 548	261 708
Foreign banks	82 391	54 549
	385 939	**316 257**
Deposits		
Local banks	248 460	122 674
Foreign banks	225 253	445 515
	473 713	**568 189**
Other	**5 213**	**9 305**
Total deposits from banks	**864 865**	**893 751**

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, 2019 and December 31, 2018 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

	31.12.2019	31.12.2018
Current accounts		
Individuals	3 442 581	2 805 041
Corporate	7 025 997	6 038 911
Budget and State companies	305 647	269 018
	10 774 225	**9 112 970**
Term deposits		
Individuals	4 803 339	4 562 579
Corporate	389 272	508 390
Budget and State companies	32 472	52 866
	5 225 083	**5 123 835**
Saving accounts	1 604 811	1 507 163
Lease liabilities	50 942	2 826
Transfers in execution process	47 796	53 255
Other	44 723	24 612
Total deposits from customers and other financial liabilities at amortized cost	**17 747 580**	**15 824 661**

The following table represent liabilities under lease contracts after implementation of the new standard as of December 31, 2019, while existing right of use assets are presented in Note **29**:

In thousands of BGN

Lease liabilities	
As of January 01, 2019	**36 790**
Additions	19 153
Accrued interest	697
Repayments	(5 698)
As of December 31,2019	**50 942**
Up to 1 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
Above 5 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, 2018	**50 942**
Net book value as of December 31, 2017	**-**

37. Provisions

The movement in provisions for the years ended December 31, 2019 and December 31, 2018 is as follows:

In thousands of BGN

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	TOTAL
	(a)	(b)	(c)	(d)	(e)	
Balance as of December 31, 2017	**2 183**	**29 930**	**9 012**	**302**	**519**	**41 946**
IFRS 9 FTA efect	**13 761**					**13 761**
Balance as of January 1, 2018	**15 944**	**29 930**	**9 012**	**302**	**519**	**55 707**
Allocations	73 101	8 295	667	-	867	**82 930**
Releases	(32 758)	(6 897)	-	-	-	**(39 655)**
Additions due to FX revaluation	243	2 565	-	-	-	**2 808**
Releases due to FX revaluation	(217)	(2 324)	-	-	-	**(2 541)**
Actuarial gains/losses recognized in OCI	-	-	895	-	-	**895**
Utilization	-	(438)	(327)	-	(244)	**(1 009)**
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)**
Balance as of December 31, 2019	**62 602**	**30 586**	**11 683**	**302**	**11 405**	**116 578**

(a) Provisions on letters of guarantees and credit commitment

Starting from 2018, 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, 2019 accumulated provisions are in the amount of BGN 62 602 thousand (as at December 31, 2018: BGN 56 313 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, 2019 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 30 586 thousand has been recognized (BGN 31 131 thousand as of December 31, 2018).

(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 2019 defined benefit obligation are as follows:

- Discount rate – 0.30% (previous year – 0.75%);
- Salary increase – 5,00% p.a.;
- Retirement age: Men 64 years and 2 months, women 61 years and 4 months for 2019 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 movement of the defined benefit obligation for the year ended December 31, 2019 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

Recognized defined benefit obligation as of December 31, 2018	**10 247**
Current service costs for 2019	655
Interest cost for 2019	72
Actuarial losses recognized in OCI in 2019	1 224
Benefits paid	(515)
Recognized defined benefit obligation as of December 31, 2019	**11 683**
Interest rate beginning of the year	1,00%
Interest rate end of the year	0,75%
Future increase of salaries	5,00%
Expected 2020 service costs	656
Expected 2020 interest costs	72
Expected 2020 benefit payments	**1 547**

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 +/- %	0,25%	0,25%
DBO Discount rate -	12 011	10 528
DBO Discount rate +	11 357	9 979
Sensitivity – Salary increase rate +/- %	0,25%	0,25%
DBO Salary increase rate -	11 370	9 989
DBO Salary increase rate +	11 995	10 515

(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, 2019 and December 31, 2018 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 11 405 thousand as of December 31, 2019 (BGN 1 142 thousand as of December 31, 2018) relate to coverage of claims related to credit cards business as well as other claims.

There is an area of uncertainty among EU countries on interpretations of the provisions of Directive 2008/48 on Credit Arrangements for Consumers related to costs which are not dependant on the duration of the loan agreements and their adjustment (if deemed necessary) in case of early repayments. Following prudency principle and considering the fact that the above mentioned Directive is fully transposed in Bulgarian legislation under Consumer Credit Act, Management has adopted conservative approach and allocated provisions in the amount of BGN 9,910 thousands, included in the above-mentioned amount as of December 31, 2019.

38. Other liabilities

In thousands of BGN

	31.12.2019	31.12.2018
Liabilities to the State budget	4 018	4 040
Liabilities to personnel	27 395	28 098
Liabilities for unused paid leave	6 365	6 580
Dividends	1 035	820
Incentive plan liabilities	8 111	7 861
Other liabilities	94 949	82 224
Total other liabilities	**141 873**	**129 623**

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 2019 and 2018 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, 2019 and December 31, 2018 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.

In 2018 IFRS 9 FTA effect amounting net to BGN 67 749 thousand was booked against retained earnings of the Bank.

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, 2019 and December 31, 2018 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 33 819 thousand and BGN 25 145 thousand, respectively, net of tax.

In 2018 IFRS 9 FTA effect amounting net to BGN 254 thousand was booked against the Revaluation reserves of the Bank.

In 2019 introduced change in the valuation of properties used in business and investment properties resulted in accumulation of additional reserve. The breakdown of the amounts by type of property is presented in **Note 3** above.

40. Contingent liabilities

In thousands of BGN

	31.12.2019				31.12.2018
	STAGE 1	STAGE 2	STAGE 3	TOTAL	
Letters of credit and letters of guarantee	1 802 932	340	37 872	1 841 144	1 727 949
Credit commitments	3 445 840	250 643	15 695	3 712 178	2 292 478
Total contingent liabilities	**5 248 772**	**250 983**	**53 567**	**5 553 322**	**4 020 427**

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.

Starting from 2018, 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, 2019 and December 31, 2018 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provided for in these consolidated financial statements as of December 31, 2019 are in the amount of BGN 30 586 thousand (BGN 31 131 thousand in 2018), (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, 2019 and December 31, 2018 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

Starting from 2018, as per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment.

Following Bulgarian National Bank supervisory prescription and treatment, UniCredit Bulbank AD, as of the end of 2019, has reported and booked respectively as committed engagements the following off balance sheet items:

- All unutilized limits under multipurpose credit lines, independently of the fact whether a contractual disbursement (or particular product) is negotiated with the client or not. These engagements are treated as loan commitments, subject also to IFRS 9 provisioning and off balance sheet booking. At the end of 2019 their total amount is BGN 1.6 billion, out of which BGN 0.7 million are cancellable/revocable engagements to local subsidiaries and the rest present irrevocable commitments. The amount of allocated loan loss provisions for credit risk is BGN 10 million. The amount of the off balance sheet loan commitment is automatically calculated as a difference of the approved and negotiated limit with the client and all disbursed amounts (depending on the disbursement rights/period and revolving conditions). The abovementioned loan commitments give rise to off balance sheet items, nevertheless the Bank needs not only to approve the initial but also each subsequent product usage and disbursement conditions.

- Conditional loans, presenting available limit for derivative deals amounting at BGN 269 million – and also subject to IFRS 9 provisioning (provisions amounting at BGN 0.5 million). The amount of free limit is calculated automatically as a difference between the approved limit as the maximum loss given default and the potential future exposure calculated following the Group model.
- Engagements arising from agreements between trade and settlement date, which settlement date is still not reached and money transfer is not performed respectively by the Bank. Their total amount is BGN 391 million with allocated as of 31.12.2019 loan loss provisions for BGN 7 thousand. The amount of the engagement represents the amount to be transferred by the Bank when the settlement date is reached.

41. Assets pledged as collateral

In thousands of BGN

	31.12.2019	31.12.2018
Securities pledged for budget holders' account service	80 284	49 455
Securities pledged on REPO deals	62 212	52 507
Loans pledged for budget holders' account service	254 864	254 886
Loans pledged on other deals	117 476	55 602
	514 836	**412 450**
Pledged assets include:		
Investment securities	142 496	101 962
Loans and advances	372 340	310 488
	514 836	**412 450**

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

As of December 31, 2019 the Bank has receivables under repurchase agreements with banks amounting to BGN 2 444 988 thousand with collateral value of the same at BGN 2 443 850 thousand (as of December 31, 2018 - none).

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, 2019 and December 31, 2018 and Income statement items for the years ended then are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2019	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Derivatives held for trading	2 219	-	8 174	**10 393**
Derivatives 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**
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	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

AS OF DECEMBER 31, 2018	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Financial assets held for trading	455	-	**15 508**	**15 963**
Financial assets held for hedging	0	-	**496**	**496**
Current accounts and deposits placed	2 142 491	-	**57 812**	**2 200 303**
Extended loans		-	**34 062**	**34 062**
Other assets	5 147	-	**2 434**	**7 581**
LIABILITIES				
Current accounts and deposits taken	87 815	-	**352 345**	**440 160**
Derivatives held for trading	3 049	-	**16 218**	**19 267**
Derivatives used for hedging	37 960	-	**18 941**	**56 901**
Other liabilities	8 508	-	**786**	**9 294**
Guarantees received by the Group	**51 462**		**61 568**	**113 030**

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)**
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)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2018	PARENT COMPANIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	4 213	-	553	**4 766**
Interest expenses	(14 778)	-	(20 459)	**(35 237)**
Dividend income	-	128	-	**128**
Fee and commissions income	165	-	636	**801**
Fee and commissions expenses	(19)	-	(685)	**(704)**
Net gains (losses) on financial assets and liabilities held for trading	6 277	-	50 640	**56 917**
Other operating income	625	-	(329)	**296**
Administrative and personnel expenses	(2 378)	(898)	(11 430)	**(14 706)**
Total	**(5 895)**	**(770)**	**18 926**	**12 261**

As of December 31, 2019 the loans extended to key management personnel amount to BGN 2 119 thousand (BGN 1 024 thousand in 2018). For the year ended December 31, 2019 the compensation paid to key management personnel amounts to BGN 5 101 thousand (BGN 5 612 thousand in 2018).

43. Cash and cash equivalents

In thousands of BGN

	31.12.2019	31.12.2018
Cash in hand and in ATM	233 370	231 126
Cash in transit	169 365	140 491
Current account with the Central Bank	1 662 434	2 085 618
Current accounts with banks	184 410	104 230
Placements with banks with original maturity less than 3 months	2 749 687	13 997
Total cash and cash equivalents	**4 999 266**	**2 575 462**

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, 2019 the Bank has recognised in these consolidated financial statements the right of use assets for an amount of BGN 55 913 thousand relating to lease contracts of buildings less accumulated depreciation for the year amounting to BGN 5 787 thousand (net book value BGN 50 126 thousand). At the same date the Bank has also recognised lease liabilities for an amount of BGN 50 942 thousand (see also Notes **28** and **36**).

Summary of non-cancellable minimum lease payments as of December 31, 2019 and December 31, 2018 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Up to one year	358 820	329 007	337 802	308 256
Between one and five years	593 411	519 051	561 472	491 755
Beyond five years	25 749	40 872	33 890	37 599
Total	**977 980**	**888 930**	**933 164**	**837 610**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2019	31.12.2018
Up to one year	11 414	5 404
Between one and five years	36 246	21 245
Total	**47 660**	**26 649**

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, 2019 and December 31, 2018 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

	2019	2018	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	893 140	879 341	Consolidated Income Statement and details in Notes 7, 8, 9, 10, 11 and 12
Profit before income tax	449 376	478 618	Consolidated Income Statement
Income tax expense	(45 369)	(48 055)	Consolidated Income Statement and details in Notes 19
Return on average assets (%)	1,9%	2,1%	2019 Annual Report on Activity
Full time equivalent number of personnel as of December 31	4 142	4 138	Note 14

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

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 24

Kozlodui

1, Kiril I Metodii str.	(0973) 800 04
Kozlodui Nuclear Plant	(0973) 802 30; (0973) 802 35

Kurdjali

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) 905 931; (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) 905 935; (032) 905 938; (032) 905 835; (032) 905 839
4, Ivan Vazov str.	(032) 601 615; (032) 601 697; (032) 601 626
41, Saedinenie str., Trakia	(032) 905 972; (032) 905 974; (032) 905 933
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

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 1989; (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 1984; (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) 926 4732; (02) 926 4857; (02) 926 4897
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 4862; (02) 926 4867
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) 9264 741; (02) 9264 952; (02) 9264 736; (02) 9264 737
7, Sveta Nedelya Sq. (02) 923 2145; (02) 923 2456; (02) 923 2169
7, Sveta Nedelya Sq. (02) 923 2485; (02) 923 2107; (02) 923 2164
8, Vitosha blvd. (02) 923 2235; (02) 923 2223
84, Veslec str. (02) 923 2105
88, Yanko Sakuzov blvd. (02) 948 0966; (02) 948 0960; (02) 948 0968
9, Dondukov blvd. (02) 921 8964; (02) 921 8951; (02) 921 8963; (02) 921 8955
9, Julio Kiuri str. (02) 817 3712; (02) 817 3713; (02) 817 3718
9, Shipchenski prohod blvd. (02) 892 4565; (02) 892 4563
90, Al. Stamboliyski blvd. (02) 8102 614; (02) 8102 620; (02) 8102 621; (02) 8102 615
90, Vitosha blvd. (02) 9173 018; (02) 9173 015; (02) 9173 020
9A, Boris Stefanov str. (02) 819 2872; (02) 819 2873; (02) 819 2874

Business park Sofia, 2nd building	(02) 817 3320; (02) 817 3323; (02) 817 3327
Hotel Trivia, Botunec	(02) 948 0971; (02) 948 0974
Iliyanci	(02) 892 0521; (02) 8920 525; (02) 8920 526
Lyulin 4, block 417	(02) 814 5275; (02) 814 5276; (02) 814 5277
Lyulin center, block 752A	(02) 802 4215; (02) 802 4214; (02) 802 4212
Mladost; 265, Okolovrusten put	(02) 923 2112; (02) 923 2113
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

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4, Magistralna str.	(062) 611 019
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5, Aleksandar Stamboliyski str.	(0359) 570 20; (0359) 570 23

Vidin

3, Tzar Simeon Veliki str.	(094) 690 212; (094) 690 226; (094)690 241

Vratsa

17a, Krastio Bulgariyata str.	(092) 668 237; (092) 668 233; (092) 668 259

Yambol

173-175, Graf Ignatiev blvd.	(046) 641-153
3, Gorg Papazov str.	(046) 685-122; (046) 685-116; (046) 685-111

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Stara Zagora

126 Tzar Simeon Veliki Blvd.	(042) 696 246; (042) 696 268

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