Unlock your potential

2021

Annual Reports and Accounts

Empowering
Communities to Progress.

UniCredit Bulbank

Contents

Financial Highlights (Unconsolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures	YEAR 2021	2020	CHANGE
Net interest income	360 200	354 819	1.5%
Net fee and commission income	238 290	205 400	16.0%
Net income from dividends, trading income, hedging derivatives and investment securities	162 702	188 917	(13.9%)
Other operating income/expenses, net	(14 714)	(69 053)	(78.7%)
Operating income	746 478	680 083	9.8%
Operating expenses	(297 186)	(283 074)	5.0%
Gross operating profit	449 292	397 009	13.2%
Net impairment loss on financial assets	(107 832)	(153 143)	(29.6%)
Provisions for risk and charges	(2 554)	(5 662)	(54.9%)
Income from PPE	2 488	59	4116.9%
Profit before tax	341 394	238 263	43.3%
Net profit	313 826	223 978	40.1%
Volume Figures	**YEAR 2021**	**2020**	**CHANGE**
Total assets (eop)	24 948 376	24 107 528	3.5%
Net customer loans (eop)[1]	13 519 451	11 860 343	14.0%
Customer deposits (eop)	19 795 330	18 678 882	6.0%
Shareholders' equity (eop)	3 357 699	3 076 579	9.1%
RWA (eop)	11 151 529	11 089 113	0.6%
Key Performance Indicators (%)	**YEAR 2021**	**2020**	**CHANGE**
Return on average assets (ROA)	1.3	1.0	0.3 pp
Return on average equity (ROE)	9.6	7.6	2.0 pp
Cost/Income ratio	39.8	41.6	(1.8 pp)
Net profit margin	42.0	32.9	9.1 pp
Capital/Asset ratio (eop)	13.5	12.8	0.7 pp
Total capital adequacy ratio (eop)	27.45	26.10	1.4 pp
Tier 1 capital ratio (eop)	27.05	25.67	1.4 pp
CET 1 capital ratio (eop)	27.05	25.67	1.4 pp
Risk weighted assets/Total assets ratio (eop)	44.7	46.0	(1.3 pp)
Non-performing loans/Gross loans	4.0	6.0	(2.0 pp)
Net Loan/Deposit ratio	68.3	63.5	4.8 pp
Resources (number) – (eop)	**YEAR 2020**	**2019**	**CHANGE**
Employees	3 533	3 612	(79)
Branches	147	152	(5)

[1] Volume of customer loans, incl. debt securities at amortized costs

Financial Highlights (Consolidated)

Thousands of BGN, unless otherwise stated

Income Statement Figures	YEAR 2021	2020	CHANGE
Net interest income	519 082	516 277	0.5%
Net fee and commission income	256 023	226 856	12.9%
Net income from dividends, trading income, hedging derivatives and investment securities	98 603	89 953	9.6%
Other operating income/expenses, net	5 797	(53 396)	(110.9%)
Operating income	879 505	779 690	12.8%
Operating expenses	(347 327)	(329 448)	5.4%
Gross operating profit	532 178	450 242	18.2%
Net impairment loss on financial assets	(123 761)	(229 528)	(46.1%)
Provisions for risk and charges	(760)	(4 308)	(82.4%)
Income from PPE	2 858	479	496.7%
Profit before tax	410 515	216 885	89.3%
Net profit	370 032	195 106	89.7%
Volume Figures	**YEAR 2021**	**2020**	**CHANGE**
Total assets (eop)	25 429 222	24 619 517	3.3%
Net customer loans (eop)[1]	13 946 002	12 327 208	13.1%
Customer deposits (eop)	19 800 871	18 728 712	5.7%
Shareholders' equity (eop)	3 711 783	3 374 460	10.0%
RWA (eop)	11 262 227	11 274 406	(0.1%)
Key Performance Indicators (%)	**YEAR 2021**	**2020**	**CHANGE**
Return on average assets (ROA)	1.5	0.8	0.6 pp
Return on average equity (ROE)	10.4	5.9	4.5 pp
Cost/Income ratio	39.5	42.3	(2.8 pp)
Net profit margin	42.1	25.0	17.0 pp
Capital/Asset ratio (eop)	14.6	13.7	0.9 pp
Total capital adequacy ratio (eop)	29.71	28.30	1.4 pp
Tier 1 capital ratio (eop)	29.31	27.89	1.4 pp
CET 1 capital ratio (eop)	29.31	27.89	1.4 pp
Risk weighted assets/Total assets ratio (eop)	44.3	45.8	(1.5 pp)
Non-performing loans/Gross loans	4.8	7.0	(2.2 pp)
Net Loan/Deposit ratio	70.4	65.8	4.6 pp
Resources (number) – (eop)	**YEAR 2021**	**2020**	**CHANGE**
Employees	4 108	4 206	(97)
Branches	156	161	(5)

[1] Volume of customer loans, incl. debt securities at amortized costs

Chairman's message

“

UniCredit Bulbank puts customers in the center of all its activities, delivering relevant solutions to their real needs.

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

Dear shareholders, partners, clients, and colleagues,

We have ended up 2021 with "vax" as the word of the year. This came to prove that our daily life – personal and professional, largely continued to be influenced by the Covid-19 pandemic. I believe that challenging times, like these we are living in, are the real test and make the difference between companies. And in 2021, for another year in a row, UniCredit Bulbank has proven itself as successful and sustainable institution.

The main priority for our bank was the continuous support we provided to our clients and communities so that they not only manage to go through challenges but also to continue executing their investment plans, grow and innovate.

Reaffirming its commitment to Bulgarian economy, communities and sustainable environment by launching comprehensive Environmental, Social and Governance Program, fully embedded in the bank's strategy and integrated into day-to-day activities. Its two key principles are to leed by example, striving for the same high standards we seek from those we do business with and equipping ourselves with tools to suppot our clients and communities to navigate the transition to more sustainable business. In 2021 main focus was on enriching our ESG-linked products and services for the clients and an award winning holistic ESG Learning Journey for our employees, which included a strong partnership with the leading Sofia University "St. Kliment Ohridski". In 2021 UniCredit Bulbank kept its leadership on the local banking sector, achieving impressive results in terms of profit and efficiency.

Undisputable Market Leader

UniCredit Bulbank's ability to **successfully navigate also in 2021** was underpinned by its diversified business model and its solid financial foundations with a very robust capital and liquidity position and strong risk discipline. Record high business production, lower loan loss provisions benefitting from a sustainable business origination and prudent risk approach, excellent excess liquidity management and further acceleration of our efforts in the digital area were the key drivers for the **extraordinary results**.

In 2021, **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.

The bank continues to be indisputable leader in Corporate segment and is one of the key players in Retail segment where it marked several accomplishments – outperformed the market in terms of lending, adding +13 bps market share to 15.6% as of Dec'21 and achieved record levels of new production in both consumer lending and mortgages.

Capitalization of UniCredit Bulbank was confirmed at the very solid levels, well above the regulatory minimums: **UCB's CET1 capital ratio** remained much higher (27.1% as of Dec'21) than the minimum BNB requirement of 11.50% (including applicable capital buffers).

In an environment of ongoing consolidation of the banking sector, which favored economies of scale of some market participants and the system as a whole, UniCredit Bulbank growing organically **continues to be the most efficient bank in Bulgaria keeping its Cost to Income Ratio below the market average and main competitors.**

With a Net Profit of BGN 314 mln., the Bank **accumulated almost ¼ from the Banking System's 2021 Net Profit** for another year in a row, **outperforming the Market** Average in terms of all fundamental efficiency and profitability indicators: ROA, ROE, Net Profit Margin and Cost to Income Ratio and achieved higher y/y improvement in all of them when comparing with the performance of the market.

The Bank achieved **BGN 746.5 mln in Revenues** with market share in Revenues stable at 19.0%, above the market share in Total Assets (18.4%). The main contributor to the Operating income growth was the **Net fees and commission income** (BGN 238.3 mln), up by 16.0% y/y, triggered by increased economic activity in the country as well as by dedicated commercial actions of business divisions especially on high value added financial services areas (trade finance, investment products, corporate finance advisory, etc.). **Net interest income** (BGN 360.2 mln) increased by 1.5% y/y, supported by optimized excess liquidity volumes incl. through increased bond's investments, growth in lending volumes as well as higher income from liquidity fee on deposits. **Operating expenses** (BGN -297.2 mln) increased by 5.0% y/y, primarily in HR component due to labor market trends. **Net Impairment loss on financial assets** (BGN -107.8 mln) decreased by 29.6% y/y, benefitting from healthy asset quality and a continued disciplined risk approach.

In terms of **Assets Quality**, **UniCredit Bulbank** continued to **hold lower NPE ratio** (4.0%) compared to the Market Average (6.5%) as of December 2021. The loan loss provision coverage of non-performing exposures acquired additional 495 bp and reached 78.6%.

In 2021, the strategic orientation of UniCredit Bulbank remained focused on further strengthening the leadership position and **maximizing the commercial banking value** for all its stakeholders. The main transformational pillars remain the focus on creating a positive customer experience as well as **focus on innovations** in all areas and particularly **digitalization** of product services and processes. UniCredit Bulbank puts the customer in the center of all activities, delivering relevant solution to their real needs. In a challenging economic context, with rapidly evolving client needs, digital transformation plays a critical role and responds to the growing demand for simplicity and speed.

Digitalization – of products but also of processes

The increase in the usage of the digital channels of the Bank has continued, following the trend in the last couple of years. Clear evidence for this is the total number of mobile active users as of the end of 2021, surpassing 500k, having more than 100 m. logins in the mobile application **Bulbank Mobile** for the year, which stands for **42% increase vs. 2020**. In terms of transactional activities, the mobile banking is also showing very good progress as the **total amount of payments** within 2021 has **increased with 35%** vs. the previous year. One of the major developments in 2021, was the **full redesigned mobile banking application** launched in May'21 with fresh new outlook and more intuitive and modern design.

As a prerequisite for enhanced digital offer to our customers, we reinforced the IT infrastructure, improved storage and backup management, invested in process robotization and automation to decrease reporting complexity and allow re-allocation of resources to more front-office activities. In the past year Bulbank enhanced the digital offer to clients launching a new fully digital and paperless Omnichannel platform for private individual plans in Mobile banking. In 2021 an Online Mortgage Hub was introduced which provides entirely remote mortgage process to the customers.

Being efficient and optimally distributed, our physical retail network continued to play significant role for development of relations and instant interaction with our customers. **UniCredit Bulbank retail network continued to be one of the most efficient on the market**. UniCredit Bulbank continued to unfold the concept of the Branch of the Future. The concept proved to increase the satisfaction of customers and employees, being a top priority for the bank.

A Bank with a Heart

Concentrating on the development of its **corporate social responsibility** program, UniCredit Bulbank takes its leading position on the market as a responsibility to empower communities to grow. In 2021, the Bank was a leading partner and stood behind the execution of a number of significant projects in the area of education, innovation, culture and art, business and social entrepreneurship. This was yet another year in which the Bank and its employees did not forget about the most vulnerable groups of society, supporting them with substantial donations.

Thanks to the strong brand of UniCredit, the good image of a stable and reliable organization, UniCredit Bulbank continued to be considered employer of choice **and an excellent place for career development**.

While supporting a well-balanced work life, we want to create the conditions to allow our people to contribute, grow and learn. UniCredit people are our main competitive advantage and we strongly believe that our continuous investment in people development is making the difference.

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

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

We enter 2022 as a robust institution and a market leader, well positioned for further growth, with outstanding reputation and capable to deliver value-added solutions to customers and society. We are at the beginning of a new journey, new strategic plan "UniCredit Unlocked", a long-term plan for our business, designed to deliver sustainable performance and profitable growth through the cycle for all our stakeholders: investors, employees, and clients.

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

I would like to thank all of you – our shareholders for the strong support and commitment and our clients for the trust. Also, I would like to express my gratitude to the management team and all our employees for their hard work and dedication. Despite all the challenges that we meet, it's of utmost importance for all of us to keep the spirit of a leader on the market in the name of success.

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

Supervisory Board and Management Board[1]

Supervisory Board (SB)

Alberto Devoto	**Chairman**
Niccolo Ubertalli – till 14.10.2021	**Deputy Chairman**
Dimitar Zhelev Heinz Meidlinger Monika Rast Francesco Correale Francesca Giordana	**Members**

Niccolo Ubertalli – released as of 14.10.2021

Management Board (MB)

Tzvetanka Mintcheva – as of 27.09.2021	**Chairperson and Chief Executive Officer**
Septimiu Postelnicu	**Deputy Chairman and General Manager**
Andrea Tognetti – member as of 05.08.2021, Executive Officer as of 26.08.2021	**Executive Officer**
Raluca–Mihaela Popescu-Goglea Borislav Bangeev Mario Collari Velko Djilizov – as of 05.08.2021 Sandra Vojnovic – as of 14.10.2021 Borislav Genov – as of 07.12.2021	**Members**

Teodora Petkova – released as of 27.09.2021
Giacomo Volpi – released as of 10.05.2021
Jasna Mandac – released as of 10.05.2021

[1] As of December 31st, 2021

Supervisory Board and Management Board (continued)

ART. 247, PAR. 2, PT. 4 FROM THE COMMERCIAL LAW (01.01.2021 - 31.12.2021)

Members of the Supervisory Board

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

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

Dimitar Zhelev
- Real Estates Development EAD – Chairman of BD (100% ownership of BULLS AD)
- BULLS AD – Member of BD, 51% ownership (49% owned by SHIPPING AND INSURANCE FOUNDATION with beneficiary Mr. Zhelev)
- INDUSTRIAL HOLDING BULGARIA – 60.68% ownership through BULLS AD
- DZH AD – Member of BD, 50% ownership, DZH AD has participation with 8.99% in INDUSTRIAL HOLDING BULGARIA
- ALLIANZ BULGARIA HOLDING AD – Chairman of BD and Executive Director, 34% ownership directly and through BULLS AD
- ALLIANZ BANK BULGARIA AD – Chairman of SB
- ZAD Allianz Bulgaria – member of SB
- ZAD Allianz Bulgaria Life – member of SB
- Aegian Bulls Ltd. – over 25% ownership through controlled companies

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

Francesco Correale
- Does not participate in the management of any other entities

Francesca Giordana
- Does not participate in the management of any other entities

SB members released during 2021

Niccolo Ubertalli
- UniCredit S.p.A. – Group Executive Committee member
- UniCredit Services S.C.P.A. – Vice President of the Supervisory Board – from 26.07.2021
- ABI-Associazione Bancaria Italiana – Member of Supervisory Board and Member of Executive Committee – from 31.05.2021
- UniCredit Bank Czech Republic and Slovakia A.S. – Vice President of the Supervisory Board – till 23.07.2021
- UniCredit Bank S.A. Romania – Member of Supervisory Board – till 07.09.2021
- Yapi ve Kredi Bankasi A.S. – Member of Supervisory Board – till 28.12.2021

Members of the Management Board

Tzvetanka Mintcheva
- UNICREDIT CONSUMER FINANCING EAD – Chairperson of SB as of 19.10.2021
- BORICA AD – Member of BD as of 24.09.2021
- UNICREDIT LEASING EAD – member of SB as of 20.10.2021, appointed as a Chairperson on 29.11.2021
- Council of the Women in the Business in Bulgaria – Member of MB as of 05.10.2021

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
- INSTAL PROJECT SRL – jointly controlled

Borislav Bangeev
- UNICREDIT CONSUMER FINANCING EAD – Member of SB

Sandra Vojnovic
- UNICREDIT CONSUMER FINANCING EAD – Member of SB as of 11.11.2021
- UNICREDIT LEASING EAD – Member of SB as of 11.11.2021

Borislav Genov
- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of MB as of 30.12.2021

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

Andrea Tognetti
- Does not participate in the management of any other entities

Velko Djilizov
- Does not participate in the management of any other entities

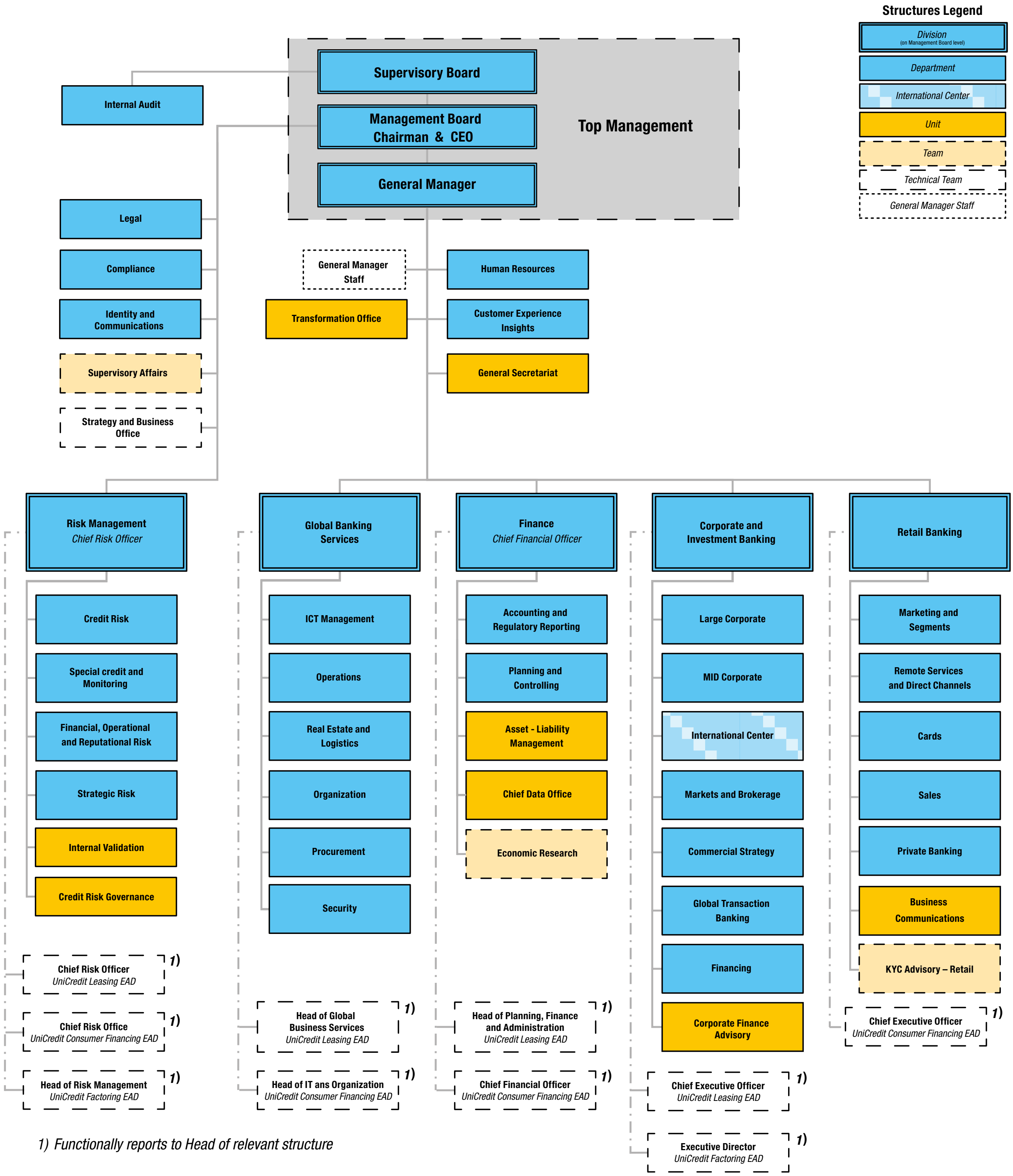
MB members released during 2021

Teodora Petkova
- UNICREDIT CONSUMER FINANCING EAD – Chairman of SB till 19.10.2021
- BORICA AD – Member of BD till 24.09.2021
- UNICREDIT LEASING EAD – Chairman of SB till 20.10.2021
- ASSOCIATION OF BANKS IN BULGARIA – Member of MB
- Council of the Women in the Business in Bulgaria – Member of MB till 05.10.2021

Jasna Mandac
- UNICREDIT CONSUMER FINANCING EAD – Member of SB till 11.05.2021
- UNICREDIT LEASING EAD – Member of SB till 11.05.2021

Giacomo Volpi
- UNICREDIT CONSUMER FINANCING EAD – Deputy Chairman of MB till 14.06.2021

Organisation Chart[2]



[2] As of December 31, 2021

Credit rating

UNICREDIT BULBANK CREDIT RATING (FITCH RATINGS)

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

2021 AWARDS

- Global Finance: Best bank in Bulgaria
- Global Finance: Best digital bank in Bulgaria 2021
- Global Finance: Private Bank 2021
- The 11th edition of the Golden Apple Awards, organized by the National Network for Children: Prize for UniCredit Bulbank “Company – Friend of the Child”
- Capital newspaper: UniCredit Bulbank is a leader in the K10 ranking of the best banks in Bulgaria for 2020
- Euromoney: UniCredit Bulbank is the market leader in trade financing services in the country for 2021
- The annual awards of the BCause Foundation “Responsible company – Responsible Employees”: UniCredit Bulbank was awarded the prestigious award Golden Badge for Donation from the Workplace
- Employer Branding Awards by b2b Media 2021: UniCredit Bulbank’s e-book “Working from Home: How to Succeed?” won first place in the category Employer Branding Project (in Pandemic Times)
- The Greenest Companies competition: UniCredit Bulbank has the number one “Paperless Office” in Bulgaria
- B2B Media: Campaign during a pandemic
- B2B Media: Green Initiative – ESG initiatives in 2020
- B2B Media: Innovative project – redesign of Bulbank Mobile
- B2B Media: Innovative company of the year – for remote signing of consumer loan agreements, online submission of orders for purchase and sale of securities and payment by phone via digital wallet and Apple Pay
- The Banker: UniCredit Bulbank is Bank of the Year 2021 in Bulgaria

Breaking new ground: In supporting ethical fashion brand Quid, we are not only helping the company reduce its environmental impact, but also take concrete steps towards greater job inclusion.

Our Clients
Quid
Italy

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

At a glance

UniCredit is a pan-European Commercial Bank with a unique service offering in Italy, Germany, Central and Eastern Europe. Our purpose is to empower communities to progress, delivering the best-in-class for all stakeholders, unlocking the potential of our clients and our people across Europe.

We serve over 15 million customers in a cohesive manner worldwide. They are at the heart of what we do in all our markets.

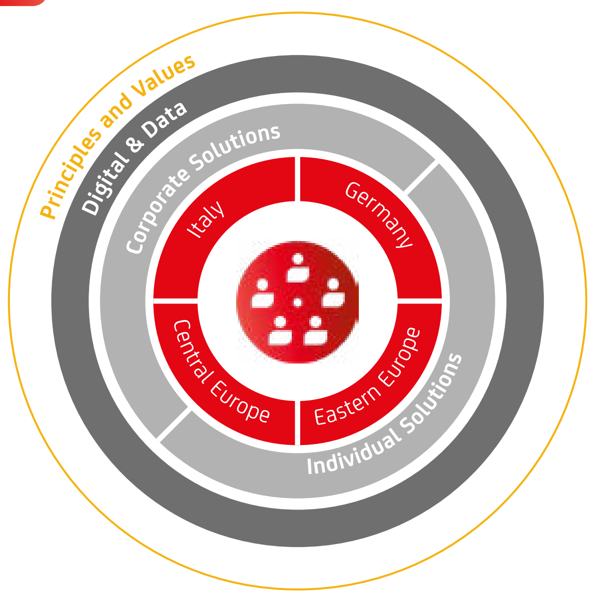
Empowering Communities to Progress. | UniCredit

OUR ORGANIZATION

4 Coverage regions

2 Product factories serving all regions

1 Leaner Corporate Centre embedding Digital & Data



OUR CLIENTS, OUR COMMUNITIES, OUR PEOPLE

Our new strategy UniCredit Unlocked puts clients back at the centre, connecting them to their bank in a unified way across Europe. We are their gateway to Europe.

We have a harmonised service model, simplifying our processes and establishing a common organisational structure across our business to connect our clients to our 13 banks and 4 regions in a unified way across Europe.

Digitalisation and our commitment to ESG principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities and our people.

The diversity, knowledge and talent of our 87,000 people are the levers to go above and beyond for our clients. This will allow us to deliver all our ambitions.

Financial Highlights

FY21 COMMERCIAL RESULTS DEMONSTRATING THE INHERENT VALUE OF THE FRANCHISE

CONNECTING OVER 15M CLIENTS ACROSS EUROPE

~14 M RETAIL CLIENTS

~1 M CORPORATE CLIENTS

CROSS BORDER PAYMENTS MARKET SHARE: C. **2**X INTRA COUNTRY

THROUGH A UNIQUE AND DIVERSE TALENT BASE

	PRESENCE IN BoD	PRESENCE IN GEC		
International mindset[1] Outside of head office country	38%	53%	14	Employees Resource Groups (LGBTI, Gender, Disability, Culture, Generations)
Gender balance[1] Female	46%	40%	33%	Presence in leadership team

13 BANKS EMBEDDED IN THE FABRIC OF EUROPE[2]

#2 ITALY

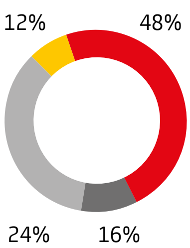
#3 GERMANY

#2 CENTRAL EUROPE

#1 EASTERN EUROPE

1. Calculated in FTEs.
2. Ranking by total assets. Germany only Private Banks. Italian and German Peers last available update as of 3Q21; Positioning vs other main Peers in CE region is as of 3Q21; ERSTE Austria in CE perimeter ranking consists of ErsteBank Oesterreich & Subsidiaries, Savings banks and Other Austria; Positioning vs other main Peers in EE region is as of 3Q21.

REVENUES (%)[3]



- Italy
- Germany
- Central Europe
- Eastern Europe

	Net profit[4] FY21, bn	GOP[3] Δ% vs. FY20
ITALY	2.0	+8.1%
GERMANY	0.8	+28.4%
CENTRAL EUROPE	0.9	At constant FX +12.6%
EASTERN EUROPE	0.8	At constant FX +0.2%

3. Revenues by region: Italy excl. PC_CE, PC_EE, PC_Russia, Germany Subgroup.
4. Net Profit means Stated net profit (for 2021 Underlying net profit) adjusted for AT1, CASHES payments and impacts from DTAs from tax loss carry forward sustainability test.

OUR FINANCIAL RESULTS SHOWED POSITIVE MOMENTUM

GROW
Revenues: **18bn** exceeding guidance

STRENGTHEN
Non Core rundown completed
CET1 ratio: **15.03%**

DISTRIBUTE
Proposed shareholder distribution: **3.75bn**

OPTIMISE
Cost: **9.8bn** exceeding guidance

Chairman's message

> Each new challenge is a new opportunity. And to believe in new opportunities is to believe in change. This is the reason we have adopted a long-term strategy which is already delivering results above expectations.

PIETRO CARLO PADOAN
CHAIRMAN
UNICREDIT S.P.A.

Dear Stakeholders,

it is my pleasure to write to you as Chairman of the UniCredit Board. It is a privilege to be part of this great Bank, a group that is truly diverse in terms of skills, nationalities and gender, as shown by our recent first place award in the 2021 Best Practice Leaders Italy ranking by the European Women on Boards network. I would like to extend my thanks to you all for the welcome you have given both me and our new CEO, Andrea Orcel, since our arrival in April.

There is an adage that every challenge is an opportunity, but since March 2020 and the onset of the pandemic, this has taken on new resonance. Covid-19 has driven change at an unprecedented pace. It has accelerated the digitalisation process within public and private sectors, further strengthened a customer-centric approach, and prompted a renewed focus on ESG issues as part of a path to a sustainable future.

Our industry plays a decisive role in each of these areas. The pandemic has reminded us in many ways what the banking system can and should do when challenged. First, to help manage the aftermath of economic shock, and then, to return to its fundamental role, filling the gap between savings and investments.

This has not been – and will continue not to be – easy or straightforward. But each new challenge is a new opportunity. And to believe in new opportunities is to believe in change: to believe that what is coming can be better than what has come before.

It is a privilege of those in the banking industry to know that we can help create a better future. And we must.

We must do so by returning to our fundamental roles of helping manage the allocation of resources and providing expertise to those in need – whether individuals, households, or companies. In doing so, we will support society through the post Covid-19 transition and help rebuild better than before.

This means providing the best expertise possible, whilst always acting in the interests of our clients. It means supporting the allocation of resources in a way that is sustainable and in the interests of society for the long-term. Practically speaking, this equates to a focus on ESG – and an equal focus on each of the Environmental, Social, and Governance priorities.

We, as banks are uniquely positioned to speed up this shift to a more sustainable way of living and working. Our knowledge of and proximity to our clients mean we can identify the most sustainable sectors and players to support growth over the long-term. And our role in providing financial and advisory support means we can channel resources to the most sustainable investments and strategies.

Supporting our clients and communities is our reason for existing, but we should not underestimate the impact of fostering a positive and responsible culture within our own business. UniCredit's choice to be guided by ESG frameworks and targets, setting appropriate policies to deliver on these, will ultimately be fundamental in building a better Europe.

Finally, more generally, the financial sector plays a crucial role in allocating national and public resources, such as the EU Recovery Fund, to trigger environmental and social transformation.

Our industry can drive swift change and sustainable recovery across Europe. This is a great challenge, but also an even greater opportunity.

UniCredit has been no stranger to change this year. We have a new leadership, and a new strategic plan to deliver growth for all our stakeholders.

The plan, to unlock the strength within UniCredit, enacts in a small way what we hope to see in Europe. It will identify the potential embedded in our bank and give us the necessary framework to excel in the long-term. I have confidence that the UniCredit leadership team will deliver on this mission. We have already made a strong start, exceeding 2021 key financial guidance, which allows us to offer substantial shareholder returns.

As we continue on this path, the Board is committed to providing the requisite oversight and controls to ensure that we are both holding ourselves accountable for all our actions and acting in line with the ECB's requirements at all times.

We have taken significant steps to strengthen our governance in line with the current environment. This includes creating a new ESG Board Committee to ensure this topic remains central to our overall corporate strategy and strengthening our Internal Controls & Risks Committee in line with industry best practices.

These are examples of actions taken willingly and proactively because we are invested in success not just for UniCredit, but for all our stakeholders. We know that the successful execution of this plan will impact each of our clients, investors, and regulators.

The challenge is to take each of these different perspectives into account and deliver something that enables them all to succeed.

The opportunity is for us all.

Yours sincerely,

PIETRO CARLO PADOAN
CHAIRMAN UNICREDIT S.P.A.

UniCredit Tower

Our Headquarter
UniCredit Tower in Milan

Chief Executive Officer’s message

“

There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; beginning the unlocking UniCredit; and delivering a pathway for sustainable financial growth for our stakeholders – gives me every confidence that we will achieve all that we have set out to do.

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER
UNICREDIT S.P.A.

Dear Stakeholders,

When I joined UniCredit early in 2021, I said it felt like coming home. This is true, but it was a home that was relatively unfamiliar.

Although I have worked closely with the bank throughout my career, nothing replaces what you discover about a business when you are on the inside.

So much of my first few months here was spent taking to our people, our investors, and our regulators, gathering an understanding of the bank and the needs and opinions of our stakeholders.

What I found was remarkable and deeply heartening, especially as we began to craft our long-term vision for UniCredit. Our bank is not an institution that needs to be fundamentally changed or rebuilt. We have all the raw ingredients for success: 13 banks across Europe; 87,000 people with a truly international mindset, and 15m clients. We are a truly local bank with a pan-European reach.

It would be an honour to be at the helm of such an institution at any time, but it is particular honour at this point in our collective history. As Europe emerges from the Covid-19 pandemic, we have a significant opportunity to rebuild: not only to recapture the strength and success we had before, but to go further and do better.

Banks have a critical role to play as we do so. Operating correctly, they act as the engines for financial progress – the plumbing which facilitates this recovery and regrowth. They are the key transmission mechanism for our financial system; the deployers of monetary policy; the financers of state projects designed to increase growth, and so much more.

As a continent, we need our banks to function well because at the moment Europe is underperforming. Our capital markets are less developed than those of other blocs and our real GDP growth is falling behind others. We as a society should not accept this, and we as UniCredit will not, because we have the ability to create change for the better.

UniCredit is the only pan-European bank. Our true and deep presence across the continent means we are well-positioned to provide this financial plumbing which will help local communities to progress and Europe to succeed.

My role is to ensure that we are utilizing our bank's ingredients properly to achieve the above, as well as our financial objectives: growth, profitability, strength, returns to shareholders, and long-term, sustainable success.

When we deliver this, we deliver for our people, giving them a bank to be proud of, and pride in the work they do every day. A team of passionate people, building true partnerships with clients and serving the communities they know well, will be at the heart of our success.

These things together will put UniCredit back in the top tier of European banks. Looking beyond our bank, I believe this combination of financial success and empowered people is what will form the basis of Europe's reestablishment as a leading economic bloc.

We have already made significant progress in 2021, working tirelessly with these goals in mind, and we have begun to see the results of such a strategy.

2021

Although we formally announced our strategic plan in December, our action to unlock UniCredit and build the bank for Europe's future began the moment we stepped through the door in April.

We were firmly in execution mode throughout 2021 and much of what we articulated in December was already in flight.

This year we have made significant changes to the way UniCredit operates, moving from five siloed business divisions to four coverage regions. We established Italy as a stand-alone territory. We removed unnecessary layers of decision making and empowered the people who really know their clients best to make decisions that concern them, within a clear risk framework.

We unified our view of our clients, ensuring that they are grouped in the same way across all regions. We developed two new, best-in-class product factories to serve these clients: corporate solutions and individual solutions. And we started rationalizing and transforming our technology.

In 2021 we saw the first signs of success from this strategy. Our Q4 results announced underlying net profit more than tripled compared to 2020 and net revenues were up 34% year on year.

Win. The right way. Together.

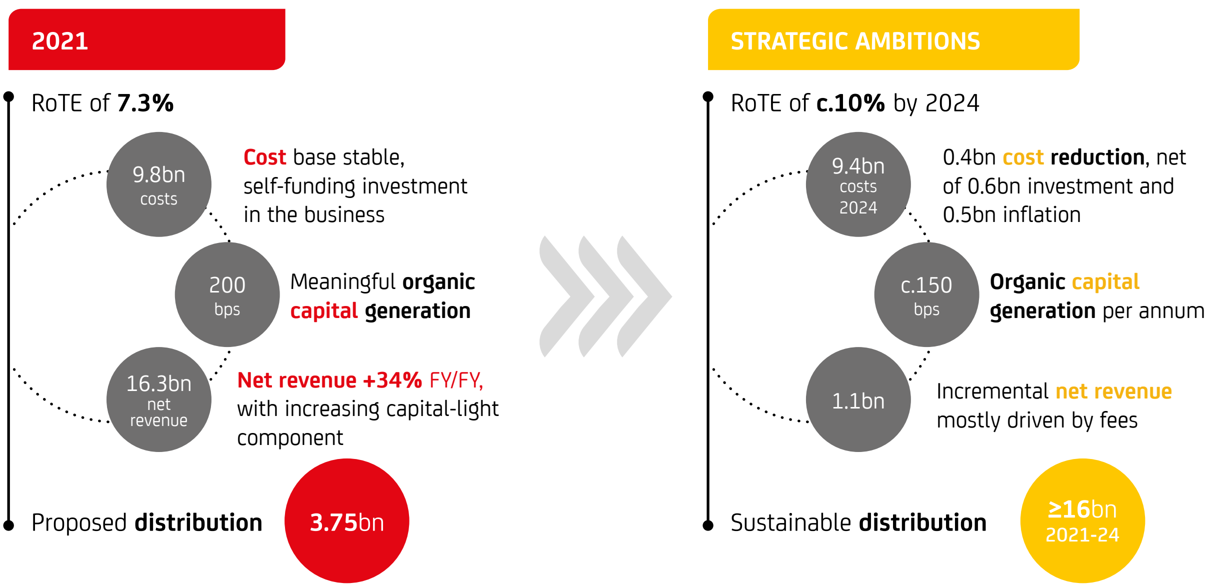
We should not underestimate the potential impact of us delivering on this strategy. Doing so will have repercussions – both financial and social – across the continent. This is what we mean when we say empowering communities to progress, and it is this that equates to helping Europe recover and rebuild post-pandemic.

The most important factor that will determine whether we deliver on our ambitions is the presence of an engaged, empowered and driven team around us. It is their unique understanding of our clients that will enable us to deliver for them and, in turn, deliver on all of our ambitions. We are committed to giving them the inspiration, passion, and ambition to do their very best and go above and beyond for our clients.

We have taken measures to do so this year, defining our collective mindset as Win. The Right Way. Together. We want our people to be driven to succeed for our clients and for themselves: ambition is not something we shy away from. We want them to do so in the right way, in a way that adheres to our values of Integrity, Caring and Ownership, and we want them to do so in partnership with one another and with our clients. This mindset will drive all the decisions we take and provide the requisite attitude for long-term, sustainable success.

We have started a Courageous Voices campaign, to encourage our team to speak up, in all different settings. Our team are our most important asset and we must listen to their ideas and different perspectives to ensure we are working as a united group, moving in the same direction with shared goals. Our success will be a direct reflection of theirs.

There is an inextricable connection between a businesses' financial success and an engaged team working to deliver a clear purpose. This is explicit in our plan, which sets out our dual goals of providing such a purpose and delivering a return on tangible equity of around 10%, annual net revenue growth of 2%, and a distribution of at least €16bn over 2021-2024, in spite of significant investment in our future – in our people as well as in our technology.



UniCredit Unlocked

UniCredit Unlocked is a plan designed to deliver for all our stakeholders: investors, employees, and clients. It is a long-term plan for our business. For obvious reasons, key metrics are based on 2021-2024, but this is just one milestone. True success will be measured by how well the plan sets us up for success beyond this date.

It is a plan designed to ensure we are ready for the future and, more importantly, ready to serve our clients of the future. We have bold ambitions to make UniCredit a truly digital bank, powered by data in all we do, investing 2.8bn in this area and making 3,600 new hires to help us on this journey.

Any plan for the long-term must have ESG at heart. Our commitment to sustainability and positive action across all three pillars of ESG will be a guiding force in each and every one of our actions and decisions.

ESG is about actions, not words, for both our own business and in the support of our clients and communities as they embark on their own transitions. We are committed to maintaining the highest standards within UniCredit across each of Environmental, Social and Governance, and to expecting and asking nothing less from our clients too. Balancing these objectives will not always be straightforward. This is a journey, one which will not be complete overnight, but we will embody these principles every single day, working to do better and be better, until we get there.

We have committed to target net-zero by 2030 for our own emissions and have reduced our greenhouse gas emissions by 32% since 2017 (market based). We have contributed 36m to corporate citizenship and philanthropic initiatives, and to the education of 123,000 young people; and are investing 100m to ensuring equal gender pay, which means equal pay for equal jobs. The UniCredit Foundation continued its excellent work, donating €2.4m in Covid-19 relief to tackle hunger, providing over €1m to social solidarity projects and over €1m to support research, study and scholarship grants, whilst also providing €650,000 in match gifting to support our own employees' charitable contributions.

ENVIRONMENT

Greenhouse gas emissions

32%
reduction vs. 2017, market-based

Net Zero by 2030

Renewable energy

80%
use on our premises

100% ITA
100% GER
98% AUT

Plastic-free

No single-use plastic items in UniCredit buildings by end of 2022

SOCIAL

Corporate citizenship and philanthropic initiatives

36m
contribution to communities

Education and impact

123k
young people educated

3.7m
direct and indirect beneficiaries of social financing

GOVERNANCE

Global policies

- **ESG** policies, statements and commitments
- **Human capital** policies and joint declarations
- **Compliance** key policies

Strong diversity and inclusion framework

46%
female BoD

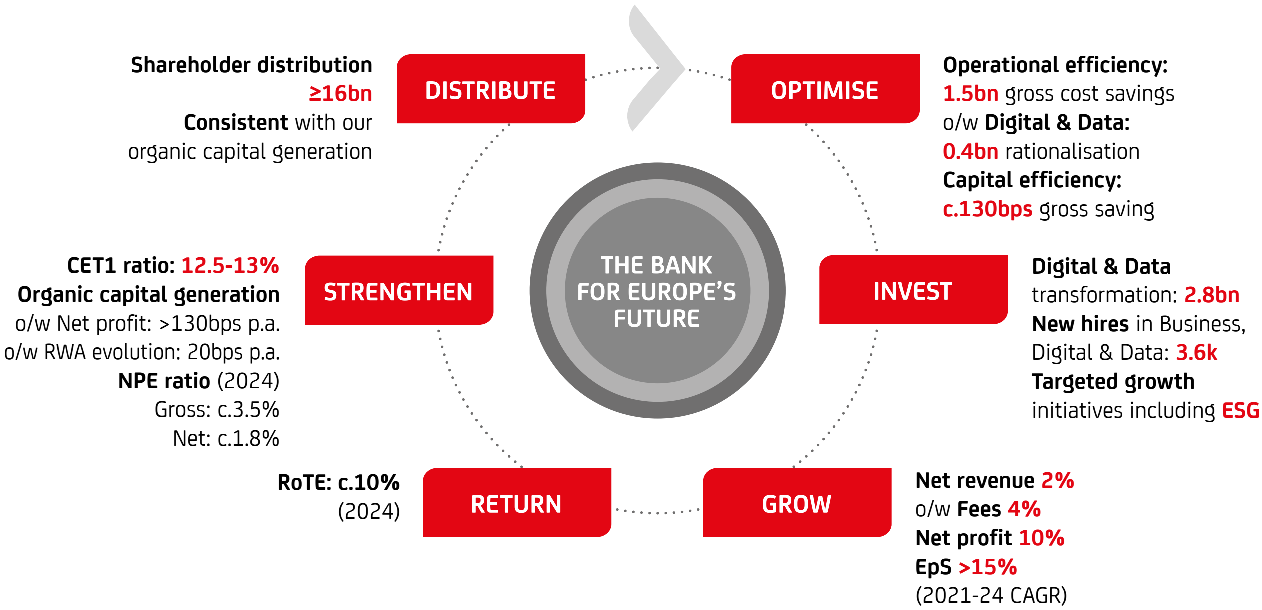
40%
female GEC

33%
female Leadership team

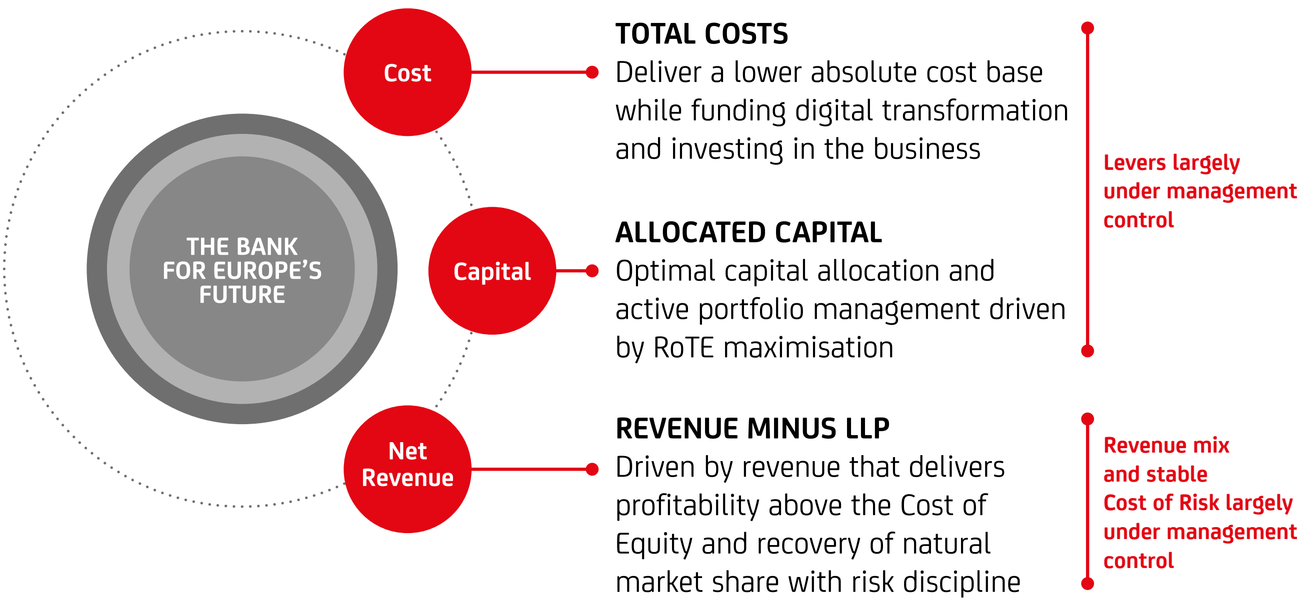
Actions on gender pay gap

Our financial ambition to unlock UniCredit is based on six pillars, designed to deliver sustainable performance and profitable growth through the cycle.

We **optimise** UniCredit by improving both our operational and our capital efficiency, enabling us to **invest** these resources into our business, with a key focus on digital and data. The focus of our plan is **delivering** growth, at an accelerated rate from 2022, reaching a **return** on tangible equity of around 10% in 2024 and aiming to surpass it thereafter. This **strengthened** business will **distribute** at least €16bn over the next four years in a sustainable fashion.

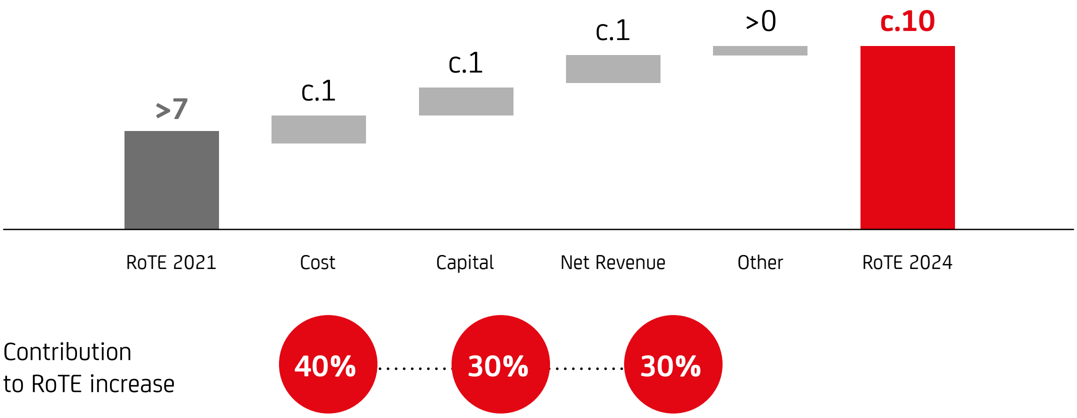


We have three interconnected levers that will drive returns over the coming years.



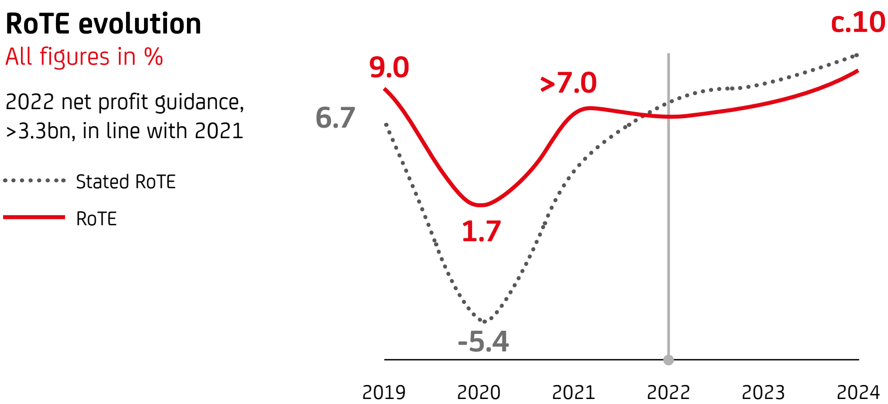
By managing the interaction of these three levers, we can optimally balance growth, strength and profitability.

RoTE walk
All figures in %



RoTE evolution
All figures in %

2022 net profit guidance, >3.3bn, in line with 2021



Future Focus

I do not want to underestimate the incline of the path ahead, but I also want to stress the scale of what I believe is possible if UniCredit unlocks its potential and operates in the right way.

When our bank's clearly defined ambition, purpose and values work in synergy, we will deliver for all stakeholders while not losing sight of the very fundamental reason for our existence: to empower communities to progress.

I truly believe that when these things operate in partnership, and when people work hard to win – the right way – together, this is when companies will excel. Furthermore, this is not limited to companies. It should not only be mantra for our bank, but for the communities and societies in which we operate.

If we get this right, I believe the convergence of a shared ambition, purpose and values is the principle that European recovery and growth will be founded on.

We will start with our bank: a bank that is united in this way, with the right measures in place to meet the needs of the clients of the future, so that we can better serve not only our clients but the societies in which we operate.

It is this that will enable us to be the engine of our continent's recovery, the bank for Europe's future.

This is a powerful purpose and one I hope that the UniCredit team can feel proud to be a part of.

I extend my sincere thanks to all those colleagues who have welcomed me so warmly and been open to the change that I know can be both exciting and challenging in equal measure.

There is a bold future ahead for UniCredit and we have already embarked upon our journey to get there. What we have accomplished to date – giving our team the framework for success; successfully beginning to unlock UniCredit; and delivering financial success for our stakeholders – gives me every confidence that we will achieve all that we set out to do.

I ask for the support of our investors and stakeholders as we do so; as we continue to deliver on our promise to build a better bank for Europe's future.

Thank you,

ANDREA ORCEL
CHIEF EXECUTIVE OFFICER UNICREDIT S.P.A.

FIONA MELROSE

HEAD OF GROUP STRATEGY & ESG

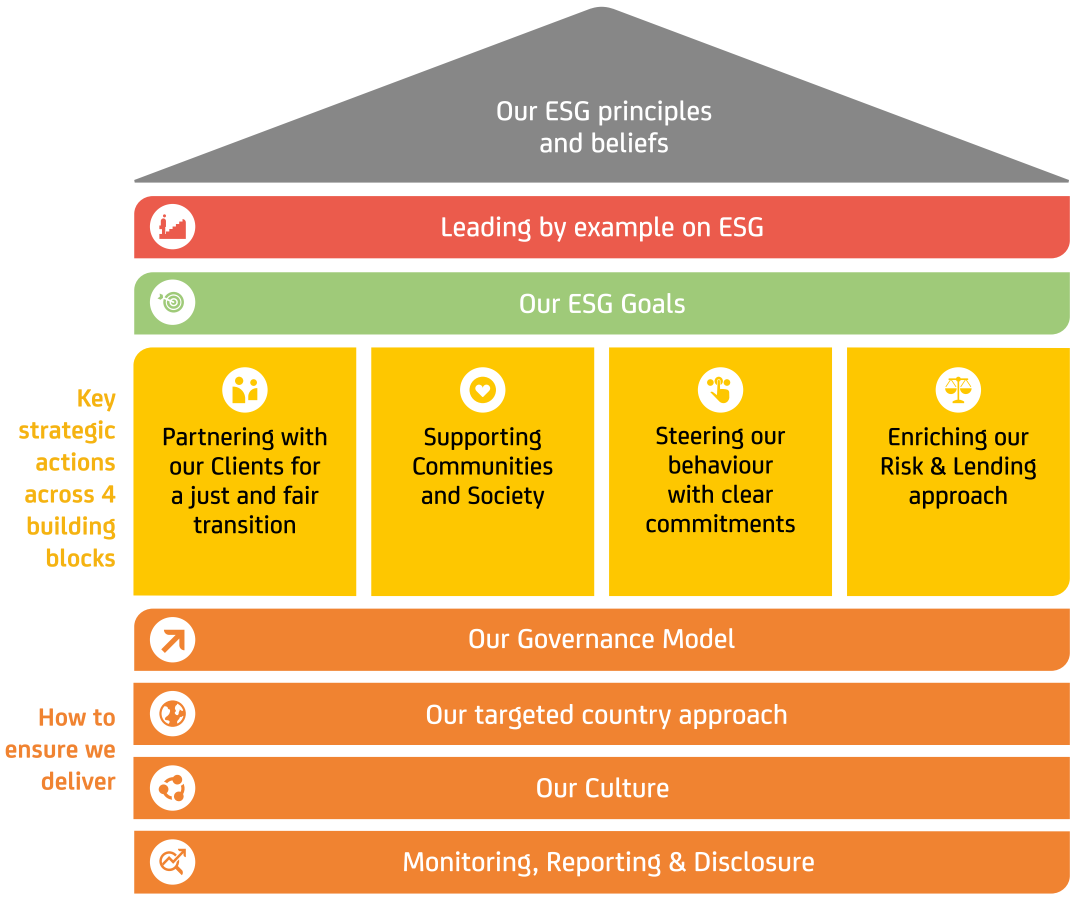
ESG

A Blueprint for our Business

What does ESG mean to UniCredit?

At UniCredit, **ESG** is not a set of factors or considerations. It is a **way of doing business** and fundamental to **every action** we undertake. Itis not a retrospective consideration only after we have made a business decision; ESG implications are innately woven into our approach and **fully integrated** in the **decision-making process**. The UniCredit mindset and culture is about **doing things *the right way*** and **ESG is central** to that.

OUR ESG STRATEGY: BUILDING ON STRONG FUNDAMENTALS TO DELIVER VALUE



How do you make sure this is maintained throughout your business?

We have established a **set of principles** which underpin all aspects of ESG to ensure the pillars of **Environmental**, **Social** and **Corporate Governance** remain **core** to our work across the business. These are:

- We will hold ourselves to the **highest possible standards** so that we do the right thing by our clients and society.
- We are totally committed to **supporting our clients** in a just and **fair transition**.
- We will reflect and **respect the views of our stakeholders** in our business and decision-making process.

OUR ESG PRINCIPLES AND BELIEFS

PRINCIPLES

We will hold ourselves to the highest possible standards so that **we do the right thing** by our customers and society

We are totally committed to supporting our customer in a just and **fair transition**

We will **reflect & respect the views of our stakeholders** in our business and decision-making process

BELIEFS

- we are signatory of the **Principles for Responsible Banking**
- we foster a **more inclusive** and **fair society** with **finance, education** and **measurement** of our impact
- we engage in **academic research** to ensure our approach to ESG is rooted in **science.**

- we create **excellent** and **innovative** ESG solutions for our customer
- we partner with our customer to deliver **aligned environmental** and **social** goals
- we mobilise **capital** and set **targets** to foster **sustainable** development.

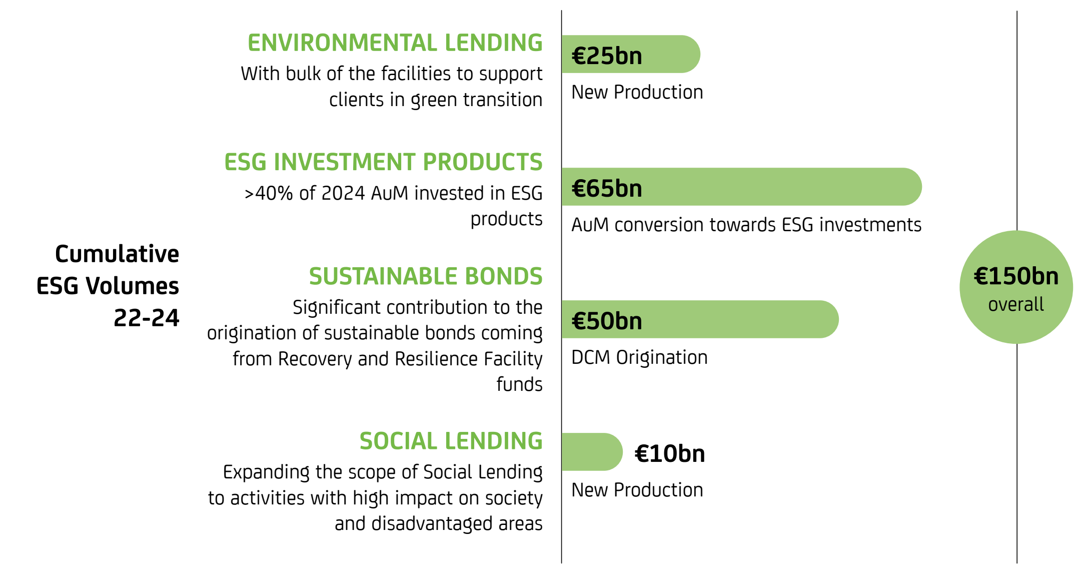
- we ensure **transparency** through **open** dialogue and extensive **disclosure** practices
- we develop **policies** which match our stakeholders' expectations
- we incorporate **ESG issues** into our company-wide operations.

These policies are integral to every part of our business and will act as a lens through which we view all activity. Our **ESG policies** are not a separate division: they **shape how UniCredit operates** at every level. This includes actions we take within our own organisation, such as managing our **carbon footprint** and **supporting our people** to work together to win, as well as the **communities we support** and what we expect of those we choose to partner with. Having concrete policies like these that apply to every area of our business will ensure we hold ourselves accountable.

That sounds simple. Is it?

Having clearly defined principles provides us with a **clear framework** to simplify the **decision-making process**. For example, UniCredit Unlocked announced our plan to **deliver €150 bn in ESG finance** in the form of lending, DCM and investments by 2024.

OUR ESG GOALS AND TARGETS



In 2021 we enhanced our **Coal and Oil & Gas policies**, supporting the **financing of green activities** for those companies actively engaged in a phase out of coal and aligned with their national energy plans and an updated policy that prohibits financing of all unconventional activities, all Arctic activities and the financing of new explorations of oil and the expansion of oil reserves. We also **signed the Tobacco Free Finance Pledge** and the **UNEP-FI commitment** to financial health and inclusion in 2021 amongst others. All of these actions were taken because they align with our fundamental principles and are best-in-class, which is what we strive for across all ESG components. Of course, any corporate or global transition is complex. Particularly when ESG is seen as one single consideration, rather than a vast array of different – and sometimes conflicting – priorities.

SECTOR POLICIES

UniCredit has adopted detailed special policies regarding sectors that present significant environmental and social risks and monitors portfolio exposures to them accordingly.[A]

Coal sector UPDATED	**Oil & Gas sector** UPDATED

POLICIES IN PLACE

Mining sector	**Human rights commitment**
Nuclear energy	**Deforestation commitment**
Defense/Armaments	**Tobacco commitment** > **UniCredit signed the Free-Tobacco Finance Pledge** NEW
Water infrastructure	

We intend to review and, if necessary, set up policies in other sensitive ESG sectors. This will be done on the basis of our portfolio analysis and with the support of scientific experts in order to address such topics from a factual and impact-based perspective.

A. Refer to the Supplement - Risk Management section or to Sustainability on our corporate website for more information.

How do you manage that?

Firstly, we are pragmatic in acknowledging that the **journey to a sustainable future** is not a simple one. We know that compromises are required between competing aspects of ESG priorities. While we are **equally committed to each pillar** of E, S and G, we also know that fulfilling certain obligations will come at a detrimental effect to others. This is particularly true in relation to environmental and social factors. For example, there are certain countries and industries less far along in the green transition than others. We know that way to a sustainable future is not to discount these sectors or abandon them in this process. Rather, we intend to **support** them and their stakeholders in a **just and fair transition**. This is the **right thing to do**. This is part of our social responsibility and not doing so would fundamentally be forgetting the 'S' pillar.

Partnering with our Clients for a just and fair transition

Our building block Partnering with our Customers for a just and fair transition is implemented to three main strategic actions.

- **products & services for transition**
- **dedicated ESG Advisory model** Deep-dive
- **ESG Ecosystems**

What does it mean to fulfil your social responsibilities?

The social implications of our actions are often less quantifiable and more difficult to measure than environmental ones, but this is no reason to neglect them. We place particular emphasis on our social responsibilities because our role and position, as a pan-European bank, means we have a **critical role to play** in **supporting communities** across the continent.

Our Social Impact Banking business is working to **build a fairer and more inclusive society** by identifying, financing and promoting initiatives that have a **positive social impact**. In 2021, our **Social Impact Banking has €0.4bn stock of loans** in microcredit and impact financing and **reached 3.7m people** who were direct and indirect beneficiaries of social financing. Now we intend to go further, targeting a cumulated volume of €10bn in 2022-2024. This will involve improving access to our offering for vulnerable people and supporting companies and investments that will help **achieve the social Sustainable Development Goals** as defined by the United Nations.

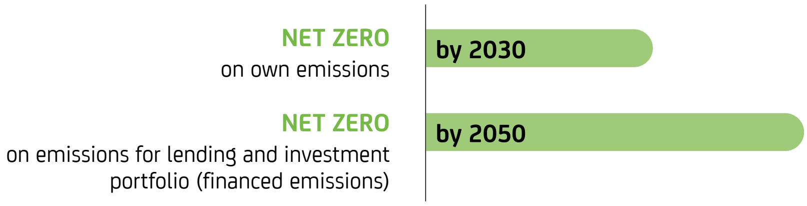
Social responsibility goes beyond finance. UniCredit's purpose is to **empower communities to progress**, which means supporting people in all aspects of their lives via our own contribution to society. The **UniCredit Foundation** plays a critical role here, **disbursing c.€7 million in 2021**, €2.78m of which supported support organizations committed to fighting hunger post Covid-19. We operate a number of financial and ESG awareness initiatives which reached more than **206,000 beneficiaries in 2021**, as well as giving over €20m for c.350 scholarships and fellowships to more than 1,000 students and researchers.

This role goes beyond finance: UniCredit has a long tradition of sustaining culture, in particular art and music. Recently we announced a **new strategy to leverage and enhance our artistic heritage** with a focus on increasing access to our collections, including loaning our works out and providing virtual access to them.

How will you measure progress?

There are some key milestones which we are working towards. This year we **joined** the **Net-Zero Banking Alliance**, committing to achieve Net Zero emissions from our operations **by 2030** and from our financing portfolio by 2050.

ENVIRONMENTAL FOOTPRINT



In 2021 we reduced our direct CO2 emissions by 32% compared to 2017 and are targeting no single-use plastic items in our buildings by the end of 2022. The ECB's climate risk stress test in 2022, will be an important moment in our collective journey to a greener future, and we are committed to working with regulators to meet these mutual goals.

We are also one of the few banking groups in Europe to have a **dedicated ESG Committee**, created in April 2021. The committee's role is to supervise all our ESG activities and will ensure we are held accountable. This will also be the case with regards to our Governance and we will maintain strict respect of the **UN Principles for Responsible Banking**. We're proud of our **Diversity & Inclusion** efforts: 46% of our Board, 40% of our GEC and 33% of our senior leadership are female, and we recently announced our **investment of €100m to close the gender pay gap** over the next three years, ensuring equal pay for equal jobs.

Why is UniCredit uniquely able to make a difference in this space?

We believe that our role is to **facilitate growth**, **innovation**, and **development** *the **right way***. This means limiting the negative consequences for all stakeholders and securing growth for the long term. I believe that UniCredit's unparalleled positioning across Europe can enable us to play a critical role in our whole continent's transition to a more sustainable future. We do not want to support **the green transition; we want to lead it**. That is why we established our **Sustainable Finance Advisory team** to accelerate clients in their journey.

DEDICATED ESG ADVISORY MODEL TO STRENGTHEN DISTINCTIVE VALUE PROPOSITION

Sustainable Finance Advisory Team

We are a credible partner, among leaders in ESG corporate financing, providing **Sustainable Finance Advisory** for corporate customers, financial institutions and public sector, as certified ESG experts on commercial banking network, with our regional ESG Competence Centres and a 360° ESG advisory approach for mid-caps.

Our priorities for UniCredit Unlocked time horizon are to enhance our ESG strategy, ESG rating and ESG tools to serve our clients with a customised approach.

ESG strategy — **ESG rating** — **ESG tools**

What can we expect from UniCredit in this space in the future?

I am determined that we see **ESG as an opportunity** rather than a rulebook. Financially, the potential is clear: there is an estimated €2tn per year additional global net financing opportunities for banks if we are to achieve 1.5°C pathway by 2050.

But the financial upside is just one aspect of the ESG opportunity. At UniCredit we know that good ESG means more than financial growth; **it equates to progress**, in all aspects of life, for the clients and communities we serve. This belief will govern how we do business. It will enable us to not only improve the financial circumstances of our bank and the communities and clients we serve, but to **fuel the progress of communities across Europe**.

SUSTAINABLE APPROACH IN OUR PREMISES

At UniCredit, ESG is at the heart of everything that we do. Our sustainable approach to business ensures that our work has a positive impact on, and secures the future of, our communities and planet.

Our commitment to sustainability is reflected by our ongoing Green Real Estate initiative which focuses **on reducing our CO2 footprint to build a greener tomorrow**.

Over the past several years, we have run a series of **Energy Management** initiatives with the ambition of reducing energy consumption and waste across our premises. Across 1,100 branches in Italy and in Russia we have continued to modernise our buildings by installing remote HVAC and lighting management systems at our head offices.
We have also implemented lighting optimisation projects in Italy, Germany, Bulgaria, Bosnia, and Herzegovina, Romania, and Slovenia.

We are committed to using **green energy procurement** to guarantee that our total electricity consumption comes from a renewable source. We have already achieved this by 79% in Italy, Germany, and Austria. Additionally, we have and will continue to invest in making our data centres more energy efficient with a special focus on **Power Usage Efficiency**.

At UniCredit, we believe in the power of our industry and in the good it can do when functioning correctly.

This goes far beyond our offices and branches. We work in a way that will benefit all our stakeholders, including the world around us. That's why we enhanced our target to remove all **single-use plastic** items from our premises by the end of 2022 and we continue to educate our employees on **waste management**.

Finally, our ongoing **Mobility Initiatives** have also been adopted by our people across all of our European branches. In 2021, we installed bike stations in our buildings in Bulgaria, Russia, and Italy and recharging stations for electric vehicles were installed in Italy, Austria, and Germany.

We know that our commitment to sustainability and actions to support the environment expand well beyond our local communities. As a pan-European bank with over 15 million clients and 87,000 employees across the world, collectively, we truly believe that **our local impact can make a global difference**.

Group Executive Committee (GEC)

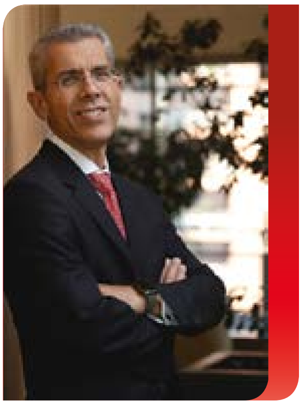
The Group Executive Committee (GEC) is a Managerial Committee set up in order to ensure the effective steering, coordination and control of Group business, as well as an effective managerial alignment across the Group.

ANDREA ORCEL

Group Chief Executive Officer

NICCOLÒ UBERTALLI

Head of Italy



MICHAEL DIEDERICH

Head of Germany

GIANFRANCO BISAGNI

Head of Central Europe

TEODORA PETKOVA

Head of Eastern Europe

RICHARD BURTON

Head of Client Solutions

STEFANO PORRO

Chief Financial Officer

JINGLE PANG

Group Digital & Information Officer

RANIERI DE MARCHIS

Group Operating Officer

FIONA MELROSE

Head of Group Strategy & ESG

JOANNA CARSS

Head of Group Stakeholder Engagement

TJ LIM

Group Risk Officer

SERENELLA DE CANDIA

Group Compliance Officer

GIANPAOLO ALESSANDRO

Group Legal Officer
Secretary of the Board of Directors

ANDREA VINTANI
AD INTERIM UNTIL MAY 2022

Group People and Culture Officer

Ecological sustainability: Identifying a problem is the first step in solving it. Bank Austria has provided a home to more than a million bees over the past two years.

Our People
Bee Centre
Austria

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

ULRIKE ECKERSTORFER

OWNER LA SCHACHTULA
AUSTRIA

Our stories

This year **UniCredit announced our purpose of empowering communities to progress**. This may be a new articulation of our role, but it's what we've always done and what we will continue to do. **We pride ourselves on always putting our clients and their communities at the center of everything that we do, going above and beyond to support their needs**. This is because we are more than just a financial institution; we are UniCredit: a bank for our clients and communities, **a bank for Europe's future**. Although these **stories, that capture some of our clients and our people**, come from many different countries, they are united by a common theme: how **UniCredit's existence is predicated upon our mission to serve and to empower people of all ages and backgrounds to unlock their potential and to progress**. They not only reflect UniCredit's active role in the functioning of today's society, but also our work with and **financing of organisations that are striving to protect our planet for future generations**.

We are proud of our team's dedication to supporting and financing initiatives that will have a positive and enduring impact, and as ever, **we look to the future with the determination to do more; to do better for our clients and communities**.

Eastern Europe

COUNTRY
BULGARIA

OUR CLIENTS

CUPFFEE

SECTOR: FOOD TECHNOLOGY
ESG FOCUS

Over a decade ago, Bulgarian start-up **Cupffee** set about working to achieve its mission: to revolutionise the hot and cold beverage sector by **redefining sustainability. CEO Miroslav Zapryanov** and his Plovdiv-based team began creating edible, biodegradable 'cookie cups' that obliterate the need for plastic and single-use alternatives. From mixing ingredients, through to dough making, baking, and packaging, Zapryanov has striven for Cupffee's production process to be at the cutting edge of **automation** and **digitalisation**. Moreover, the use of wholly **natural ingredients** means that this process does not generate any excess industrial waste; just clean steam and the tasty aroma of freshly-baked cookies.

As a testament to the popularity of the product and the brand's **mantra of environmental responsibility and social consciousness**, participants in meetings involving the Bulgarian Parliamentary Committee on Environment and Water began drinking their coffee in Cupffee cookie cups last year, with the company also becoming part of the world's first long-haul flight without the use of disposable plastics on board.

It was clear to Zapryanov that Cupffee held vast potential. To fully realise it, he had to take the next step. Cupffee needed to increase **industrial production** whilst, at the same time, ensuring sufficient liquidity to cover the CEO's growing **working capital** needs. Zapryanov and the team would need support if they were to make this transition and spark the revolution they desired.

Thankfully, **UniCredit Bulbank** saw its potential as well. The bank provided Cupffee with two targeted credit lines (Investment Line: purchase of a production line; Credit line: working capital needs; Size (total amount: €1.5 thousand) to both finance the purchase of a new production line and provide assistance in optimising the company's balance sheet during its crucial start-up phase.

Bulbank's help has been nothing short of revolutionary for Cupffee. In September this year, the startup opened the first **fully-automated** European production plant for edible, biodegradable cups, with a capacity of 2,500,000 cups a month. The factory occupies 3,600 sq m in Plovdiv's Trakia Economic Zone and currently employs more than thirty people. Despite this success, Zapryanov certainly isn't resting on his laurels. The company aims to **boost its monthly production capacity** by another 7,500,000 cups in the coming months. "Thanks to our strong and highly motivated team," he says, "and with gratitude to UniCredit Bulbank, we managed to find a solution that both improves the environment and protects our nature's wealth. The bank is our **ultimate financial partner** and we greatly rely on its expertise and support. Having a like-minded partner is critical in the realisation of further business".

COUNTRY
BULGARIA

OUR CLIENTS

ALCOMET AD

SECTOR: ALUMINIUM PRODUCTION

Alcomet AD is the largest Bulgarian **manufacturer of rolled and extruded aluminium products**. The company offers a broad range of aluminium semi-finished products from household to technical use with 95% of its total production exported, mainly to Europe and the US.

In 2020, Alcomet AD started looking for a **reliable and flexible solution for the insurance of the company's long-term assets**, which amount to over €200 million in total value and face a complex range of varying risks given the technology, state-of-the-art equipment and large-scale facilities involved in its core activities.

The UniCredit Bulbank team together with UniCredit Insurance Broker supported Alcomet AD throughout the search process, starting by providing a pool of the most relevant options and later **supporting the company with expertise in the selection phase** which was completed in 2021.

As a result, Alcomet AD was able to find a suitable insurance solution to cover all the wide ranging and complex risks related to its production and payments as well as relations with partners, vendors and clients.

Semih Baturay, **Member of the Management Board, Financial Director**, commented "We are glad and could proudly state, that through all the years of our relationship with UniCredit, the bank has proven itself to be a reliable and trustworthy partner in all fields of finance. UniCredit always finds the suitable solution no matter how complex or tailor-made it might be".

COUNTRY
BULGARIA

OUR CLIENTS

SOLMATE LTD

SECTOR: FASHION

Solmate LTD is the fashion company behind By Far, a designer **accessories brand from Bulgaria** that reinvents timeless silhouettes.

It was collectively established in 2016 by sisters Valentina Ignatova, Sabina Gyosheva and Denitsa Bumbarova.
Through their diverse interests, each founder brings a distinct voice and versatile skills to the label, cultivating design aesthetics tailored to adapt to the complexity of modern life.

In 2021, Solmate LTD needed working capital financing to support the growth of its business through the opening of physical stores in the US and China and the addition of new product categories in 2021/22.

The UniCredit Bulbank team provided Solmate LTD with a €4 million working capital revolving credit line in March 2021, **supporting the company's ambitions and growth plans**, which are now well underway.

Strahil Pechilkov, Solmate LTD CFO, commented "We are enthusiastic and proud to work with UniCredit Bulbank and confident that with the help of a reliable financial partner like them we can achieve our goal of triple digit growth in the next 3 years".

COUNTRY
SERBIA

OUR CLIENTS

PLANET BIKE

SECTOR: OUTDOOR & SPORTING GOODS

The onset of the pandemic not only radically changed our working habits, but it transformed **the way we move around our towns and cities**.
More and more people are turning to cycling for its convenience and environmentally-friendly status, as one of the lowest carbon-per-kilometre modes of transport. In consequence, **market demand has increased exponentially**, challenging both manufacturers' supply chains and their production capacity. **Planet Bike**, a Serbian company specialising in the production and sale of bicycles and the distribution of other sports equipment across a vast wholesale network, found itself facing higher demand than ever.

During a particularly busy 2020, in which the businesses struggled to maintain pace with the heightened European demand, Planet Bike recognised that this was its **moment to expand**. Immediately it sought to increase its existing capacity by building a new factory and storage space.
It also planned to purchase new equipment in order to reach a production figure of **200,000 bicycles annually**. Notably, the new project would also enable Planet Bike to start **manufacturing e-bicycles**, latching onto a nascent market driven by broader societal sustainability trends. Support in this venture came via **UniCredit Bank Serbia**, who in November last year granted Planet Bike a long-term investment loan of €2.2 million from the KFW rural credit line program, as well as working capital to the tune of €1 million in the form of a revolving loan.

UniCredit's financing and a grant received from the Serbian government soon led to the planning of a new production facility in Krusevac, **where state-of-the-art robotic technology** will be used in the manufacture and installation of certain bicycle components. Undoubtedly, the crown jewel of the new site is the 4,150 sq m operations hall in which each part of the production process will be centralised, including a fully automatic line for the painting of frames, forks, and other key components.

Alongside the benefits associated with automating parts of the commercial process, UniCredit's help to finance the new factory will, most importantly, help to benefit the wider community. The factory will bolster local employment through the **creation of 70 new jobs**, with the company publicly stating its ambition to hire additional engineers in the near future.

A modern company with truly modern aspirations, Planet Bike is now on the precipice of becoming the dominant bicycle manufacturer in Serbia, as well as the first mover in the production of e-bicycles – a market that is expected to grow by 200% globally by 2030 – with **Managing Director, Lazar Čvoro**, commenting: "We have been producing bicycles for 27 years. Planet Bike has reached the limit of production. Now we are building a new bicycle factory - modern facilities and the most modern production equipment. The annual capacity will be 300,000 bicycles and electric bicycles, mostly for export to the EU. Unicredit Bank fully understood our ideas and potential, supporting us as a partner by optimally monitoring investments".

COUNTRY
SERBIA

OUR CLIENTS

ELICIO ALI VE

SECTOR: ENERGY

Elicio Ali VE is a 100% subsidiary of Elicio NV, a **young and ambitious energy producer** with the goal to ensure a sustainable and better world for everyone.
The company started as a **pioneer in onshore and offshore wind energy** in Belgium and has grown to be an international player in the sector with a growing portfolio of wind farms in Belgium, France, Serbia, Spain and in Scottish waters.
In July 2021, Elicio Ali VE was looking for refinancing for its Alibunar 42MW wind farm, which supplies energy to nearly 30,000 households in Serbia.

UniCredit Bank Serbia worked with Elicio Ali VE to complete the required transaction as the leading structuring bank and sole lender in the €53 million refinancing.
The transaction represented an important milestone for the Serbian renewables market, demonstrating its strong fundamentals and bankability.
Furthermore, the **green energy that can be produced as a result is expected to reduce carbon-dioxide emissions** in Serbia by 94,455 tonnes per year.

Alain Janssens, **CEO of Elicio**, commented: "This refinancing represents an important milestone for the Serbian renewables market as it affirms the project and the bankable regulatory environment for renewable energy production in the country.
The transaction also confirms the funding available in the Serbian market to locally finance well-structured projects and to do so on longer tenors. We are grateful to UniCredit for supporting us in this journey".

COUNTRY
ROMANIA

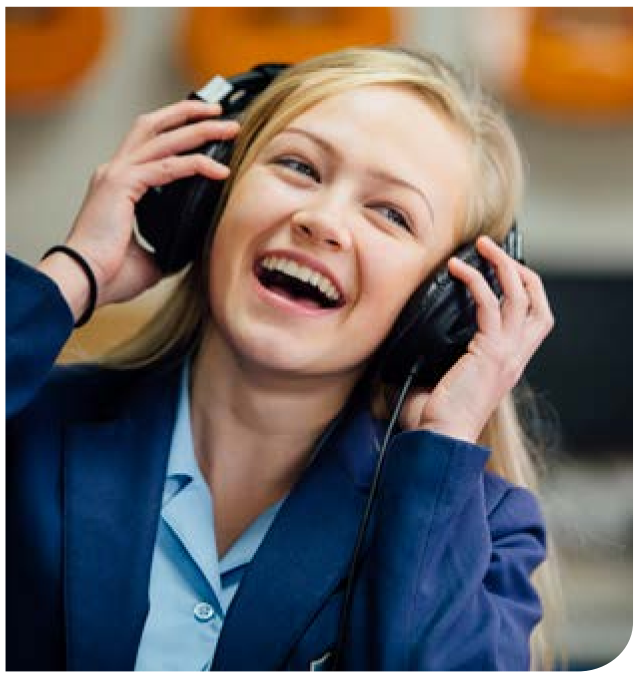
OUR CLIENTS

LICEUL TEORETIC ATLAS (ATLAS THEORETICAL HIGH SCHOOL)

SECTOR: EDUCATION
ESG FOCUS

Liceul Teoretic Atlas is a **high school** in Romania that needed financing for a **new building**. The UniCredit team in Romania provided the school with an investment loan under special pricing conditions for this purpose, which was originally disbursed in October 2020 with a 10-year reimbursement period. 75% of the loan was used for the **acquisition of a new building**, completed in 2021 (RON2.8 million), and the financing structure also allowed the client to spend further own funds on building and schoolyard refurbishment.

Furthermore, thanks to the support to the school's cashflows from the loan, it was able to continue to sustain its spending in other key areas last year, including on providing **special educational activities for pupils with disabilities**.



The Founders of the school, **Anda Demeter and Irina Laura Răileanu,** commented "We are extremely pleased that by accessing this loan we could start our dream project: the purchase and renovation of a building, the establishment of Atlas Primary and Secondary School and the provision of equal educational opportunities for children with disabilities. We thank UniCredit Bank for their amazing support".

COUNTRY
ROMANIA

OUR COMMUNITIES

WIND POWER ENERGY SRL

SECTOR: RENEWABLE ENERGY
ESG FOCUS

Founded in 2007, Wind Power Energy SRL is a member of the Monsson Group and is **one of the leading players in the renewables sector in Romania and across Europe**.
The company offers an extensive range of products and services to facilitate the energy transition and has designed over 5,000 MW of wind energy projects over the last five years, including Europe's largest onshore wind farm.

Wind Power Energy is best known for its **team of experts who provide information services and professional consultancy** in addition to carrying out technical analysis, wind studies, infrastructure projects, and communications for the wind farms developed by the Monsson Group.
It also runs several vocational education and training programmes. In 2019, the company partnered with the Renewable Energy School of Skills (RESS) and the Romanian Wind Energy Association (RWEA) to **launch the project RenewAcad** – Academy for Counseling and Professional Training for Renewable Energy Sources.
This project was born out of two necessities: change, and increasing awareness that the energy transition assumes certain jobs will disappear over time.

To support this initiative, the UniCredit team in Romania, together with the European Social Fund's Human Operational Programme, provided the necessary financing for the Academy to start its activities. As a result, in **September 2021, one of the largest professional retraining programmes for miners and former miners was launched in the Jiu Valley**, specifically designated by the Romanian government for carbon transition. One of the Academy's goals is to provide all miners and former miners in the valley and nearby areas with the required skills and training to become specialists in wind energy and electricity distribution. The loan from UniCredit Romania covers 90% of the total €954 thousand investment required for the project, and will be used for equipment, accommodation and other support activities needed to carry out the training programmes.

The overarching objective of the RenewAcad project is to provide employees and former employees from less developed areas in Romania, who may hold lower academic qualifications, with the opportunity to continue their learning through dedicated programmes.
With UniCredit's support, RenewAcad expects to be able to help more than 400 people find new employment and to provide training for more than 700 people. In addition, this initiative will allow Wind Power Energy and its partners to contribute to Romania's economic development by ensuring better employment opportunities.
Importantly, it will also make certain that the energy transition does not leave anyone in its wake.
Business Development Manager, **Sebastian Enache, commented** "We are proud to implement an innovative project for the first time in Europe. As Romania will have more than 10,000 MW newly installed by 2030, we want to build up the necessary infrastructure to support skilling and re-skilling activities, needed for this sector. We thank UniCredit for the trust and we hope to work together on further renewable projects in the future".

COUNTRY
RUSSIA

OUR CLIENTS

RUSSIAN RAILWAYS

SECTOR: TRANSPORT
ESG FOCUS

Russian Railways is a **state-owned railway company** and the largest commercial employer in Russia with around 723,000 employees. It is also one of the top three railway companies worldwide.
The railway complex is of particular **strategic importance for Russia** to ensure the stable operation of its industrial enterprises and the timely supply of essential goods to the most remote corners of the country. It is also **the most affordable form of transport** for millions of Russian citizens.

In 2021, Russian Railways was looking for an international loan **linked to the company's environmental performance, in line with the targets of its Environmental Strategy**.
In July last year it became the first company in Russia's transport sector to secure such a loan with our bank's help. UniCredit provided Russian Railways with a Sustainability-linked CHF585 million (approximately €545 million) seven-year facility with interest tied to the **achievement of the company's annual sustainable development targets** according to Ecological Strategy until 2030.
The latter includes the reduction of emissions, of water consumption and the share of production waste for disposal.

The proceeds from the loan are directed towards the company's corporate purposes, including capital expenditure, **helping it progress its Environmental Strategy and support key environmental and social projects**.
Furthermore, the loan's interest rate can also be reduced if relevant goals are successfully met.

"The principle of balancing various goals - economic, environmental and social - is an important aspect of sustainable development in Russian Railways.
We are pleased that, with the help of UniCredit, we were able to link our economic and ESG goals, and thus create additional incentives for internal development towards sustainability targets and support the Russian Railways responsible borrower image" commented **Vadim Mikhaylov, First Deputy CEO of Russian Railways**.

COUNTRY
RUSSIA

OUR CLIENTS

ZF KAMA

SECTOR: AUTOMOTIVE

ZF Kama was established in Russia in 2005 as part of the **ZF global technology company that supplies systems for passenger cars**, commercial vehicles and industrial technology, enabling the **next generation of mobility**.
The company's aim in Russia is to develop local automotive production and modernise transmissions, both of which tend to be highly capital-intensive activities.
In 2020, ZF Kama approached Russia's Industrial Development Fund for special subsidised financing from the government.

UniCredit supported the company in this process by providing the necessary bank guarantee as collateral to secure the state financing, which was finalised in 2021.
This allowed ZF Kama to receive funding at favourable terms, which it used to **modernise its operations to master the production of automated TraXon transmissions, electric power steering and cab suspension for trucks**. ZF Kama has set itself many ambitious business targets from the start

and with the help of this funding and with UniCredit's financial expertise, all its goals are now within reach.

Furthermore, the modernisation of its production will help secure the company's top position in the local automotive sector while it continues to successfully develop its activities further. "We appreciate our current cooperation with UniCredit Bank and hope for the future fruitful cooperation". commented **Chief Financial Officer**, **Marat Gazizov**.

PAESE
RUSSIA

OUR COMMUNITIES

CHARITY FOUNDATION FOR THE SUPPORT OF PEOPLE WITH SPECIAL NEEDS "I AM!"

SECTOR: CHARITY
ESG FOCUS

The Charity Foundation for the Support of People with Special Needs "I am!" was established in 2012. The Foundation exists to provide support to children and adults with disabilities that will help them to live comfortable and fulfilling lives. "I am!" has undertaken projects of various sizes to support disabled children and their families in their everyday lives, helping young people with disabilities to develop their talents and enjoy a high quality of life.

In 2021, UniCredit Bank supported the project **"Music Laboratory for Special People"** at the training center "The Amazing Center" in Rostov-on-Don, with which the Foundation was involved. Volunteers from "I am!" came together with professional musicians and children with disabilities who participated in the project, providing music lessons to the children. The project provided the children with a variety of musical instruments to learn, as well as offering singing lessons.

The qualified teachers helped the children to not only develop their musical talents, but also to feel confident performing onstage in public. The project was so successful

that the children who played at the center formed their own rock band. To help them to continue to explore their creative expression and enjoy developing their talents, the grant provided by UniCredit Bank was used to purchase musical equipment for the children. The band have gone on to perform concerts at the "I am!" Foundation's representative office in Rostov-on-Don and at creative festivals for children with disabilities.

COUNTRY
RUSSIA

OUR CLIENTS

VSMPO-AVISMA CORPORATION

SECTOR: MANUFACTURING

VSMPO-AVISMA Corporation is the world's largest **titanium producer** based in Russia with operations also in Great Britain, Switzerland, Germany, the US and China.
It is the number one supplier for Airbus and number two for Boeing as well as having several other tier one aircraft suppliers and producers as key clients. In 2021, VSMPO-AVISMA was looking for a new cash management solution for its international trading subsidiaries.

The UniCredit team proposed a solution that allows the company to centralise its international cash flows within UniCredit Group whilst also offering a **user-friendly and sophisticated e-Banking tool to operate the accounts**.
In this way, VSMPO-AVISMA now has a one-stop-shop for all its international cash management needs accompanied by UniCredit's e-Banking Global tool to make the process safe, simple and efficient.

Dmitry V. Osipov, CEO of VSMPO-AVISMA Corporation commented "UniCredit has been a key partner of VSMPO-AVISMA for many years servicing our needs in Russia. Last year was remarkable as our partnership turned into a truly global cooperation".

COUNTRY
CROATIA

OUR PEOPLE

DUNJA PRGOMET

ROLE: CORPORATE COMMUNICATION SPECIALIST
ESG STORY

As a child, I was fortunate enough to be able to participate in several different **humanitarian initiatives**. During my time working with these charitable organizations, I witnessed the tangible positive impacts of their work on the lives of others. When I joined Zagrebačka banka, I was pleased to learn about their Gift Matching Program as it provided me with the perfect opportunity to continue my passion for philanthropic work.

Apart from raising money to support causes financially, as an ambassador of UniCredit's Gift Matching Program we are provided with the chance to meet people within the organization that we are working with.
To hear their stories and to receive another perspective on life is incredibly inspiring. Furthermore, UniCredit's GMP has provided me with the rewarding sense that I am helping to shape people's lives for the better.

Through the GMP I have supported the **Association of people with disabilities**, in my hometown of Rovinj. Later, I had the chance to meet some amazing people from the Association Firefly (Krijesnica), which helps children and families facing malignant diseases. In partnership with a colleague, I decided to **become their ambassador in Zaba**.

My work as an ambassador for the Association Firefly began with collecting donations for patients' everyday activities and accommodation for out-of-town families who want to be near their loved ones as they undergo treatment. As well as this, we also raised funds for, amongst other things, hospital parking. This is something a lot of people take for granted, but often the smallest things can make a huge difference in such situations. Over time, we began to **focus on specific projects like rehabilitation camps for children** who have won the fight against these diseases.

Above all else, I'm incredibly "proud to be an ambassador of the Bank, for eight years now, and to be given the opportunity to share in this experience with like-minded colleagues".

COUNTRY
CROATIA

OUR CLIENTS

RANČ RAMARIN D.O.O

SECTOR: TOURISM

In the heart of Croatia's Brod-Posavina County, sandwiched between the Sava River and the slopes of Dilj, lies Ranč Ramarin. **Ranč Ramarin** is a working ranch which has evolved into a thriving countryside idyll. Founded in 2008 as a paddock for the breeding of horses, Ranč Ramarin has since transformed into a **popular tourist destination**, perfect for those seeking an **active vacation** in an oasis of peace. The site boasts accommodation for upwards of sixty people, including eleven luxury bungalows, as well as an expansive campsite with tent rental facilities.

Guests can spend their days enjoying a spot of recreational carp fishing, horse riding lessons, or exploring the numerous local hiking trails in nature's warm glow. For the slightly more adventurous, Ranč Ramarin recently opened a runway for recreational flying. As the night rolls in, the ranch's gastronomic prowess comes to the fore. This manifests through regular banquets and wine-tasting evenings, hosted in its seventy-person onsite restaurant. Ranč Ramarin prides itself on **sourcing all its ingredients from nearby family farms** in order to offer guests an even more **authentic experience**.

The dual combination of local lockdowns and closed borders saw the tourism and leisure industries bear the immediate economic brunt of the pandemic. With their 2020 revenues sharply declining, Ranč Ramarin needed a bank that could help them survive the damaging economic effects of Covid-19. This is where **UniCredit Zagrebacka Banka lent a hand**.

UniCredit's Zagrebacka Banka's **#FirstTime** project is a competition aimed at Croatian micro- and small businesses operating in the tourism sector.
The winners are granted the necessary funds to conceive a **targeted marketing campaign** that will be aired on national television. The latest iteration of the competition saw an initial deluge of over three hundred applications, including renowned family hotels, resorts, and restaurants, shortlisted to fifteen unique locations and experiences. Fifteen quickly became two as the judges then picked their standout entries, with Ranč Ramarin finally receiving €375 thousand to finance the production, associated media costs, and marketing collateral attached to its proposed campaign.

As the new adverts aired in Spring, increased visibility led to increased revenues and a gradual recovery in booking volumes, with **CEO Anja Galović** commenting "The #firsttime campaign has brought us recognition in all segments of our business and customer relations and we are happy that we have positioned ourselves on the rural recognition map throughout our beautiful country. We will continue to be guided by our vision to become a leading rural economy with a wealth of content in the region and beyond, and the UniCredit Zaba campaign has certainly made a great contribution and has been the wind behind our vision".

COUNTRY
CROATIA

OUR PEOPLE

NIKOLINA ZEČIĆ

ROLE: HEAD OF CUSTOMER EXPERIENCE MANAGEMENT, MARKETING AND IDENTITY & COMMUNICATION
ESG STORY

Over the last two years, the entire world has been shaken by the crippling effects of an unprecedented global pandemic. To further this blow, our home country of Croatia was struck by a **magnitude 6.2 earthquake** which devastated the central region of Banija. The calamitous earthquake wreaked ruinous material damage in Petrinja, Sisak, Glina, and the surrounding areas, **leaving many of the population homeless and in desperate need of immediate support**.

Bearing witness to the cataclysmic earthquake and the crushing effects it had on our communities, the UniCredit team at Zagrebacka Banka knew that that it needed to act, and it needed to act fast. With great urgency, we worked within the Bank to be one of the first companies to provide a **substantial donation to the Croatian Red Cross**.
However, we knew that there was so much more we could do to help. This is because UniCredit's notion of care for our clients, communities, and colleagues transcends the work that we do professionally.
Our understanding of care, which is not limited by the confines of our workplace, drives us to always pursue a more active in role society and to always strive to do more to support and **help our communities**.
With that, we knew that we could turn to the UniCredit Foundation to bolster our donations to help our people.
Instantaneously, the UniCredit Foundation responded to our request for help by launching a fundraising initiative to support those impacted by the natural disaster.

The fundraiser raised €100 thousand. The hundreds of thousands of donations which "flowed in from our UniCredit colleagues across several countries enabled the team at Zagrebacka to provide food and shelter to people whose lives had been devastated by the earthquake".
The philanthropic donations from our colleagues emphasises how caring for our communities, coming together to achieve one common goal is what UniCredit does best.
This is because at UniCredit all that we are and all that we do is predicated on serving and supporting our people.

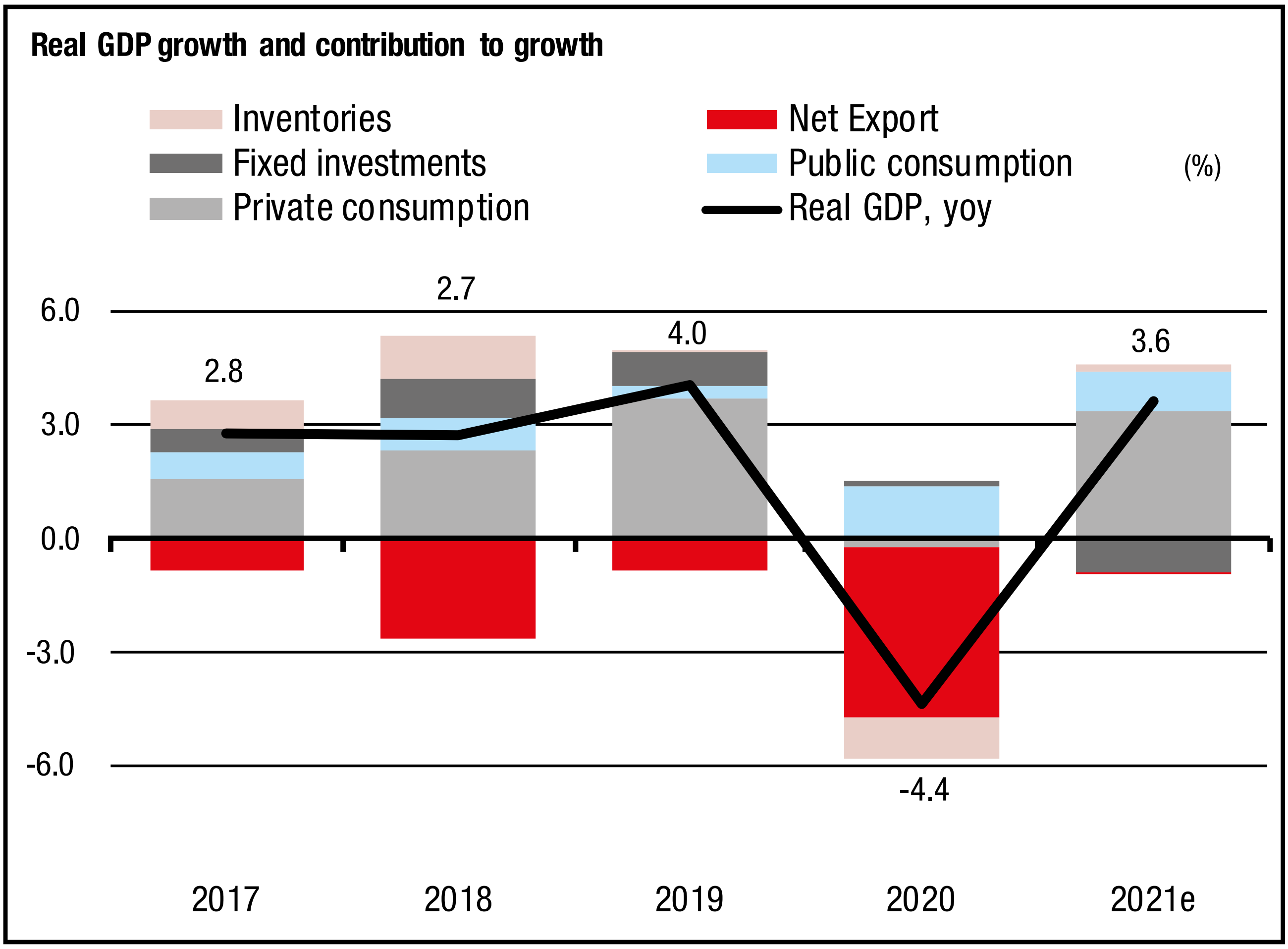
PROMOTIONAL MESSAGE

Fine-tuning the skills of tomorrow: Through RenewAcad, UniCredit Bank Romania helped over a thousand miners to retrain as specialists in wind energy and electricity distribution – thereby supporting the transition.

Our Clients
Wind Power Energy
Romania

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

Bulgarian Economy in 2021



Source: National Statistical Institute, UniCredit Bulbank

While Bulgaria remained in the periphery of the first wave of the Covid-19 pandemic, the second and the third wave of the disease hit the country hard during the winter of 2020/2021. The surge in infections led to adoption of new restrictions, which, although being milder than those during the first wave, crippled the economy in the beginning of 2021. Growth momentum accelerated with the reopening of the economy during the spring and the summer, but slowed down again in the end of the year, because the low vaccination rates led to a surge of infections during the fifth wave.

Covid-19 pandemic led to rapid and broadly based changes in the existing consumption and production patterns in the economy. Many companies have embraced remote working that promises to reshape local labour market. The share of e-commerce is raising, while in-person shopping in brick-and-mortar retail stores is going down. Demand for commercial real estate may decline, while demand elsewhere and particularly in the housing segment of the real estate market may rise.

Despite failure of the authorities to contain the health crisis and prevent deaths per one million inhabitants in Bulgaria to rise to one of the world's highest, the economy remained resilient. This reflects double-digit increases in public sector wages and pensions, which helped individual consumption to accelerate to its strongest pace in more than a decade. Widespread use of job retention schemes and direct support to the businesses in the most negatively affected economic sectors, at the same time, was key in preventing dangerous rise in joblessness and companies' bankruptcies. In response, GDP grew by an estimated 3.6% last year, which pushed output in 4Q21 0.7% higher in real terms than in 4Q19, when Covid-19 pandemic started.

The popular anticorruption movement that emerged in the summer of 2020 has slowly transformed into a drive to topple GERB's government and transfer political power into the hands of the President Rumen Radev and the opposition parties, led by the newly formed We continue the change party. The shift in political power led to a drop in public capex, as the new administration discontinued many of the infrastructure projects initiated by the GERB. The latter prevented real output to grow stronger, while, on the positive side, it helped the budget to post smaller-than-expected cash deficit equivalent to 3.0% of GDP. Repeated failure to form a stable government, forced Bulgarian authorities to abandon plans to tap the Eurobond market. To meet its

Bulgarian Economy in 2021 (continued)

finding needs the ministry of finance issued a record high BGN 3.8 bn of bonds on the domestic market in 2021.

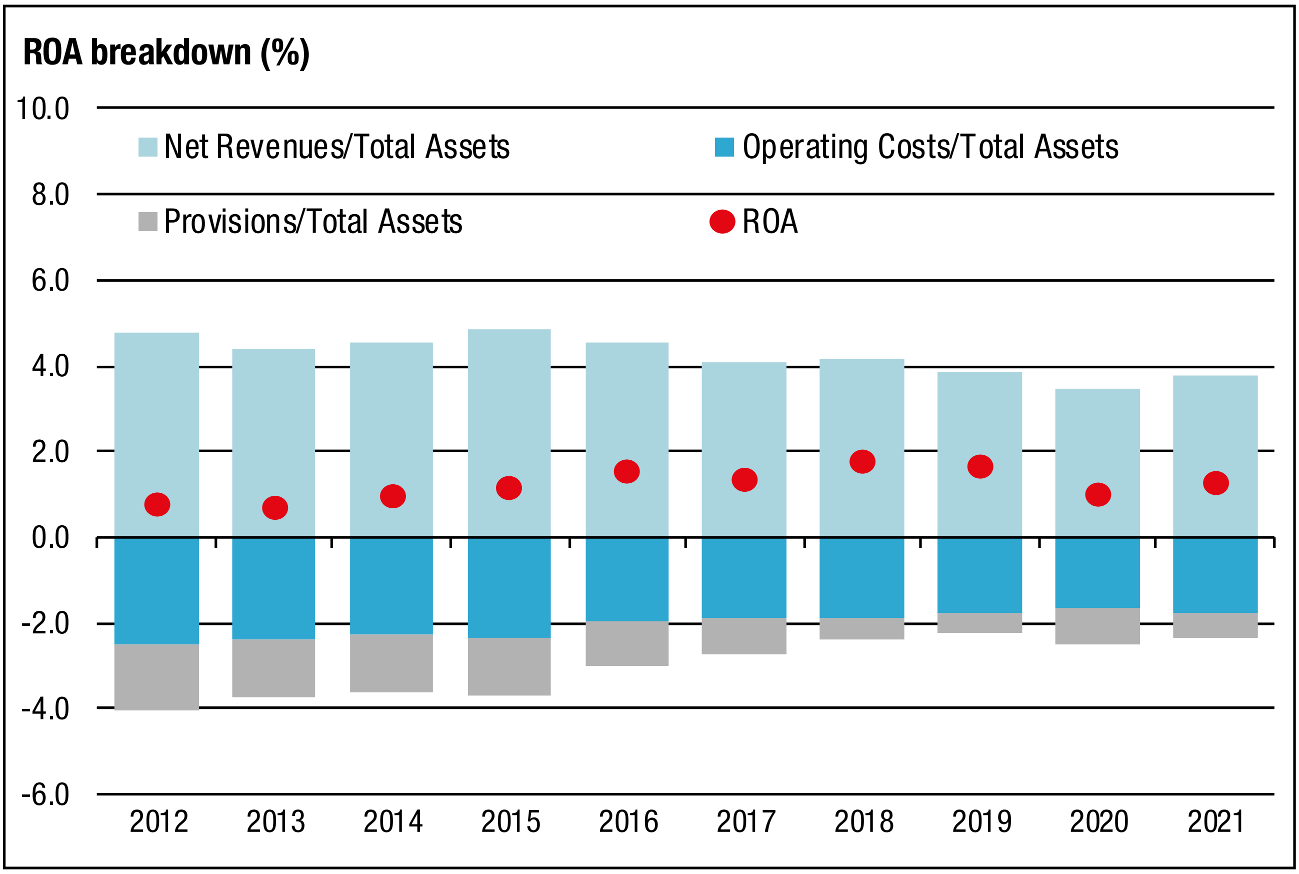
To make things even more challenging, consume prices posted a broadly based and marked increase in the concluding months of the year. Higher inflation was above all attributable to supply chains disruptions, caused by the continuing health crisis and uneven vaccination levels among the world. Surge in energy prices, at the same time, drew support from the growing tension between Russia and Ukraine, which threatened the security of gas supplies amidst winter. On the positive side, the feedback from higher costs of inputs to higher output prices and wages (so-called second-round effects) remained small, as large number of data showed that there is still some slack in the country's labour market. Importantly, the unemployment rate worsened to 5.4% in 2021, from 5.1% in 2020, while the share of business managers reporting labor shortages remained markedly smaller when compared to the period before the start of the Covid-19 pandemic.

Although export posted only a partial recovery last year, current account remained broadly balanced, which indicates that competitiveness of Bulgarian economy is not at risk, despite the rapid increase in wages in the past several years. In response, gross foreign debt went down to an estimated 62% of GDP in the end of 2021, from 65% in 2020. The latter along with the continued accumulation of foreign assets by Bulgarian companies and households helped the net international investment position improve to an estimated deficit of 15% of GDP last year, from 26% in 2020.

MACROECONOMIC INDICATORS	2021	2020	2019	2018	2017	CHANGE 2021/2020
Nominal GDP[1] (BGN million)	130 089	119 951	120 395	109 964	102 741	8.5%
GDP per capita[1] (BGN)	18 941	17 343	17 319	15 709	14 573	9.2%
Real GDP growth[1], swda (%)	3.6	(4.4)	4.0	2.7	2.8	+8.0 pp
Basic Interest Rate, avg (%)	(0.58)	(0.65)	(0.48)	(0.50)	(0.29)	+0.1 pp
Inflation, eop (%)	7.8	0.1	3.8	2.7	2.8	+7.6 pp
Inflation, avg (%)	3.3	1.7	3.1	2.8	2.1	+1.6 pp
Unemployment rate[1], SA, eop (%)	5.4	5.1	4.2	5.2	6.2	+0.3 pp
Official exchange rate, eop (BGN/USD)	1.73	1.61	1.76	1.71	1.63	7.6%
Official exchange rate, avg (BGN/USD)	1.65	1.72	1.75	1.66	1.74	(3.6%)
Current account balance[2] (BGN millions)	(933)	(315)	2 245	1 040	3 395	6173.2%
Current account balance[2]/GDP[1] (%)	(0.7)	(0.3)	1.9	0.9	3.3	(0.7 pp)
Net foreign direct investments[2] (BGN millions)	2 207	4 140	2 421	1 481	2 568	(48.8%)
Net foreign direct investments[2]/GDP[1] (%)	1.7	3.5	2.0	1.3	2.5	(1.9 pp)
Gross foreign debt[2], eop (BGN millions)	82 168	77 504	73 766	72 737	73 727	6.8%
Gross foreign debt[2]/GDP[1] (%)	63.2	64.6	61.3	66.1	71.8	(1.0 pp)
Public debt[2], eop (BGN millions)	32 511	28 859	23 563	23 893	25 616	12.7%
Public debt[2]/GDP[1] (%)	25.0	24.1	19.6	21.7	24.9	+0.9 pp
BNB FX reserves (BGN millions)	67 666	60 334	48 574	49 037	46 279	12.2%
Budget balance/GDP[1] (%)	(3.0)	(2.9)	(1.0)	0.1	0.9	(0.1 pp)

Source: Eurostat, Bulgarian National Bank, National Statistical Institute, Ministry of Finance and UniCredit Bulbank projections
[1] UniCredit Bulbank forecast for 2021.
[2] Data as of November 2021.

Bulgarian banking sector in 2021



Source: Bulgarian National Bank, UniCredit Bulbank

Marked surge in demand helped lending growth to accelerate to 9.2% y/y last year. The retail segment and mortgage lending in particular spearheaded the acceleration of credit growth, while the pace of corporate lending expansion remained more in line with the performance reported in 2020. At the same time, deposit growth in 2021 was only somewhat weaker when compared to 2020. Two opposing forces shaped the pace of deposit growth in 2021. On one side, strong credit growth contributed to the increase of newly created deposits and purchasing power, while, on the other, households cutback some of the savings accumulated during the worst episodes of the Covid-19 pandemic in 2020, when weak consumption had spurred an increase in involuntary savings.

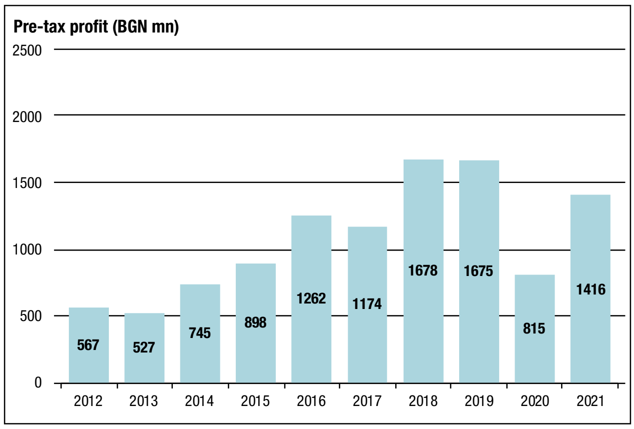
Raising competition pushed the spread between interest rates on loans and deposits further downward. The contraction in the loan-to-deposit interest rate spread in 2021 (22bp) was almost two-thirds of the one in 2020 (34bp). As deposit rates were already close to zero in the start of the year, spread contraction almost entirely reflected a drop in lending rates, led by the retail segment.

The average nationwide house price index posted a sizeable 8.7% y/y increase in September 2021, following a marked deceleration to 4.6% on average for the whole 2020, when Covid-19 caused lockdowns cooled down households' appetite to acquire more housing. We think that average housing prices remain broadly in line with the country's prevailing income levels. At the same time, housing affordability have deteriorated, especially in the three largest cities, where housing in the most desired locations seems affordable to less than one third of the total population.

Several regulatory steps were undertaken to strengthen banking sector's resilience to shocks. To reinforce banks' capital positions, the BNB urged all local lenders to capitalize their entire profits from 2020 and announced an increase of the countercyclical buffer to 1% in 2021. After several prolongations, the loan repayment moratorium for borrowers who had regularly serviced loans prior to the pandemic expired in the end of the 2021, while, at the same time, public sector increased the scope and scale of lending available to the businesses negatively affected by the pandemic.

Despite challenging operating environment, Bulgarian banking sector posted a significant 74% increase in net profit to BGN 1.4 bn. This reflects solid growth of net interest income, as credit growth accelerated and new "extra liquidity" charge was introduced for large deposit holders, in combination with a double-digit rise in fee income, while operating costs rose only modestly higher than consumer price inflation. Local lenders set aside BGN 0.7 bn provisions, which helped NPLs coverage with provisions go up to 72% in 2021, from already very comfortable 63% in 2020. Also very positively, loans overdue more than 30 days declined to 6.5% of total gross loans, which was broadly in line with where non-performing loans were before the start of the credit boom in 2004.

Belgian KBC Group (which controls the third largest local player in terms of total assets – UBB) completed the acquisition of Raiffeisen's subsidiary bank in the country (respectively sixth largest in terms of assets). The size of the newly created entity will be at par with those of the two largest market players and will push banking sector's concentration to a new high. More M&A activities are likely, in our view, especially among mid-size players, which are unable to generate the economies of scale big enough to withstand competitive pressure from larger and better-established rivals.



Source: Bulgarian National Bank, UniCredit Bulbank

BANKING SYSTEM KEY FIGURES	2021	2020	2019	2018	2017	CHANGE 2021/2020
INCOME STATEMENT (BGN MILLION)						
Operating income	4 452	4 162	4 232	4 223	3 886	7.0%
incl. Net interest income	2 757	2 649	2 746	2 742	2 675	4.1%
incl. Net non-interest income	1 695	1 513	1 486	1 480	1 212	12.0%
Operating costs	2 058	1 961	1 933	1 893	1 789	4.9%
Operating profit	2 394	2 201	2 299	2 330	2 098	8.8%
Provisions (net)	661	991	511	529	805	(33.3%)
Pre-tax profit	1 733	1 210	1 789	1 800	1 292	43.3%
Net profit	1 416	815	1 675	1 678	1 174	73.8%
BALANCE SHEET (BGN MILLION)						
Total assets	135 410	124 006	114 201	105 557	97 808	9.2%
Loans to customers (incl. non-residents)	75 875	69 500	66 293	60 908	56 084	9.2%
thereof: Non-performing loans	4 969	5 711	6 120	6 790	8 288	(13.0%)
Deposits from customers (incl. non-residents)	109 356	100 671	91 853	84 571	78 406	8.6%
Shareholders' equity	16 607	15 352	14 397	13 858	12 597	8.2%
KEY PERFORMANCE INDICATORS (%)						
Loans-to-Deposits ratio (on residents)	68.6	68.8	72.5	72.3	71.9	(0.1 pp)
Cost/Income ratio	46.2	47.1	45.7	44.8	46.0	(0.9 pp)
NPLs ratio	6.5	8.2	9.2	11.1	14.8	(1.7 pp)
Cost of Risk[1]	1.0	1.5	0.8	0.9	1.5	(0.6 pp)
ROAE (after tax)	9.1	5.5	11.9	12.7	9.5	+3.7 pp
ROAA (after tax)	1.1	0.7	1.5	1.7	1.2	+0.5 pp
RESOURCES (NUMBER, EOP)						
Acting commercial banks at the end of the period	25	24	24	25	27	1

Source: Bulgarian National Bank

[1] Provisions flow/Avg gross loans

Market Positioning

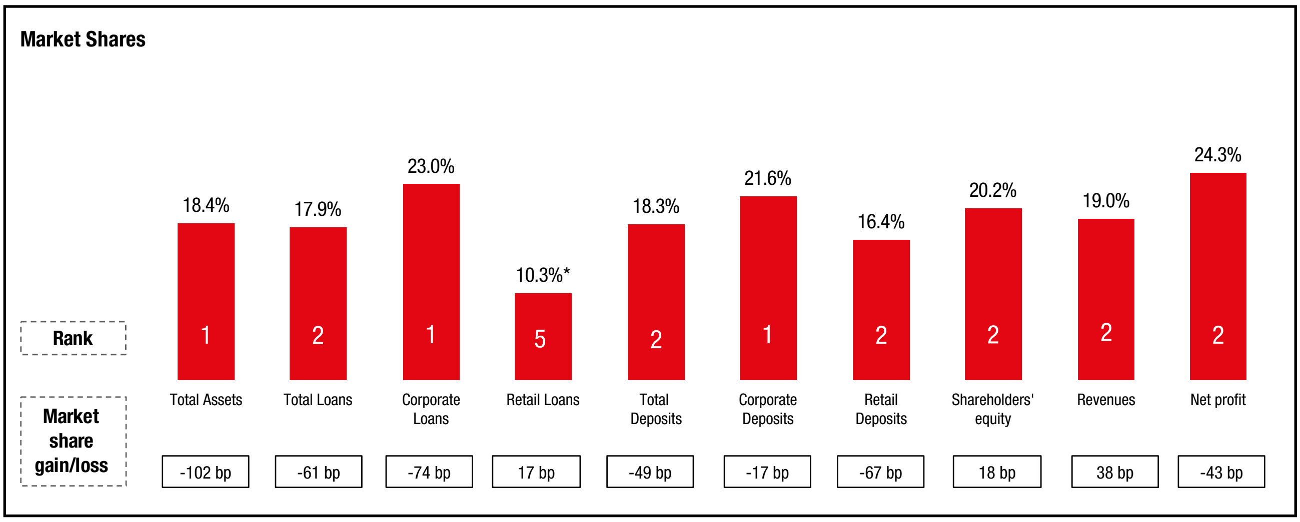
2021 was another challenging year and an year of change. It was also a very **successful** and full of many **achievements**. Although the ongoing **consolidation** of the banking sector in Bulgaria, strong competition and worsen macro-economic conditions impacted by Covid-19, in 2021 UniCredit Bulbank (UCB, the Bank) successfully managed to preserve its leadership position on the Bulgarian Banking Market closing the year as **NUMBER ONE BANK** in terms of SIZE (Total Assets), holding BGN 0.5 bn positive GAP vs the second largest bank and **accumulating almost ¼ from Banking System's 2021 Net Profit for another year in a row.**

The Bank's ability to **successfully navigate this extraordinary year** was underpinned by its diversified business model and its solid financial foundations with a very robust capital and liquidity position and strong risk discipline. Restarted business production, lower loan loss provisions benefitting from a sustainable business origination and prudent risk approach, excellent excess liquidity management and further acceleration of our efforts in the digital area were the key drivers for the **extraordinary results.**

The Bank **continues to be undisputable market leader in Corporate segment where UniCredit Bulbank keeps** a solid positive variance vs the main peers. **In Retail segment** the Bank remained one of the key players.

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

Serving more than one million customers through a branch network of 147 units **UniCredit Bulbank** is part of UniCredit, successful Pan European Commercial Bank, delivering a unique Western, Central and Eastern European network to its extensive and growing client franchise. UniCredit Bulbank's **synergies with its parent** are very strong, thus building another competitive advantage especially in terms of robust positioning in international businesses.



Source: Regulatory financial statements and Monetary Statistics of UniCredit Bulbank and Bulgarian National Bank.
*15.6% market share or second position if including the business, generated mainly trough the Bank's subsidiary, specialized in consumer financing UCFin.

In 2021 **in Total Assets**, UCB achieved 18.4% market share (+3.5% y/y vs growth of 9.2% for the Banking System).

Although the continuing unusual business environment impacted by the changed macroeconomic environment following Covid-19, UCB **recorded y/y growth of 9.1% in Shareholders' Equity (vs growth of 8.2% for the Banking System)** supported by Net Profit.

The unfavorable impact of negative market interest rates and pressure on loan margins (due to the lowest ever interest rates on new loans) has been counterbalanced by **further streamlined liquidity optimization policy** of the Bank as well as focus on capital light fee generating products.

In 2021 UniCredit Bulbank remained the most important institution among the financial intermediators keeping leading position in bonds and corporate loans. During 2021 the Bank continued to keep its leading position in the field of the **Bonds Trading achieving growth of 20.2% y/y**, thus reaching 21.0% market share and keeping more than 5 p.p. distance vs the main peers.

UCB's CET1 capital ratio remained much higher (27.05% as of Dec'21) than the minimum BNB requirement of 11.50% (including applicable capital buffers) and was further supported by a net profit of BGN 314 mln, which accounted for 24.3% 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 continues to be one of the **Top Market Lenders** with a market share of 17.9% in Total Gross Loans (or 18.4%

Market Positioning (continued)

if including the business, generated mainly through the Bank's subsidiary specialized in consumer financing – UniCredit Consumer Financing (UCFin).

Although the challenging economic activity impacted by Covid-19, GDP in 2021 is estimated to consolidate at around +3.6% y/y. Both Banking System and UCB achieved a positive y/y lending growth above the level of GDP (lending growth of 8.6% for Banking System vs growth of 5.0% for UniCredit Bulbank).

In **Corporate Loans sector** UCB continues to be **absolute market leader** with 23.0% market share. The Bank remained the main partner of companies operating in Bulgaria as indicated by the indisputable leadership position in the sector of non-financial corporations, where the Bank holds about 1/5 of total exposure in the banking system (19.0% market share as of Dec'21).

Despite the challenging business activity and following a strict risk discipline, in **Retail Loans, UniCredit Bulbank (including UCFin) outperformed the Banking System** achieving growth of 14.3% y/y vs growth of 13.4% for Banking System (+13 bps to 15.6% market share) supported by a **sustainable double digit growth in both Mortgage and Consumer Loans.** Thanks to continuous processes' simplification, new service model implementation, UCB achieved growth of 16.1% y/y in Mortgage Loans achieving market share of 19.3% and above the market share of total Retail Loans (including UCFin). Consumer Loans (including UniCredit Consumer Financing's contribution) outperformed the market achieving growth of 13.7% y/y vs growth of 11.3% for Banking System (+26 bps to 12.6% market share). The Bank achieved **the best ever new production** of **consumer lending** in Mar'21 and **the best ever new production of mortgages** in Aug'21.

In 2021 UCB continues to be amongst **the most trusted banks on the Deposit market, achieving sustainable growth of 6.0% y/y** (market share at 18.3%, -0.49 p.p y/y). Deposits' trend was in line with bank's strategic target to optimize the level of excess liquidity as well as to redirect customer's fund to the investment products offered on financial markets.

In **Retail deposits** the bank recorded growth of 4.8% y/y vs growth of 9.0% for the market, market share reached 16.4%, -67 bps y/y.

Within **Corporate segment** UCB remains **indisputable market leader** with market share of 21.6% keeping its distinguished position vs the second largest competitor at 8.3 p.p.

In an environment of ongoing consolidation of the banking sector, which favored economies of scale of some market participants and the system as a whole, UniCredit Bulbank growing organically **continues to be the most efficient bank in Bulgaria keeping its Cost to Income Ratio below the market average and main competitors (37.7% for UCB vs 47.5% for the Market).**

Although the challenging market environment, UniCredit Bulbank kept its market **share in Revenues stable** at 19.0%, above the market share in Total Assets at 18.4%.

With a Net Profit of BGN 314 mln, the Bank **accumulated almost ¼ from Banking System's 2021 Net Profit** for another year in a row achieving 24.3% 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 and kept significantly lower NPE ratio.

UniCredit Bulbank Activity Review

Unconsolidated Financial Results

Despite the pressure coming from the unprecedented health crises caused by Covid-19, banking market conditions of declining margins, excess liquidity and intensified competition in lending, UniCredit Bulbank successfully managed to protect its profitability announcing growth of 40.1% y/y in **Net profit**, thanks to better performance in all revenue lines.

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

In 2021 **Operating income** stayed substantially high, amounting to BGN 746.5 mln. It increased by 9.8% over 2020 with main contributors net fees and commissions and lower other operating expense.

Net interest income (BGN 360.2 mln) increased by 1.5% y/y, supported by optimized excess liquidity volumes incl. through increased bond's investments, growth in lending volumes as well as higher income from liquidity fee on deposits. The main contributor to the Operating income growth was the **Net fees and commission income** (BGN 238.3 mln), up by 16.0 y/y, thanks to growth in all main categories: fees from transactional services (collections and payments services as well as account services), fees from financial and brokerage services. The growth was triggered by increased economic activity in the country as well as by dedicated commercial actions of business divisions especially on high value added financial services areas (trade finance, investment products, corporate finance advisory, etc.).

Net gains on financial assets and liabilities held for trading and hedging derivatives also increased by 2.5% y/y to BGN 80.4 mln, due to high results from customer-driven FX sales gains, while **Dividends and net gains from financial assets mandatorily at fair value and at fair value through other comprehensive income** reported a drop of 25.5%, mainly due to lower dividend income from subsidiaries in 2021.

Other operating income/expense, net marked the largest alteration among the operating income (drop by 78.7% y/y), where the main contributor is the lower installments for systemic charges, due to absence of Resolution Fund contribution in 2021, which BNB announced that will be covered by available funds paid in prior years.

Operating expenses (BGN -297.2 mln) increased by 5.0% y/y, coming from staff expenses and depreciation costs, while y/y increase of other administrative expenses is driven by costs related to inflationary impacts, especially rising prices of electricity and heating, as well as the newly introduced supervisions fee, related to ECB supervision.

In line with the trend in Operating income, **Gross operating profit** rose by 13.2% to BGN 449.3 mln.

Net Impairment loss on financial assets (BGN -107.8 mln) decreased by 29.6% y/y, benefitting by healthy asset quality and from a continued disciplined risk approach.

In thousands of BGN

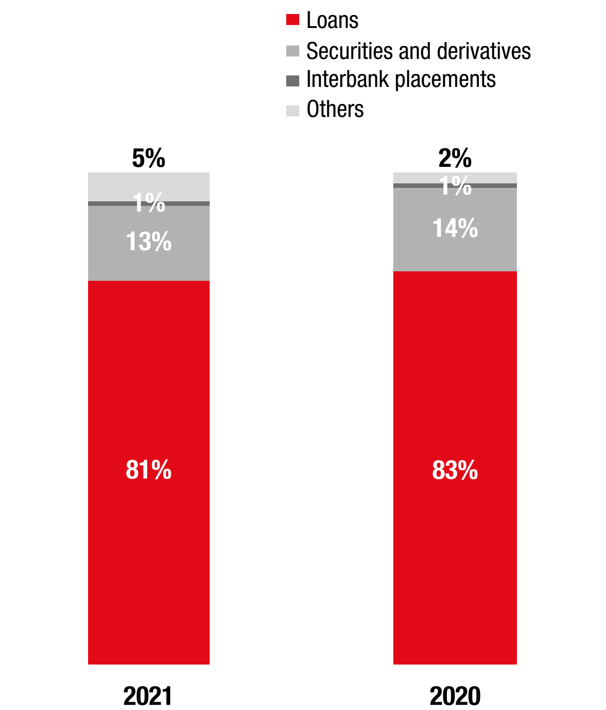
INCOME STATEMENT	YEAR		CHANGE	
	2021	2020	%	AMOUNT
Net interest income	360 200	354 819	1.5%	5 381
Net fee and commission income	238 290	205 400	16.0%	32 890
Net gains on financial assets and liabilities held for trading and hedging derivatives	80 384	78 447	2.5%	1 937
Dividends and net gain from financial assets MFVPLand at FVOCI	82 318	110 470	(25.5%)	(28 152)
Other operating income/expenses, net	(14 714)	(69 053)	(78.7%)	54 339
OPERATING INCOME	**746 478**	**680 083**	**9.8%**	**66 395**
Operating expenses	(297 186)	(283 074)	5.0%	(14 112)
GROSS OPERATING PROFIT	**449 292**	**397 009**	**13.2%**	**52 283**
Impairment losses on financial assets	(107 832)	(153 143)	(29.6%)	45 311
Provisions for risk and charges	(2 554)	(5 662)	(54.9%)	3 108
Income from property, plant and equipment	2 488	59	4116.9%	2 429
Income tax expense	(27 568)	(14 285)	93.0%	(13 283)
NET PROFIT	**313 826**	**223 978**	**40.1%**	**89 848**

REVENUE STRUCTURE	YEAR	
	2021	2020
Net interest income	48%	52%
Net fee and commission income	32%	30%
Net income from dividends, trading income, hedging derivatives and investment securities and other net operating income/expenses	20%	18%
OPERATING INCOME	**100%**	**100%**

Unconsolidated Financial Results (continued)

In 2021 **Net interest income** (BGN 360.2 mln) remained the **major item in revenues composition** for UniCredit Bulbank with a share of 48% (52% in 2020). However, the share of non-interest income rose to 52% in 2021 vs 48% in 2020.

Share in Interest Income



Interest income (BGN 406.6 mln) increased by 1.6% y/y and is primarily earned from the lending business, which accounted for 81% of total interest income, affirming the Bank's strategic focus on commercial banking and the commitment to the local economy. **Interest income from customer loans** (BGN 331.0 mln) slightly decreased by 0.2% y/y, while **interest income from securities and derivatives** (BGN 51.0 mln) dropped by 10.4% y/y and accounted for 13% from interest revenue (compared to 14% in 2020). **Interest income from interbank placements** (BGN 2.2 mln) decreased by 10.4% y/y. Thanks to better excess liquidity management in 2021, interest income on liabilities entirely offset the decline in all other items of interest income.

Interest expenses (BGN -46.4 mln) increased by 2.2% y/y, mainly due to interest expense on assets and debt securities issued. **Interest expenses on customer deposits** (BGN 0.7 mln) dropped substantially by 71.2% y/y and accounted for 2% of total interest expenses (6% in 2020). **Interest expenses on derivatives used for hedging** (BGN 19.3 mln) slightly declined by 0.2% y/y, reaching a share in total interest expenses of 41% (42% in 2020). **Interest expenses on assets** (BGN -25.7 mln) represented 55% of total interest expenses and marked an increase of 14.4% y/y.

In 2021, besides the general recovery of economic activity, the Bank continued it's strong focus on deepening the penetration in capital light fee generating products. Partnership programs in the area of investment products, adding new functionalities to the digital channels and further enhancements of cards business were the key drivers for enlarging fee-generating product portfolio. All this, along with the traditional strong synergy with the external product factories for consumer financing, leasing and factoring made the net fees and commissions income again a key driver of revenue growth.

Net fee and commission income (BGN 238.3 mln) accounts for 32% of Total operating income and recorded solid growth of 16.0% y/y, mainly in fees from transactional services (collection and payment services stated 17.7% growth y/y) induced by the resuming increased business activity during the year; in fees from financial and brokerage services (68.6% growth y/y) thanks to growing volumes; and in other fees (17.1% y/y).

Net other operating expenses (BGN -14.7 mln) reported a drop of 78.7% y/y, almost entirely due to reduced contributions to Resolution Fund in 2021, based on the official announcement of BNB that available funds, accumulated from past contributions, might be used for payment of due contributions of Bulgarian banks to Single Resolution Board in 2021.

Operating expenses (BGN -297.2 mln) increased by 5.0% y/y, driven by staff expenses and depreciation cost. **Personnel costs** reported an annual growth of 5.9% reaching BGN 148.8 mln, in line with the general labor market trends as well as growing focus on digitalization and business transformation, aimed at the need for specialists with relevant skills and training. **Non-personnel costs** (BGN -105.7 mln) increased by 2.4% y/y, mainly due to the newly introduced supervision fee, related to ECB supervision. **Expenses for depreciation and impairment on non-current assets** grew by 8.6% y/y to BGN – 42.7 mln, due to investments in new business and operational projects.

Net Impairment loss on financial assets (BGN -107.8 mln) decreased by 29.6% y/y, thanks to the remarkable improvement in asset quality and adherence of strict discipline approach. At the end of 2021 NPE ratio decreased to 4.0%, 2.0 pp better vs. a year ago (6.0%). NPE coverage ratio marked 78.6% (73.7% in 2020).

Profit before tax recorded positive development of 43.3% y/y, reaching BGN 341.4 mln and as a result **Net profit after tax** reached BGN 313.8 mln (+40.1% y/y), which represents more than 24% from the Net profit of the Bulgarian banking system (if including UCFin banking business).

Unconsolidated Financial Results (continued)

Despite the banking sector consolidations during the last years, in 2021 UniCredit Bulbank kept its leadership position on the market in terms of **Total assets** which reached BGN 24 948 mln. In 2021 the balance sheet trends were driven by the Bank's strategy for liquidity optimization. Total assets grew by 3.5% y/y, supported by the increase in customer deposits (+6.0% y/y). However, on the assets side a significant increase of net customer loans was recorded (+14.0%), partially offset by the decrease in loans to other banks.

In thousands of BGN

STATEMENT OF FINANCIAL POSITION STRUCTURE	YEAR		CHANGE	
	2021	2020	%	AMOUNT
ASSETS				
Cash and balances with Central Bank	6 677 436	6 595 652	1.2%	81 784
Loans and advances to banks	697 985	1 426 838	(51.1%)	(728 853)
Investment securities and non-derivative financial assets held for trading	3 480 263	3 691 883	(5.7%)	(211 620)
Loans and advances to customers, net	13 519 451	11 860 343	14.0%	1 659 108
Property, plant, equipment, right of use assets and investment properties	236 916	225 126	5.2%	11 790
Other assets, net	336 325	307 686	9.3%	28 639
TOTAL ASSETS	**24 948 376**	**24 107 528**	**3.5%**	**840 848**
LIABILITIES AND EQUITY				
Customer deposits	19 795 330	18 678 882	6.0%	1 116 448
Deposits from banks	1 128 575	1 918 207	(41.2%)	(789 632)
Debt sequrities issued	313 104	-	-	313 104
Other liabilities	353 668	433 860	(18.5%)	(80 192)
TOTAL LIABILITIES	**21 590 677**	**21 030 949**	**2.7%**	**559 728**
SHAREHOLDERS' EQUITY	**3 357 699**	**3 076 579**	**9.1%**	**281 120**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**24 948 376**	**24 107 528**	**3.5%**	**840 848**

Net loans and advances to customers, incl. debt securities at amortized costs increased to BGN 13 519 mln, primarily component related to debt securities at amortized costs. The production of the consumer lending to individuals continued to be performed via the Bank's specialized subsidiary – UniCredit Consumer Financing. As a result of this strong growth, **net loans and advances to customers, incl. debt securities** at amortized costs already constitute more than half (54%; + 5 pp y/y) of the total assets of the Bank, confirming its strategic commitment on **sustainable development of traditional commercial banking.**

Investment securities portfolio (investment securities and non-derivative financial assets held for trading) decreased to BGN 3 480 mln, (-5.7% y/y), with share in total assets of 14% (15.3% in 2020). Almost the entire portfolio comprised of Bulgarian government bonds.

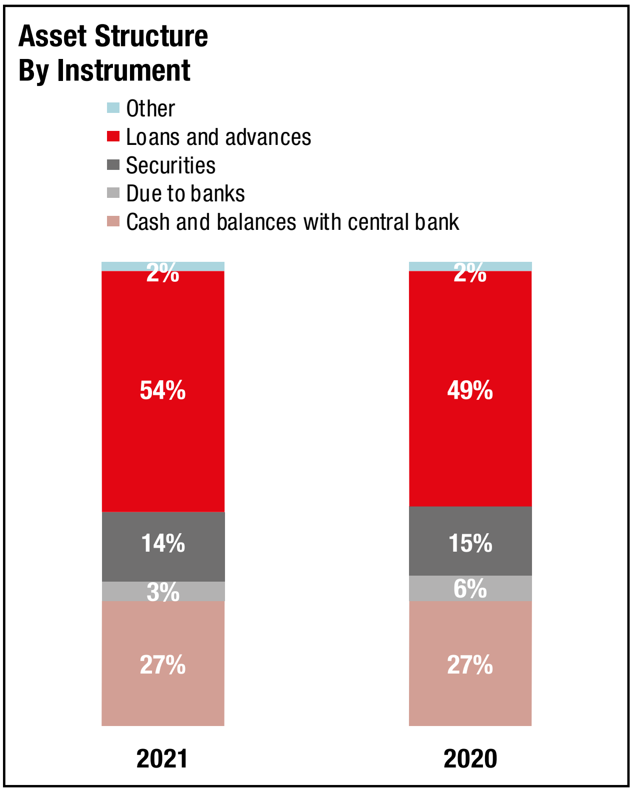
Other assets are at the amount of BGN 336 mln (1% share of total asset) and represent other items on the asset side of the statement of financial position, such as derivatives held for trading and for hedging; investments in subsidiaries and associates; intangible assets; other assets, mainly receivables and prepayments, and foreclosed properties.

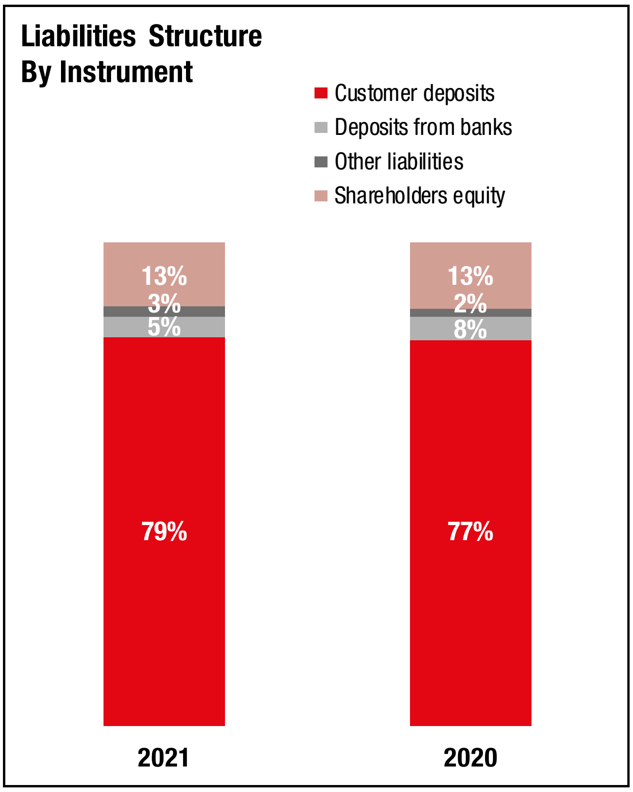
Customer deposits reached BGN 19 795 mln and kept their very high share in total liabilities (excl. equity) of 92%. Thus, the Bank affirms its self-funding profile. Taking advantage of the banking system liquidity, its strong market position and impeccable reputation, UniCredit Bulbank achieved growth in customer deposits of 6.0% y/y in both segments Retail and Corporate. In 2021 **Net loans/deposits ratio** increased to 68.3%.

Deposits from banks declined by 41.2% y/y to BGN 1 129 mln, remaining with insignificant share in total liabilities (5% in 2021 vs 9% in 2020).

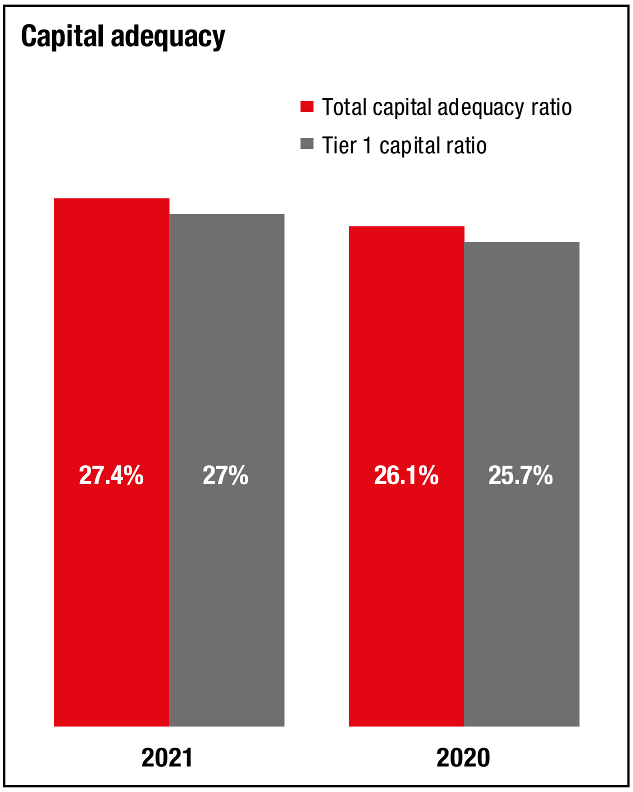
Shareholders' equity reached BGN 3 358 mln, with 13.5% share in total assets. The increase of 9.1% y/y is attributable to retained earnings.

Unconsolidated Financial Results (continued)





In compliance with Basel III (CRD IV) regulatory framework, in 2021 UniCredit Bulbank fulfilled **with significant excess** the minimum requirements including regulatory buffers of 15% for total capital adequacy ratio and 13% for Tier 1 ratio. The **total capital adequacy ratio registered 27.45%** (26.10% in 2020) and **Tier 1 ratio reached 27.05%** (25.67% in 2020). The comparable levels of total and Tier I capital adequacy indicate the **high quality of the capital instruments – i.e. mainly Tier I eligible ones.**



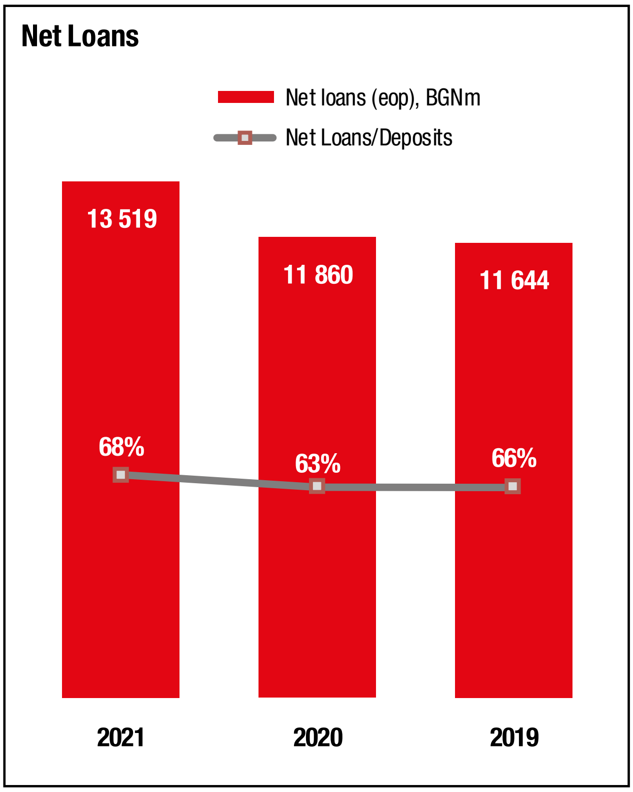
Unconsolidated Financial Results (continued)

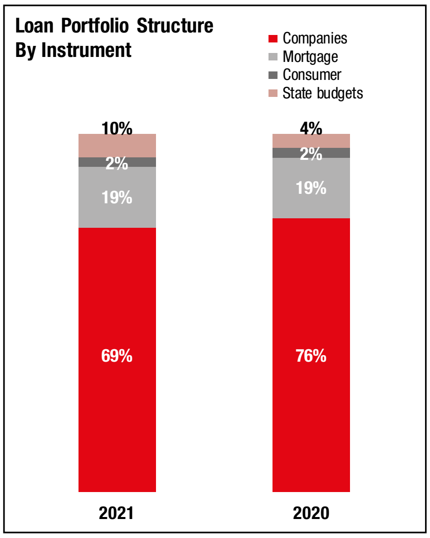
Customer Loans

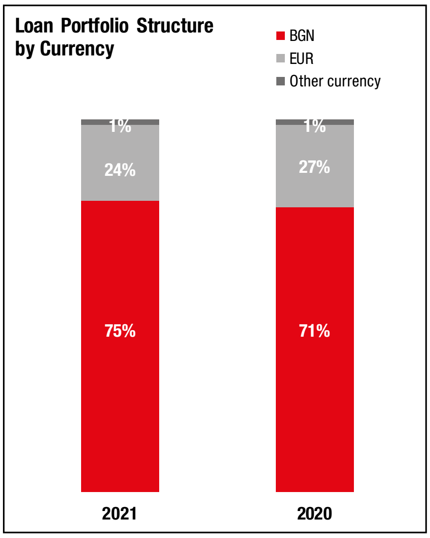
While still facing the waves of an unprecedented pandemic in 2021, UniCredit Bulbank relentlessly **supported its clients and the real economy**. We worked together in a rapidly changing business environment, always supporting our customers and protecting our people. **The commercial initiatives were addressed to providing a comprehensive range of financing products** tailored for the specific needs of the customer and covering the full range of not only banking services but also leasing, factoring and consumer financing solutions.

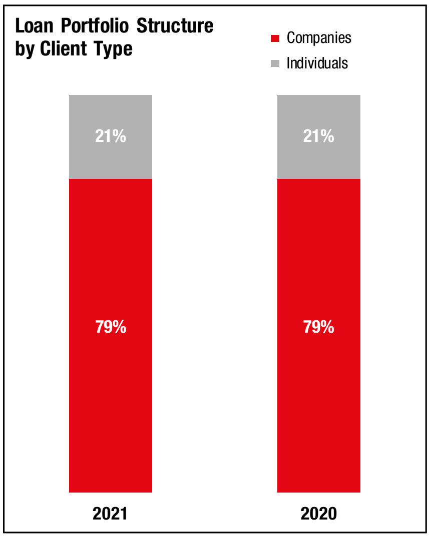
UniCredit Bulbank affirmed its leading market position with **net customer loans, incl. debt securities at amortized cost** at the amount of BGN 13 519 mln and gross customer loans, incl. debt securities at amortized costs amounting to BGN 14 234 mln. The Bank continued to be one of the biggest players in the Bulgarian lending market with a share of 17.8%.

Loans to companies and government represented the largest portion (79%) of the Bank's loan portfolio and amounted to BGN 11 233 mln, up by 12.9% y/y. With regard to corporate customers, the Bank is indisputable leader and continuously facilitated sound businesses initiatives and profitable projects. The differentiated strategy by corporate sub-segments, along with the long-term trusted relationships and high quality of risk management resulted in effective financing solutions for the customers. **Loans to individuals** amounted to BGN 3 000 mln, representing 21% share of total loans. In 2021 mortgage loans marked a positive trend of 16.5% y/y, reaching BGN 2 760 mln. Their share in loans to individuals increased to 92% (19% share in total loans).

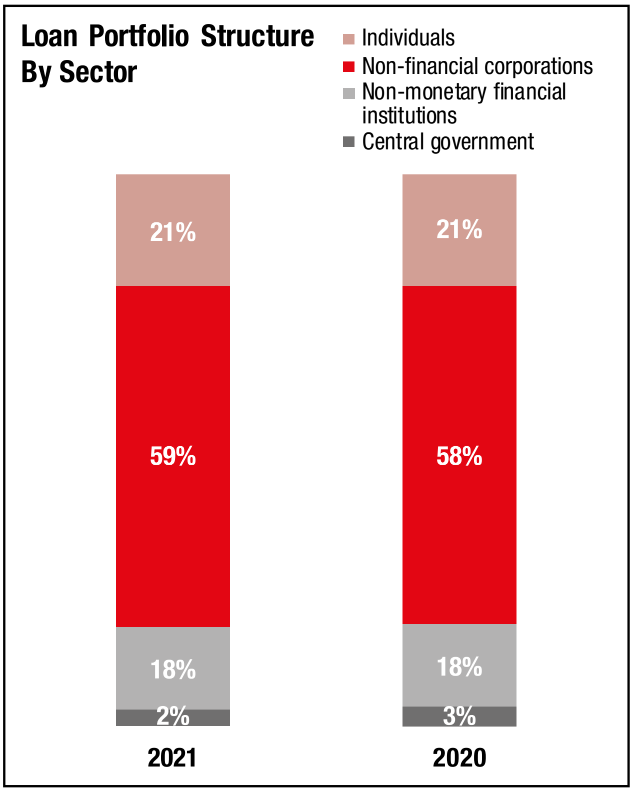








Unconsolidated Financial Results (continued)

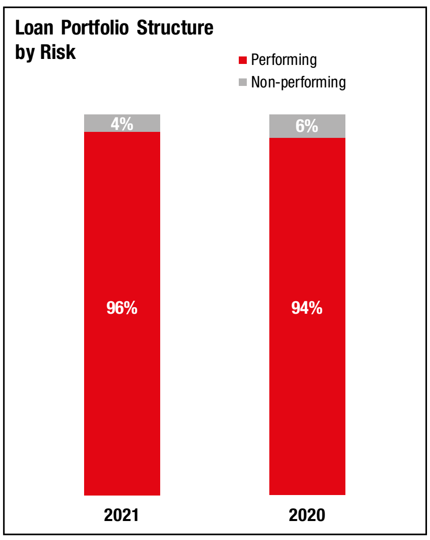


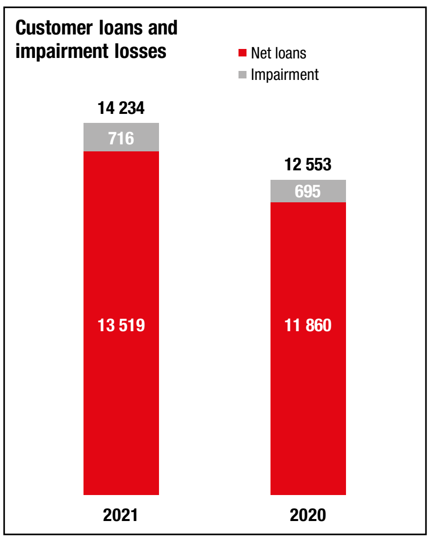
At the end of 2021 loans in BGN, incl. debt securities at amortized cost (BGN 10 650 mln) grew by 18.9% y/y, offsetting the EUR loan portfolio and took a share of 75% of Bank's gross loan portfolio. The share of loans in EUR shrank to 24% (27% in 2020), while the loans in other currencies remained immaterial with 1% share.

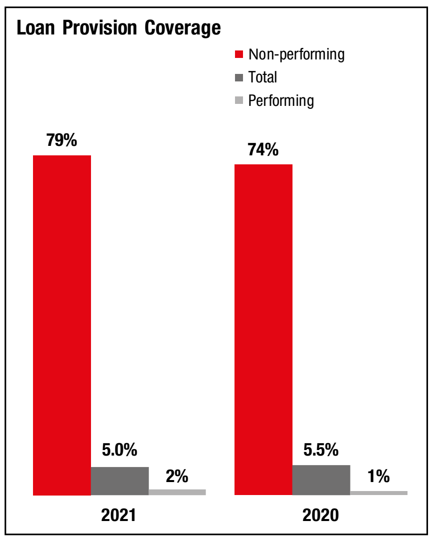
Regarding the **structure by economic sectors,** over the course of the past 12 months, loans granted to non-financial corporations represented the largest portion in the total loans volume. They took the share of 59%, while the loans to non-banking financial institutions keep its share of 18%. The share of loans to individuals remained flat at 21%, while the loans to central government decreased to 2% in 2021.

Despite the significant impact of the Covid-19 pandemic outbreak the Bank continued to observed its strategic goals related to **assets quality** activities. Benefitting from a continued disciplined risk approach the performing loans portfolio represented 96% (+15.8% y/y growth) and amounted to BGN 13 668 mln. On the other hand, the non-performing loans decreased by 24.3% y/y to BGN 566 mln.

As of December 2021 the Bank reported NPL ratio of 4.0%. The loan loss provision coverage of non-performing exposures acquired additional 495 bp and reached 78.6%. Total loan loss impairment increased by 3.1% on an annual basis and reached BGN 716 mln. Total coverage ratio is at 5.0% (5.5% for 2020).







Unconsolidated Financial Results (continued)

In terms of industry structure at the end of 2021 the most significant growth in share was achieved by sector Sovereign (increase by BGN 962.1 mln y/y), followed by Financial services (BGN 519.1 mln). The biggest declines are recorded in the sectors of Services (decrease by 49.4% y/y) and Construction and real estate (decrease by 8.5% y/y). In line with the Bank's strategy, Housing loans registered an increase by 16.5% y/y with share of 19%. At the end of 2021 the largest areas of concentration were Financial services (19%), Manufacturing (16%) and Housing loans (19%).

Thousands of BGN

INDUSTRY STRUCTURE	2021		2020	
	AMOUNT	SHARE	AMOUNT	SHARE
Financial services	2 712 349	19%	2 193 220	17%
Manufacturing	2 260 524	16%	2 271 863	18%
Commerce	1 909 119	13%	1 826 807	15%
Sovereign	1 425 221	10%	463 162	4%
Construction and real estate	1 389 386	10%	1 519 010	12%
Transport and communication	636 308	4%	606 453	5%
Agriculture and forestry	408 231	3%	417 901	3%
Tourism	273 674	2%	216 855	2%
Services	221 886	2%	438 580	3%
Retail (individuals)	**3 000 231**	**21%**	**2 603 453**	**21%**
Housing loans	2 760 459	19%	2 370 470	19%
Consumer loans	174 752	1%	167 745	1%
Other	65 020	0%	65 238	1%
TOTAL LOAN PORTFOLIO	**14 236 929**	**100%**	**12 557 304**	**100%**

Unconsolidated Financial Results (continued)

Customer Deposits

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

UniCredit Bulbank confirmed its position of a leading contributor on the market of customer deposits with **18.1% market share** leveraging on its distinguished reliability and faithfulness.

In 2021 UniCredit Bulbank's **Deposits from customers** grew by 6.0% y/y to BGN 19 795 mln supported by both Retail and Corporate segments, where the Bank continues to be one of the most trusted and preferred banks.

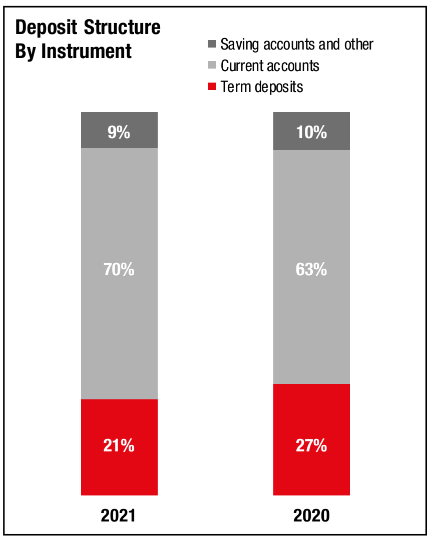
UniCredit Bulbank became the Bank of choice for the individual clients and companies thanks to its undisputable safety and stability as well as excellent reputation.

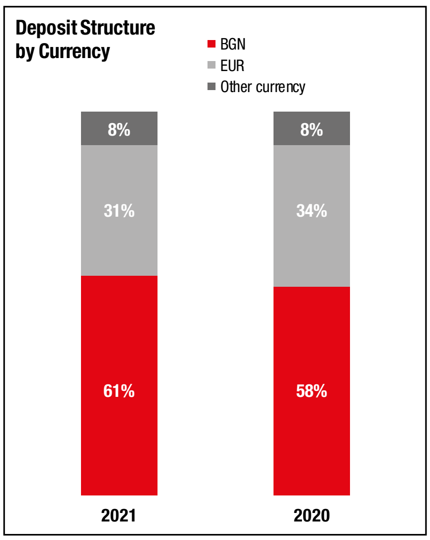
In terms of **clients type**, deposits of Individuals had an upward momentum of 4.6% y/y, ending 2021 at BGN 11 208 mln and the company's deposits registered an increase of 7.9% y/y to BGN 8 588 mln. In 2021 deposits of Individuals kept 57% share in customer deposits, compared to 43% share of deposits from companies, signalling once again the solid funding profile of UniCredit Bulbank with well-diversified and stable deposits franchise.

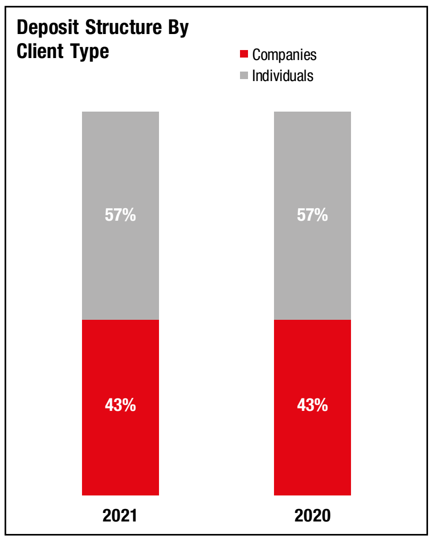
With regard to the **product structure**, current accounts increased by 17.5% y/y and reached 70% share (63% in 2020). Term deposits decreased by 17.8% y/y and as a result, shrank its share in total funds to 21% in 2021 vs 27% in 2020. Saving and other accounts remain with 9% share similar to prior year level (10% in 2020).

In terms of **currency distribution** the structure of deposits remained balanced, 61% share of BGN denominated deposits vs 39% in EUR and other currencies. The growth of the deposit base is predominantly driven by BGN denominated deposits which increased by 11.5% y/y, while those in other currencies shrank by 1.5% y/y.

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







Consolidated Financial Results

As of 31 December 2021 UniCredit Bulbank's subsidiaries and associates, their consolidation method and the respective participation in their equity are presented as follows:

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

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

The **consolidated net profit** of UniCredit Bulbank Group for 2021 was at BGN 370.0 mln, up by 89.6% y/y, driven by better performance in all revenue lines as well as the lower impairment loss on financial assets.

The **consolidated operating income** increased by 12.8% y/y, in both interest and non-interest income, where non-interest income represented 41% from operating income and rose by 36.8% y/y. Net fees and commissions increased by 12.9% y/y, mainly in fees on collection and payments services, financing services and brokerage services. Net income from dividends, trading income, hedging derivatives and investment securities increased by 9.6% y/y, driven by gains on disposal of debt securities and FX trading.

The **consolidated operating expenses** increased by 5.4% y/y to BGN -347.3 mln and **gross operating profit** rose by 18.2% y/y to BGN 532.2 mln.

In line with the stand-alone trend, the **consolidated net impairment loss on financial assets** decreased by 46.1% y/y to BGN -123.8 mln thanks to improvement in asset quality. The consolidated NPE ratio marked 5% and NPE coverage increased by 5.7 pp.

Total **consolidated assets** (BGN 25 429 mln) increased by 3.3% y/y, driven by the growth of customer business. The consolidated **Net customer loans, incl. debt securities at amortized cost** increased by 13.1% y/y to BGN 13 946 mln and consolidated **customer deposits** reached BGN 19 801 mln, up by 5.7% y/y.

In thousands of BGN

	YEAR		CHANGE %
	2021	2020	
INCOME STATEMENT FIGURES			
Operating income	879 505	779 690	12.8%
Operating expenses	(347 327)	(329 448)	5.4%
Gross operating profit	532 178	450 242	18.2%
Net impairment loss on financial assets	(123 761)	(229 528)	(46.1%)
Net profit	370 032	195 106	89.7%
BALANCE SHEET FIGURES			
Total assets (eop)	25 429 222	24 619 517	3.3%
Net customer loans (eop)	13 946 002	12 327 208	13.1%
Customer deposits (eop)	19 800 871	18 728 712	5.7%

Risk Management

Credit Risk

In 2021 the Bank continued to perform its **credit activities** in compliance with the governing rules and internal policies, while during the year the pandemic situation continued with various restrictive measures imposed by the government, which in general again affected the business climate in the country. Nevertheless, during the financial year 2021, the Bank was strictly monitoring the performance of the portfolio with Moratorium measures in order to identify negative development after their expiration. In general, the conclusion is that overall the situation is stable, registering 6.7% share of the loans with overdue payments from the bucket with the expired moratorium measures as of December 2021. The achievement of this relative good result is also due to our preventive activities from Q4 of 2020, when we had started several initiatives using internally defined criteria aiming to identify borrowers with unstable financial situation and to register UTP event. Together with day-past-due triggered classification, we have net inflow in the amount of BGN ~270 mln on Bank stand-alone level. Main affected industries related to the Moratorium portfolio are Tourism, Media & Paper, Textile and Real Estate (in particular commercial centers and small administrative buildings). Further restructuring measures in these sectors are highly likely considering the ongoing pandemic and the respective sanitary measures.

The overall annual growth of consolidated customer loan portfolio is 5%, out of which 15% are related to mortgage lending to Private Individuals. Due to the relatively stable situation mentioned above, the Bank was able to remain below the expected NPE volumes and net LLP charge. The NPE ratio on consolidated level as of end of the year is 5%, with cost of risk ratio of -99bp, which are in line with the limits set by the Risk Appetite Framework for 2021.

In February 2022 UniCredit Bulbank is planning to implement the updated credit risk models for Corporate PD, SME PD rating system and IPRE slotting system as well. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 70.6 mln as of December 2021.

We have allocated further add-on on LLPs due to rising uncertainties for the forthcoming year driven by high inflation pressure due to continuous increase of energy prices in a context of still continuing pandemic situation, particularly heavy in the country. The overall impact is estimated at the level of BGN 45.0 mln.

Restructuring and collection activities during year 2021 were positively affected by better than expected delinquency rate of applied Covid-19 moratorium measures (appr. 7% actual vs at least double initial expectation). Working capital need of the companies were increased by stretched supply chains and raising commodity & utility prices resulting in second year in a row active restructuring activities while collection activities benefitted from increased investor interest for NPE assets triggered by raising inflation expectation. In addition, pandemic waves and implied in response counter measures such as lockdowns made impossible long-term restructuring strategies to be defined where necessary leaving restructuring portfolio care to be on focus for the year to come.

Capital adequacy is assessed both under the regulatory Pillar 1 perspective and the internal Pillar2/ICAAP view. Regulatory capital for credit risk is reported under the Advanced Internal Rating Based Approach (A-IRB) for corporate and retail clients. Banking institutions remain at Foundation Internal Rating Based Approach (F-IRB) and exposures to public sector entities, multilateral development banks and municipalities are treated under the Standardised Approach. Regulatory capital for operational risk is quantified under the Advanced Measurement Approach (AMA).

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

2021 could be considered also from Credit Risk point of view as the year of recovery after restart of the business in H2 of 2020, but not underestimating Covid-19 effects. In these regard we shall note the restoration of business competences, including relaunch of credit offering as part of marketing campaigns by considering limitations in the most affected sectors and return of the risk appetite in sectors and segments with sustainable performance.

It should be mentioned the increased need of working capital for the companies in all segments due to energy and raw materials prices increase, in combination with supply chain disruption, which caused longer cash conversion cycle and higher working capital absorption.

Underwriting (UW) process was focused on leaner way of decision taking: (i) through process optimization and reorganization of collective body committees: credit transactions are concentrated in Transactional Committee and products, processes and portfolio management are reviewed through Financial Credit Risk Committee – Credit Risk Session and (ii) through higher local authority levels for risk taking. Increased automation and introduction of robotized processes in both Retail and Corporate UW was second pillar of optimization.

ESG factors start to be taken into consideration by:

- the decision for credit granting above certain threshold of credit exposure and
- by collateral evaluations via energy certificate where available and considering location for management of physical risks

Sustainability of collateral values in the growing Real Estate market is ensured via quality assurance of external appraisal companies through increased random audit checks of valuations, where the results are reported semiannually to the Management Board.

2021 changes and emphasis in credit risk management and underwriting policy are as follows:

Risk Management (continued)

Introduction of Forward looking analysis for all clients and segments where deepening of the analysis is based on proportionality.

In order to respond to market potential, at the moment of positive development of loan portfolio quality, the Bank introduced some enlargement of business competences: (i) for Retail SME in respect to maximum amount and (ii) easiness of requirements in respect to security coverage and increasing caps based on rating quality for Mid Corporate clients.

In order to accommodate factoring products after the merger between the Bank and the Factoring company respective processes within the Bank and Underwriting were established, including amendments in the underwriting rules and tools.

Simplification of decision process for Retail SME was reached via decreasing of not relevant or with lower risk contribution exceptions which were leading to higher level of decision on HQ underwriting level.

Semi automation of Annual reviews up to certain threshold for Corporate clients and introduction of robotized input of financial statements and annual review for Retail SME was another milestone in optimization.

Credit Risk team was involved in tests and preparation for implementation of the New Internal Rating Models for Retail SME and Corporate clients and support the centralization of post approval service of Retail clients, which includes collateral valuation and collateral insurance policy renew.

2022 Outlook

2022 is expected to be another dynamic year, marked by expected increase of loan book in a context of potential threats for the Bulgarian economy, stemming from continuous pandemic, inflationary pressure and supply chain vulnerabilities. We will continue our focus on further automation and simplification of the credit process, while keeping sustainable portfolio quality. Time to decision and time to cash remain key metrics where optimization will be further sought, while innovation and accountability are to remain the main drivers for sound credit risk management.

Financial risk and models (market, counterparty and liquidity risks)

Within 2021 the Financial risk management (FRM) function in UniCredit Bulbank execute strict monitoring and control and perform regular assessment of the market, liquidity and counterparty credit risk, in line with the set risk appetite framework and strategy 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 2021 the Bank continued to leverage on the Group risk measurement and reporting infrastructure (Global Liquidity DataBase) for liquidity risks after the finalization of the ALMRisk Evolution project.

Regarding risk control activities, the FRM function continued to supply the bank's management with daily limit compliance reports. These consisted of Value-at-Risk metric complemented by stress-oriented FX, interest rate and credit spread sensitivity measures, combined with stop-loss and operative liquidity triggers. Within Financial and Credit Risk Committee – Financial risk session (former ALCO) the Bank's management was regularly supplied with comprehensive summary of potential profit and loss impact of extreme shifts in FX, interest rates, credit spreads as well as of market liquidity squeeze impacts on all portfolios.

In the area of market risk controls, UniCredit Bulbank makes use of the Group internal model IMOD for daily managerial control and economic capital assessment, leveraging on Group market risk methodology and architecture. In 2021 the Bank further enhanced valuation of embedded options for customer loans and deposits and recalibrated the model for valuation of the behavioural profile of non-maturing deposits to enable granular simulations of interest rate risks in the banking book. Key element in the area of interest rate risks in the banking book was the application of stress assumptions on behavioural modelling for the managerial and regulatory IRRBB metrics in line with the respective EBA Guidelines. Within the liquidity risk management a methodology and parameters revision of the Liquidity Stress Test was undertaken, finalized and implemented. Regarding risk management systems, significant efforts were focused on maintaining sound quality of data and stability of control processes to facilitate reliable managerial information flows.

Activities of FRM function in 2021 have been focused on further adaptation of tools and processes related to fair valuation and to the Fundamental Review of Trading Book. Another milestone in the regulatory-driven agenda was the upgrade of risk systems facilitating adoption of the new Standardized Approach for counterparty credit risk as part of the CRR II that came into force in 2021. A key step forward in the area of liquidity risk monitoring was the anticipated enhancements with regards to NSFR with the phasing-in of CCR II.

UniCredit Bulbank took part in Group project for upgrade and enhancement the Marconis tool for automatic monitoring of the requirement regarding the Commercial Mark-up and Hedging cost, related to OTC client business.

Activities of FRM function in 2022 will be focused on the finalization of the a dedicated project under the Umbrella initiative for the stream Interest Rate Risk in the Banking Book (IRRBB), which will allow the Bank to be fully integrated in the Group risk IT architecture for IRRBB measurement and reporting. Under the same initiatives FRM will continue the integration of the Liquidity Stress Test to group-wide IT infrastructure (expected H1'2022 completion).

In 2022 also UniCredit Consumer Finance and Leasing are expected to switch to Subsidiary Interface. UC Factoring will be incorporated in infrastructure of the Bank after its merger with the UniCredit Bulbank.

Further refinements of the behavioral models under liquidity and interest rate risk perspective will be another area for development.

Risk Management (continued)

Operational and Reputational Risk (OpRepRisk)

The main activities of the Operational and Reputational Risk Unit (ORR) in 2021 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks, and participation in dedicated Bank projects and initiatives.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring.

The RCSA, activity was defined in 2019, performed in UniCredit Bulbank on annual basis and further enhanced in 2020 and 2021. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of operational risk unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

The following new processes have been implemented and were regularly performed in 2021:

- ICT Project Risk Assessment – defines the principles for the management and control of Operational Risks during the project definition and management in the UniCredit Bulbank.
- Process Risk and Controls Assessment for material changes – aims at defining rules and principles to assess the Operational Risk related to significant changes in Bank processes.
- Operational Risk Oversight Model – the process defines the methodological approach for the Operational Risk Oversight on UniCredit Group Legal Entities, the criteria for the Legal Entities clusterization and the minimal requirements for each type of model (Extended, Essential, Simplified). The aim is to strengthen the Oversight mechanism with reference to small size subsidiaries of the UniCredit Bulbank.

All activities regarding operational and reputational risk management included in the annual plan, defined by the Group, were performed following the Group methodology and executed in a timely manner with no delay.

The Non-Financial Risk and Controls Committee – General Session (NFRC – GS), successor of the former Operational and Reputational Risk Committee, is a specialized body, fundamental element of the operational risk system where current operational risk issues and developments are reported and discussed. The Committee meetings are held quarterly and attended by the Bank's senior management. The NFRC-GS acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

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

During 2021 the ORR Unit continued to develop and strengthen the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure via adoption and implementation of key Group documents regulating the area. The Non-Financial Risk and Controls Committee – Reputational Risk Session (NFRC-RRS), is the decision-making body for reputational risk topics and holds monthly meetings to discuss deals and issues in the scope of the reputational risk.

The risk culture has been constantly spread out throughout the organization, via training activities, combined with methodological guidance and support to the other structures ensure the outstanding risk awareness at Bank level. In 2021 were organized dedicated trainings aiming to improve the expertise of the branch managers of the retail network of the Bank regarding operational risks in their daily activities. Moreover, two dedicated practical online trainings were held in the end of 2021 – one related to operational risk loss data reporting and confirmation by the operational risk managers and another covering the specifics of the ICT Project Risk Assessment performed by the project leaders. With regard to Reputational Risk, remote workshop sessions dedicated on the deals out of scope of the sector reputational risk policies were performed for all Business segments, aiming to increase overall support to the Business and optimize the time for response to clients' requests.

In 2021 the ORR Unit participated in several key business projects driving the digital transformation of the Bank – Omnichannel project, UCF Integration; UCX (Unified Customer Experience) project, Instant Payments, Robotic Process Automation Room project; Content Service Platform; Transaction monitoring; Flexcube upgrade; Compliance consolidation Program and many activities related to improving Compliance systems, processes and centralizing the most risky compliance processes for registration and KYC review of the customers.

During the year a new Reputational Risk Policy regarding Coal Sector was adopted and implemented.

For 2022 the ORR will continue to closely monitor the following risk drivers and initiatives:

- ICT resilience of processes, assets and services to support business evolution towards digitalization.

Risk Management (continued)

- Data protection and data breach regarding limit the possibility of data disclosure outside the natural perimeter of the information.
- Third parties risk management and outsourcing, to prevent a potential disruption of Bank business processes.
- External and internal frauds management to detect unauthorized operations performed by internal/external actor through enhancement of digital processes and controls.
- Digital & IT transformation to reduce possible weaknesses in the new digital/remote processes and keep controls to be strictly monitored during optimization of processes.

Corporate and Investment Banking

Overview

The **GDP** for 2021 is expected to grow by 3.6% (UniCredit Research), supported by the increased domestic demand. The uncertainties on the health situation and political prospects in Bulgaria had a negative impact on business confidence and investment. Supply constraints and rising inflation were the main challenges to companies' business activity in 2021.

The Team 23 multi-year plan was substituted by the new "UniCredit Unlocked" Strategic plan

Team 23 showed UniCredit favors long-term sustainable outcomes and its success confirms ability to execute and deliver the new **"UniCredit Unlocked" Plan**, which substituted the latter as of December 2021.

New international clients were attracted in 2021 at UniCredit Bulbank's "Corporate and Investment Banking division" (CIB) and the International Center premises continue to be a well-known hub for discovering new opportunities and meeting new/existing partners and drive and facilitate international business and also local business willing to expand abroad. As a response to Covid-19 pandemic, the meetings were held mainly online but still in this new regime, the International Center continued its dedicated work to attract new international customers.

Transformation of the client management system at UniCredit Bulbank by adding new functionalities in our online channels such as digital KYC review for legal entities and new types of FX deals in order to sustain complete overview and information with regard to customer products, activities and respective commercial actions, based on artificially-spotted opportunities was successfully implemented. Business Intelligence usage carried through business steering dashboards for commercial activities in the client management system along with monitoring of business initiatives. More structured approach towards business initiatives set-up, monitoring and post-monitoring

Financial Result

CIB **net revenues**, including the leasing, factoring and fleet management subsidiaries, increased in 2021, mainly driven by net fees and commissions, net interest revenues and foreign exchange sales gains. Profit before tax increase compared to previous year, as a result of higher revenues and lower provisioning costs.

The Bank continued to support its clients affected by the Covid-19 crisis by offering them customized solutions and a mechanisms to facilitate servicing of their loans.

We continue to work hard towards our ESG goals with a strong commitment to support our clients and communities in the current transition phase, ensuring a just pathway for all towards an increasingly inclusive and sustainable economy and society. To act as the leader in the local market to support transition financing with strong focus on green financing but also with intensified development of impact financing products.

As a socially responsible institution, our sponsorship complies with the established policies at local and group level, giving priority to support of projects and initiatives related to financial education, entrepreneurship and establishing institutional partnerships.

Performance by Segments

The corporate business in 2021 was benefiting from the economic recovery in all sub-segments, especially the business with international customers which registered a double digit increase in revenues vs 2020, stemming from interest and non-interest income.

Business Lines Performance

Markets and Brokerage, Leasing, Factoring and Fleet management increased in revenues y/y, leveraging on the unique service model and the excellent cooperation between UniCredit Bulbank and its subsidiaries.

Deposits

Deposits in corporate banking stand alone increased y/y, predominantly in current accounts following the market trend.

Loans

In 2021 corporate banking loans remained stable compared to 2020 with focus on low risk customers and cross selling opportunities, leveraging on EU guarantee schemes to balance risk weighted assets. CIB division offer to corporate clients' high quality services and financing solutions to support their business growth.

Service Model and "UniCredit Unlocked" strategic initiatives

Product/Coverage Model

The CIB Division differentiates itself on the local market through a service model crossing client segments coverage with product factories. The segment coverage delivers a personalized relationship depending on the size and ownership of the company via a dedicated professional (Relationship manager), who follows in depth the corporate client's business needs, while the product owner provides a sophisticated solution in a specific area.

In 2021 the product factories remained focused on **innovation and digitalization**, targeting improved customer experience. This practice will be continued also in 2022.

In 2021 the Trade Finance module in Bulbank Online remained the preferred channel for corporate clients trade finance business with the Bank. Customer experience and channel usage were additionally supported by the new functionalities implemented throughout the year. For 2022 the aim is to further enrich the applications in the online banking tool for companies, leveraging on a redesigned platform.

Corporate and Investment Banking (continued)

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

A new module in Bulbank Online allows customers to trade securities remotely, through our online banking platform, being the only Bank on the market with such a digital solution. Further enhancements of the services via the Module are planned and also ever more broad marketing efforts will be made in order to raise the awareness of the market and to onboard in the Module also the customers executing their Securities trading still on paper.

As of 2021, the corporate branch network consists of 9 branches established in all the major regions of the country and ensures a high-class professional operational services exclusively dedicated to corporate customers.

“UniCredit Unlocked” strategic initiatives

The strategic plan is implemented through several initiatives for digitalization and internal processes optimization, leveraging also on implementation of several new EU financial engineering instruments and numerous amendments of existing ones with regards to Covid-19 related measures.

Additional enhancements and functionalities for the web-based solutions were implemented in 2021 aiming at comprehensive analysis of complex business trends, building of long-term customer relationships and spotting market opportunities. Usage of business intelligence (BI) tools were enhanced in the process of data-driven decision making and in-depth market analytics. In addition, the further enhancements of the internal process led to higher efficiency and improved customer experience.

Cross-divisional Initiative

Another joint initiative between “Retail Banking division” and “Corporate and Investment Banking division” continues to be on focus in 2021. The combined commercial efforts between CIB and Retail resulted in increase in the number of net banking customers /individuals with payroll accounts at UCB and use of additional products and services. In 2022 the commercial efforts will once again focus on tailor-made offers for every potential retail client employee of our CIB clients. New offers were created – packages with different preferential price/term conditions to respond to the customer needs.

European Funds

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

Main active products are COSME Direct Guarantee, FMFIB guarantee scheme for micro companies, NGF – Rural Development Programme, Risk sharing instrument from EIB and Risk sharing instrument from EBRD:

- COSME – provides standard 50% guarantee supplementing the collateral for investment and revolving transactions.
- Microfinance instrument–Capped Guarantee scheme (CAP 25%) for Microfinance, organized by the FMFIB – Fund Manager of the Financial Instruments in Bulgaria. This scheme is for micro loans up to TEUR 50 per transaction, mostly for Retail segment, including social entrepreneurs and projects with 80% guaranteed part.
- National Guarantee Fund (Rural Development Program) – guarantees up to 50% of the outstanding credit exposures, granted by UCB to micro-, SMEs companies for financing approved projects under Rural Development Program, as well as enterprises with activity within the Agriculture sector. The Agreement was prolonged with inclusion period until 31.07.2021.
- EIB Risk sharing Facility – suitable for Large companies, MidCaps. Main advantages – 75% guarantee, eligible for existing exposures, not only for new transactions. Full capital relief for the guaranteed part, full delegation to UCB for inclusion of each transaction in the guarantee portfolio.
- EBRD Risk sharing Facility – suitable for Large companies, MidCaps. Main advantages – 50% guarantee, eligible for existing exposures, not only for new transactions. Capital relief for the guaranteed part, with eligibility approval by EBRD on a case by case basis.

The focus of EU funds team for 2022 is:

- Implementation and full utilization of the second tranche of the FMFIB’s guarantee scheme for SMEs companies affected by Covid-19 pandemic – 80% guarantee rate, MEUR 1.5 max. loan amount, no guarantee fee
- Implementation and full utilization of the amended BDB’s guarantee scheme for SMEs companies affected by Covid-19 pandemic – 80% guarantee rate, MEUR 1.5 max. loan amount, guarantee fee is applied
- Full utilization of the EGF EIF Uncapped guarantee scheme – 70% guarantee rate, MEUR 7.5 max. loan amount, 0.7% guarantee fee
- Filanlization of the negotiations with National guarantee fund (NGF) and Black Sea Trade and Development Bank (BSTDB) and implementation of new guarantee scheme for SMEs – 80% guarantee rate, guarantee fee will be applied
- Implementation of new guarantee scheme from NGF – 50% guarantee rate, guarantee fee will be applied
- Finalization of the negotiations with EIF and implementation of Invest EU Sustainability guarantee
- Explore the opportunities arising from Next Generation EU and Recovery and Resiliance National Plan

Corporate and Investment Banking (continued)

Markets and Brokerage

In 2021 UniCredit Bulbank retained **a leading position** on the interbank market for local currency denominated products and was a first class liquidity provider for local and international banks. Also the Bank earned two honorary diplomas for the most acquired government securities and the most purchased government securities for its own account on the primary market.

The UniCredit Bulbank Corporate treasury sales unit (CTS) is a leading provider of FX and Hedging products for Interest Rate, FX and Commodity on the local market with widest product range and solutions. Despite the global pandemic and related difficulties, the unit exploited new opportunities in order to develop CTS services, working on digitalization of processes and sales channels, in a way to enhance customer experience, leveraging on a team of professionals.

The Brokerage team provided high level services for equity, fixed income, exchange traded financial instruments and derivatives, serving wide range of Corporate, Institutional and Individual customers. The service has been complemented with the online channel for placing orders for equities fully integrated in Bulbank Online. The latter is part of UniCredit Bulbank use of digital technologies to improve a business model and provide new value-added opportunities and improve customer experience.

Financing

The Financing Department has a deep expertise and knowhow in providing complex, tailor-made financing solutions to corporate clients and professional real estate investors, being the leading team in the local market. We brought to market a number of high profile transactions while also assessing for bankability all viable opportunities in both Real Estate and Project and Structured Financing. We are in a position to offer to our clients high quality services to support their growth strategies for development of new projects finance deals and M&A transactions in various industries.

2021 was a challenging year in terms of new business and risk appetite on one hand and sustaining market position on the other side. Despite highly competitive market and sizeable re-financings on the back of booming green bond market and thanks to clear focus, dedication and professionalism in 2021, the Department increased revenues and kept stable overall portfolio volume and notable market presence, owing to investment potential supported by specialized lending transactions.

Due to the specific nature of both Real Estate Financing and Project and Structured Financing, tailor-made innovative financing solutions were structured to suit the objectives and constraints of each project and/or industry. This strategy was executed in line with the corporate targets and values while ensuring best possible terms and conditions from clients' and risk perspective. Financing wise, the focus remains on professional investors and financially sound projects.

Corporate Finance and Advisory

For Investment Banking Unit 2021 was very dynamic and successful year, affirming its position as a preferred partner and advisor to local and international counterparties on transactions in Mergers and Acquisitions (M&A) and Capital Markets – Equity Capital Markets (ECM) and Debt Capital Markets (DCM).

The European M&A activity in 2021 surged significantly both in terms of deal value and volume, reaching a 14-year peak following the turbulent 2020. Strong trends of recovery were also present in CEE and Bulgaria in particular, even though at a more moderate rate. The biggest deals on the Bulgarian market were dominated by investments in more resilient and historically active sectors: Energy and Infrastructure, Information and Communication Technology (ICT), with a prevailing investor interest in renewable energy sub-segment, as well as niche software products, payments solutions, e-commerce and digital media.

The increasing interest of foreign strategic and financial investors in clean energy and high-tech solutions remained an important trend in 2021.

The main drivers of the M&A activity in Bulgaria were the robust fiscal and economic position, stable financial system, favorable financing conditions and tax regime, strong internal consumption and an advancing policy for targeted transition to renewable energy.

The focus of M&A activity of Investment Banking Unit in 2021 was on the closing of a landmark and highly complex infrastructure concession project launched in 2018, of a vital importance for the Bulgarian economy and its regional competitiveness. During the year, the M&A team further established its position as a leading advisor on projects in the Energy and Infrastructure sector with numerous deal closed in the RES sub-segment.

The active pitching initiatives of Investment Banking Unit and the active collaboration with the pan-European Corporate Finance Advisory (CFA) platform of UniCredit Group, contributed to the signing of a cross border mandates in Healthcare and Energy sectors and clean energy space.

Capital market origination activities in Bulgaria remained moderate during 2021. More attractive appeared the SME Growth Market BEAM – unregulated BSE segment allowing companies to raise up to BGN 3 mln without need for prospectus approval. Debt capital market kept its pace in 2021 and remained relatively active.

In 2022 the focus of Capital Market activity will remain at providing the bank's expertise and support to corporate clients in their future growth via capital markets and proactively pitching for envisaged public offerings, debt raising/refinancing and securitization for issuers – leading players in various sectors with emphasis on FIG, IT/Software, Energy & Mining and other prospective economic sectors, including for targeted tapping on international capital markets for more scalable projects and issuers with capacity to attract foreign investors, in cooperation with the Group's ECM and DCM teams. The major M&A activities in 2022 are expected in Energy and

Corporate and Investment Banking (continued)

Infrastructure, Healthcare, FMCG and ICT sectors, in which the team has solid expertise, excellent positioning and key support from the pan-European platform of UniCredit Group.

As a part of the leading commercial bank in Bulgaria, Investment Banking unit will continue to leverage on the existing client base of UniCredit Bulbank, while will also further leverage on the close collaboration with the UniCredit Group's Corporate Finance Advisory (CFA), ECM & DCM platforms in order to generate new business opportunities, provide tailored advice and successfully execute the transactions.

Global Transaction Banking

In the continuing unprecedented business environment of 2021, leveraging on the full commitment and flexibility of our people we managed to support our clients and to reconfirm the Bank's role as a preferred Cash Management, Trade Finance, Transactional Sales and Global Security Services partner for both domestic and international corporate clients of all sizes and industries.

Active and professional management of the well-diversified correspondent banking network with global coverage by the Transactional Sales team makes the Bank the first-choice in BGN cash and clearing provider in the country for international financial institutions, generating additional business opportunities for other product areas.

In the Cash Management area we kept our product development approach focused on supporting our clients in their journey to payments digitalization. Companies are now able to connect their ERP systems directly with the Bank channels and additionally automate their payment processes. Our broad product range and consultancy approach answered the daily banking needs of the customers in a dynamic business environment and allowed us to add new reputable domestic and international companies to our broad client portfolio confirming our leading cash management position on the local market.

In the Trade Finance area we maintained our dominant position thanks to the team's well-recognized and appreciated advisory expertise and excellent execution, ability to structure complex transactions and prudent risk approach. In an environment of increased risk and respectively interest in documentary instruments, our digital Trade Finance platform played increasingly important role in meeting customer needs for convenient and secure online management of their trade activities. Quality of the service was verified by our clients in the Euromoney survey for another consecutive year, recognizing UniCredit Bulbank as the **Trade Finance Market leader** and **Best Service Provider** in Bulgaria. In 2021 we successfully finalized the pilot project for digital bank guarantees, issuing the first bank guarantees signed with a Qualified Electronic Signature, with the aim to set a new standard on the market and optimize the guarantee issuance process for our clients and partners

In the Global Securities Services business line we continued the development of our custody IT systems in order to ensure further enhancement in the service level for domestic and international institutional clients in an efficient and automated manner, as well as proper compliance with the new regulatory requirements. The sustainable business development, was once again marked by a double-digit growth of assets under custody and a recognition by Global Finance Magazine, naming UniCredit Bulbank the **Best Sub-custodian Bank** in Bulgaria for an eight year in a row.

Anticipating dynamic development in customer behavior and business needs and to ensure seamless and efficient interactions with the Bank, in 2022 we will keep investing in our product portfolio enhancement with focus on the digital channels and services.

2022 Outlook

The GDP growth for 2022 is forecasted at 3.6% (UniCredit Research), driven by the positive dynamics of investments, private consumption and exports. Effective management of the EU funds received by Bulgaria will have a key role in boosting potential growth. However, the risks of a further expansion of the pandemic that would hamper the economic recovery are substantial.

CIB is fully dedicated to deliver "UniCredit Unlocked" strategic plan. The division continues to be market leader with strong results on customer satisfaction survey and focused on attracting foreign investments. In 2022, CIB strategy is to strengthen corporate governance and retain strong capital position. During 2022 the planned innovative products and services to be offered to the market together with the projects for digitalization are targeting improvement of customer experience.

UniCredit Bulbank Activity Review (continued)

Retail Banking

General Overview

In 2021 we restarted our business as usual while adapting to the new "normal" and leveraging on the accelerated remote channels development and usage.

Throughout 2021 our commercial focus was on regaining the market share in lending, easing the daily banking and enhancing the offer of alternative investment solutions to our clients.

The overall low and negative IR environment pressing margins down affected negatively our net interest income. However, the growth of the transactional business of our customers with the Bank (+7.6%), together with raised commercial activity, were the main contributors for the significant increase in non-interest income with +12.8% versus previous year.

In line with our commercial strategy, the lending was the main pillar for business growth. Retail loan portfolio (households and SME) increased with 12.9% (compared to +5.8% of the banking system as of Nov).

In Q3'22 of the year the Bank recorded a record-high net growth in the portfolio of loans to households of BGN 188 mln. According to BNB data on the market, we were also the most active bank among the top 5 banks with growth of 4.2% in Q3 vs. Q2 of 2021 compared to 3.8% average for the banking system. In consumer lending we continue leveraging on the product specialization of UniCredit Consumer Financing. In order to increase the mortgage market share we introduced attractive price offer, referral programme, green mortgage offer and special offer for refinancing.

In 2021 the Micro business segment loan portfolio grew with BGN 26 mln, supported by the negotiated attractive Guarantee Schemes, which improved the opportunities for lending in a difficult environment, the Improved product features of lending for Agriculture producers, as well as dedicated team in charge for higher loans and more complicated deals which contributed to grow investment lending portfolio by 4% up to BGN 235 mln.

Zero-interest-deposit environment, combined with additional charges for account maintenance and excess liquidity charges continued to support increased focus on Assets under management alternatives

UniCredit Bulbank is market leader in Assets under management in the country with approx. 24% market share and positive Amundi Net sales of approx. 156 mln. EUR during the year. Nevertheless, some competitors are registering significant market share gain in the last 2 years, which calls for close focus on potential service and product innovations/improvements. In parallel, sustainable demand for alternative investment opportunities resulted in y/y growth of 28% in the number of customers with investment products and growth in the share of investments in TFA from 5%to 7%.

Significant y/y sales growth across all investment product lines – Amundi direct investments (+157%), Amundi Saving plans (+64%), Allianz Life (+390%), Allianz Pension (+178%). The team of Regional experts investment products continue to support directly the sales and training process across entire network building up the value proposition for the investors.

We rely on structured, simple and straightforward sales scenarios for regular savings, designed for wider range of customers in using alternative way of saving money, e.g. regular monthly investments through Allianz Life regular premiums and Voluntary pension fund instalments. We continue to enrich the product portfolio introducing new families of products addressing up-to-date investment trends – e.g. thematic and ESG funds, principle protected and fixed yield solutions.

Main Activities, Initiatives and Achievements

Throughout the 2021 the main activities and initiatives were related to increase of lending market share, as well as promoting digital channels as a main channel for customers daily banking and as a fast and easy channel to become a customer of the Bank following the on-boarding process.

The digitalization, centralization and simplification of processes were in our focus throughout the year.

New products for daily banking – in order to meet the expectations and needs of the customers, providing them with a comprehensive offer, three new plans were developed, including basic products and services according to the customer profile with preferential package prices. The new plans are clear, easily understandable, with the possibility of digital discovery and banking, again in order to provide convenience and safe conditions for customers.

A strong activities were committed to fully comply with the regulatory requirements and eliminate any operational risk for the Bank and the customers. We have made a full revision of the processes related to customer registration, data maintenance and review. Decreasing the documentation required in the sales process and digitalization was achieved during the year. Further centralization of post-sales activities were implemented.

Relief of front office in the branches from operational activities in order to dedicate more time on clients and sales activities at the same time to increase the control and eliminate the operational risk – Centralization and of Automation processes, Centralization of operative control, Simplification of applications, Digital signature of numerous documents, etc.

One of main activities in the area of financing to micro business was the launch of fully automated process for annual review and contract renewals for clients with loans. Currently the process covers about 25% of existing client base fully automated w/o any involvement from relationship managers.

Major campaign was launched in 2020 and finalized in 2021 for archiving all loan paper files stored in the branches Delivery of 260 000 paper loan files from branch network to central operative archive is a major step forward to further centralization of paper administration and mitigation of operational risk.

Retail Banking (continued)

In 2021 we launched the so-called FinAcademy – aimed at improving the financial culture among the employees of our clients – legal entities. These seminars/webinars allow us to ensure a regular presence in front of existing and potential customers. On the other hand it provides added value in our partnership with companies.

In first half of 2021 we have provided a Master Academy for Branch Managers in the entire network. The Academy aimed at achieving a high level of understanding of the role and activities of branch managers, operational activities and operational risk, common understanding of portfolio and sales approach, supports the usage of tools for monitoring and motivating employees, provides a common understanding of the connection between financial and commercial objectives, as well as supporting newly appointed managers. Commercial Activities Managers also took participation in the Academy.

Retail banking changed the approach in the internal communication flow between Head office and branch network through new approach in weekly news bulletin concentrating news on changes on product and process, all running campaigns and events and thus reducing mail flow.

Service Model

In 2021 we continued to follow our strategy to increase digital channels usage, digitalization of different bank services and migration of transactions towards automated cash services, online and mobile banking, so that customers can use the Bank's services remotely.

Since the beginning of the year **Unified Protocol** was implemented in branch network as unified service rules obligatory followed by every branch to provide same highly appreciated customer experience in every point of presence and irrespective of customer segment. Unified protocol assembles rules in operative and commercial area to achieve better and quick service with less branch effort and maximum utilization of branch resources. It was designed following the results and recommendation of external point of view of Total Management.

Unified protocol verified the necessity of changing the current service model /CEE2020 in place since 2015/ in the current situation of banking digitalization and customer obsession. In 2021 the main pillars of the **new service model** were developed.

They are based on **centralization of 6 major processes** in the branch which consumes maximum of branch resources and has significant importance (incl. Customer onboarding and KYC review, Automatic loan renewal, Registration and administration for Bulbank Online for legal entities, Renewal of collaterals and insurance, Bank references for legal entities, Payroll file payments)

Further development of Remote management. To the already created team of Remote Managers Individual clients (17 RMs who cover really wide customer base) we added 3 Remote manages Business clients and started the pilot phase of SME remote team. After the first few difficult months, the second half of the year passed in an upward trend in sales and strengthening the team's position. From beginning of 2022 we increasing the number of Remote managers business clients and cover not only Sofia but also Burgas, Varna and Stara Zagora with remote model in SME segment.

In 2020 a new **diplomatic team** was open for portfolio management of diplomatic bodies such as embassies, diplomatic subsidiaries, diplomatic representatives, embassy payroll with focus on highest customer satisfaction 24/7 support to these customers (in cooperation with Call center), cross sales and clean and compliant customer data and KYC.

Post control on all branch transactions was centralized in May 2020 by establishing a control team working remotely and fully digitally.

Cooperation between Retail and Corporate continue to be key element to growing business. The dedicated strategy "UniPayroll" is constantly ongoing, supported by dedicated team of payroll experts, clear approach and connection between RMs from all divisions and payroll experts. Main targets – to improve results in the following areas – growth in number of payroll clients, increasing penetration in companies using our payroll service, improving product penetration among existing payroll customers. Even in a challenging year like last year Payroll experts held significant number of meetings and we achieved growth in salary customers over 13% and also 5% growth in regular income clients.

Distribution Channels Overview

The increase in the usage of the digital channels of the Bank has continued, following the trend in the last couple of years. Clear prove of evidence for this is the total number of mobile active users (Active within last 30 days) as of the end of 2021, surpassing 500k, having more than 100 m. logins in the mobile application Bulbank Mobile for the year, which stands for 42% increase vs. 2020. In terms of transactional activities, the mobile banking is also showing very good progress as the total amount of payments within 2021 has increased with 35% vs. the previous year.

One of the major developments in 2021, was the full redesigned mobile banking application – Bulbank Mobile, which was launched in May'21. Fresh new outlook, more intuitive and modern design, following the latest global trends in the area of mobile applications. On top of the newly redesigned app, new payment functionalities were introduced on the market – International SEPA payments in EUR and Payment via phone number, which is very easy and convenient way of sending money to your friends and relatives, who are also using the mobile banking application, without the need to know and fill their IBAN number. Some other functionalities, which were implemented during the year and can be pointed out are issuing of IBAN certificate directly within the app and the option for Return Payment from an incoming one. As a successful end of the year, the Bank was happy to celebrate the 10th anniversary of Bulbank Mobile, which was the first truly mobile banking application, offered on the Bulgarian market. The event was accompanied with a dedicated

Retail Banking (continued)

campaign with a charity cap of BGN 10,000, donated to the local initiative "Bulgarian Christmas", which is helping kids in the country.

Another important trend that has continued to gain its positive pace is the development of the self-service for cash transactions, specifically for depositing amounts. During 2021, more and more customers has started to use the available network of deposit ATM devices of the bank, which was proven by the achieved results. The total number of deposit transactions on ATM has increase with 22%, being a clear confirmation of the followed strategy of the bank, to shift the cash operations from the cashiers. In addition, the share of deposit transactions on ATM, from the total cash deposits on a Bank level, has reached 68% in 2021, vs. 56% in 2020.

The Call Center continued to be an equally important channel as the branches of the Bank for handling the customer service and support. 70% of the active Bank customers has used the services of the Call Center in 2021, which resulted in more than 1 m. inbound interactions. The number of the inbound interactions kept the same high level as it was during the pandemic situation in 2020, which is a clear signal that the customers continue to rely on this way of communication and servicing.

Stepping-up on the longer-term strategic direction for development of the Call Center into a pure sales channel, in 2021 a Online Mortgage Hub was introduced which provides entirely remote mortgage process to the customers. In addition, based on the designed remote processes within the Call Center, the possibility of digital signing in the mobile banking with the integrated Qualified Electronic Signature, the Call Center managed to perform 30% growth of the remote sales, in comparison with 2020, offering to the specific customers the requested products, without any visit in a branch.

As a market leader UniCredit Bulbank's maintains branch network with a national coverage and by the end of 2021 it consists of 205 points of presence (2020 – 209 locations), positioned in 88 cities across the country. Being efficient and optimally distributed, our physical retail network continue to play significant role for development of relations and instant interaction with our customers. Branches being focuses on high added value products (i.e. AuM, insurances, mortgages and investment loans for micro business) where customers still appreciate face to face interaction.

Following its strategy to increase customer experience and provide excellent working conditions, the Bank continued to invest in improvement of its network and infrastructure. In the past year investments were made in over 15 retail locations across country, improving not only the working environment for Bank employees, but also providing conditions for better customer journey and experience in our physical branches. Main projects were successfully completed in Ruse, Blagoevgrad, Plovdiv, Dimitrovgrad and Petrich. Seven Bank offices were fully renovated, thus were equipped with modern 24/7 self-service zones and enhanced conditions for service. During 2021 two branches were relocated and one was expanded to better correspond to the bank's retail service model and customers' expectations.

UniCredit Bulbank continued to unfold the concept of the Branch of the Future, and by the end of 2021 it covers over 30% of the branches in its retail network. The concept proved to increase the satisfaction of customers and employees, being a top priority for the bank. The recent project of that type was completed by relocation of Hristo Botev Branch in Burgas in December 2021.

Card Business Overview

All initiatives in Card Business in 2021 were a logical prolongation of all innovations realized so far in line with main focus on user experience for all segments, high-level of digitalization, maintaining sustainable card business with strict control on card frauds and with POS network optimization.

The set goal for growing was achieved, in terms of:

- Debit cards portfolio grew with +6.5% y/y, We launched a new process for Customer Life cycle management upgrading the customers' engagement and their perception for the Bank.
- Credit cards: the year of market positioning and brand expansion of UniCredit Shopping card, supported by launching specific product promo features (3 months for 0% fee), specialized training on sales force, dedicated unique usage campaigns (cash-back) for final customers and onboarding new merchants for the new credit card functionality.
- Delivery to address provides clients the possibility to receive the plastic at their address and the e-PIN in their Bulbank Mobile with self-activation capability through mobile app by the cardholder. 2021 we faced a double boost in the service activation as per the end of the year aiming to facilitate sales activities in the branch network.

The affirm trends and efforts for being a digital Bank, UCB continued to digitize with Apple Pay and Issuer Wallet Debit Cards for Business customers too.

We succeeded to launch several activities with focus also on POS network development and enhancements:

- Improved process for virtual POS deployment with external vendor providing special conditions for Bank's customers
- Successful partnership with BORICA to migrate vPOS and card tokenization services for big corporate clients to new 3D system WAY4.
- A new partnership with Cloudcart was launched in order to give merchants an easy access to the e-commerce and fast and easy process for vPOS
- Increased rPOS network efficiency by pro-active monitoring on POS devices, introducing new fees for diminishing non-active ones and to increase revenues on Bank's level.

Several simplifications and digitalization in Card Risk activities were completed through the year. Dispute management process through Call Center was changed and simplified – the customer already may raise a claim only by a phone call. Improved repayment of credit card due debt by several enhancements of direct debit functionality. Work out process and risk criteria for selections of SME companies for rPOS & vPOS campaigns. Control over card fraud losses in Internet following to Dynamic 3D password launch in 2020.

Our efforts for better customers' experience and digital processes will continue in 2022 too.

Private Banking

Private Banking (PB) Department continues its strong focus and commitment towards core goals for 2022, stepping on the results in 2021:

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

- Widening the opportunities in 2022 for investments through:
  - New insurance/protection products with Allianz
  - Launching of new Investment Funds as well as
  - Implmenting structured products.
- Widening the opportunity for lending with focus on mortgage loans
- Enhance department revenue management
- Digital trading solutions upgrade.

Along with NPS and the core goals, PB aims at constantly improving investment efficiency by raising investment volumes and its profitability while improving the very solid KYC process and further digitalizing the process in 2022. Investments' part in Total Financial Assets of clients in 2021 reached record of 43% compared to 30% at the end of 2020 or increase of 45% y/y and Total financial assets grew with 3.3% regardless of the outflows related to extra liquidity fee toward non disciplined ELF competitor banks.

In 2021, nevertheless the pandemic and lockdowns, the continuity of the business was assured and investments in Amundi increased with 69.1% y/y while on the life insurance side we Allianz reahced an increase of 38.5%. At the same time Loan volumes increaased by 10.5% y/y and Assets under Custody incresed by 45.4% y/y. Those results are mainly due to very strong increase in sales activities and propre pipeline management. The main commercial focuse was at zero interest rates on deposits (subject to transformation either into investments or into current account), the introduction of extra liquidity fee on current accounts and increased client investment appetite, strongly supported by capital markets enjoying low volatility and upward trends in 2021.

In the area of Assets under Management (AuM), PB has started to introduce diversification via insurance, mutual funds, and tailor-made investment solutions leveraging on cooperation with external partners. In 2021 PB introduced Schroders as a new asset manager with 13 new sub-funds thus expanding the portfolio with additional funds in 2022.

In the area of Assets under Custody (AuC), complexity of corporate actions events, including dividend and interest payments that requires extensive expertise on the different foreign market's specifics, double tax treaties, and securities trading regimes, PB has further developed custodian service as part of the overall goal to increase the quality of AuC. In 2022 PB will trive to introduce new structured products with full or partial capital protection.

In Private Banking, the focus remains at further development of business model and service levels, supported by local and group-wide projects and initiatives, in line with Group model within Retail Network. Private Banking products catalog will expand with new investment products and digital solutions and implementation of a new plan/package for Private clients.

2022 Outlook

Implementation of the new service model is one of the key projects in 2022 with focus on easiness and convenience for the customer by imposing unified standards for servicing in all channels, optimizing operative workload and portfolio management with focus the clients to be served more and more remotely.

In 2022, the Bank will continue its further development of the digital channels to offer new digital processes and seamless customer experience in all available touchpoints leveraging on omnichannel concept.

We will continue with the optimization of documents and the simplification of processes in order to quickly respond to the customer demands

Our long-term commercial strategy also includes further increase in loan volumes and investment products penetration, management of liquidity and strong focus on ESG initiatives in particular green lending projects.

Asset-Liability Management

In 2021, UniCredit Bulbank continued deleveraging its external funding exposure (excl. debt related to the regulatory minimum requirement for own funds and eligible liabilities – MREL) under the conditions of robust primary sources and abundant liquidity.

The volume of structural intra-group funding (excl. MREL debt) decreased further, the remaining part being attributed to local subsidiaries. The aim – successfully achieved – was to **decrease the overall cost of funding** for the bank, while at the same time ensuring compliance with various liquidity limits and liquidity stress tests (incl. BASEL-3 ratios) and capital adequacy requirements. The surplus liquidity of the Bank was maintained at very comfortable levels, with abundant liquidity buffers being kept against the backdrop of increasing liquidity in the local banking system. No increase of intra-group funding was planned for 2022 either – except for MREL debt necessary to comply with respective regulatory requirements – as the Bank is able to take advantage of gradually increasing opportunities for a post-Covid-19 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 etc.), the consolidated 2022 Funding Plan covers their liquidity needs, too.

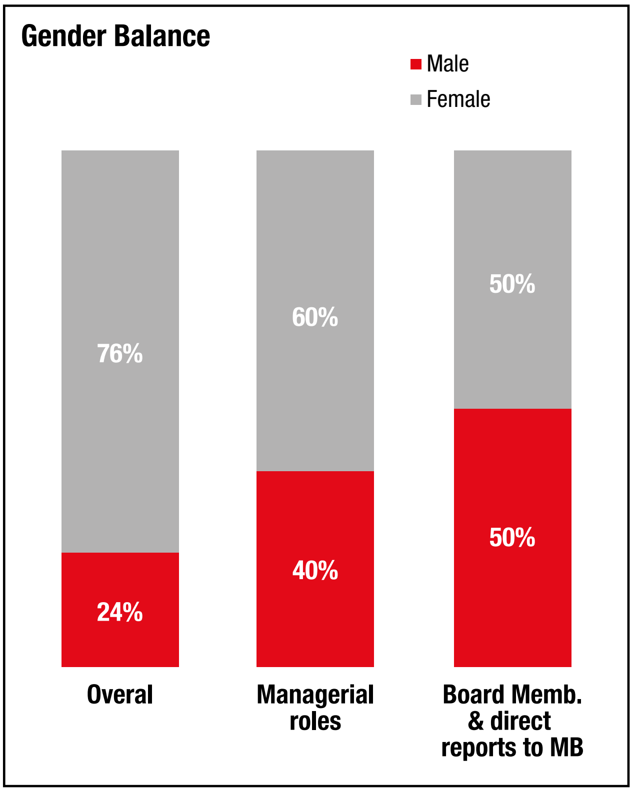
Customer deposits remained the main funding source for the Bank, growing throughout 2021 and contributing to the confirmation of its leadership position on the local market and a decrease of the loan/deposit ratio compared to 2020. UniCredit Bulbank will maintain its focus on retail and corporate deposits also in 2022, taking advantage of its excellent reputation, international franchising, variety of innovative products and service quality.

Given the **excellent liquidity position of the Bank**, an MREL bond (senior non-preferred) was only issued in 2021 and another one planned for 2022. As it is part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", the Bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

Over the course of the year 2021, UniCredit Bulbank continued to pursue an active but prudent investment policy entirely in line with the approved strategy, rules and limits and with a view of maintaining a sound short-term and structural liquidity position of the Bank. The investment portfolio was increased with the aim to invest a part of the surplus liquidity, earning adequate return on an acceptable risk basis. The bond portfolio also served as a liquidity cushion, being partially pledged as collateral for funds attracted from state budget entities and banking institutions. Moreover, the government bonds in the investment portfolio are treated as high-quality liquid assets for the purpose of Liquidity Coverage Ratio calculation.

Human Resources

In 2021 HR department continued following its strong human capital development focus and promoting UniCredit Bulbank as best place to work, great people developer and quality rewarder company. The main goal of all activities was to support reaching the strategic goals of UniCredit Bulbank while assuring people-centric, flexible and timely response to the dynamic and unprecedented environment because in UniCredit our people's **health and safety** is our top priority The Covid-19 crisis continued to be significant factor to be considered in all activities. In this context, in 2021 many HR processes (eg. recruitment, learning & development) continued to be delivered in a digital environment and are becoming to some extend a kind of new normality for the organization.



The number of employees (FTEs) of the Bank decreased from 3 612 to 3 533 (from 4 206 to 4 108 on consolidated basis) in alignment with the 2020-2024 Strategic plan, driven by continuous investments in digitalization activities, new opportunities for remote work with customers and directing operations to digital channels like mobile/ online services. In terms of gender distribution the proportion of female/male overall is ~76%/24%; the ratio for the managerial positions is quite balanced – 60%/40%, while for the top managerial positions (board level and direct reports to executive directors) the ratio is ~50%/50%. Gender diversity is one of the priority not only of the HR team, but is part of the managerial agenda across all functions and is implicated in various internal requirements and procedures, covering not only the gender balance, but also with regards to the remuneration, succession planning, talent development, etc. The average age of the employees is 42 years, and from educational structure perspective most of the Bank's employees have university education (around 78%).

The Bank implemented substantial change of the working environment as response to Covid-19 pandemic and is flexibly adjusting the presence rates for the Head office roles, who were shifted to a great extent to "home office" mode. Many of the HR activities also were replicated to its digital equivalent in order to respond to the new environment and to continue to deliver high quality and value HR services.

The Bank continued to be considered a good place to work and stable and reliable Employer, supported by the strong brand of UniCredit. It participated in several digital career events, which appeared to be the new normal for this kind of initiatives as result of the Covid-19 impact. The HR team managed to provide sufficient number of job applications, however perceiving the labor market as more and more challenging. Still particularly challenging and already being traditional for the market, were specific segments related to highly qualified banking experts and specific positions (incl. the IT sector), as well as the geographical areas with higher turnover due to the labor market specifics – for example the capital city. The recruiting process is still shifted to almost completely remote and digital environment with most of the interviews delivered via online tools. In 2021 were hired almost 390 new people. The Internship program as usual was one of the key priorities, though realized in a reduced scale due to the impact of the Covid-19. Due to the home office work for many of the Head office structures, it was inappropriate to provide internships. The number of interns in 2021 was much higher than the previous year, with almost 220 young professionals (above 270 on consolidated basis) received the opportunity to conduct an internship with the bank. 41 of them (50 on consolidated basis) were offered a permanent job thus the program still being a key sources for recruiting of new employees.

The Remuneration policy was in line with the Group approach and with the European and local legislative requirements. Market trends have been closely monitored through participation in salary survey, analyzing the results and taking the needed actions in order to provide sustainable and competitive remuneration to employees, ensuring correlation with the bank's performance. Due to the labor market dynamics, the general demographic situation and the macroeconomic factors (like increasing inflation), there are expectation towards all employers in the country to increase remunerations. Due to this combination of factors the country's average salary is still growing faster than the GDP and this is putting pressure on the HR expenses in the sense to cover the higher expectations of talents to be attracted from the market and to retain the employees. Also the voluntary turnover was impacted by the labor market conditions and increased with more than 1 p.p. to 8.5% from 7.2% on consolidated basis (only Bank level the change is to 7.9% from 7%). The additional benefits portfolio is of top class and is an important additional factor for attracting and retaining employees.

Human Resources (continued)

In 2021 the P&C department followed our Human capital strategy and continued to invest consistently in the learning and development of our employees, with the aim to continue to be recognized as an Employer of choice and Great people developer. With the Covid-19 restrictions still in place, among the topics of attention for the year remained mental health and the well-being of our people. The rapid shift to remote work for a big part of the organization, maintained the individual productivity high and employees continued to take pride in their work and UniCredit's values. However, in order to facilitate the balance between the personal and professional life and facilitate stress management, were organized several initiatives aimed to show practical ways for healthy lifestyle and effective emotional management. An important challenge was also tackled successfully during the year – the attrition in the first 6 months of the newly-appointed colleagues in the Retail Network. In 2020, losing people in the first half year from the appointment, was identified as an area which needed immediate focus. After a careful and detailed analysis that took into consideration the whole process of talent recruitment and the subsequent process of induction, a new and holistic modified approach was developed for the process of onboarding. A special digital guide was created with the aim to ensure engaging experience for each new hire, even before officially joining the organization. The diverse information that was previously concentrated in the first month after the hiring was distributed more evenly in the first four months of the employee learning journey. A special team – People care, was created with the responsibility to proactively contact new colleagues and guide them through the steps of the onboarding phases. All the measures that were implemented were directed at having a unified and dedicated approach that will influence significantly both the attrition and the engagement of the employees in the Network for the long run. It gave immediate results and the percentage of the voluntary turnover in the branches fell significantly in 2021.

In a heavily regulated environment with constantly emerging non-traditional competitors, customer experience (CX) is a legitimate differentiator in the banking industry. Therefore, in 2021 we started new learning video-series, part of the overall CX concept of the bank, showing in an interesting and engaging way what is the behavior each person in UniCredit Bulbank should demonstrate when interacting with customers and colleagues. The series included real-life colleagues who were "walking the talk" of the UniCredit Way of Working (UniCredit WoW). The landscape of the trainings, which are dealing with the topic of customer service, customer relationship building and negotiations, was enlarged, with a new dedicated experiential workshop for the Customer advisors in Retail that guided colleagues through the steps of the selling process. In addition, several trainings for portfolio management and customer "moments of truth" were redesigned in order to be relaunched in the new virtual environment. The customer focus in the other business segment – Corporate and investment banking, continued to be on the constant development of a long-term relationship based on value creation and sustainable business origination.

2021 was also the year in which the Bank embedded in its overall strategy ESG as an area of a paramount importance. The organization embraced numerous ESG practices and started a journey to a more sustainable and responsible business. An essential part of this journey, of course, included the raising of the awareness for ESG factors and good industry examples throughout the different levels of the organization. This was done with the structuring of a holistic ESG learning journey that defined the training initiatives dedicated to environmental and social governance for each layer of the organization, starting with the top management and the senior leaders. In its educational quest, on the mechanisms of sustainability, the Bank also financed the certification of more than 80 experts from different structures that took part either in the ESG academy or the ESG Master degree, organized in partnership with Sofia University "Sveti Kliment Ohridski".

In times of transformation, managers are the natural engine that encourage, inspire and motivate employees to create change that will help grow and shape the future success of the organization. This year was no different, that's why were designed two major programs aimed to equip, our colleagues who are leading teams, with the necessary knowledge and managerial capabilities for enhanced teamwork and productive professional relationships.

- The first initiative – the Brach manager's Master Academy, was a multi-modular program that combined internal and external training sessions which gave good practices on operative processes, organization of the working day, annual planning, segmentation and budgeting, but also effective communication, conflict management and negotiations.
- The second initiative – the Deliberate leadership phi-gital program, was a five-module training, supported by an online leadership application and peer-to-peer coaching sessions. Each module of the program was made with a diverse and effective learning experience that used exercises, analysis, questionnaires and experiential learning activities.

The focus on accelerating our talents' growth and unlocking their potential have continued to be at the core of our Talent Management Program initiatives in 2021. During the year Bank talents have participated in different training initiatives, strategic meetings, stretching assignments, mentoring/coaching through which they have been naturally improving their readiness to make a next step and even bigger impact in the organization.

The opportunities for open-enrollment in different training topics continued to be part of our offer as well and even were broadened with new courses that facilitated our effectiveness on the workplace. Besides being highly appreciated by our employees, this possibility for a free enrollment for a session of personal interest boosted their satisfaction and engagement to the company.

Other groups of courses, stimulating the professional excellence and personal productivity of our people, were the numerous business/ process related trainings from the Retail and CIB learning paths, the ongoing trainings on Financial analysis for CIB and Risk structures,

Human Resources (continued)

trainings on Agile methodology, project management, specialized IT topics, etc. Compliance and Security related topics kept on taking a tangible part of the training agenda also for 2021, with particular Group focus on cyber security and data management.

2022 Outlook

In 2022 the HR Department will continue to act as a strategic partner, change agent and data driven function for sustainable business and leadership growth while appropriating a premium employee experience of our colleagues strengthening the open communication with employees and local communities. Employer branding initiatives will be continued in order to maintain the good image as Employer. New HR initiatives will be launched in support of employee experience journey and as an answer of the 2022 business challenges and priorities. Digitalization and automation of HR processes and tools will be key enablers.

Supervisory Affairs

Following the establishment of close cooperation between the ECB and BNB in 2020 as well as identification of UniCredit Bulbank AD as a significant supervised entity and one of the five significant supervised entities in the country, the ECB as the competent authority directly supervises the Bank during 2021.

Local Supervisory Affairs Team established at the end of 2020 was fully staffed by February 2021 and performed its activity as single point of contact (SPOC) for all local and European banking authorities in 2021. Main achievement of the team and the Bank is proper and timely addressing of all regulatory requests for information/data delivery. Proactively several meetings with Joint Supervision Team were initiated on the Bank's side during the year in order to keep the Regulators updated on the development on relevant topics. First full SREP process (including initial coordination and organization of the Bank's STE deliveries) took place during the year, final result letter of which expected in February 2022.

Compliance With Regulatory Framework

Compliance with the existing regulatory framework is an essential requirement for the effectiveness of the overall corporate governance within UniCredit Bulbank AD and its subsidiaries. Its main role is to manage, oversee and mitigate the compliance risk in the Bank and its related legal entities. Moreover, Compliance has a proactive role in advising the Bank functions on regulatory requirements, especially on new products, processes, business initiatives, commercial campaigns, marketing materials, and sets rules of conducts, guidelines, and standards – for perimeter of competence – to be observed.

Compliance monitors the non-compliance risk according to a risk-based approach, i.e., an approach that, based on the ongoing assessment of Group activities and the regulatory framework and corporate environment, focuses its activities and priorities on the areas, standards, processes and procedures most at risk of being not compliant.

In order to be in compliance with the requirements specified in the local legislation and the Group procedures, the Compliance Department implements valuable and effective controls, which are designed to identify and mitigate the Regulatory risk. In this regard the Compliance function in UniCredit Bulbank AD continuously keeps a deep understanding of the business and of the activities and processes to be checked in order to be aware of issues/risks that may affect currently or in future Compliance controls and to gain insight to broader issues for a proper planning. The Compliance function with regard to some regulatory area (e.g. AML, GDPR, MiFiD, Outsourcing, Regulatory Reporting, etc.), directly and independently performs controls and risk assessments, defines corrective actions when needed, ensures regular monitoring of their progress and periodically report the evolution of risk exposures to its Management Board and the Group.

During 2021 Compliance Department continued focusing its efforts to strictly follow the requirements of the local regulations and UniCredit Group's policies and procedures. Multiple projects such as calibration of transaction monitoring scenarios, data supply and testing of the AML tools and several financial sanctions initiatives, were implemented in order to further mitigate the money laundering and financial sanctions risk exposure of the Bank and its subsidiaries. In addition, the strictly following the Know Your Customer (KYC) requirements remained of utmost importance since this is one of the most effective tools to prevent the institution from being used by criminal elements for money laundering activities. In 2021 Compliance Department actively undertook several initiatives aimed to simplify and digitalize the KYC review processes.

UniCredit Bulbank Activity Review (continued)

Global Banking Services

In 2021 the Global Banking Services Division continued to provide high quality services with the ultimate goal to deliver a top notch customer experience despite the challenging pandemic environment. Multiple initiatives were launched and successfully implemented, bringing simplification in the way we work, while respecting regulatory and security requirements. A new Third parties management process was introduced, allowing the Bank to manage in more structured way the related risks.

As a prerequisite for enhanced digital offer to our customers, we reinforced the IT infrastructure, improved storage and backup management, invested in process robotization and automation to decrease reporting complexity and allow re-allocation of resources to more front-office activities.

Being aware of the difficulties the business and households experience in a situation of economic downside and restrictions, we continued with priority to work on creating opportunities to a vast range of companies and private individuals by the implementation of numerous instruments, supporting governmental and international grants distribution.

In parallel, UniCredit Bulbank improved and speeded up its financial reporting, upgraded and enhanced its core-banking system (incl. with respect to KYC processes), successfully merged in the beginning of 2022 with its Factoring subsidiary, in order to achieve governance simplification, cost optimization and improved processes efficiency. In addition to the support for the realization of the above initiatives, the Division played an active role in the design of a new organizational and new client service models, to be implemented in 2022. As part of the overall simplification effort, a new Bank managerial committees set up was introduced, consisting of only 6 committees, as compared to the previous number of more than 20 ones.

Focus on Information and Communications Technologies (ICT)

During the past 2021 a significant number of initiatives and projects have further enhanced technology, digitalization and internal skill profiles, on the top of regulatory and compliance projects.

The Bank **invested in digital architecture**, further reinforced in various areas: introduction of IBM Cloud Pack for Integration (improving our SOA architecture and API Management), standardized Profiles for Remote Working, Mobile banking redesign, new Global (Group) Intranet Portal as part of Group initiative to have unique Intranet Portal for all Legal Entities, etc. At the same time, we paid attention to infrastructure for improving storage, multiple patching of Operating Systems and DBs as well as backup management, but in particular securing our primary Data Center that has been relocated in updated and enhanced site.

It's worth mentioning the **Infra Network improvement** by Internet speed increasing (3 Gbps bandwidth empowerment) and the implementation of DDoS protection service from a group standardized provider.

In the past year Bulbank **enhanced the digital offer** towards client launching a new fully digital and paperless Omnichannel platform for private individual plans (Daily Banking) in Mobile banking. Propaedeutic to it was the introduction of the new cloud-native platform Red Hat Open-shift and modernized IT Application landscape.

Moratoria continued to be in focus by developing registers in order to respond to every single customer's loan restructuring need and for post Covid monitoring. We further supported the implementation of various **EU Funds Guarantee Schemes.**

In 2021 **RPA & Automation** efforts of not negligible number of Bank processes allowed us to save capability, opportunely relocated on other important Banking tasks, while reducing operational risk.

Customer solutions team performed large number of deliveries, preparing for 2022 on CRM migration and ERP evolution.

Service desk improved multiple processes for handling various type of incidents (Unlock user, changed support group ownership for some type of incidents, documenting tech equipment etc.), Remedy automation to free up resources and aim faster incident registration and processing.

In 2022 we will continue with the investments in our IT infrastructure, namely new IBM Power 10 machines, enhancing CPU and performance, new Wi-Fi solution, Mobile Management system upgrade and Storage evolution. Our plans foresee the introduction various Chat Bot solutions, the implementation of a new QMS digital solution, Tech upgrade for conferencing call equipment, optimization of processes in support of the ESG Bank strategy. Further, we will start with the upgrade of our Core banking system – to evolve and enhance related functionalities, preparing to mobilize the Euro conversion program. Last, but not least, people development will be our priority. We envisage a tangible increase of Digital & AI profiles, as well as introduction of DevOps pipeline needed for automation of the SW delivery via micro-service based applications.

Focus on Security

There is a constant focus over the sustainable improvement and further reinforcing of the Information and Cyber security. During 2021 we achieved further improvements in critical security domains as Application security, Data security, Endpoint security, Identity management and governance, Mobile device security, Network security and Third party management. As a part of the multiyear security strategy we keep the strong focus to further improve and upgrade the functionalities and performance of some of the most important solutions and platforms such as Identity and Access Management, Data Leakage Protection, Fraud prevention, Security information and event management and monitoring. It is worth mentioning that over the past year we strengthened as well the internal regulatory framework for the physical and technical security and introduced new stronger protocols for travel, events, buildings and cash protection.

The large scale penetration of technology in digital financial

Global Banking Services (continued)

markets, and the significant increase in the use of digital and mobile communications and technology has led to a dramatic increase in related threats. It is becoming increasingly important to seek solutions and use all technical possibilities to defend against cyber-criminal attacks. Due to the further technological developments and operational excellence, the Bank demonstrates general decrease of losses in digital channels fraud cases and achievement of a very strong security level. Close monitoring over the current global security threats and trends is properly established and maintained especially in the field of ICT disruptions risk, data theft and compromise, fraud and third-party risk.

We continued our effort to promote cyber culture to both our employees and our customers. For this purpose, we have developed a comprehensive security program in the area, preparing wide security awareness campaigns with guidelines and good practices, linked but not limited to the payment services, threats and vulnerabilities, for all our employees and customers, using the variety of available digital and mobile channels. In the light of the continuous staff remote connection working a wide training campaign against various phishing threat scenarios was developed and started as constantly ongoing training exercise during the whole year. The results after each simulation were deeply investigated and different mitigation actions were immediately taken in order to furtherly defend the whole structure.

Focus on Operations

Being our highest priority and part of the Simple banking strategy we focused on transactional customer servicing, assuring fast, flexible and on demand operations in line with agreed SLAs and best market practices. In some of the operational areas we provided for the strict execution of customer orders also assuring the needed legislative compliance, while in others, like KYC, Loans and Payments, knowledge sharing, consultancy and high end support was provided to the front office functions, building on the proper customer experience.

Notwithstanding the ever-evolving customer preferences and the new digitalization demand, we faced increasing transactional volumes mainly in Payments, Loans, Cards and AUM. Based on our highly experienced and engaged people, capable of delivering also in the area of process efficiency and automation, we assured for higher production capacity of teams across Operations (increased with 5 to 15%) thus coping with the new transaction trends and volumes.

A definite achievement was that throughout this new modus operandi the internal control system was further enhanced resulting into significantly less operational events and no material losses for the bank.

In response to the expectations for centralization of more operational activities and leveraging on the high levels of expertise, collaboration and accountability for results, we continued to actively contribute to the New Service Model program, particularly with respect to KYC onboarding/review and BBO registration. Strategic projects related to Borica New Generation, Target 2 consolidation, Instant payments and EMIR reporting were supported in Operations, coping with the latest regulative and compliance requirements.

Focus on Real Estate and Logistics

In 2021 main challenges in Real Estate and Logistics (REL) were related to the continuing Covid situation, the unstable electricity market and increased inflation reflecting most of the materials and services used in the construction sector.

Nevertheless REL managed to keep good performance in risk management – ensuring better SLA in maintenance and logistics support of the commercial network compared to previous years and completed a project for transfer of the paper archive of the active credit products from branches to the central operative archive. Alongside, in line with the priorities of business divisions, we continued the transformation of our branches – BoF model and more Self Service Zones. Among the most significant projects delivered during the year were Regional branch in Ruse, Blagoevgrad Kiril i Metodi, Petrich, Dimitrovgrad, Stara Zagora Tsar Simeon, Plovdiv Kuchuk Paris, SSZ Ruse Ploshtad Svoboda, SSZ Veliko Tarnovo Vasil Levski etc.

Our focus in 2022 is in more sustainable and efficiency initiatives related to the ESG strategy of our Group. Many activities are already started, such as: LED lighting in all locations of the Bank (where still not done), delivery of air-conditioning systems with better technical parameters, increase the usage of electrical/hybrid cars instead of diesel ones, decrease of the energy and plastic consumption in the bank. The development and implementation of those solutions together with possible digitalization and optimization of processes will be among the main priorities of the Real Estate function.

Focus on Procurement

In 2021 procurement strategy and execution efforts were in line with the main Bank priorities. In the specific pandemic situation, and facing dynamic and unstable market conditions, the team succeeded to ensure and guarantee timely delivery of important products and services under optimal financial conditions. All needed protective materials and services related to Covid-19 for the Bank and its subsidiaries were Put in place. At the same time, Procurement function continued to support strategic initiatives of the Bank – digitalization, omnichannel, energy efficiency, and contributed to multiple important customer and regulatory related projects and services.

Procurement activities related to vendor management and vendor engagement were provided with special attention, observing all compliance requirements and risk management measures, following as well the third party risk management process, rules and regulations. The department continues to work with the Group procurement platform SAP ARIBA, following transparent online tender procedures, which result in low-risk and trustworthy relationships with our suppliers.

The focus in 2022 is to continue supporting the main Bank and Group initiatives and projects with special focus on ESG strategy and

Global Banking Services (continued)

Group Procurement Transformation program, strictly following local and Group rules and regulations.

2022 Outlook

Being a market leader in the Bulgarian banking sector UniCredit Bulbank is fully aware of its responsibility towards the customers, employees and partners in terms of sustainable conduct. In order to further accent on the necessity for improved environmental and social impact in everything we do, the Bank developed an integrated frame and will focus on more ESG-related initiatives implementation as part of its overall strategy in the years to come.

Alongside with the support to the business divisions and the implementation of projects in execution of the Bank strategy, in 2022 the Global Banking Services will continue with the processes and internal documents simplification, improved digital security, enhanced digital offer to our customers. Within the main priorities will be the implementation of instant payments on national level, which will transform the way transactions are done.

In anticipation of the reconfirmed by the Bulgarian government Euro adoption as of 01.01.2024, the Bank already started the preparation for this fundamental change. The initiative will stay in our central focus for the next two years, and we will do our best to lead our clients through this transformation as smoothly as possible.

Transformation Office

The digital transformation is less about TECHNOLOGY & DIGITAL and more about PEOPLE & CORPORATE CULTURE

When defining our UniCredit Strategic Plan in the chapter of digitalization the priority was more than clear – to have happy and loyal customers by providing more distant banking capabilities thus freeing up more time for quality advice on products that improve their lifestyle and business growth.

We gave focus on several customer-centric value streams:

- **Mobile First approach** – boosting features and capabilities that makes bank-in-your-pocket ever more powerful.
- **Omnichannel service model** for private individuals – both commercially and technologically we launched a journey to revamp our approach to offering simple however with strong value proposition products, assuring the same process and experience in every customer touchpoint – digital channel, Branch, call center. We are building a modern digital shelf for our products and services.
- **Digitalization for companies** – valuing the precious commercial time to both our clients as well as to our relationship managers, we are investing in improving speed and performance of core transaction services; adding new products and services in our Bulbank Online; enriching the overall capabilities for digital interaction & digital signing with our corporate customers.
- **Speed credit process for companies** – with the ultimate aim to help our customers grow their business we strive to further automate our internal processes and to continue to shorten the time-to-decision and time-to-cash for lending products
- Our **robotic & business process automation teams** help us to optimize internal Bank processes, remove paper, and improve our environmental footprint.

To drive digitalization in above value streams we have dedicated fully-committed human resources, leveraging on Agile methodology, to assure upmost attention to customer needs, end-to-end improvement of business processes, speed of delivery, boost of innovation mindset.

Proud with the achieved so far, our ambition to further digitalize continues

- **5x** more functionalities per year in our Mobile Banking
- **+161,000** mobile active users in the last 18 months
- Fully digital onboarding **(become a customer with a selfie)**
- **560,000+** digitally signed contracts in the past 18 months
- **35%** faster credit process for legal entities
- **11x** faster mass-payment transactions for corporate customers
- **70+** robotized processes, saving effort to our colleagues and allowing for more client interaction time

40% of IT investment goes for client-oriented digitalization. In 2021 we invested in top-notch technologies allowing faster digitalization of products and services: **Microservices platform** for our digital channels; Flexible technology for **automation of business processes** (IBM Pak for automation/BPM); Platform for **fast integration of systems** (ESB); **Digital content service** (e-archive) **platform**; The best technology for **developing & managing robots** (UiPath)

Significant part of our transformation agenda was **developing digital profiles**. We worked a lot to push the perception that digitalization goes beyond the "IT profile" and rather requires knowledge and responsibility of digital product experts with commercial mindset that are able to grasp the customer need or business opportunity, to define lean digital processes assuring "don't-make-me-think" experience for our customers, to own and further develop the digital product & process.

The digitalization is not only a priority but rather an end-to-end responsibility of our business teams in the Bank.

Customer Satisfaction Management

Client centricity and the focus to improve on Customer Experience remained a strategic pillar when it comes to the mission of UniCredit Bulbank for 2021. With regard to the bank's strategy to listen to its customers' needs, the Voice of the Customer, to provide our clients with best solutions, and to achieve these goals by aiming at simplification and higher effectiveness, in 2021 the Bank continued working towards promoting the client-centric culture within the organization.

Along with the ongoing conducting of Customer Experience Council, which aims to guarantee client centricity and the presence of processes, based on the relevant feedback coming from employees, current clients and prospects of the bank, additional initiatives to build a client-centric culture were undertaken. Similar initiatives are implemented to support the cooperation and synergy among all structures within the organization, aiming to better understand clients' needs, providing specialized trainings in the field of customer experience and the promoting customer-oriented products and services.

Having the customer-centric approach, the bank conducts high volume of listening activities to leverage on customer insights and better prioritize initiatives to enhance dedicated customer journeys while continuously looking for options to simplify, automate and increase efficiency in the workflow.

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

Again in 2021, the Bank was focused on utilizing insights from surveys among customers, prospects and employees', complaints, to adapt our way of working and servicing clients to the challenges of the external market by providing **Simple banking** and focus on **banking that matters**.

Customer Satisfaction and Experience

Nearly 1 100 customers and 2 000 prospects' among **individual clients** were interviewed within the program aiming at positioning UniCredit Bulbank in the market in terms of the indicator NPS. The main purpose of this initiative is to obtain a valuable feedback and reliable benchmarking to competitors in the area of customer satisfaction and experience. Important topics as customer experience, reputation, image of the bank, satisfaction with products and relationship with Bank employees, recommendation and preferences towards banks, attrition risk, cross-selling, acquisition potential and others were covered.

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

Results for **Individual** customers in 2021 show a NPS of 28 pts. (Stable y/y) which is 2 pts. higher than average Peers' results.

During the year the Bank interviewed additional more than 13 000 clients with a dedicated Relationship Manager. In terms to support the local initiatives related to customer experience based on relationship management model.

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

In 2021 UniCredit Bulbank succeeded to collect approximately 31 000 valuable feedbacks about customers' experience through different channels and touchpoints immediately after these interactions. Net Promoter Score for customers who have visited a branch is 66 pts. at the end of the year (65 pts in 2020). In addition to the initiatives within Retail, in 2021 UniCredit Bulbank continued to monitor the Mobile banking users' experience where NPS among users is 55 pts (62 pts for the previous year).

In **Corporate**, UniCredit Bulbank program for strategic measurement of Net Promoter Score and benchmarking vs. competition delivered a NPS of 34 pts. (29 pts. above Competitors' average). As in Retail, a special program for measuring the relationship with corporate customers is in place and further feedback is collected from customers who had an interaction among various channels of UniCredit Bulbank.

Internal Customer Satisfaction

As *Customer First* is among the pillars of UniCredit, delivering an excellent service quality and top products to clients- means having a high level of cooperation between structures inside the bank. Therefore an Internal Cooperation and Synergy Survey has been conducted for 12th consecutive year. *Cooperation and Synergies Index* measuring the level of cooperation between structures and effort they put into dealing with each remains stable with 72 points (73 for 2020), confirming high level of satisfaction and engagement into daily communication and support to colleagues within the bank.

Reputation

UniCredit Bulbank's Reputation and Image are quite positive among Individual and Corporate clients and prospects. Based on the customers' and prospects' feedback collected across various surveys, the Bank is perceived as stable, innovative and easy to deal with.

Complaints Management

The main focus of UniCredit Bulbank is to maintain high customer experience and to guarantee excellent quality of the products, services and overall service and therefore any feedback from customers is extremely useful and important for the organization. Each client's complaint is processed individually and receives the required attention by the relevant internal structure – Central Complaint Management Unit and the client is provided with an official position of the Bank via the selected channel within respective legislation deadlines.

Customer Satisfaction Management (continued)

The leading goal of the structure is to react in a timely manner to each complaint as with the assistance of the responsible Bank structures analyzes the feedback in detail, identifies problems and malfunctions and actively participates in the undertaking of the respective preventive actions in the future.

Information about the complaint management process and set legal deadlines for responding is published on the official website of UniCredit Bulbank and is available in the Bank branches.

The complaints management process is centralized and organized in accordance with the Group Global Policy and the requirements of applicable legislation, allowing a structured and transparent claim handling process as well as detailed investigation and better understanding of the underlying core reasons for the negative customer experience.

The internal Bank regulation for processing customer complaints determines the tools and functionalities of the complaints system, as well as defines the acceptance, registration, allocation, analysis, investigation, competences for authorization of compensations and answer to incoming customer complaints and to regulatory authorities. A fundamental part of complaints management is also the identification of recurring issues and malfunction in banking systems, in the different processes, products and/or services, the quality of the provided service and suggestion for respective corrective measures to the competent Bank structures for overall customer experience improvement.

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

Customer feedback and the information for each complaint is being analyzed and integrated in reports which are presented to Top Management and managers of the competent structures (including on Group level) for different topics and on regular basis.

During 2021, in UniCredit Bulbank 2 818 complaints and 308 compliments from customers were received, which were processed effectively within the legal terms or provided deadlines by the relevant regulatory authorities.

2022 Outlook

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

Further programs and management of the customer experience and satisfaction across the Bank is in the pipeline, spreading customer centric culture with focus on gathering insights and delivering recommendations for further actions to maintain excellent customer experience. Highest priority will be again the implementation of initiatives which will support promotion of Customer Experience culture, Customer Centric behavior and easiness in dealing with the bank.

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

Corporate Social Responsibility

UniCredit Bulbank takes its leading position on the market as a responsibility to empower communities to grow. In 2021, the Bank was a leading partner and stood behind the execution of a number of significant projects in the area of education, innovation, culture and art, business and social entrepreneurship. This was yet another year in which the Bank and its employees did not forget about the most vulnerable groups of society, supporting them with substantial donations.

Education remained a top priority

Investments in education remained a priority for the bank. In 2021, UniCredit Bulbank kickstarted two new Master's programmes in partnership with two of the most respected universities in the country – the programme **"Responsible and Sustainable Management"** at the Faculty of Economics and Business Administration at Sofia University and the programme **"Quantitative Finance"** at the Department of Finance and the Department of Statistics and Econometrics at the University of National and World Economy.

Again last year, UniCredit Bulbank supported the initiative of 24 Hours newspaper aimed at comparing the performance of 52 universities within 52 professional fields using a set of indicators through the so-called **rating system**.

Within the framework of its long-term partnership with Junior Achievement, the Bank continued to develop the programme **"Practical Finance"**, which is targeted at students. In this way UniCredit Bulbank reaffirmed its commitment to create content that is suitable for children, helping them build knowledge about cash flows, basic banking operations, responsibility for their own funds and personal budget management. Volunteers from the Bank continued to deliver lectures in schools nationwide.

Innovations bring benefits to the whole society

Keeping its focus on supporting the development of innovation in various fields, the Bank remained a preferred partner in the organisation of important forums and events. Some of the most memorable ones were:

- **Innovation Explorer**, which was under the motto "Innovation Crossroads", and the organisers had set a goal, in partnership with scientists, economists and investors, to build a bold vision for innovation of the future;
- **FinTech Summit**, which showed that the global pandemic made the fintech sector even stronger and more significant for society;
- **Innovation Financial Forum**, organised by the Bank of the Year Association;
- **The specialised forum DIGIPAY**, during which the challenges in front of open banking, new and successful solutions for identification and digital payments for the banking, fintech and online commerce sectors were discussed, as well as the most common hacking attacks and successful formulas for detecting fraud in the digital world;
- The fourth edition of the **Innovation Banking Forum NEXT DIFI 2021** – the focus of the discussions during NEXT DIFI 2021 was put on the factors, which impact the future of the financial market and the possibilities for development of the sector.

For a tenth consecutive year the Bank has been actively working for social entrepreneurship

In 2021, UniCredit Bulbank and one of its main partners in the mission to promote entrepreneurship in civil society organisations – **the Bulgarian Center for Non-profit Law**, celebrated the tenth anniversary of their joint programme. Thanks to this programme, non-governmental organisations get knowledge of how to look for intersections between their own social goals and the development of business ideas, which will not only ensure financial resources, but also directly help achieve their goals.

Each organisation involved in the programme develops its idea in the form of a business plan and in the process receives support from experts. The developed plans participate in a competition for the best business plan of a non-profit organisation with a prize fund to finance their idea.

The support for the entrepreneurial spirit has always been very important for UniCredit Bulbank, because according to the Bank the best social effect will come if an environment for business development and independence of each organisation is created.

In 2021, despite the difficult epidemic situation, UniCredit Bulbank continued to run its joint programme with the Council of Women in Business in Bulgaria – **"Leadership Academy"**. During the year the seventh edition of the initiative was completed and the eighth edition was launched, held under the patronage of the mayor of Sofia, Mrs. Yordanka Fandakova. Within each edition, about 40 ladies from the SME sector receive a series of leadership skills trainings for free.

The Bank also supported the activity of the Council of Women in Business as a partner of the **Global Forum of Women Leaders 2021 – The New Normal for Women @ Life and Work**, held in November. During the conference, an exclusive study among women in Bulgaria was presented on the effect of the first year of the pandemic on their professional and personal lives.

In line with tradition, UniCredit Bulbank maintained its position as a valuable partner of a number of 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.

As a sponsor of the **specialised financial forum "The Sound of Money"**, the Bank continued to promote the improvement of the financial culture of the whole society.

The Bank also supported the development of the regions in the country as a main partner of the specialised conference on this topic, organised by **Business Global magazine, together with the Bulgarian Industrial Association**. The purpose of the meeting

Corporate Social Responsibility (continued)

was to summarise and review business models of sustainable transformation throughout the country and how they can be applied even more widely in support of economic development.

The Bank ended the year properly by joining in as one of the leading partners of the Powers Summit. The forum, known as "The Bulgarian Davos", is an innovative platform for constructive, operational dialogue, face to face between the government, business leaders and the civil sector. Its goal, supported by UniCredit Bulbank, was to invest the country's collective intelligence in creating sustainable solutions for Bulgaria's future.

In 2021, the Powers Summit brought together the leaders of the political formations represented in parliament and their teams in search of real-time solutions to the topical issues in a dialogue with representatives of the business, civil society and science.

The Bank remained a home for culture and art

During the ninth year of its existence, the contemporary art space UniCredit Studio, located by the entrance of the signature headquarters of UniCredit Bulbank, at Sveta Nedelya Square in Sofia, continued its mission – to provide the opportunity for presenting young artists and their brave ideas completely for free.

Some of the most memorable exhibitions during the year were:

- **Georgi Chapkanov through the eyes of Ivan Bakalov**, organised together with Fotofabrika.
- **Maria Nalbantova with the site-specific art installation A Good Deal**; the author was among the distinguished young talents at the traditional ceremony of **Stoyan Kambarev Foundation**, which has been supported by UniCredit Bulbank for years.

Several exhibitions were organised in the country within the initiative called **UniCredit Studio travels**. They were arranged in branches of the Bank or at other suitable premises at the invitation of partners (in Gabrovo, Burgas, etc.).

However, the Bank's commitment to art goes beyond UniCredit Studio. In 2021 UniCredit Bulbank supported also:

- **The exhibition of early works of art by the notable Romanian painter Corneliu Baba**, organised by the National Gallery;
- **The exhibition of photographs by Elina Keshisheva *The Calmness of Léthé***, organised by the National Gallery;
- The XVI edition of the **Summer Art Academy in Sozopol**;
- The ninth Bulgarian edition of the European initiative **Theater Night**.

2021 saw the continuation of the successful partnership of UniCredit Bulbank as an official bank of t**he international cinema and literature festival Cinelibri**. Organised by Colibri publishing house, the festival took place in 10 Bulgarian towns and gave the audience the opportunity to get closer to the magic of the film versions of the best novels.

Donations

In 2021 UniCredit Bulbank conducted important social campaigns. It associated twice the use of its mobile banking application Bulbank Mobile with donations from the bank. In July, the Bank announced that for each payment by digital Visa card via Bulbank Mobile made by the end of the month, it will donate the cash equivalent of 100 caps. The entire donated amount was provided for the campaign for purchasing a children's ambulance by the **Caps for Future initiative**.

At the end of the year, the Bank launched a campaign to support the **Bulgarian Christmas** on the occasion of the tenth birthday of Bulbank Mobile. UniCredit Bulbank committed to donating funds for each first log-in in the mobile application in December by an existing or a new client. In this way the Bank donated further 10 thousand leva together with its traditional sponsorship for the concert of the beloved initiative.

Taking care of the youngest ones, in 2021, UniCredit Bulbank conducted the second edition of the joint programme – Call for Europe (Support for Childhood) with UniCredit Foundation. Over 70 projects competed in the edition. Four of them received financial aid of 30 thousand euro. These are: **Gender Alternatives Foundation, Child and Space Association, Concordia Bulgaria Foundation and Friends of the Sea Marine Club**.

This programme, together with other important donations of the Bank in favour of children, such as the joint initiative with the Embassy of the Sovereign Order of Malta, brought the Bank one of the most valuable recognitions. On the 1st of June 2021, UniCredit Bulbank was declared the first bank with a **Company Friend of Children certificate by the National Network for Children.** The Bank went through a complex certification process and proved that it maintains a high corporate responsibility standard, develops supporting policies in favour of children and creates a favourable environment for its employees with children and their families.

Events Related to Sustainable Development (ESG)

Over the year the Bank established itself as a leading institution in the social dialogue on the topic, being the major partner of the most important forums dedicated to ESG. Some of them are:

- **The Green Transition – Solutions and Challenges for Bulgaria**, organised by DIR.BG and 3eNews i-n a hybrid form and under the auspices of the Prime Minister of the Republic of Bulgaria, with the support of the Ministry of Environment and Water, the Ministry of Economy, the Ministry of Energy, WWF Bulgaria, etc.
- **Net Zero Economy** – the opportunities for the business provided by the transition to sustainable economic growth were presented at the conference. The forum served as a platform for networking and a foundation for the development of successful initiatives for partnership between the public and private sectors.
- **TEDxVitosha COUNTDOWN**, a part of the global TED initiative for encouraging and accelerating climate crisis solutions turning ideas

Corporate Social Responsibility (continued)

into action. The goal of the event was to answer five fundamental interconnected questions (in the field of energy, transport, materials, food, nature) helping to devise a plan for a cleaner future. It brought together scientists, activists, entrepreneurs, investors, artists, state employees and influencers in search of the most efficient evidence-based ideas.

- **The exhibition and international conference CasaClima: Let's Build the Future**, organised by Confindustria Bulgaria, focused primarily on *The future of towns and opportunities for financing energy efficiency*.

ESG Governance And Strategy

Environmental, social, and governance (ESG) issues as well as their associated opportunities and risks are becoming more and more relevant for the financial sector. In that context, 2021 was pivotal in determining the Bank's ESG strategy. During the year a thorough analysis of the ESG challenges has been performed and in the fourth quarter of 2021 UniCredit Bulbank's ESG Governance Framework had been established. The model aligns with UniCredit Group's ESG governance strategy implementation, envisioning eight major areas:

- ESG Governance Stream
- Strategy: Products and Clients – Retail
- Strategy: Products and Clients – Corporate and Investment Banking
- Strategy: People and Culture Transition
- Strategy: Internal Operations Transformation
- Risk and Credit Stream
- Metrics and Targets: Integrated report
- Metrics and Targets: Communications and Communities Engagement

More than 40 ESG reference points across the different functions of UniCredit in Bulgaria were identified and empowered to meet monthly, plan and share progress, as well as highlight constraints or escalate needs to the ESG Executive Strategy Council. It consists with the bank's CEO, DCEO, MB members, CEOs of Subsidiaries, Strategy and Business Officer, Head of Compliance, Head of Audit, etc. and aims to meet quarterly during MB sessions to provide oversight and strategic guidance. The role of the coordination of the streams and single reference point of the Bank on ESG topics was entrusted to the Strategy and Business Officer, supported by the Project Manager of the ESG Strategy within the project portfolio of the bank.

In addition to incorporating ESG into its framework, the Bank needed to reconsider the related issues in its product design, pricing and sales decisions.

2022 priorities:

- **Sustainability/Integrated report:** Annual reporting in which to analyze achievement and areas for development, communication instrument for transparency and leading by example for local communities, clients, employees, etc.
- **ESG products and services portfolio, guarantee lines, etc.:** Review of portfolio of ESG products and services with focus on simplification, digitalilsation, service model, inclusion; utilization of guarantee schemes, etc.
- **Carbon footprint reduction program:** The local program to contribute to the group engagements in carbon footprint neutrality, plastic free, etc.
- **ESG Learning Journey:** Enrich and update the ESG learning program available to colleagues: ESG Masters, ESG Academy, ESG trainings- group and local, webinars, etc.
- **FinCulture, ESGpresso and other initiatives for financial education and building communities:** Educational programs, media partners, work with social entrepreneurs, ESG month, etc.

The ESG Strategy of UniCredit Bulbank is in line with UniCredit Group ESG Strategy and objectives

UniCredit group's ESG strategy is a key component of the new Group Strategic plan, launched and communicated to Group stakeholders during the Strategy Day held on 9 December 2021. The underlying goal of this strategy is to integrate all ESG factors in Group's strategy, core business and processes, taking into account both risks and market opportunities and with a clear multi-stakeholder approach.

OUR ESG STRATEGY: BUILDING ON STRONG FUNDAMENTALS TO DELIVER VALUE

Group ESG strategy is built around four fundamentals:

- leading by example, striving for the same high standards that the Group seeks from those it does business with;
- setting ambitious ESG goals to support its customers' need for change;
- equipping the Group with tools to assist customers and communities in navigating the environmental and social transition, through strategic actions across the relevant building blocks;
- embracing and investing the resources needed to deliver and reach medium and long-term commitments (Net Zero, same salary for same role, financial health and inclusion) to enable a more equal and sustainable society.

The ESG Strategy was built around Group's principles and beliefs across the Environmental, Social and Governance dimensions, based on clear business goals and key strategic actions across four building blocks, ensuring deliverables through transparent enablers.

In line with its strategy in October 2021 UniCredit joined the NZBA[3], aiming at aligning its lending and investment portfolios with net-zero emissions by 2050 or sooner, in line with the most ambitious targets set by the Paris Climate Agreement. Alliance members commit to:

- set scenario-based interim targets for 2030 or sooner for priority sectors;

[3] 3 he Net-Zero Banking Alliance (NZBA) is convened by the United Nations Environment Programme Finance Initiative and is the banking element of the Glasgow Financial Alliance for Net Zero, chaired by Mark Carney, UN Special Envoy on Climate Action and Finance ahead of COP 26. Representing more than a third of global banking assets, with over 84 members from 36 countries and $64 trillion in total assets, 3 the Alliance is a critical step in the mobilization of the financial sector for climate. It recognizes the vital role of banks in supporting the global transition of the real economy to net-zero emissions, encompassing both operational and attributable emissions, including Scope 3 emissions.

ESG Governance And Strategy (continued)

- prioritise areas of most significant impact, i.e. the most greenhouse gas-intensive and emitting sectors;
- annually publish emissions and emissions intensity;
- take into account the best available scientific knowledge;
- set first target(s) within 18 months of signing and report annually thereafter;
- disclose progress against a board-level reviewed transition strategy.

UniCredit has coherently started to investigate the key pre-requisites necessary to navigate through all phases along the process to net zero, firstly focusing on mapping the areas/sectors to be considered in the perimeter and highlighting the emissions baseline starting point, in order to define which type of target best serves the scientific robustness of its commitment. The Group is setting up a dedicated task force to achieve this goal, with the aim to coordinate the task at Group Level, bringing together all the relevant skills and competencies. The Group looks forward to engaging with its clients to support them in their transition plans and accelerate action on climate.

Major Subsidiaries and Associates

UniCredit Consumer Financing

2021 was another challenging year marked by the negative effects of the global Covid-19 pandemic. During the year UniCredit Consumer Financing EAD (UCFin) reaffirmed its commitment to its priorities putting the safety of our customers and employees on top of the priority list. UCFin implemented several policies that were aimed at facilitation of an efficient and effective working process in the context of very dynamic health regulatory framework.

The financial performance of the company during the year was solid with strong and stable results. In terms of new business 2021 expectations were met and a significant rebound compared to last year was registered. New sales have increased almost 50% y/y. UCFin realized a total of BGN 1.161 mln in newly granted consumer financing and revenues for the year amount to BGN 140.2 mln. This result is largely driven by positive effects from developments concerning fees and commissions. Compared to last year the company registered a 2% drop, which was expected given the adverse effect on the loan portfolio of low sales in 2020. The operating costs were kept under control and no significant deviation from expectations were registered. Net profit amounted to BGN 98.2 mln (58% y/y) mainly driven by the positive effect related to completion of the moratoria period.

During 2021 UCFin chose a slightly more aggressive sales strategy in comparison to 2020. In the first half of the year the company carried out successful campaigns and exploited well the opportunities arising from the economic recovery that was a fact during the spring and the summer. As a result UCFin and was able to achieve a significant market share in terms of new sales.

During one of the most challenging years in the Company's history one of the main focuses from risk perspective was related to the development of last year's statutory moratoria on loan installments. The moratoria that was enacted in 2020 has concluded as the deferral period of 9 months (maximum) is over. It should be noted that in conclusion of the moratoria period we registered favorable development in terms of client behavior and collection of such exposures. As a result, our non-performing portfolio ratio decreased notably compared to last year.

Remote and on-line sales continued to grow in 2021 in all sales channels. POS online sales have increased by 72% while cash online sales have increased 163%. Several initiatives were implemented in order to promote and facilitate digital processes. Such initiative include optimization through robot process automation (RPA), digital (remote) identification and signing, etc.

2022 is anticipated with temperate enthusiasm by all teams in UCFin, covering the general expectations to be a year of economic recovery. The company confirms its determination to expand digital sales and improve digital customer experience in all the channels. A major new service is expected to be released, which would bring customer service to a higher level. One of the main challenges faced by UCFin for 2022 is the ever increasing pressure on prices from both clients and competitors.

Our business and back office teams are constantly reviewing sales approaches, market developments and client service models in order to early detect and respond to risks or embrace an opportunity. UCFin is well known for its ability to adapt quickly to changing environment. Given our expectations for an ever increasing market dynamics we rely precisely on this trait in order to elevate UCFin's standing within the consumer market.

UniCredit Leasing

Irrespective of the uneasy context in 2021, UniCredit Leasing succeeded to sustain its position among the market leaders as this was an aftermath of the excellent collaboration and cross sales with UniCredit Bulbank and the strong cooperation with international vendors of equipment and vehicles. The company upscaled considerably its business generation as the new business volumes spiked by 31% y/y. Ultimately, the gross performing loans edged up by 5% y/y warranting a sustainable future revenue base.

Thanks to its vast experience in the selection and evaluation of viable projects, UniCredit Leasing managed to maintain its risk appetite providing leasing solutions in almost all economic sectors. In parallel the Asset Quality manifested meaningful improvement y/y, as the gross defaulted loans decreased by 6%.

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

In 2021 sustainability and ESG concept remain an absolutely vital ingredients of the way we do business and assist our clients, communities, partners, and the industry at large by financing the transition to a low carbon future and more inclusive economy. We support both private individuals and companies in their aspirations to redefine their routines and switch to a more sustainable business.

UniCredit Factoring

For UniCredit Factoring (the Company) 2021 was a year of stable development, good market environment and growth of the factoring business. The company continued with the positive trend of development, enlarging and diversifying the client portfolio and penetrating the market, performing significant growth in terms of business generation and main KPIs.

The increase of company's outstanding debt at the year-end by ~48% and the strong commercial focus on boosting the utilization level were the main drivers for interest income generation in the situation of downtrend in the margins and strong market competition. The factoring business volumes grew by 29% y/y, which resulted in growth of net fees by 28% y/y. The local competition on the market was mainly oriented in possibilities of optimizing price conditions for the clients giving advantage of simplified services and opportunities for customized solutions, following the individual demand.

Major Subsidiaries and Associates (continued)

The volumes of the domestic factoring solutions continue to be with biggest share of the factoring portfolio, performing significant growth in non-recourse factoring products by ~38% y/y. The positive trend of development of the international factoring business, influenced by the customer demand for sophisticated services, resulted in well-diversified portfolio and growth of international business. The company relies on its excellent expertise in the international area, very good practices within UniCredit Group and worldwide partners within Factors Chain International as a major factoring business network. In 2021, easy and transparent processes positioned the Company on top levels of customer's preferences.

In 2021 UniCredit Factoring was focused mainly on negotiating flexible solutions: supplier-driven and buyer-driven transactions, providing high quality of services to all the parties of the transaction. The key success driver was the continuous activities and commercial focus on several regular initiatives providing the client with advisory services completely in line with their working capital needs.

All provided services and customized solutions were fully digitalized through eFactoring.bg. The web-based factoring platform is still a key benefit for the client, which guarantees smooth, easy and fully electronic process, eliminating the physical contacts in the pandemic period. During the whole year, the Company continued to work on application enhancements, ensuring variety of approaches of digital signing of documents in every stage of the process. The growth in electronically assigned turnover in every consecutive year confirms the client's choice of using the platform and reaffirms the benefits for the company and its counterparties.

In terms of penetration in the market sectors and industries, UniCredit Factoring continued to confirm its leading position in traditionally strong for factoring economic sectors, such as wholesale, production and transportation. In terms of industries penetration, the factoring business continued to follow entirely the macro environment and its business opportunities, limited in some sectors due to crisis restrictions. The good practices of factoring opportunities with suppliers of services to public institutions, agencies and municipalities continued in 2021 as well.

In 2022, following the UniCredit Group strategy for simplification, efficiency and fully leveraging on synergies with UniCredit Bulbank, the Company will be transformed to a business unit within the Bank at the year beginning. The new business and organizational model will provide a strong focus on factoring business, leveraging on common customer portfolio and full awareness on the factoring products. The benefits of the sales process simplification on the stage of client acquisition will lead to increase of customer satisfaction, improvement of customer experience with UniCredit Group and boosting further sales and cross–sell opportunities.

In parallel, during 2022 the commercial focus will continue to be the digitalization of services by adding high-value enhancements guaranteeing speed and transparency, fully satisfying the market demand.

UniCredit Fleet Management

UniCredit Fleet Management EOOD (UCFM) is a non-financial company, specialized in providing operational leasing with a full range of services to its local national and international, external clients, as well as to the companies within UniCredit Group in Bulgaria. Despite the current context, in 2021 UCFM posted growth of its fleet by 27%. The clients portfolio surged by 65%, mainly due to the constant partnerships development and continuous strategy for an intensified cross-selling with the UniCredit Bulbank corporate customers.

Despite the unprecedented circumstances induced by the Covid-19 crisis, particularly the supply chain delays, UniCredit Fleet Management will continue to deliver a sustainable business performance due to the company's business model resilience, the high quality products and services and the loyal UniCredit customers, the dedication and expertise of UCFM team.

Corporate Governance Declaration

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

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

As a pan-European Bank, UniCredit is committed to the highest standards of corporate governance. The current practices have been developed by studying the best international practices and market expectations. UniCredit Group is fully transparent in the disclosure of governance practices, to help stakeholders, including investors, assess our Group in terms of management and effectiveness of our internal controls system. More information could be found on:
https://www.unicreditgroup.eu/en/governance.html

The main documents regulating the corporate governance of UniCredit Group are available on UniCredit Group's website:
https://www.unicreditgroup.eu/en/governance/governance-system-and-policies.html?topmenu=INT-TM_GOV1_en023

Among them (but not only) are:

- **Articles of association;**
- **Code of ethics;**
- **Code of conduct;**
- **Whistleblowing;**
- **Anti-corruption policy;**
- **Conflict of interest policy.**

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

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

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

Management

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

General Meeting of the Shareholders

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

The General Meeting of the Shareholders:

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

Supervisory Board

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

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

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

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

Management Board

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

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

The Management Board of the Bank consists of 3 to 9 (three to nine) members appointed by the Supervisory Board for a term of up to 3 (three) years. The exact number of the members of the Management Board, their term of office and remuneration is determined by a decision of the Supervisory Board.

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

Each governing body of UniCredit Bulbank has its own rules or procedure which describe the functions, rights and duties of the respective body and its members in detail. While performing their duties both the Supervisory and Management Board are governed by the law, regulatory framework of the Bank and UniCredit Group as well as the good practices of integrity and competence.

The Annual Report on the activity of the Bank for 2021 provides detailed information about the organizational structure of the Bank and the members of the management bodies.

Specialized bodies

Specialized committees have been set up to support the activity of the governing bodies of the Bank. Permanent committees are the forums of the Bank to prepare, discuss and take decisions.

Audit Committee

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

Supervisory Board Committees

1. Nomination Committee

The major function of the Nomination Committee are:

- to identify and recommend, candidates to fill management bodies vacancies (to the General meeting of shareholders for members of the Supervisory Board and to the Supervisory Board for members of the Management Board);
- to evaluate the balance of knowledge, skills, diversity and experience of the candidates;
- to carry out collective and individual suitability assessment of the management bodies and their members;
- to prepare a description of the functions and requirements for the candidates for the positions and determines the time commitment that the elected members are expected to devote to each role;
- to assess, nominate and recommend candidates to be appointed as Key function holders, considering their experience, qualification, knowledge and skills, as well as their professional experience, needed for the bank's management which shall be done in alignment with the existing applicable regulations and the internal bank policies.

The Committee's functions are in line with the provisions of the Credit Institutions Act and with the rights and obligations as per Ordinance №20/2019 of BNB.

2. Remuneration Committee

The Remuneration Committee has as its general task the following competencies:

- to be responsible for the preparation of decisions on remuneration to be taken by the supervisory function, including the remuneration of the members of the management board of the Bank;
- to be responsible for the preparation of decisions on the Bank's policy on the matters of remunerations so to ensure respect towards principles of transparency and corporate governance;
- to support the supervisory function in overseeing the remuneration policies, practices and processes and the compliance with the remuneration policy;
- check whether the existing remuneration policy of the Bank is still up to date and, if necessary, make proposals for changes before the Supervisory Board;
- may approve the remunerations of other identified staff (for example for Group Identified Staff) in alignment with UniCredit Group guidelines and practices.

The Committee's functions are in line with the provisions of the Credit Institutions Act and with the rights and obligations as per BNB Ordinance №4/2019 for the requirements of remunerations in banks.

3. Risk Committee

The Risk Committee is an independent permanent advisory body appointed and dismissed by the Supervisory Board of the Bank. It shall advise the SB and the Management Board (MB) of the Bank on the Bank's overall current and future risk appetite and strategy, taking into account all types of risks, to ensure that they are in line with the business strategy, objectives, corporate culture and values of the Bank. The Risk Committee assists the SB and MB in overseeing the implementation of the strategy by senior management of the Bank. The Risk Committee has advisory functions only, and the SB and MB retain overall responsibility for risks, the risk management and control. The main functions of the Risk Committee, among others, are:

- to monitor and advise on the effectiveness of the Bank's risk management system and to analyze the related periodic information;
- to monitor and advise on the effectiveness of the independent risk management function and the effectiveness of the risk structure in the Bank;
- to monitor and advise on the current risk situation of the Bank, the overall current and future risk appetite and strategy;
- to monitor and assist on the effectiveness of the implementation of the risk strategy by senior management;
- to oversee the implementation of the strategies for capital and liquidity management (including liquidity risk strategy, liquidity risk tolerance, the Funding Plan, Intragroup Funding Plan, Investment Portfolio plan and Contingency Funding Plan) as well as for all other relevant risks of the Bank, in order to assess their adequacy against the approved risk appetite and strategy;
- to provide the Supervisory Board with recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of the Bank, market developments or recommendations made by the risk management function;
- to review a number of possible scenarios, including stressed scenarios, to assess how the Bank's risk profile would react to external and internal events;
- to review the ICAAP, ILAAP and Recovery plan;
- to evaluate whether the prices of the bank products and services do properly reflect risks in accordance with the business model and risk strategy and, if necessary, to present to the SB and/or MB a remedy plan;
- to examine whether incentives provided by the remuneration system take into consideration the risk, capital, liquidity and the likelihood and timing of earnings and, without prejudice to the remuneration (compensation) committee of the Bank, to discuss them, at its sole discretion, with the SB;
- to review audit results and findings within the risk management area by the Bank's Internal Audit and External Auditors

Management Board Committees

In 2021 a change of the organizational set up of the Managerial Bank Committees was realized aiming to streamline/simplify the overall number of committees, increase process efficiency by avoiding chains of committees and eliminating those with consultative/discussion role only. In addition, the adoption of a mirrored Global/local setup will contribute to Group effort for better harmonization of activities and decision powers across the geographies.

Various existing committees have been merged in a wider one, grouping topics with dedications sessions. The composition of the Committees has been carefully reviewed and optimized to the reasonable extent.

The new set-up consists of only 6 committees (compared to the **previous number of 24**) including, as follows:

- **4 New Committees formed via merge of 13 existing ones**, listed below;
- **2 Existing committees remaining unchanged** as perimeter of responsibilities, listed below;
- **2 Cancelled Committees** due to overlap with other committees or lack of business need;
- **7 Transformed Committees into more operative structures** (e.g. commission/council/working group).

1. Financial and Credit Risks Committee with two separate sessions
    1.1. Financial Risk session is dedicated to the management of liquidity and market risk. Financial risk management at UniCredit Bulbank comprises the activity related to all commercial and investment banking transactions as well as asset and liability management. Risk positions shall be analyzed by an independent market risk unit and compared to the risk limits approved by the Management Board and Financial and Credit Risks Committee.
    1.2. Credit Risk session is dedicated to:
        1.2.1. Monitoring, evaluation, classification, and provisioning of risk exposures for losses from impairment, forbearance and write-off's;
        1.2.2. Periodical monitoring and review on credit portfolio quality, Risk Weighted Assets and Expected Loss ratios, Watch list process and dashboards on Credit Policy and Strategy;
        1.2.3. Proposals for changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes.
2. Transactional Committee with two separate sessions

2.1. The Transactional Committee-Credit Council Session is a collective body for taking credit decisions in the scope of granting loans in compliance with the statutory requirements and internal bank regulations, applicable at the moment of considering the specific loan application, and the relevant resolutions of the Management and/or Supervisory Board. Within the parameter of decision taking by the Transactional Committee-Credit Council Session are:

2.1.1. GAM and Group clients with local exposure up to BGN 50 mln;

2.1.2. Non material waivers and changes from technical character for exposures over BGN 50 mln which do not deteriorate risk profile of transaction

2.1.3. Flexibility range regarding capital-light products (leasing and factoring frames) up to BGN 5 mln for exposures over BGN 50 mln

2.2. The Transactional Committee-Credit Committee Session is a collective body for taking credit decisions in accordance with the relevant resolutions of the Management Board and the Supervisory Board. The Transactional Committee-Credit Committee Session takes decisions on credit applications with total exposures of a single customer or obligor group over BGN 50 mln which are above the competence level of the Transactional Committee-Credit Council Session.

3. Project Portfolio and Real Estate Portfolio Committee with two separate sessions

3.1. Project Portfolio session dealing with prioritization, organization and approval all strategic initiatives of the Bank. This is the highest decision-making body in relation to all existing projects and programs for UniCredit Bulbank AD and its subsidiaries.

3.2. Real Estate Portfolio session with generic goal to steer the demand and change management process within the Bank and its subsidiaries, when it comes to Real estate related projects. Real Estate Portfolio Committee is the highest decision-making and escalation body of each project/program, run within UniCredit Bulbank and its subsidiaries' Real Estate project Portfolio.

4. Non-Financial Risk and Control Committee with 4 separate sessions

4.1. General session dedicated to Operational Risk mitigation measures and coordination of risk activities, regular analyses of the critical topics related to the Internal Control mechanisms and monitoring and prioritization of the corrective actions, assessment of the overall Internal Control System adequacy related to the Compliance area and providing support to the Management in taking decisions for mitigating such risks.

4.2. ICT, Security & Cyber Risk session has the mission to steer the overall security management framework as well as actively participate in the Business Continuity, Pandemic, and Emergency & Crisis Management activities performed in the day to day actions and management of the legal entities in Bulgaria. The session is to support the Security Department and the management to achieve the set objectives according to the business needs as well as the security related aspects to the main IT initiatives. All Security aspects are being constantly and closely monitored, if needed updated and validated by the session.

4.3. Reputational Risk session is a dedicated body for discussion and decision for all transactions/initiatives/projects referring to Reputational Risk Sensitive Sectors – as regulated by the dedicated global policies – and for all other cases on Business proposal (e.g. other relevant sectors or relevant clients). Material events and other topics and business activities generated by UniCredit Bulbank or its subsidiaries, and evaluated by the Reputational Risk function, as High reputational risk. Its approval of High risk transactions is mandatory prior to their submission to Local Transactional Committee.

4.4. Third Party Risk session responsible for the management of the Exception process (escalation process) of the Rules for Third Party Risk Management for Non-Outsourcing contracts and the Rules for Outsourcing contracts of the Bank and its Subsidiaries.

5. Local Investment Committee to Private Banking

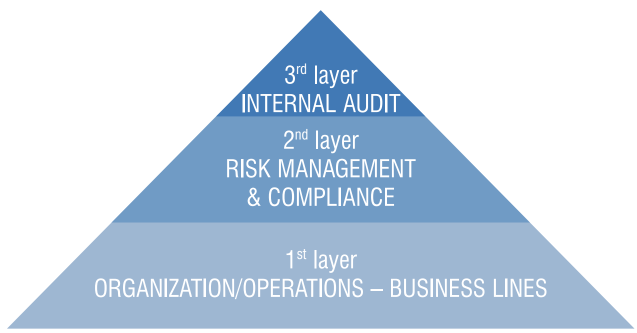
The Local Investment Committee to Private Banking is an internal collective authority of the bank set up to make decisions related to strategic allocation of the various classes of assets and to model portfolios on the basis of the Global Investment Strategy (GIS) of UniCredit Group corresponding to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

6. Whistleblowing Committee

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

Internal Control Mechanisms

LAYERS OF THE INTERNAL CONTROL SYSTEM



The Internal Control System (ICS) is the set of rules, procedures and organizational structures aimed to ensure the correct functionality of our company.

Corporate Governance Declaration (continued)

The Internal Control System (ICS) consists of a set of rules, procedures and organizational structures which aim to:

- ensure that corporate strategy is implemented
- achieve effective and efficient corporate processes
- safeguard the value of corporate assets
- ensure the reliability and integrity of accounting and management data
- ensure that operations comply with all existing rules and regulations.

Risk Management

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

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

Compliance

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

Internal Audit

In accordance with the currently effective organizational structure of the Bank, Internal Audit 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 2021

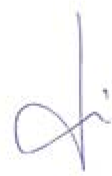
As at the end of 2021 no proposals to UniCredit Bulbank AD were made for acquisition from/ merger to/with other companies.

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 2021 on an individual and consolidated basis.

For UniCredit Bulbank AD:

Tzvetanka Mintcheva

Chairperson and
Chief Executive Officer



Andrea Tognetti

Member of the
Management Board and
Executive Director

Lending a voice to the voiceless: We believe in equal opportunities, UniCredit Bank Slovenia's long-standing collaboration with charity ZPM Ljubljana Moste-Polje has led to improved outcomes for children for well over a decade.

Our Clients
Zveza Prijateljev Mladine (ZPM)
Ljubljana Mo'ste – Polje
Slovenia

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

Climate neutrality: We stood alongside family-run Steinecke, a leading manufacturer of dried herbs and vegetables, when it decided to build one of Germany's first agrophotovoltaic plants.

Our Clients
Steinicke
Germany

Curious to know more? Check out the entire story (and others) on annualreport.unicredit.eu/en

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, 2021, and the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at December 31, 2021, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independet Auditors’ Report (continued)

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. 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 probability of default at the end of the reporting year, • Absolute factors such as limits set by IFRS 9 Financial Instruments (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. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources or determines the amount of allowances for expected credit losses on individual basis. The statistical models used are based on the probability of default, the estimated amount of the loss given default and the determined exposure at default. Input data for the models and the calculation logic and its comprehensiveness depend on judgment of Bank management.	During our audit we obtained understanding of the processes for calculation of impairment of loans, applied by the Bank. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area. 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 modelling expertise in order to determine the appropriateness of the model development and model implementation. We have considered the adequacy of the risk parameters determined by the models. We have reviewed the quality of the data used in the computation of the risk parameters. We performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. For a sample of exposures we recalculated the impairment based on the risk parameters resulted

For loans of individual financial significance as per the Bank's policy impairment assessment aims at calculating the exposure's recoverable amount and compares it with the gross carrying amount in order to quantify the impairment allowance. As described in note 27 to the separate financial statements, the Bank has recorded as at December 31, 2021 impairment allowances on loans and advances to customers amounting to BGN 716,290 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, and because of the impact that the current economic environment had on these estimates and assumptions, we identified impairment of loans and advances to customers as a key audit matter.	from the models or we formed an independent view on the levels of impairment allowances for individually significant exposures. 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 on the credit risk of borrower, the valuation of collaterals, on estimates of expected cash flows and on other factors that may affect the recoverability of loans. We have assessed the adequacy of Management assumptions and adjustments resulting from the impact of the current economic environment on the estimation of expected credit losses. We assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.

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

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

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

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

We have nothing to report in this regard.

Independet Auditors' Report (continued)

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.

Independet Auditors' Report (continued)

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

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

Based on the procedures performed, in our opinion:

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

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

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

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

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

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

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

- Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2021 by the extraordinary general meeting of the shareholders held on September 28, 2021 for a period of one year.
- The audit of the separate financial statements of the Bank for the year ended December 31, 2021 represents ninth total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and fifth total consecutive statutory audit engagement for the Bank carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, dated February 22, 2022, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD 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, 2020, 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, 2020 and December 31, 2021. 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, 2020 and December 31, 2021. The audits were performed in accordance with ISA.
  - Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 6 months ending June 30, 2021, and the 9 months ending September 30, 2021. 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".
  - Agreed-upon procedures for assessment of the SREP readiness of the Bank, incl. assessment of the Management Board's collective suitability.

Deloitte Audit OOD

On behalf of
Deloitte Audit OOD

Momchil Cherganský
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 EOOD

On behalf of
Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor, in charge of the audit

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

Spyridon Gkrouits
Authorized representative

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

February 22, 2022

Separate Income Statement

In thousands of BGN

	Notes	2021	2020
Interest income		406 556	400 177
Interest expense		(46 356)	(45 358)
Net interest income	8	**360 200**	**354 819**
Dividend income	10	**65 278**	**100 037**
Fee and commission income		275 886	234 929
Fee and commission expense		(37 596)	(29 529)
Net fee and commission income	9	**238 290**	**205 400**
Net gains on financial assets and liabilities held for trading and hedging derivatives	11	80 384	78 447
Net gains (losses) from financial assets mandatory at fair value	12	109	(99)
Net income from financial assets measured at FVTOCI	13	16 931	10 532
Other operating expenses, net	14	(14 714)	(69 053)
TOTAL OPERATING INCOME		**746 478**	**680 083**
Net income related to property, plant and equipment	15	2 488	59
Personnel expenses	16	(148 806)	(140 545)
General and administrative expenses	17	(105 700)	(103 236)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	18	(42 680)	(39 293)
Provisions for risk and charges	19	(2 554)	(5 662)
Net impairment loss on financial assets	20	(107 832)	(153 143)
PROFIT BEFORE INCOME TAX		**341 394**	**238 263**
Income tax expense	21	(27 568)	(14 285)
PROFIT FOR THE YEAR		**313 826**	**223 978**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 09, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

22.02.2022

Momchil Cherganski
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

22.02.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkroutis
Authorized representative

Одиторско дружество София Рег. № 033 Делойт Одит ООД

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

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Comprehensive Income

In thousands of BGN

	Notes	2021	2020
Profit for the year		**313 826**	**223 978**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses)	40	978	(800)
Revaluation reserve on tangible assets	30	2 603	(3 835)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(359)	464
		3 222	**(4 171)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities		(44 231)	(42 327)
Cash flow hedge		4 780	(569)
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		3 523	4 736
		(35 928)	**(38 160)**
Total other comprehensive income net of tax for the year		**(32 706)**	**(42 331)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**281 120**	**181 647**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 09, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

22.02.2022

Momchil Chergansky
Registered auditor in charge of the audit

Baker Tilly Klitou & Partners EOOD

22.02.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Financial Position

In thousands of BGN

	Notes	31.12.2021	31.12.2020
ASSETS			
Cash and balances with Central Bank	22	6 677 436	6 595 652
Non-derivative financial assets held for trading	23	4 901	17 007
Derivatives held for trading	24	87 039	78 880
Derivatives held for hedging	25	11 976	16
Loans and advances to banks	26	697 985	1 426 838
Loans and advances to customers	27	13 519 451	11 860 343
Investment securities	28	3 475 362	3 676 620
Investments in subsidiaries and associates	29	55 479	55 479
Property, plant, equipment, right of use assets and investment properties	30	236 916	225 126
Intangible assets	31	88 138	77 656
Current tax assets	32	-	738
Non-current assets and disposal groups classified as held for sale	34	12 292	19 357
Other assets	35	81 401	73 816
TOTAL ASSETS		**24 948 376**	**24 107 528**
LIABILITIES			
Financial liabilities held for trading	36	47 148	101 394
Derivatives used for hedging	25	65 287	105 683
Deposits from banks	37	1 128 575	1 918 207
Deposits from customers and other financial liabilities at amortized cost	38	19 795 330	18 678 882
Debt securities issued	39	313 104	-
Provisions	40	111 964	107 646
Current tax liabilities	32	4 125	-
Deferred tax liabilities	33	5 855	5 552
Other liabilities	41	119 289	113 585
TOTAL LIABILITIES		**21 590 677**	**21 030 949**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		139 245	173 393
Retained earnings		2 618 851	2 393 431
Profit for the year		313 826	223 978
TOTAL EQUITY	42	**3 357 699**	**3 076 579**
TOTAL LIABILITIES AND EQUITY		**24 948 376**	**24 107 528**

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 09, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

22.02.2022

Modmchil Chergansky
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

22.02.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve on PPE	Total
Balance as of January 1, 2020	285 777	342 378	2 049 542	185 886	(34 088)	(5 598)	71 035	2 894 932
Profit for the year	-	-	223 978	-	-	-	-	223 978
Actuarial (losses)	-	-	-	-	-	(800)	-	(800)
Change of revaluation reserve on investment securities	-	-	-	(42 327)	-	-	-	(42 327)
Change of revaluation reserve on cash flow hedges	-	-	-	-	(569)	-	-	(569)
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	(3 835)	(3 835)
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 678	-	-	-	(1 678)	-
Income tax related to components of other comprehensive income	-	-	(167)	4 679	57	80	551	5 200
Total other comprehensive income for the year net of tax	-	-	1 511	(37 648)	(512)	(720)	(4 962)	(42 331)
Total comprehensive income for the year net of tax	-	-	225 489	(37 648)	(512)	(720)	(4 962)	181 647
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2020	285 777	342 378	2 275 031	148 238	(34 600)	(6 318)	66 073	3 076 579

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve on PPE	Total
Balance as of January 1, 2021	285 777	342 378	2 275 031	148 238	(34 600)	(6 318)	66 073	3 076 579
Profit for the year	-	-	313 826	-	-	-	-	313 826
Actuarial gains	-	-	-	-	-	978	-	978
Change of revaluation reserve on investment securities	-	-	-	(44 231)	-	-	-	(44 231)
Change of revaluation reserve on cash flow hedges	-	-	-	-	4 780	-	-	4 780
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	2 603	2 603
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 603	-	-	-	(1 603)	-
Income tax related to components of other comprehensive income	-	-	(161)	4 001	(478)	(98)	(100)	3 164
Total other comprehensive income for the year net of tax	-	-	1 442	(40 230)	4 302	880	900	(32 706)
Total comprehensive income for the year net of tax	-	-	315 268	(40 230)	4 302	880	900	281 120
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2021	285 777	342 378	2 590 299	108 008	(30 298)	(5 438)	66 973	3 357 699

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22.02.2022

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Authorized representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ЕООД

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Separate Financial Statements (continued)

Separate Statement of Cash Flows

	Notes	2021	2020
			In thousands of BGN
Net profit		**313 826**	**223 978**
Current and deferred tax, recognized in income statement	21	27 568	14 285
Adjustments for non-cash items			
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	18	42 680	39 293
Impairment of financial assets	20	120 003	160 514
Impairment of foreclosed properties	14	36	270
Provisions, net	40	4 075	7 441
Unrealized fair value losses through profit or loss, net		3 976	4 197
Unrealized fair value losses (gains) on FX revaluation		97 301	(130 625)
Net (gains) from sale of property, plant and equipment		(8 650)	(1 065)
Net interest income	8	(360 200)	(354 819)
Dividend income	10	(65 278)	(100 037)
Increase in other accruals		6 088	22 425
Cash flows from profits before changes in operating assets and liabilities		**181 425**	**(114 143)**
Operating activities			
Change in operating assets			
Decrease in loans and advances to banks		207 156	355 060
Increase in loans and advances to customers		(1 767 481)	(383 466)
Decrease/(Increase) in investment securities		158 203	(130 187)
(Increase)/Decrease in financial instruments held for trading and hedging derivatives		(35 352)	70 517
Decrease in non-current assets held for sale		8 711	2 353
Decrease/(Increase) in other assets		(366)	17 650
Change in operating liabilities			
Increase/(Decrease) in deposits from banks		(804 557)	1 270 773
Increase in deposits from customers		992 770	1 104 949
Increase in debt securities issued		312 933	-
Provisions utilization		728	(5 767)
Decrease in other liabilities		(67 100)	(28 709)
Interest received		406 760	398 625
Interest paid		(46 168)	(44 653)
Dividends received		65 278	100 037
Taxes paid		(19 600)	(8 600)
Net cash flow from/(used in) operating activities		**(406 660)**	**2 604 439**

Separate Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2021	2020
Cash flow from investing activities			
Cash payments to acquire PPE		(27 083)	(15 697)
Cash receipt from sale of PPE		8 650	1 065
Cash payments to acquire intangible assets	31	(29 636)	(23 319)
Net cash flow used in investing activities		**(48 069)**	**(37 951)**
Cash flow from financial activities			
Dividends paid		-	-
Cash payments related to lease liabilities		(7 367)	(7 052)
Net cash flows used in financial activities		**(7 367)**	**(7 052)**
Effect of exchange rate changes on cash and cash equivalents		23 019	(1 803)
Impairment of cash equivalents	20	(2)	(126)
Net increase/(decrease) in cash and cash equivalents		(439 079)	2 557 507
Cash and cash equivalents at the beginning of period	46	7 556 770	4 999 263
Cash and cash equivalents at the end of period	46	7 117 691	7 556 770

These separate financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 09, 2022.

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Authorized representative

Одиторско дружество София Рег. № 033 Делойт Одит ООД

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

The accompanying notes 1 to 50 are an integral part of these separate financial statements.

Notes to the Separate Financial Statements

1. Reporting entity

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

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

As of December 31, 2021 the Bank operates through its network comprising of 147 branches and offices

2. Basis of preparation

(a) Statement of compliance

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

These separate financial statements have been prepared on unconsolidated basis as required by Bulgarian Accountancy Act.

These separate financial statements are approved by the Management Board of UniCredit Bulbank AD on February 09, 2022. They should be read in conjunction with the consolidated financial statements which are also subject to Management Board approval.

(b) Basis of measurement

These separate financial statements of the Bank have been prepared on the historical cost basis except for financial instruments measured at fair value or at amortized cost depending on asset classification, and Property, plant, equipment and investment properties that are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

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

3. Significant accounting policies

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

(a) Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments;
- excess liquidity interest based fees for accounts maintenance.

(b) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in the income statement as the entity satisfies the performance obligation embedded in the contract, according to "IFRS 15 Revenue from Contracts with Customers" rules.

In particular:

- if the performance obligation is satisfied at a specific moment ("point in time"), the related revenue is recognized in the income statement when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in the income statement in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized over the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the Bank accounts for a contract asset or a contract liability for the portion of revenue accrued in the period or defers it in the following periods.

The amount of revenues linked to fees and commissions income and other operating income is measured based on contractual provisions.

If the amount contractually foreseen is subject, totally or partially, to variability, revenue has to be booked based on the most probable amount that the Bank expects to receive.

Such amount is determined on the basis of all facts and circumstances considered relevant for the evaluation, depending on the type of service provided and, in particular, on the presumption that it is not highly probable that the revenue recognized will not be significantly reversed.

Nevertheless, for the services provided by the Bank such a variability is not usually foreseen.

Finally, if a contract relates to different goods/services whose performance obligations are not satisfied at the same time, revenue is allocated among the different performance obligations proportionally to the stand-alone price of the single item delivered. These amounts will therefore be accounted for in the income statement on the basis of the timing of satisfaction of each obligation.

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 realized and unrealized fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

(f) Dividend income

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

(g) Leases

The Bank as a lessee applies the requirements of IFRS 16, and assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (under EUR 5 000). For these leases, as permitted by IFRS 16, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lessor transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, Plant and Equipment" policy.

(h) Financial instruments

(i) Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognized in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

Classification of the financial assets is based on business model and characteristics of the contractual cash flows. The analysis of the business model was conducted by mapping the business areas that make up the Bank's portfolios and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyze the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortized cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyze the contract features with respect to IFRS9 requirements, or by using external data providers.

In application of the aforementioned rules, the Bank's financial assets and liabilities have been classified as follows:

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

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

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

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

After initial recognition these financial instruments are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HFT) financial asset is recognized in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognized as "Financial liabilities held for trading".

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

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

A non-derivative financial asset can be designated at fair value if the abovementioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

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

d) Financial assets mandatorily at fair value

The portfolio Mandatorily at fair value through profit or loss (MFV) is introduced according to IFRS 9 principles.
A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realized or unrealized, are recognized in profit or loss as "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 recognized in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers cost as the best estimate of fair value.

f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

UniCredit Group considers cost as a best estimate of fair value in case of Equity instruments for which all the following conditions are met: the instrument is not listed; the percentage of interests held by the Bank does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss. No reclassification of gains and losses to profit or loss on derecognition is allowed.

g) Financial assets at amortized cost

A financial asset is classified as financial asset measured at amortized cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

On initial recognition, at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and 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 profit or loss as Interest income and similar revenues.

The carrying amount of financial assets at amortized cost is adjusted to take into account the reductions/write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in profit or loss.

In the event of disposal, the accumulated profits and losses are recorded in the income statement as Gains (Losses) on disposal.

Amounts deriving from financial assets carrying amount adjustment, gross of cumulated write-downs, in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition, are recognized in profit or loss as Gains/Losses from contractual changes with no cancellations of the contracts.

Sales are usually not compatible with this business model. Several kinds of sales however do not jeopardize the business model held to collect. These are sales that occur as a result of deterioration in the credit standing of the financial assets, which are not significant in value (not greater than 10% of the carrying value of the relevant portfolio) or sales that are made close to the maturity. In any cases sales should be infrequent.

h) 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.

The Bank regularly performs and assessment for impairment indicators of the investments in subsidiaries and associates, based on the following impairment triggers:

QUANTITATIVE IMPAIRMENT TRIGGERS	QUALITATIVE IMPAIRMENT TRIGGERS
Individual net equity lower than cost	Acquisition/sale by the holder of the stake at a price lower than the cost
Distribution of dividends higher than the sum of the profit for the period and the other comprehensive income components in the period to which the dividends refer	Listing price lower than cost
Distribution of dividends while consolidated shareholders' equity lower than the individual book value	Evidence, on the basis of the plans and budgets, of the existence of future losses
	Adverse changes that imply revision of the plans and budget

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. They are carried at amortized cost using the effective interest rate method.

(iii) Derecognition

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

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

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

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

a) Contractual modifications and accounting derecognition (IFRS9)

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

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

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

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

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

(iv) Amortized cost measurement

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

(v) Fair value measurement principles

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

In accordance with IFRS 7 "Financial instruments: Disclosures" the Bank applies a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note 6).

(vi) Offsetting

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

(vii) Repurchase agreements

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

(i) Impairment

The Bank recognizes a loss allowance for ***expected credit losses*** on: a debt financial asset that is measured at **Amortized cost and Fair value through Other Comprehensive income**, a lease receivable, a contract asset or a loan commitment and a financial guarantee contracts.

For this purpose debt instruments have to be classified in one of the following stages:

- **Stage 1:** which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- **Stage 2:** which comprises financial assets whose credit risk has significantly increased since initial recognition;
- **Stage 3:** which comprises credit impaired financial assets.

In order to provide consistency between IFRS and regulatory definitions, it is assumed that all instruments classified as "Non-performing" according to regulatory framework are considered to be instruments with an objective evidence of impairment (credit impaired).

In order to meet the requirements of the standard, the Bank has developed specific models to calculate expected loss based on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) parameters to compound the Expected Credit Loss (ECL), and a model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. For Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank, the Stage Allocation model is based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group and the Bank opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Bank's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

a) New Definition of Default

The New Definition of Default is applied since 01.01.2021, in full compliance with the EBA Guidelines. The regulatory approval / joint decision on permission to apply material changes to the definitions of default (DoD) used in the Internal Ratings Based approach for calculating own funds requirements for credit risk has been received issued by ECB on 30.08.2021. The new classification criteria envisages as main changes the review of the materiality thresholds of past due and a further articulated structures of Unlikely-To-Pay triggers (it is worth mentioning the one related to the Distressed Restructuring for forborne exposures, where a maximum threshold for diminished Net Present Value of 1% has been set), including additional requirements on default contagions effects in case of connected clients (primarily, Group of companies, joint credit obligations among individuals and link among natural persons and unlimited liability companies). Furthermore, a minimum probation period before returning in a non-defaulted status has been set as mandatory.

b) Update of credit risk models

In line with the Model Roadmap plan and after successful decision of the Internal Model Inspection by ECB/BNB, in February 2022 are expected to be implemented the updated credit risk models for Corporate PD and SME PD rating system and IPRE (Income producing and real estate) slotting system as well. All the models follow the updated modelling methodology of UniCredit Holding and are aligned with the New Definition of Default principles set it EBA/GL/2016/07 Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013. The expected impact of the new models on the RWA and EL and through it on the banks capital position have been properly evaluated and reflected in the Bank's budget and multi-year plan.

c) Impairment of assets carried at amortized cost

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Financial and Credit Risk Committee – Credit Risk Session (formerly 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.

d) Impairment of financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in profit or loss.

FVTOCI financial assets are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Financial and Credit Risk Committee – Credit Risk Session (formerly Provisioning and Restructuring Committee) which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(j) Derivatives held/used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD".

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

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

Since 2009 the Bank applies macro Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply micro Fair Value Hedge accounting. In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess and measure the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis (based on Market risk function independent assessment), as to whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent (the limits for intragroup deals are to be reduced respectively to 90% and 111.8%). The Bank also makes an assessment for each cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as 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 amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortization starts immediately when hedge relationship no longer exists. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognized in profit and loss.

Cash flow hedge

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

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

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

(k) Property, plant, equipment and investment property

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

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

Starting from December 31, 2019 the Bank has adopted a policy to carry its items of property at revalued amount under the allowed alternative approach in IAS 16 Property, plant and equipment. Items of property are stated at fair value determined periodically by independent registered appraisers.

Positive changes in value are recognized in other comprehensive income reserve; if in previous periods negative changes were accounted for in the income statement, then subsequent positive changes will be recognized in the income statement up to the amount of negative change previously recognized.

Negative changes in value recognized in the income statement; if in previous periods positive changes in value were accounted for in other comprehensive income reserve, then subsequent negative changes will be recognized in other comprehensive income reserve (which can never be negative).

Depreciation is calculated based on revalued values and the revised remaining useful life.

Other comprehensive income reserve generated from revaluation (including the one, generated at First Time Adoption) is "reclassified" to retained earnings across the residual useful life of the asset. In case of disposal of the asset the entire other comprehensive income reserve is reclassified to retained earnings (with no impacts in the income statements).

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

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Starting from December 31, 2019 the Bank has adopted a policy to carry its items of investment property at fair value determined periodically by independent registered appraisers. In periods after the first comparative period, the changes in fair value over the previous period is recognized in the income statement. No depreciation charges or impairment adjustments is to be recognized.

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

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

Depreciation on all items of property, plant and equipment (except investment property for which no depreciation charges are accrued) is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.

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

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

(l) Intangible assets

Intangible assets are stated at cost less accumulated amortization and any impairment losses. As of December 31, 2021 and December 31, 2020 intangible assets include primarily investments in software and related licenses.

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

(m) Non-current assets held for sale

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

Properties acquired within a bail-out purchase that are not to be used for own business purposes or held to earn rentals and/or for capital appreciation in the long term, but are intended to be sold in the near future (within 12 months) are classified as Non-current Assets Held for Sale. Non-current assets held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

(n) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2021 and December 31, 2020 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 Labor Agreement.

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (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, 2021 and December 31, 2020 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 2021 and 2020.

(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, 2021 and December 31, 2020 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 recognized in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years.

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

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

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

As of December 31, 2021 and December 31, 2020 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

(r) Segment reporting

The Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. The business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

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

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions beyond 30 June 2021 (adopted by the EU on 30 August 2021 for financial years starting, at the latest, on or after 1 January 2021);
- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);

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

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

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

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 – 2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

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

- **IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016)** – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023);

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IFRS 17 "Insurance contracts"** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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

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

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

4. Financial risk management

(a) General framework

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

- market risk;
- liquidity risk;
- credit risk;

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

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

Financial and Credit Risk Committee – Financial Risk Session (FCRC – FRS), the former 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 Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS), the former Provisioning and Restructuring Committee (PRC). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation, approval of changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes.

Assessment of the credit risk is in accordance with the Group standards and for regulatory purposes in accordance with Bulgarian National Bank requirements.

Management of the Bank has approved certain limits aiming to mitigate the risk impact on the Bank's result. These limits are within the overall risk limits of the banking group. The limits for credit risk depend on size of the exposure. Management Board approves large exposures – above 10% of 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.

(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 Modeling Unit. Market risk control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book of UniCredit Bulbank, which is reviewed at least annually. A product development process is established in which risk managers play a decisive role in approving a new product.

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

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

For internal risk management and Group compliant risk measurement of Value at Risk (VaR), the Bank applies UniCredit Group's internal model for market risks. It is based on historical simulation with a 250-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2021, VaR of FVtOCI positions (measured with 1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between EUR 1.20 mln and EUR 5.71 mln, averaging EUR 2.87 mln, with credit spreads and interest rate curves' movements being main drivers. VaR of FVtPL positions moved in a range between EUR 0.17 mln and EUR 0.45 mln, averaging EUR 0.26 mln.

VaR of UniCredit Bulbank AD by portfolio in EUR mln for 2021 on stand-alone basis is as follows:

RISK CATEGORY	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
FVtPL	0.17	0.45	0.26	**0.18**
FVtOCI	1.20	5.71	2.87	**1.20**

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate changes of 0.01% by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In the interest rates area, the Basis-Point-Value (BP01) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The sensitivities' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on stand-alone basis as of December 31, 2021 (change in value due to 1 basis point shift, amounts in EUR, trading and banking books):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(600)	11 613	(34 554)	58 324	1 677	36 461
BGN	9 545	40 373	91 592	80 114	(73 577)	148 048
USD	(6 084)	(3 070)	(888)	(1)	-	(10 043)
CHF	(592)	231	3	(27)	(1)	(386)
GBP	(201)	364	2	-	-	165
Other	3	2	-	-	-	5
Total	**2 073**	**49 513**	**56 155**	**138 411**	**(71 901)**	**174 250**

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2021 totaled EUR 1,087,133. Instruments issued by governments account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT (EUR)

ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
Sovereigns	(3 828)	(20 169.29)	(115 191)	(825 273)	(69 846)	(1 034 308)
Regional governments	-	-	(227)	-	-	(227)
Corporates	-	(5 810.21)	(14 472)	72 880	-	52 598
Total Absolute	**3 828**	**25 979.50**	**129 891**	**898 153**	**69 846**	**1 087 133**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position are reported at least monthly to FCRC-FRS. Throughout 2021 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

The impacts of the still ongoing Covid-19 pandemic on market risk exposures and liquidity are evaluated as insignificant, thanks to the conservative investment strategy and strong funding profile largely independent from wholesale markets. UniCredit Bulbank continued to closely monitor its liquidity and market risk position, in order to ensure regular execution of its Treasury activities, strict compliance with the set risk appetite and proper information flows to the Senior Management and the Supervisor.

The behavioral model of non-maturing deposits (NMDs), introduced in Q2 2020 in compliance with the respective EBA Guidelines, has been recalibrated in 2021. The model estimates the liquidity and interest rate characteristics of the customer positions following the real behavior, instead of the contractual/explicit profile. The modelling of NMDs (Sight and Saving deposits) aims to identify their stability (stickiness) defined as the tendency to be a permanent source of funding.

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

As of December 31, 2021 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR and BGN	Other currencies	Total
ASSETS			
Cash and balances with Central Bank	6 654 508	22 928	**6 677 436**
Non-derivative financial assets held for trading	4 901	-	**4 901**
Derivatives held for trading	55 485	31 554	**87 039**
Derivatives held for hedging	11 976	-	**11 976**
Loans and advances to banks	390 117	307 868	**697 985**
Loans and advances to customers	13 382 236	137 215	**13 519 451**
Investment securities	3 459 813	15 549	**3 475 362**
Investments in subsidiaries and associates	55 479	-	**55 479**
Property, plant, equipment, right of use assets and investment properties	236 916	-	**236 916**
Intangible assets	88 138	-	**88 138**
Current tax assets	-	-	**-**
Non-current assets and disposal groups classified as held for sale	12 292	-	**12 292**
Other assets	80 972	429	**81 401**
TOTAL ASSETS	**24 432 833**	**515 543**	**24 948 376**
LIABILITIES			
Financial liabilities held for trading	15 813	31 335	**47 148**
Derivatives used for hedging	65 287	-	**65 287**
Deposits from banks	903 372	225 203	**1 128 575**
Deposits from customers and other financial liabilities at amortized cost	18 170 396	1 624 934	**19 795 330**
Debt securities issued	313 104	-	**313 104**
Provisions	105 165	6 799	**111 964**
Current tax liabilities	4 125	-	**4 125**
Deferred tax liabilities	**5 855**	**-**	**5 855**
Other liabilities	**114 510**	**4 779**	**119 289**
TOTAL LIABILITIES	**19 697 627**	**1 893 050**	**21 590 677**
EQUITY	**3 357 699**	**-**	**3 357 699**
Net off-balance sheet spot and forward position	**(1 380 560)**	**1 378 011**	**(2 549)**
Net position	**(3 053)**	**504**	**(2 549)**

As of December 31, 2020 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

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

(c) Liquidity risk

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

Liquidity is operationally managed through Treasury unit and the structural liquidity through Asset-Liability Management Unit. According to the Liquidity Policy, Treasury unit 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, defined as a 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 standardized Group-wide scenarios. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behavior 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 2021, 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 2021	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	4 901	-	**4 901**
Loans and advances to banks	657 234	40 751	**697 985**
Loans and advances to customers	5 306 044	8 213 407	**13 519 451**
Investment securities	409 946	3 065 416	**3 475 362**
Other assets	59 253	22 148	**81 401**
TOTAL FINANCIAL ASSETS	**6 437 378**	**11 341 722**	**17 779 100**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2020	UP TO 1 YEAR	OVER 1 YEAR	TOTAL
ASSETS			
Non-derivative financial assets held for trading	17 007	-	**17 007**
Loans and advances to banks	1 328 195	98 643	**1 426 838**
Loans and advances to customers	4 361 132	7 499 211	**11 860 343**
Investment securities	130 644	3 545 976	**3 676 620**
Other assets	50 408	23 408	**73 816**
TOTAL FINANCIAL ASSETS	**5 887 386**	**11 167 238**	**17 054 624**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2021	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEARS
Non derivative instruments						
Deposits from banks	**1 128 575**	(1 128 544)	(1 126 378)	-	-	(2 166)
Deposits from customers and other financial liabilities at amortized cost	**19 795 330**	(19 792 919)	(17 368 350)	(796 897)	(1 231 848)	(395 824)
Unutilized credit lines	**-**	(3 976 584)	(3 976 584)	-	-	-
Total non-derivative instruments	**20 923 905**	**(24 898 047)**	**(22 471 312)**	**(796 897)**	**(1 231 848)**	**(397 990)**
Derivatives held for trading, net	**39 891**	-	-	-	-	-
Outflow	**-**	(4 312 900)	(2 802 799)	(1 037 011)	(434 676)	(38 414)
Inflow	**-**	4 354 568	2 835 067	1 040 003	433 711	45 787
Derivatives used for hedging, net	**(53 311)**	-	-	-	-	-
Outflow	**-**	(79 851)	(10 005)	(41 642)	(11 078)	(17 126)
Inflow	**-**	26 545	789	10 545	3 867	11 344
Total derivatives	**(13 420)**	**(11 638)**	**23 052**	**(28 105)**	**(8 176)**	**1 591**
Total financial liabilities	**20 910 485**	**(24 909 685)**	**(22 448 260)**	**(825 002)**	**(1 240 024)**	**(396 399)**

In thousands of BGN

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

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2021 and December 31, 2020 is as shown in the next table:

In thousands of BGN

	31.12.2021	31.12.2020
Government bonds		
Rated BBB-	2 269	12 416
Equities		
Unrated	2 632	2 847
Loan		
Rated BBB	-	1 744
Derivatives (net)		
Banks and financial institution counterparties	(52 691)	(190 111)
Corporate counterparties	39 271	61 930
Total trading assets and liabilities	**(8 519)**	**(111 174)**

Government bonds presented as of December 31, 2021 and as of December 31, 2020 include bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of

Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS) established in the Bank.

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

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

Exposures with objective evidence of impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

During the financial year 2021, the Bank was monitoring the performance of the portfolio with Moratoria measures in order to identify negative development after their expiration. In general, the conclusion is that overall the situation is stable, registering 6.7% share of the loans with overdue payments from the bucket with the expired moratorium measures as of December 2021.

The achievement of this relatively good result is also due to the Bank's preventive activities from Q4 of 2020, when the Bank had started several initiatives using internally defined criteria aiming to identify borrowers with unstable financial situation and to register UTP event. Together with day-past-due triggered classification there is net inflow in the amount of BGN ~270 mln on Bank stand-alone level.

Main affected industries related to the Moratorium portfolio are Tourism, Media & Paper, Textile and Real Estate (in particular commercial centers and small administrative buildings). Further restructuring measures in these sectors are highly likely considering the ongoing pandemic and the respective sanitary measures.

As already mentioned in February 2022 UniCredit Bulbank is planning to implement the updated credit risk models for Corporate PD, SME PD rating system and IPRE slotting system as well. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 70.2 mln as of December 2021.

The Bank has allocated further add-on on LLPs due to rising uncertainties for the forthcoming year driven by high inflation pressure due to continuous increase of energy prices in a context of still continuing pandemic situation, particularly heavy in the country. The overall impact is estimated at the level of BGN 45.0 mln.

Credit risk monitoring is also focused on fulfilment of statutory lending limits set in Law on Credit Institutions. Exposure to one customer or group of related customers exceeding 10% of own funds are treated as large exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one customer or group of related customers must not exceed 25% of the capital base of the Bank. The table below shows the ratio of the biggest exposure to a group of customers and the top five biggest groups (excluding related parties) of customers as of December 31, 2021 and December 31, 2020.

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2021	2020	2021	2020	2021	2020
Biggest credit risk exposure to customers' group	538 143	531 317	482 408	459 028	16.0%	15.9%
Credit risk exposure to top five biggest customers' groups	1 257 743	1 385 391	994 222	1 069 108	33.0%	36.9%

The table below analyses the breakdown of loss allowances as of December 31, 2021 and December 31, 2020 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2021	2020
Cash and balances with Central Bank	167	165
Loans and advances to banks at amortized cost	271	374
Loans and advances to customers at amortized cost	715 334	694 690
Debt investment securities at amortized cost	956	117
Debt investment securities at FVTOCI	3 070	7 288
Loan commitments	29 519	16 842
Financial guarantee contracts and other commitments	29 364	42 224
Accumulated negative changes in fair value due to credit risk on non-performing exposures mandatory at FV	1 188	2 154
Total Loss allowance by classes and accumulated negative changes in fair value due to credit risk	**779 869**	**763 854**

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

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES AND DEBT SECURITIES TO BANKS AT AMORTISED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 31.12.2020	**(374)**	-	-	-	**(374)**
New financial assets originated or purchased	(204)	-	-	-	**(204)**
Financial assets that have been derecognised	307	-	-	-	**307**
Loss allowance as at 31.12.2021	**(271)**	-	-	-	**(271)**

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES AND DEBT SECURITIES TO CUSTOMERS AT AMORTISED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 31.12.2020	**(57 293)**	(86 353)	(550 424)	(737)	**(694 807)**
Changes in the loss allowance					
Transfer to stage 1	(7 651)	7 618	33	-	**-**
Transfer to stage 2	66 726	(70 126)	3 400	-	**-**
Transfer to stage 3	12 272	27 502	(39 774)	-	**-**
Increases due to change in credit risk	(87 617)	(73 546)	(47 685)	-	**(208 848)**
Decreases due to change in credit risk	12 078	20 830	71 872	472	**105 252**
Write-offs	-	-	103 043	-	**103 043**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(29 842)	(26 221)	(21 060)	-	**(77 123)**
Financial assets that have been derecognised	10 800	9 538	35 277	-	**55 615**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(80 527)**	**(190 758)**	**(444 740)**	**(265)**	**(716 290)**

The tables below analyses the movement of the customers portfolio at amortized cost in terms of quality and respective movements of the gross carrying amounts during 2021 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	31.12.2021					31.12.2020
	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL	TOTAL
Grades 1-3: Low to fair risk	2 259 637	119 806	-	-	**2 379 443**	**4 293 963**
Grades 4-6: Monitoring	8 357 557	1 141 645	-	-	**9 499 202**	**6 719 501**
Grades 7-8: Substandard	83 720	631 239	-	-	**714 959**	**706 912**
Grade 9: Doubtful	-	-	370 487	-	**370 487**	**484 290**
Grade 10: Impaired	-	-	195 109	265	**195 374**	**263 657**
Total gross carrying amount	**10 700 914**	**1 892 690**	**565 596**	**265**	**13 159 465**	**12 468 323**
Loss allowance	(79 571)	(190 758)	(444 740)	(265)	**(715 334)**	**(694 690)**
Carrying amount	**10 621 343**	**1 701 932**	**120 856**	**-**	**12 444 131**	**11 773 633**

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTIZED COST	31.12.2021					31.12.2020
	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL	TOTAL
Grades 1-3: Low to fair risk	1 072 177	-	-	-	**1 072 177**	**80 191**
Grades 4-6: Monitoring	2 029	-	-	-	**2 029**	**4 263**
Grades 7-8: Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**1 074 206**	**-**	**-**	**-**	1 074 206	84 454
Loss allowance	(956)	-	-	-	**(956)**	**(117)**
Carrying amount	**1 073 250**	**-**	**-**	**-**	1 073 250	84 337

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Gross carrying amount as at 31.12.2020	**10 385 211**	**1 419 619**	**747 210**	**737**	12 552 777
Changes in the gross carrying amount	**(428 800)**	401 961	26 839	-	**-**
Transfer to stage 1	418 282	(413 941)	(4 341)	-	**-**
Transfer to stage 2	(825 255)	854 016	(28 761)	-	**-**
Transfer to stage 3	(21 827)	(38 114)	59 941	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	4 433 487	272 560	22 607	-	**4 728 654**
Financial assets that have been derecognized	(1 502 710)	(151 183)	(68 416)	-	**(1 722 309)**
Write-offs	-	-	(103 043)	-	**(103 043)**
Other changes (repayments)	(1 112 068)	(50 267)	(59 601)	(472)	**(1 222 408)**
Gross carrying amount as at 31.12.2021	**11 775 120**	1 892 690	565 596	265	**14 233 671**

Pursuant to prescriptions provided on IFRS 9 principle as well as EBA Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), a Low Credit Risk Exemption (LCRE) is applied to financial instruments (including Loans) presenting a "low level of risk" at reporting date where the "low risk" is set out relying primarily on internal credit risk measures, keeping in the same time a reconciliation with Investment (IG) and Non-Investment Grade (NIG) classification. Therefore, according to the rationale described in the Group IFRS 9 Model Concept, an internal estimated PD threshold has been set equal to 0.3%. Therefore, all financial instruments belonging to client having a 1-year IFRS PD at reporting date lower than 0.3% would be then subject to LCRE and kept under Stage 1.

So far, since the Low Credit Risk Exemption has been related only to debt securities such table has not been previously reported. During Q4 of 2021 LCRE had been adopted also for Loan portfolio needs. The table below presents the amounts reported as of 31.12.2021

In thousands of BGN

	31.12.2021
Central banks	6 230 875
General governments	315 883
Credit institutions	579 854
Other financial corporations	19 103
Non-financial corporations	598 356
Of which: Small and Medium-sized Enterprises	204 913
Households	672 651
Total loans and advances at amortized cost	**8 416 722**

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

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2021	31.12.2020
Defaulted exposures		
Cash collateral	4 364	6 567
Property	856 382	1 007 847
Debt securities	463	463
Other collateral	619 390	677 193
Performing exposures		
Cash collateral	117 872	60 079
Property	12 003 684	11 070 326
Debt securities	13 310	9 509
Other collateral	7 842 670	7 912 113
Total	**21 458 135**	**20 744 097**

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, 2021 and December 31, 2020:

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Concentration by sectors						
Sovereign	1 425 221	463 162	-	-	3 305 109	3 523 292
Manufacturing	2 260 524	2 271 863	-	-	47 430	50 923
Commerce	1 909 119	1 826 807	-	-	-	
Construction and real estate	1 389 386	1 519 010	-	-	67	67
Agriculture and forestry	408 231	417 901	-	-	-	
Transport and communication	636 308	606 453	-	-	107	107
Tourism	273 674	216 855	-	-	-	
Services	221 886	438 580	-	-	655	655
Financial services	2 712 349	2 193 220	698 256	1 427 212	177 473	157 055
Retail (individuals)						
Housing loans	2 760 459	2 370 470	-	-	-	-
Consumer loans	174 752	167 745	-	-	-	-
Other	65 020	65 238	-	-	-	-
	14 236 929	**12 557 304**	**698 256**	**1 427 212**	**3 530 841**	**3 732 099**
Impairment allowances	(717 478)	(696 961)	(271)	(374)	-	-
Total	**13 519 451**	**11 860 343**	**697 985**	**1 426 838**	**3 530 841**	**3 732 099**
Concentration by geographic location						
Europe	14 207 760	12 522 127	670 760	1 392 970	3 515 292	3 717 474
North America	17 329	18 646	9 902	9 135	15 549	14 625
Asia	11 727	16 391	17 060	24 843	-	-
Africa	1	20	241	131	-	-
South America	11	19	-	-	-	-
Australia	101	101	293	133	-	-
	14 236 929	**12 557 304**	**698 256**	**1 427 212**	**3 530 841**	**3 732 099**
Impairment allowances and accumulated negative changes in fair value due to credit risk on non-performing exposures	(717 478)	(696 961)	(271)	(374)	-	-
Total	**13 519 451**	**11 860 343**	**697 985**	**1 426 838**	**3 530 841**	**3 732 099**

[1] The portfolio-based stage 2 correction mechanism is a measure set out since IFRS9 First Time Adoption in 1Q2018 with the aim to stabilize portfolio allocation in the different staging within boundaries around the long run quantile of the portfolio underlying the estimation sample of the Quantitative Staging Allocation model.

(iii) Significant increase in credit risk

In relation to quantitative criteria estimation used for stage transfers, the Bank has switched from an approach based on 1-year PD to a Lifetime PD. Following the Group guidelines and practices in this respect, the Bank has made further qualitative and quantitative enhancements:

- Removal of portfolio-based Stage 2 allocation mechanism (so called "quantile correction")[1];
- If the regulatory PD is equal or greater than 20% at the reporting date – Stage 2;
- If the IFRS PD at the reporting date is 3 times higher than the IFRS PD at inception – Stage 2;
- Introduction of obligatory 3-month probation period before returning the transactions back to Stage 1.

(e) Basel III disclosures

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

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

The regulatory framework sets minimum limits of Core Equity Tier 1 (CET 1) ratio, Tier 1 ratio and Total Capital Adequacy ratio of 4.5%, 6% and 8%, respectively. In addition, under the sole discretion of local Regulator is the definition and imposition of certain additional capital buffers, having as a core objective further strengthening of capital positions of the banks. In this respect Bulgarian National Bank (BNB) has imposed two additional buffers, namely capital conservation buffer of 2.5% and systemic risk buffer of 3% and from 2018 capital buffer for other systemic important institution 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, 2021 are 11.5%, 13%, 15% (as of December 31, 2020 – 11.5%, 13%, 15%), respectively.

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

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, 2021 is presented in the table below:

NAME	EIF JEREMIE	
Type of securitization:	First Loss Portfolio Guarantee	
Originator:	UniCredit Bulbank	
Issuer:	European Investment Fund	
Target transaction:	Capital Relief and risk transfer	
Type of asset:	Highly diversified and granular pool of newly granted SME loans	
Quality of Assets as of December 31, 2021	Performing loans	
Agreed maximum portfolio volume:	EUR 85,000 thousand	
Nominal Value of reference portfolio:	BGN 1,352 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, 2021	BGN 0	BGN 1,082 thousand

[1] The portfolio-based stage 2 correction mechanism is a measure set out since IFRS9 First Time Adoption in 1Q2018 with the aim to stabilize portfolio allocation in the different staging within boundaries around the long run quantile of the portfolio underlying the estimation sample of the Quantitative Staging Allocation model.

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2021 and December 31, 2020 are as follows:

In thousands of BGN

	31.12.2021	31.12.2020
Regulatory own funds		
Core Equity Tier 1 (CET 1)	3 015 956	2 846 764
Tier 1 capital	3 015 956	2 846 764
Tier 2 capital	45 097	47 165
Total regulatory own funds	**3 061 053**	**2 893 929**
Risk Weighted Assets (RWA)		
RWA for credit risk	10 233 640	10 198 674
RWA for market risk	91 651	85 813
RWA for operational risk	822 450	798 238
RWA for credit valuation adjustments	3 788	6 388
Total Risk Weighted Assets (RWA)	**11 151 529**	**11 089 113**
CET 1 ratio	**27.05%**	**25.67%**
Tier 1 ratio	**27.05%**	**25.67%**
Total capital adequacy ratio	**27.45%**	**26.10%**
Minimum CET 1 capital requirements (4.5%)	**501 819**	**499 010**
Minimum Tier 1 capital requirements (6%)	**669 092**	**665 347**
Minimum total capital requirements (8%)	**892 122**	**887 129**
Additional capital requirements for conservation buffer (2.5%)	278 788	277 228
Additional capital requirements for systemic risk buffer (3%)	311 574	305 821
Additional capital requirements for other systemic important institution (2020-1%, 2021-1%)	111 515	110 891
Additional capital requirements for countercyclical capital buffer (0.5%)	54 642	54 004
Combined buffers additional capital requirements (2021-7.00%, 2020-7%)	**756 519**	**747 944**
Adjusted minimum CET 1 capital requirements after buffers (11.50% – 2021, 11.50% – 2020;)	1 258 338	1 246 954
Adjusted minimum Tier 1 capital requirements, including buffers (13.00% – 2021; 13% – 2020)	1 425 611	1 413 291
Adjusted minimum total capital requirements after buffers (15.00% – 2021; 15% – 2020)	1 648 642	1 635 073
Free equity, after buffers	**1 412 411**	**1 258 856**

(f) Climate-related and environmental risks (ESG)

The climate-related and environmental risks and the accompanying shift towards sustainable finance are mounting challenges to the financial sector. In the context of an evolving regulatory framework that since 2020 have been putting even stronger emphasis on the climate risk topic, the Bank, in line with the Group's strategy, continued to proactively address these challenges by means of increased commitment to sustainability and tangible initiatives aimed at improving the management of risks to anticipate the possible increases in the riskiness of specific sectors and to analyze the impact on the overall Bank's business and risk profile.

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards.

UniCredit defines the Climate related and environmental risks as the sources of structural changes that might affect the economic activities and led by the following risk drivers:

- Transition risk refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower carbon and more environmentally sustainable economy;
- Physical risk refers to the financial impact of extreme weather events and gradual changes in climate, as well as of environmental degradation (e.g. water and land pollution, water stress, biodiversity loss and deforestation). Physical risk can directly result in damage to property or reduced productivity.

We proceed with the integration of Climate & Environmental risks within Risk Management framework through several concrete actions and in line with the defined Group Roadmap, as part of the "Risk and Credit" stream of the implemented in 2021 UniCredit Bulbank's ESG Governance Framework. We aim to achieve three main objectives:

- meeting regulatory expectations on banks business strategy and risk management processes;
- mitigating climate-related and environmental risks;
- identifying potential opportunities for financing the climate and environmental transition.

We carefully manage Transition Risk, ensuring proper origination, monitoring and management of the portfolios, following holistic approach including:

- Portfolio steering through Risk Appetite Framework, Credit strategies cascading and sector policies issuing;
- Portfolio analysis and monitoring;
- Single counterparty risk assessment (starting from Large Corporate).

Regarding Physical Risk, we are focused on the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Preliminary assessment of the collaterals portfolio has been performed by Collateral Management Unit on physical risk caused by sea-level rise and by flooding in line with the Group's methodology on the matter.

We continue to streamline data gathering and analytics, in order to further identify sources of climate related risks. Initiative has been launched for storage of the information for collaterals' Energy efficiency – new requirement for providing of issued Energy efficiency certificate of real estate properties proposed for collaterals is about to be implemented by the end of Q1 2022 with the respective proper flagging in the internal core banking system of the Energy class of the real estate properties. While this will be applied for all new business flows, the Bank explores possibilities for collaboration with third-party vendors on the assessment of the stock.

In line with the entered into force EBA Guidelines for Loan Origination and Monitoring, the Bank uses ESG information in its underwriting process. We have adopted Groupwide questionnaire for climate risk assessment and diligently apply it for transactions with economic groups above predefined exposure threshold. The Climate & Environmental (C&E) Risk Assessment.

Questionnaire aims to determine the customers' position on the transition pathway. The approach comprises:

- filling in of the above-mentioned questionnaire addressing both high and low emissive customers in line with regulatory expectations;
- generation of a Climate & Environmental (C&E) Risk Scorecard summarizing the main KPIs and identifying the counterparty's positioning in one of the four risk areas (low, medium-low, medium-high, high) of the Transition Assessment matrix;
- the inclusion of the environmental scoring in the credit valuation process.

C&E assessment methodology is based on 3 key dimensions:

- the climate and environmental exposure considers the actual level of Green House Gas (GHG) emissions of corporate customers as well as other environmental metrics such as water and energy consumption, waste production and recycling;
- the climate and environmental vulnerability evaluates the climate change management maturity level of corporate customers, considering the company's plan to shift to a lower emission level business model, the transition investment plan, the GHG emissions reduction target as well as products and services associated with positive climate impact. This dimension considers cross-industry emission targets and ESG ratings together with management and industry specific environmental strategy;
- the economic impact on corporate customers' financial and industrial performance takes into account the effects on stranded assets, the decrease in market shares or revenues due to market shift, the increase in investment costs, constraints in accessing financing and indirect effects related to their supply chain or partner industries.

An extension of this methodology to those counterparties subject to the Local Credit Committee is expected in 2022.

The bank intends to further develop heatmap approach to better understand the impact across sectors as well as to cover the positions below the defined thresholds.

UniCredit Bulbank has approved, implemented and follows several Group policies regarding sensitive sector that may have significant implication on the environment and the society. Strict monitoring and evaluation is being performed on counterparties and deals within the Coal Sector, Defense / Weapons Industry, Mining Industry, Water Infrastructure/Dams, Nuclear energy, Non-Conventional Oil & Gas and Arctic region Oil & Gas industry sector. The analysis is performed in line with all ESG criteria, requirements, standards and best practices, and ensures that all such standards and local and international regulations are met.

In 2021 UniCredit joined the Net-Zero Banking Alliance (NZBA). In line with the Group commitment to a climate-positive future, UniCredit Bulbank has put the foundations of its Carbon Footprint Reduction Program also in 2021.

In 2022 the Bank will continue to develop the activities in these areas in line with the Group approach and all applicable regulations, standards and best practices. The Bank aims to further progress with its efforts regarding climate-related risks and opportunities by refining the methodologies, working towards standard setting and expanding the scope. For instance, it's intended to expand the scope of our physical risk assessment for real estate and investigate the impact of transition risk on various sectors, as well as to include such assessments in the stress test scenarios for the Bank.

In its 2022 credit strategies the Bank, following the Group guidelines, will integrate climate and environmental risk factors, including by definition of KPIs to be used in order to differentiate Climate impact on Corporate Risk Strategy clusters and industry steering signals.

5. Use of estimates and judgements

UniCredit Bulbank AD is exposed to the following non-financial risks – Operational and Reputational risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (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 (ORR Unit). The responsibilities of the unit are in line with the envisaged by UniCredit Group. Appointed operational risk managers in the branch network and the Head Office, working on a decentralized basis, are responsible for loss data identification and reporting as well as for adoption of measures to reduce and prevent risks in their respective areas.

Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational risk exposure have been adopted in 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 Coal, Defense/Weapons, Nuclear energy, Water Infrastructure, Oil and Gas, etc.

The main activities of the ORR Unit in 2021 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks participation in dedicated bank projects and initiatives.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring. The RCSA activity was defined in 2019, performed in UniCredit Bulbank on an annual basis and further enhanced in 2020 and 2021. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of ORR Unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

The following new processes have been implemented and are regularly performed in 2021:

- ICT Project Risk Assessment – defines the principles for the management and control of Operational Risks during the project definition and management in the UniCredit Bulbank.
- Process Risk and Controls Assessment for material changes – aims at defining rules and principles to assess the Operational Risk related to significant changes in bank processes.
- Operational Risk Oversight Model – the process defines the methodological approach for the Operational Risk Oversight on UniCredit Group Legal Entities, the criteria for the Legal Entities clusterization and the minimal requirements for each type of model (Extended, Essential, Simplified). The aim is to strengthen the Oversight mechanism with reference to small size subsidiaries of the UniCredit Bulbank.

All activities regarding operational and reputational risk management included in the annual plan, defined by the Group, were performed following the Group methodology and executed in a timely manner with no delay.

The Non-Financial Risk and Controls Committee – General Session (NFRC-GS) greatly enhances the regular exchange of information and promotion of the operational risk awareness within the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management. The NFRC-GS acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

Overall, the organization of operational and reputational risk management in UniCredit Bulbank is well established, at a high level of quality, as it can be concluded from the annual Self-Assessment report. This fact was confirmed by the Bank's Internal Audit inspection, which gave the highest possible overall rating to the local

OpRisk management and internal control framework. The outcome of these assessments also proves full compliance to the regulatory and Group standards. A sound and well-developed risk management system was established with strong focus on pro-activeness with full support of senior management and all functions in the Bank.

During 2021 the ORR Unit continued to develop and strengthen the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure via adoption and implementation of key Group documents regulating the area. The Non-Financial Risk and Controls Committee – Reputational Risk Session (NFRC-RRS), is the decision-making body for reputational risk topics and holds monthly meetings to discuss deals and issues in the scope of the reputational risk.

The 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 2021 the ORR Unit organized dedicated trainings aiming to improve the expertise of the branch managers of the retail network of the Bank regarding operational risks in their daily activities. Moreover, two dedicated practical online trainings were held in the end of 2021 – one related to operational risk loss data reporting and confirmation by the operational risk managers and another covering the specifics of the ICT Project Risk Assessment performed by the project leaders. With regard to Reputational Risk, remote workshop sessions dedicated on the deals out of scope of the sector reputational risk policies were performed for all Business segments, aiming to increase overall support to the Business and optimize the time for response to clients' requests.

In 2021 the ORR Unit participated in several key business projects driving the digital transformation of the Bank – Omnichannel project, UniCredit Factoring Integration; UCX (Unified Customer Experience) project, Instant Payments, Robotic Process Automation Room project; Content Service Platform; Transaction monitoring; Flexcube upgrade; Compliance consolidation Program and many activities related to improving Compliance systems, processes and centralizing the most risky compliance processes for registration and KYC review of the customers.

The unit continues its methodological support, training and monitoring of the legal entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards.

The 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., Group NFRC Committee);
- Rule the necessary escalation / decision-making processes (e.g. material events escalation process)

The overall reputational risk management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies, in all the relevant decisions regarding the Reputational Risk management (i.e., escalation mechanisms);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- An effective system of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model).

During the year a new Reputational Risk Policy regarding Coal Sector was adopted and implemented.

6. Use of estimates and judgements

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

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

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

(a) Fair value determination of financial instruments

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

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

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

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

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

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

OTC derivatives

CVA (Credit Value Adjustment) represents adjustment made on the valuation of OTC derivative transaction in order to properly reflect the credit risk of the derivative counter-party. It can also be referred as the market value of counterparty credit risk. According to the adopted methodology in UniCredit Group, CVA is calculated on bilateral basis using market-based parameters (PD and LGD). In bilateral computations DVA (Debit Value Adjustment) representing market value of Bank's own credit risk towards counterparty, is also considered (for the actual amounts of CVA/DVA adjustments for 2021 and 2020 see also Note **11**).

Loans and advances to banks and customers

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

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2021, whenever risk-free FV deviates by more than 2% from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk-free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2021 and December 31, 2020 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, 2021 and December 31, 2020.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	
	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2020
Non derivative financial assets held for trading	3 015	1 886	-	**4 901**	**17 007**
Derivatives held for trading	-	87 039	-	**87 039**	**78 880**
Derivatives held for hedging	-	11 976	-	**11 976**	**16**
Investment securities	2 259 097	1 153 602	62 663	**3 475 362**	**3 676 620**
Loans and advances to banks	-	608 723	89 791	**698 514**	**1 524 988**
Loans and advances to customers	-	6 424 421	6 194 616	**12 619 037**	**10 626 808**
	2 262 112	**8 287 647**	**6 347 070**	**16 896 829**	**15 924 319**
Financial liabilities held for trading	-	47 148	-	**47 148**	**101 394**
Derivatives used for hedging	-	65 287	-	**65 287**	**105 683**
Deposits from banks	-	-	1 128 933	**1 128 933**	**1 919 255**
Deposits from customers and other financial liabilities at amortized cost	-	-	19 795 273	**19 795 273**	**18 679 634**
Debt securities issued	-	312 933	-	**312 933**	**-**
	-	**425 368**	**20 924 206**	**21 349 574**	**20 805 966**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2021 is as follows:

In thousands of BGN

	INVESTMENT SECURITIES
Opening balance (January 1, 2021)	**43 273**
Increases	**20 350**
Purchase	19 500
Profit recognized in income statement	
Profit recognized in equity	68
Transfer from other levels	-
Other increases	782
Decreases	**(960)**
Sales	-
Redemption	(750)
Loses recognized in income statement	(210)
Loses recognized in equity	-
Transfer to other levels	-
Other decreases	-
Closing balance (December 31, 2021)	**62 663**

The tables below analyses the fair value of financial instruments by classification as of December 31, 2021 and December 31, 2020.

In thousands of BGN

DECEMBER 2021	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 677 436	**6 677 436**	**6 596 933**
Non-derivative financial assets held for trading	4 901	-	-	-	-	**4 901**	**4 901**
Derivatives held for trading	87 039	-	-	-	-	**87 039**	**87 039**
Derivatives held for hedging	-	-	-	11 976	-	**11 976**	**11 976**
Loans and advances to banks	-	697 985	-	-	-	**697 985**	**698 514**
Loans and advances to customers	-	13 519 451	-	-	-	**13 519 451**	**12 619 037**
Investment securities	-	-	3 475 362	-	-	**3 475 362**	**3 475 362**
TOTAL ASSETS	**91 940**	**14 217 436**	**3 475 362**	**11 976**	**6 677 436**	**24 474 150**	**23 493 762**
LIABILITIES							
Financial liabilities held for trading	47 148	-	-	-	-	**47 148**	**47 148**
Derivatives used for hedging	-	-	-	65 287	-	**65 287**	**65 287**
Deposits from banks	-	-	-	-	1 128 575	**1 128 575**	**1 128 933**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	19 795 330	**19 795 330**	**19 795 273**
Debt securities issued	-	-	-	-	313 104	**313 104**	**312 933**
TOTAL LIABILITIES	**47 148**	**-**	**-**	**65 287**	**21 237 009**	**21 349 444**	**21 349 574**

In thousands of BGN

DECEMBER 2020	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 595 652	**6 595 652**	**6 596 933**
Non-derivative financial assets held for trading	15 263	1 744	-	-	-	**17 007**	**17 007**
Derivatives held for trading	78 880	-	-	-	-	**78 880**	**78 880**
Derivatives held for hedging	-	-	-	16	-	**16**	**16**
Loans and advances to banks	-	1 426 838	-	-	-	**1 426 838**	**1 524 988**
Loans and advances to customers	-	11 860 343	-	-	-	**11 860 343**	**10 626 808**
Investment securities	-	-	3 676 620	-	-	**3 676 620**	**3 676 620**
TOTAL ASSETS	**94 143**	**13 288 925**	**3 676 620**	**16**	**6 595 652**	**23 655 356**	**22 521 252**
LIABILITIES							
Financial liabilities held for trading	101 394	-	-	-	-	**101 394**	**101 394**
Derivatives used for hedging	-	-	-	105 683	-	**105 683**	**105 683**
Deposits from banks	-	-	-	-	1 918 207	**1 918 207**	**1 919 255**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	18 678 882	**18 678 882**	**18 679 634**
TOTAL LIABILITIES	**101 394**	**-**		**105 683**	**20 597 089**	**20 804 166**	**20 805 966**

(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, 2021 and December 31, 2020 all investment properties have undergone external fair valuation and whenever the assessed fair value was below carrying amount, impairment has been recognized (see also Note 30).

(c) Impairment of financial instruments

In estimating the impairment on financial instruments carried at amortized cost and at FVTOCI and in order to meet the requirements of IFRS 9, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Bank continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(d) Provisions

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

7. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

DECEMBER 2021	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	118 782	204 883	36 535	**360 200**
Dividend income	-	-	65 278	**65 278**
Net fee and commission income	166 326	72 522	(558)	**238 290**
Net gains from financial assets and liabilities held for trading and hedging derivatives	27 507	52 735	142	**80 384**
Net gains from financial assets mandatory at fair value	-	(46)	155	**109**
Net income from financial assets measured at FVTOCI	-	16 929	2	**16 931**
Other operating expenses	(21 853)	(1 718)	8 857	**(14 714)**
TOTAL OPERATING INCOME	**290 762**	**345 305**	**110 411**	**746 478**
Personnel expenses	(66 809)	(19 832)	(62 165)	**(148 806)**
General and administrative expenses	(61 387)	(16 077)	(28 236)	**(105 700)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(23 019)	(5 066)	(14 595)	**(42 680)**
Total direct expenses	**(151 215)**	**(40 975)**	**(104 996)**	**(297 186)**
Allocation of indirect and overhead expenses	(68 023)	(33 126)	101 149	**-**
TOTAL OPERATING EXPENSES	**(219 238)**	**(74 101)**	**(3 847)**	**(297 186)**
Provisions for risk and charges	(3 434)	(435)	1 315	**(2 554)**
Net impairment loss on financial assets	(22 845)	(81 111)	(3 876)	**(107 832)**
Net income related to property, plant and equipment	-	-	2 488	**2 488**
PROFIT BEFORE INCOME TAX	**45 245**	**189 658**	**106 491**	**341 394**
Income tax expense	(3 654)	(15 315)	(8 599)	**(27 568)**
PROFIT FOR THE YEAR	**41 591**	**174 343**	**97 892**	**313 826**
ASSETS	**3 987 956**	**16 306 047**	**4 654 373**	**24 948 376**
LIABILITIES	**13 747 894**	**7 118 850**	**723 933**	**21 590 677**

In thousands of BGN

DECEMBER 2020	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	181 932	192 362	(19 475)	**354 819**
Dividend income	-	-	100 037	**100 037**
Net fee and commission income	142 801	69 733	(7 134)	**205 400**
Net gains from financial assets and liabilities held for trading and hedging derivatives	22 552	51 954	3 941	**78 447**
Net (losses)/gains from financial assets mandatory at fair value	-	(2 292)	2 193	**(99)**
Net income from financial assets measured at FVTOCI	-	9 639	893	**10 532**
Other operating expenses	(33 271)	(35 085)	(697)	**(69 053)**
TOTAL OPERATING INCOME	**314 014**	**286 311**	**79 758**	**680 083**
Personnel expenses	(63 382)	(18 346)	(58 817)	**(140 545)**
General and administrative expenses	(57 769)	(14 392)	(31 075)	**(103 236)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(21 523)	(5 116)	(12 654)	**(39 293)**
Total direct expenses	**(142 674)**	**(37 854)**	**(102 546)**	**(283 074)**
Allocation of indirect and overhead expenses	(64 559)	(33 058)	97 617	**-**
TOTAL OPERATING EXPENSES	**(207 233)**	**(70 912)**	**(4 929)**	**(283 074)**
Provisions for risk and charges	(224)	3 866	(9 304)	**(5 662)**
Net impairment loss on financial assets	(31 959)	(115 907)	(5 277)	**(153 143)**
Net income related to property, plant and equipment	-	-	59	**59**
PROFIT BEFORE INCOME TAX	**74 598**	**103 358**	**60 307**	**238 263**
Income tax expense	(4 472)	(6 197)	(3 616)	**(14 285)**
PROFIT FOR THE YEAR	**70 126**	**97 161**	**56 691**	**223 978**
ASSETS	**3 357 499**	**15 840 257**	**4 909 772**	**24 107 528**
LIABILITIES	**13 059 479**	**7 481 913**	**489 557**	**21 030 949**

8. Net interest income

In thousands of BGN

	2021	2020
Interest income		
Non-derivative financial assets held for trading	71	262
Derivatives held for trading	-	28
Loans and advances to banks	2 232	2 492
Loans and advances to customers	330 972	331 494
Investment securities	50 958	56 652
Interest income on liabilities	22 323	9 249
	406 556	**400 177**
Interest expense		
Derivatives held for trading	-	(17)
Derivatives used for hedging	(19 301)	(19 345)
Deposits from banks	(323)	(909)
Deposits from customers	(744)	(2 580)
Debt securities issued	(239)	-
Interest expense on assets	(25 749)	(22 507)
	(46 356)	**(45 358)**
Net interest income	**360 200**	**354 819**

For the financial years ended December 31, 2021 and December 31, 2020 the interest income recognized on defaulted financial instruments (loans and advances to customers) is in the amount of BGN 16 793 thousand and BGN 12 863 thousand, respectively.

For 2020, fees and commissions for account services, presenting excess liquidity fees in the amount of BGN 6 824 thousand have been reclassified from Fees and commissions (account services) to interest income (Interest income on liabilities).

Interest income on liabilities and interest expenses on assets have been presented in separate positions due to materiality of the amounts.

9. Net fee and commission income

In thousands of BGN

	2021	2020
Fee and commission income		
Collection and payment services	137 256	114 445
Lending business	14 294	12 059
Account services	29 705	27 275
Management, brokerage and securities trading	18 493	10 949
Documentary business	18 201	17 007
Package accounts	23 632	23 534
Other	34 305	29 660
	275 886	**234 929**
Fee and commission expense		
Collection and payment services	(34 232)	(26 880)
Management, brokerage and securities trading	(2 328)	(1 360)
Lending business	(115)	(128)
Other	(921)	(1 161)
	(37 596)	**(29 529)**
Net fee and commission income	**238 290**	**205 400**

10. Dividend income

In thousands of BGN

	2021	2020
Dividend income from subsidiaries	64 051	98 808
Dividend income from other equity participations	1 227	1 229
Dividend income	**65 278**	**100 037**

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

In thousands of BGN

	2021	2020
FX trading income, net	77 722	72 374
Net income from debt instruments	483	1 223
Net loss from equity instruments	(242)	(428)
Net income from derivative instruments	157	2 670
Net income from other trading instruments	1 792	2 876
Net income/(loss) from hedging derivative instruments	472	(268)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**80 384**	**78 447**

The total CVA (net of DVA) for the years ended December 31, 2021 and December 31, 2020, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 609 thousand and BGN 1 351 thousand, respectively.

12. Net loss/gains from financial assets mandatorily at fair value

In thousands of BGN

	2021	2020
Equity securities	281	1 983
Loans and advances	(172)	(2 082)
Net gains/(losses) from financial assets mandatory at fair value	**109**	**(99)**

13. Net income from financial assets measured at FVTOCI

Net income related to financial assets measured at FVTOCI according to IFRS 9 represents the net gain the Bank has realized upon disposal of debt securities. For the years ended December 31, 2021 and December 31, 2020 the gains are in the amount of BGN 16 931 thousand and BGN 10 532 thousand, respectively.

14. Other operating expenses, net

In thousands of BGN

	2021	2020
Other operating income		
Income from non-financial services	840	737
Rental income	1 464	1 787
Other income	7 036	1 589
	9 340	**4 113**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(23 561)	(71 994)
Impairment of foreclosed properties	(36)	(270)
Losses on tangible assets measured at fair value	(52)	(263)
Other operating expenses	(405)	(639)
	(24 054)	**(73 166)**
Other operating expenses, net	**(14 714)**	**(69 053)**

In 2021 and 2020 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.

15. Net income related to property, plant and equipment

Net income related to property, plant and equipment represents the net gain the Bank has realized upon disposal of fixed assets. For the years ended December 31, 2021 and December 31, 2020 the gains are in the amount of BGN 2 488 thousand and BGN 59 thousand respectively.

16. Personnel expenses

In thousands of BGN

	2021	2020
Wages and salaries	(124 469)	(115 846)
Social security charges	(17 551)	(17 544)
Pension and similar expenses	(1 521)	(1 779)
Temporary staff expenses	(1 707)	(1 309)
Share-based payments	(971)	(719)
Other	(2 587)	(3 348)
Total personnel expenses	**(148 806)**	**(140 545)**

As of December 31, 2021 the total number of employees, expressed in full time employee equivalent is 3 533 (December 31, 2020 – 3 612).

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, 2020	2021 COST (GAINS)	SETTLED IN 2021	ECONOMIC VALUE AT DECEMBER 31, 2021
Deferred Short Term Incentive (ordinary shares)	7 140	971	(2 499)	5 612
ESOP and shares for Talents	64	-	-	64
Total Options and Shares	**7 204**	**971**	**(2 499)**	**5 676**

Pension and similar expenses comprise current services costs and interest costs related to defined benefits obligation of the Bank to its employees upon retirement. For more details about the pension scheme see Note **40**.

17. General and administrative expenses

In thousands of BGN

	2021	2020
Advertising, marketing and communication	(6 443)	(5 236)
Credit information and searches	(811)	(844)
Information, communication and technology expenses	(49 812)	(49 199)
Consulting, audit and other professional services	(2 149)	(2 510)
Real estate expenses	(15 642)	(15 165)
Rents	(6 312)	(8 047)
Travel expenses and car rentals	(2 111)	(1 902)
Insurance	(1 396)	(1 334)
Supply and miscellaneous services rendered by third parties	(13 071)	(13 094)
Other costs	(7 953)	(5 905)
Total general and administrative expenses	**(105 700)**	**(103 236)**

For 2021 the fees for audit services provided by the auditing companies amount to BGN 975 thousand (BGN 932 thousand for 2020).

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

In thousands of BGN

	2021	2020
Depreciation charge	(41 109)	(39 293)
Impairment	(1 571)	-
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(42 680)	(39 293)

As part of the standard year-end closure procedures, Bank performs impairment assessment of its long-term assets. Impairment is recognized whenever recoverable amount of the assets is lower than their carrying amount.

19. Provisions for risk and charges

Provisions are allocated whenever based on Management's best estimates the Bank has present obligation (legal or constructive) arising from past events for the settlement of which outflow of resources embodying economic benefits will be required. Whenever based on new circumstances and evidences it is not any more likely the outflow of resources to occur, the previously allocated provisions are reversed (for more details see also Note **40**).

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it is presented in the income statement.

In thousands of BGN

	2021	2020
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(40 541)	(26 700)
Restructuring provisions	(1 971)	(6 023)
Legal cases provisions	(5 325)	(4 426)
Other provisions	(314)	(200)
	(48 151)	**(37 349)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	40 803	30 343
Legal cases provisions	4 794	1 344
	45 597	**31 687**
Net provisions charge	**(2 554)**	**(5 662)**

20. Net impairment loss on financial assets

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS	2021	2020
Balance 1 January	**694 807**	**554 674**
Increase	316 723	291 041
Decrease		
Loans and advances to customers	(192 396)	(134 890)
Recoveries from loans previously written-off	(12 173)	(7 497)
	(204 569)	(142 387)
Net impairment losses	**112 154**	**148 654**
FX revaluation effect on impairment allowances	575	(1 566)
Other movements	(376)	(419)
Written-off	(103 043)	(14 033)
Balance December 31		
Loans and advances to customers	**716 290**	**694 807**

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO BANKS	2021	2020
Balance 1 January	**374**	**478**
Increase	55	295
Decrease	(161)	(397)
Net impairment losses	**(106)**	**(102)**
FX revaluation effect on impairment allowances	3	(2)
Balance December 31		
Loans and advances to banks	**271**	**374**

In thousands of BGN

PROVISIONS ON BALANCES WITH CENTRAL BANK	2021	2020
Balance 1 January	**165**	**39**
Increase	2	126
Decrease		-
Net impairment losses	**2**	**126**
Balance December 31		
Balances with Central Bank	**167**	**165**

In thousands of BGN

PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI	2021	2020
Balance 1 January	**7 288**	**2 823**
Increase	552	7 612
Decrease	(4 770)	(3 147)
Net impairment losses	**(4 218)**	**4 465**
Balance December 31		
Financial assets at fair value through OCI	**3 070**	**7 288**

In thousands of BGN

	2021	2020
Net impairment losses on Loans and advances to customers	(112 154)	(148 654)
Net impairment losses on Loans and advances to Banks	106	102
Net impairment losses on Balances with Central Bank	(2)	(126)
Net impairment losses on Financial assets at fair value through OCI	4 218	(4 465)
Total net impairment loss on financial assets	**(107 832)**	**(153 143)**

21. Income tax expense

Taxation is payable at a statutory rate of 10% on adjusted profits under the annual tax return prepared under the Bulgarian Corporate Income Tax Law. Deferred tax is calculated using a tax rate of 10%, applicable for 2021.

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

In thousands of BGN

	2021	2020
Current tax	(23 884)	(7 872)
Deferred tax expense related to origination and reversal of temporary differences	(3 467)	(6 206)
Overprovided prior year current tax	(217)	(207)
Income tax expense	**(27 568)**	**(14 285)**

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

	2021	2020
Accounting profit before tax	341 394	238 263
Corporate tax at applicable tax rate (10% for 2021 and 2020)	(34 139)	(23 826)
Tax effect of non-taxable revenue	6 716	9 994
Tax effect of non-deductible tax expenses	(401)	(601)
Overprovided prior year income tax	256	148
Income tax expense	**(27 568)**	**(14 285)**
Effective tax rate	**8.08%**	**6.00%**

22. Cash and cash balances with Central bank

In thousands of BGN

	31.12.2021	31.12.2020
Cash in hand and in ATM	263 345	252 791
Cash in transit	183 383	152 233
Current account with Central Bank	6 230 708	6 190 628
Total cash and balance with Central Bank	**6 677 436**	**6 595 652**

23. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Government bonds	2 269	12 416
Equities	2 632	2 847
Loans	-	1 744
Total non-derivative financial assets held for trading	**4 901**	**17 007**

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 in 2020 consist of prepaid forward transaction with a customer.

24. Derivatives held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Interest rate swaps	18 320	34 214
FX forward contracts	919	5 484
FX swaps	36 924	7 778
Commodity swaps	16 319	15 744
Commodity options	14 557	15 660
Total derivatives held for trading	**87 039**	**78 880**

Derivatives consist of trading instruments that have positive market value as of December 31, 2021 and December 31, 2020. 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.

25. 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, 2021 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 31.12.2021 is – PV (+) BGN 11 885 thousand and PV (-) BGN 31 047 thousand.
- Derivative used as hedging instrument for Cash flow hedge relationship – Present Value (PV) as of 31.12.2021 is – PV (+) BGN 91 thousand and PV (-) 34 240 thousand.

26. Loans and advances to banks

In thousands of BGN

	31.12.2021	31.12.2020
Debt securities	98 068	98 315
Loans and advances to banks	429 290	1 218 318
Current accounts with banks	170 898	110 579
Loans and advances to banks at amortized cost	**698 256**	**1 427 212**
Less impairment allowances	(271)	(374)
Total loans and advances to banks	**697 985**	**1 426 838**

27. Loans and advances to customers

In thousands of BGN

	31.12.2021	31.12.2020
Companies	9 808 219	9 486 162
Individuals		
Housing loans	2 760 459	2 370 470
Consumer loans	174 752	167 745
Other loans	65 020	65 238
Central and local governments	1 425 221	463 162
	14 233 671	**12 552 777**
Less impairment allowances	(716 290)	(694 807)
Loans and advances to customers at amortized cost	**13 517 381**	**11 857 970**
Loans and advances to customers mandatory at fair value	**2 070**	**2 373**
thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures	(1 188)	(2 154)
Total loans and advances to customers	**13 519 451**	**11 860 343**

28. Investment securities

In thousands of BGN

	31.12.2021	31.12.2020
Securities measured at FVTOCI		
Government bonds	3 305 110	3 523 292
Bonds of banks and other financial institutions	94 535	75 533
Corporate bonds	47 430	50 923
Equities	11 660	11 660
Securities mandatory measured at FV		
Equities	16 627	15 212
Total Investment securities	**3 475 362**	**3 676 620**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2021 are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

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

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2021 is BGN 1 381 199 thousand and as of 31.12.2020 is BGN 1 576 587 thousand.

As of December 31, 2021 and as of December 31, 2020 there are pledged investments amounting to BGN 842 625 thousand and BGN 1 711 100 thousand respectively (see also Note 44).

29. Investments in subsidiaries and associates

In thousands of BGN

COMPANY	ACTIVITY	SHARE IN CAPITAL DECEMBER 2021	SHARE IN CAPITAL DECEMBER 2020	CARRYING VALUE IN THOUSANDS OF BGN DEC 2021	CARRYING VALUE IN THOUSANDS OF BGN DEC 2020
UniCredit Factoring EAD	Factoring activities	100%	100%	3 000	3 000
UniCredit Fleet Management EOOD	Transport services	100%	100%	655	655
UniCredit Consumer Financing EAD	Consumer lending and other similar activities in line with the applicable law and regulations	100%	100%	39 238	39 238
UniCredit Leasing EAD	Leasing activities	100%	100%	9 611	9 611
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	25%	25%	2 975	2 975
Total				**55 479**	**55 479**

As described in Note **3 (h) (ii) (h)**, investments in subsidiaries and associates comprise 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.

All subsidiaries of the Bank conduct their business operations on the territory of Bulgaria with no branches outside of the country and their activities are summarized below:

- UniCredit Factoring EAD – provides management tools for short-term receivables from customers, aiming at optimizing working capital needs through professional management and financing of receivables and protection against non-payment. UniCredit Factoring EAD offers factoring deals with or without recourse, applicable for receivables from customers in domestic and international markets. It is based on the assignment of ownership (cession) of receivables from a supplier to UniCredit Factoring EAD and does not require any additional collateral.
- UniCredit Fleet Management EOOD – purchase and sale of motor vehicles, provision of transport services and fleet management, operating leases, as well as all additional and servicing activities of the leases;
- UniCredit Consumer Financing EAD – performs consumer lending activities in line with the applicable law and regulations.
- UniCredit Leasing EAD – acquisition of machinery, equipment, vehicles and real estate through purchase or lease agreements for the purpose of providing these assets under financial or operating leases, concluding lease agreements, as well as any other transactions accompanying those activities.

30. Property, plant, equipment, rights of use assets and investment properties

In thousands of BGN

	LANDS	BUILDINGS	BUILDINGS – RIGHT OF USE	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost or revalued amount							
As of December 31, 2020	**12 117**	**223 746**	**51 048**	**11 549**	**85 987**	**48 160**	**432 607**
Additions	-	2 928	8 625	624	12 729	10 802	**35 708**
Transfers	-	(1 646)	-	-	-	-	**(1 646)**
Write offs	-	(1 233)	-	(747)	(3 914)	(916)	**(6 810)**
Disposals	-	-	-	-	(1 924)	(2 194)	**(4 118)**
As of December 31, 2021 before revaluation	**12 117**	**223 795**	**59 673**	**11 426**	**92 878**	**55 852**	**455 741**
Increase in value via revaluation reserve upon new revaluation	113	6 363	-	-	-	-	**6 476**
Decrease in value via revaluation reserve upon new revaluation	(809)	(3 064)	-	-	-	-	**(3 873)**
Decrease in value in profit or loss upon new revaluation	(23)	(29)	-	-	-	-	**(52)**
Revaluation adjustment	**(719)**	**3 270**	**-**	**-**	**-**	**-**	**2 551**
As of December 31, 2021 after revaluation	**11 398**	**227 065**	**59 673**	**11 426**	**92 878**	**55 852**	**458 292**
Depreciation							
As of December 31, 2020	**-**	**91 433**	**10 543**	**8 899**	**60 597**	**36 666**	**208 138**
Depreciation charge	-	5 778	6 546	663	7 704	3 950	**24 641**
Impairment	-	-	-	-	81	-	**81**
Write offs	-	(1 233)	-	(747)	(3 914)	(884)	**(6 778)**
On disposals	-	-	-	-	(1 919)	(2 192)	**(4 111)**
Transfers	-	-	-	-	-	-	**-**
As of December 31, 2021	**-**	**95 978**	**17 089**	**8 815**	**62 549**	**37 540**	**221 971**
Net book value as of December 31, 2021	**11 398**	**131 087**	**42 584**	**2 611**	**30 329**	**18 312**	**236 321**
Net book value as of December 31, 2020	**12 117**	**132 313**	**40 505**	**2 650**	**25 390**	**11 494**	**224 469**

In thousands of BGN

	LANDS	BUILDINGS	BUILDINGS – RIGHT OF USE	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost or revalued amount							
As of December 31, 2019	**12 117**	**225 777**	**46 118**	**11 432**	**79 689**	**51 714**	**426 847**
Additions	-	5 538	6 105	679	8 238	1 242	**21 802**
Transfers	-	(1 546)	-	-	-	1 546	**-**
Write offs	-	(1 716)	(1 175)	(562)	(1 719)	(3 444)	**(8 616)**
Disposals	-	-	-	-	(221)	(2 898)	**(3 119)**
As of December 31, 2020 before revaluation	**12 117**	**228 053**	**51 048**	**11 549**	**85 987**	**48 160**	**436 914**
Increase in value via revaluation reserve upon new revaluation	1 104	3 246	-	-	-	-	**4 350**
Decrease in value via revaluation reserve upon new revaluation	(882)	(7 303)	-	-	-	-	**(8 185)**
Decrease in value in profit or loss upon new revaluation	(222)	(250)	-	-	-	-	**(472)**
Revaluation adjustment	**-**	**(4 307)**	**-**	**-**	**-**	**-**	**(4 307)**
As of December 31, 2020 after revaluation	**12 117**	**223 746**	**51 048**	**11 549**	**85 987**	**48 160**	**432 607**
Depreciation							
As of December 31, 2019	**-**	**87 585**	**4 957**	**8 832**	**52 993**	**38 320**	**192 687**
Depreciation charge	-	5 564	5 807	629	9 535	4 688	**26 223**
Impairment	-	-	-	-	-	-	**-**
Write offs	-	(1 716)	(221)	(562)	(1 719)	(3 444)	**(7 662)**
On disposals	-	-	-	-	(212)	(2 898)	**(3 110)**
Transfers	-	-	-	-	-	-	**-**
As of December 31, 2020	**-**	**91 433**	**10 543**	**8 899**	**60 597**	**36 666**	**208 138**
Net book value as of December 31, 2020	**12 117**	**132 313**	**40 505**	**2 650**	**25 390**	**11 494**	**224 469**
Net book value as of December 31, 2019	**12 117**	**138 192**	**41 161**	**2 600**	**26 696**	**13 394**	**234 160**

In thousands of BGN

	INVESTMENT PROPERTY
Net book value as of December 31, 2020	**657**
Additions	-
Transfers	-
Write offs	-
Disposals	(62)
Increase in fair value	-
Net book value as of December 31, 2021	**595**

In thousands of BGN

	INVESTMENT PROPERTY
Net book value as of December 31, 2019	**20 750**
Additions	30
Transfers	(20 332)
Write offs	-
Disposals	-
Increase in fair value	209
Net book value as of December 31, 2020	**657**

Items of plant, equipment, right of use assets and other are carried at cost less any accumulated depreciation and adjusted for impairment, if any, while land and buildings used in business and investment properties are revalued to their fair value.

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

As of December 31, 2021 and December 31, 2020 all investment properties have undergone external independent fair valuation and results of revaluation are considered in these separate financial statements. Same is in place also for land and buildings used in business.

The following table illustrates the fair value of investment properties as of December 31, 2021 and December 31, 2020, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2021 and December 31, 2020 are ranked Level 3 as per fair value hierarchy.

The following table illustrates the fair value of investment properties as of December 31, 2020 and December 31, 2019, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2020 and December 31, 2019 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	FAIR VALUE	
	31.12.2021	31.12.2020
Investment properties		
Land	71	70
Buildings	524	587
Total investment properties	**595**	**657**

Starting from January 01, 2019, in accordance with the IFRS 16 requirements, whenever the Bank acts as the lessee under contracts meeting the definition of the standard, there is recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

The following table represent existing right of use assets as of December 31, 2021, while liabilities under lease contracts are presented in Note **38:**

In thousands of BGN

RIGHT OF USE ASSETS – BUILDINGS	
Cost	
As of December 31, 2020	**51 048**
Additions	8 625
Write offs	-
As of December 31, 2021	**59 673**
As of December 31, 2020	**10 543**
Depreciation charge	6 546
Impairment	-
Write offs	-
As of December 31, 2021	**17 089**
Net book value as of December 31, 2021	**42 584**
Net book value as of December 31, 2020	**40 505**

31. Intangible assets

In thousands of BGN

RIGHT OF USE ASSETS	
Cost	
As of December 31, 2020	**149 230**
Additions	29 636
Write offs	(6 073)
As of December 31, 2021	**172 793**
Depreciation	
As of December 31, 2020	**71 574**
Depreciation charge	16 468
Impairment due to obsolescence	1 490
Write offs	(4 877)
As of December 31, 2021	**84 655**
Net book value as of December 31, 2021	**88 138**
Net book value as of December 31, 2020	**77 656**

In thousands of BGN

RIGHT OF USE ASSETS	
Cost	
As of December 31, 2019	**125 911**
Additions	23 319
Write offs	-
Disposals	-
As of December 31, 2020	**149 230**
Depreciation	
As of December 31, 2019	**58 504**
Depreciation charge	13 070
Write offs	-
As of December 31, 2020	**71 574**
Net book value as of December 31, 2020	**77 656**
Net book value as of December 31, 2019	**67 407**

32. 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, 2021 current tax liabilities amount to BGN 4 125 thousand. As of December 31, 2021 there are no current tax assets. As of December 31, 2020 there are no current tax liabilities reported by the Bank, while current tax assets are for the amount of BGN 738 thousand.

33. Deferred tax

The origination breakdown of the deferred tax liabilities as of December 31, 2021 and December 31, 2020 is as outlined below:

In thousands of BGN

	31.12.2021	31.12.2020
Property, plant, equipment, investment properties and intangible assets	14 316	14 032
Provisions	(4 303)	(3 744)
Actuarial losses	(604)	(702)
Other liabilities	(3 554)	(4 034)
Deferred tax liabilities	**5 855**	**5 552**

The movements of deferred tax liabilities on net basis throughout 2021 are as outlined below:

In thousands of BGN

	BALANCE 31.12.2020	RECOGNIZED IN P&L	RECOGNIZED IN EQUITY	BALANCE 31.12.2021
Property, plant, equipment, investment properties and intangible assets	14 032	23	261	14 316
Investment securities at fair value through OCI	-	4 001	(4 001)	-
Provisions	(3 744)	(559)	-	(4 303)
Actuarial losses	(702)	-	98	(604)
Cash flow hedge	-	(478)	478	-
Other liabilities	(4 034)	480	-	(3 554)
Net tax (assets) liabilities	**5 552**	**3 467**	**(3 164)**	**5 855**

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

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

In thousands of BGN

	31.12.2021	31.12.2020
Land	5 558	5 660
Buildings	6 734	13 697
Total non-current assets and disposal groups, classified as held for sale	**12 292**	**19 357**

35. Other assets

In thousands of BGN

	31.12.2021	31.12.2020
Receivables and prepayments	52 334	43 047
Receivables from the State Budget	62	-
Materials, spare parts and consumables	693	837
Other assets	6 164	6 524
Foreclosed properties	22 148	23 408
Total other assets	**81 401**	**73 816**

36. Financial liabilities held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Interest rate swaps	6 652	20 249
FX forward contracts	5 478	1 360
FX swaps	4 121	48 385
Commodity swaps	16 314	15 724
Commodity options	14 583	15 676
Total financial liabilities held for trading	**47 148**	**101 394**

37. Deposits from banks

In thousands of BGN

	31.12.2021	31.12.2020
Current accounts and overnight deposits		
Local banks	127 574	102 008
Foreign banks	792 499	948 015
	920 073	**1 050 023**
Deposits		
Local banks	142 367	246 436
Foreign banks	15 345	615 277
	157 712	**861 713**
Other	**50 790**	**6 471**
Total deposits from banks	**1 128 575**	**1 918 207**

38. Deposits from customers and other financial liabilities at amortized cost

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

As of December 31, 2021 and December 31, 2020 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

	31.12.2021	31.12.2020
Current accounts		
Individuals	5 643 251	4 224 923
Corporate	7 778 284	7 162 497
Budget and State companies	429 133	405 134
	13 850 668	**11 792 554**
Term deposits		
Individuals	3 919 555	4 812 738
Corporate	246 346	264 138
Budget and State companies	26 551	20 458
	4 192 452	**5 097 334**
Saving accounts	**1 644 908**	**1 681 588**
Lease liabilities	**44 266**	**41 550**
Transfers in execution process	**63 036**	**65 856**
Total deposits from customers and other financial liabilities at amortized cost	**19 795 330**	**18 678 882**

The following table represent liabilities under lease contracts as of December 31, 2021, while existing right of use assets are presented in Note **30**:

In thousands of BGN

LEASE LIABILITIES	
As of January 01, 2021	**41 550**
Additions	8 644
Repayments	(5 507)
Accrued interest	(421)
As of December 31, 2021	**44 266**
Up to one year	7 472
From beyond 1 year to 2 years	7 344
From beyond 2 years to 3 years	7 305
From beyond 3 years to 4 years	6 454
From beyond 4 years to 5 years	4 477
Beyond five years	12 693
Total lease payments to be made for finance leases	**45 745**
Unearned finance expenses (Discounting effect)	(1 479)
Net book value as of December 31, 2021	**44 266**
Net book value as of December 31, 2020	**41 550**

In thousands of BGN

LEASE LIABILITIES	
As of January 01, 2020	**41 836**
Additions	6 105
Repayments	(5 906)
Accrued interest	(485)
As of December 31, 2020	**41 550**
Up to one year	5 826
From beyond 1 year to 2 years	6 082
From beyond 2 years to 3 years	5 959
From beyond 3 years to 4 years	5 944
From beyond 4 years to 5 years	5 314
Beyond five years	14 309
Total lease payments to be made for finance leases	**43 434**
Unearned finance expenses (Discounting effect)	(1 884)
Net book value as of December 31, 2020	**41 550**
Net book value as of December 31, 2019	**41 836**

39. Debt securities issued

In the last quarter of 2021, the Bank issued an own MREL bond (senior non-preferred), with a nominal amount of EUR 160 Mio, floating interest rate, maturity date in December 2027 and a call option exercisable in December 2026. As part of UniCredit Group, whose resolution strategy is of the type “Single Point of Entry”, the Bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

40. Provisions for risk and charges

The movement in provisions for the years ended December 31, 2021 and December 31, 2020 is as follows:

In thousands of BGN

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	RESTRUCTURING PROVISIONS	TOTAL
	(a)	(b)	(c)	(d)	(e)	(f)	
Balance as of December 31, 2019	**62 762**	**29 163**	**11 676**	**302**	**1 146**	**-**	**105 049**
Allocations	26 700	4 426	1 779	-	200	6 023	**39 128**
Releases	(30 343)	(1 344)	-	-	-	-	**(31 687)**
Additions due to FX revaluation	293	2 371	-	-		-	**2 664**
Releases due to FX revaluation	(346)	(2 826)	-	-	-	-	**(3 172)**
Actuarial gains/losses recognized in OCI	-	-	800	-	-	-	**800**
Utilization	-	(3 440)	(898)	-	798)	-	**(5 136)**
Balance as of December 31, 2020	**59 066**	**28 350**	**13 357**	**302**	**548**	**6 023**	**107 646**
Allocations	40 541	5 325	1 521	-	314	1 971	**49 672**
Releases	(40 803)	(4 794)	-	-	-	-	**(45 597)**
Additions due to FX revaluation	382	1 856	-	-	-	-	**2 238**
Releases due to FX revaluation	(303)	(1 443)	-	-	-	-	**(1 746)**
Actuarial gains/losses recognized in OCI	-	-	(978)	-	-	-	**(978)**
Other changes	-	2 685	-	-	-	-	**2 685**
Utilization	-	(478)	(755)	-	(253)	(470)	**(1 956)**
Balance as of December 31, 2021	**58 883**	**31 501**	**13 145**	**302**	**609**	**7 524**	**111 964**

(a) Provisions on letters of guarantees and credit commitments

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2021 accumulated provisions are in the amount of BGN 58 883 thousand (as at December 31, 2020 – BGN 59 066 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, 2021 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 31 501 thousand has been recognized (BGN 28 350 as of December 31, 2020).

(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 2021 defined benefit obligation are as follows:

- Discount rate – 0.15%;
- Salary increase – 4.00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2021 and increase by 2 months for women and 1 month for men each year thereafter until the age of 65 years for men and for women is reached.

The pension plan specified and required by the BG Labor Code has not changed in 2021. The Bank has approved an additional plan to the BG Labor Code one, defining additional payments (2 or 4 monthly salaries) on top of the obligations by law depending on service time within the company:

- Six times the gross monthly remuneration, when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 10 years and until 19 years and 11 months;
- Eight times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 20 years and until 29 years and 11 months;
- Ten times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 30 years and above;
- 2 + (0.4 x N), where N shall be the number of full years, but not less than the gross labor remuneration thereof for a period of two month in the cases where the employee has not completed ten years of employment service for UniCredit Bulbank AD or its subsidiaries in Bulgaria – no change, i.e. less than six;
- For termination of the labor relation upon disability: 2.4 monthly salaries without connection with length of service;
- For termination of the labor relation upon death: 4 monthly salaries – without connection with length of service.

The movement of the defined benefit obligation for the year ended December 31, 2021 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

	TOTAL	THEREOF PLAN BY LAW	THEREOF PLAN BY THE BANK
Recognized defined benefit obligation as of December 31, 2020	**13 357**	**12 503**	**854**
Current service costs for 2021	1 497	784	713
Interest cost for 2021	25	24	1
Actuarial losses recognized in OCI in 2020	(978)	(948)	(30)
Benefits paid	(756)	(557)	(199)
Recognized defined benefit obligation as of December 31, 2021	**13 145**	**11 806**	**1 339**
Interest rate beginning of the year	0.20%		
Interest rate end of the year	0.15%		
Future increase of salaries	4.00%		
Expected 2022 service costs	1 297		
Expected 2022 interest costs	18		
Expected 2022 benefit payments	1 910		

Current service cost and interest cost are presented under Personnel expenses (See note **16**).

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

In thousands of BGN

	2021	2020
Sensitivity – Discount rate +/- %	0.15%	0.20%
DBO Discount rate -	13 499	13 744
DBO Discount rate +	12 807	12 988
Sensitivity – Salary increase rate +/- %	4.00%	5.00%
DBO Salary increase rate -	12 818	13 004
DBO Salary increase rate +	13 485	13 725

(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, 2021 and December 31, 2020 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 609 thousand as of December 31, 2021 (BGN 548 thousand as of December 31, 2020) relates to coverage of claims related to credit cards business as well as other claims.

(f) Restructuring provisions

As of December 31, 2020 the Bank has allocated restructuring provisions for the amount of BGN 6 023 thousand following the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. In December 2020 the Management Board has approved restructuring plan where the key restructuring rationale is to ensure efficient operations so that UniCredit Bulbank AD fits to the new competitive landscape shaped by digitalization trends and changed preferences of the customers. At the end of planning horizon UniCredit Bulbank AD targets the Simple Banking Concept, being:

- # 1 in customer experience
- # 1 choice of employees
- # 1 in digitalization
- # 1 in ethical and sustainable business

The plan implies a review and improvement in the way of working and it will influence the Bank's business model in terms of customer experience, employee experience, digitalization and ethical and sustainable business. It includes network optimization through centralization, automation and simplification of branch processes, as well as envisages also to affect employees, who on voluntary basis and consistent with the business priorities, will have the opportunity to access the early retirement also getting an additional exit package. During 2021 out of restructuring provisions, BGN 470 thousand were utilized majorly for network optimization, brand management and other HR activities.

In 2021 the restructuring plan was updated following the Strategic plan of UniCredit Group. The key elements of the Strategic Plan aiming at unlocking the Group potential are as follows:

- Unified client segments
- Harmonised service model
- Simplified processes
- Common organisational structure
- Best-in-class factories delivering for our clients

Additional BGN 1 971 thousand were allocated with regard to new organizational model and change management activities.

As per the requirements of IAS 37 the Bank has duly communicated the approved restructuring plan to all employees in order to create a valid expectation.

41. Other liabilities

In thousands of BGN

	31.12.2021	31.12.2020
Liabilities to the State budget	2 399	4 858
Liabilities to personnel	20 688	17 958
Liabilities for unused paid leave	6 185	5 485
Dividends	959	974
Incentive plan liabilities	5 676	7 204
Other liabilities	83 382	77 106
Total other liabilities	**119 289**	**113 585**

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 2021 and 2020 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 16**.

42. Equity

a) Share capital

As of December 31, 2021 and December 31, 2020 share capital comprises of 285 776 674 ordinary shares with nominal value of BGN 1 each. All shares give equal voting rights to their holders.

b) Statutory reserves

Statutory reserves represent allocated profits after taxation into Reserve Fund in accordance with requirements of the Bulgarian Commercial Act. The Bank has to allocate at least 10% of its profit for the current year after taxation and before payment of dividends, to the Reserve Fund until the accumulated amount becomes equal or exceeds 10% of the capital according to the statute of the Bank. These reserves are not subject to distribution to the shareholders. They can only be used for covering losses from the current or previous financial years.

The share-premium of newly issued ordinary shares is also allocated into statutory reserves.

c) Retained earnings

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

d) Revaluation and other reserves

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

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.). For the years ended December 31, 2021 and December 31, 2020 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 16 931 thousand and BGN 10 532 thousand, respectively.

43. Contingent liabilities

In thousands of BGN

	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	STAGE 1		STAGE 2		STAGE 3		TOTAL	
Letters of credit and letters of guarantee	2 217 673	2 102 785	651	322	22 299	44 887	**2 240 623**	**2 147 994**
Credit commitments	4 723 540	4 309 098	425 645	289 052	36 509	42 032	**5 185 694**	**4 640 182**
Total contingent liabilities	**6 941 213**	**6 411 883**	**426 296**	**289 374**	**58 808**	**86 919**	**7 426 317**	**6 788 176**

a) Letters of credit and letters of guarantee

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

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

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are subject to expected losses calculation for impairment.

b) Litigation

As of December 31, 2021 and December 31, 2020 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provisions provided for in these separate financial statements as of December 31, 2021 are in the amount of BGN 31 501 thousand (BGN 28 350 thousand in 2020), (see also Note **40**).

c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients’ disposal.

As of December 31, 2021 and December 31, 2020 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

44. Assets pledged as collateral

In thousands of BGN

	31.12.2021	31.12.2020
Securities pledged for budget holders' account service	229 969	164 606
Securities pledged on REPO deals	612 656	1 546 494
Loans pledged for budget holders' account service	254 864	254 864
Loans pledged on other deals	20 253	189 057
Total assets and collaterals received encumbered	**1 117 742**	**2 155 021**
Pledged assets include:		
Securities received for reverse REPO	-	298 800
Investment securities	842 625	1 412 300
Loans and advances	275 117	443 921
	1 117 742	**2 155 021**

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

45. Related parties

UniCredit Bulbank AD has a controlling related party relationships with its direct parent company up to October 2016 – UniCredit Bank Austria AG and its ultimate parent – UniCredit S.p.A (jointly referred as "parent companies"). In 2016 due to the reorganization of the UniCredit banking group activities in Central and Eastern Europe ("CEE") the transfer of the CEE Business of UniCredit Bank Austria AG (including also the banking shareholdings of the above mentioned area) under the direct control of UniCredit SpA was performed thus leading to change of the Bank's main shareholder to UniCredit SpA.

In addition the Bank has relatedness with its subsidiaries and associates (see also Note 29) as well as all other companies within UniCredit Group and key management personnel (jointly referred as other related parties).

The related parties' balances and transactions in terms of statement of financial position items as of December 31, 2021 and December 31, 2020 and Income statement items for the years ended then are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2021	PARENT COMPANY	SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Derivatives held for trading	1 272	-	29 068	**30 340**
Derivatives held for hedging	414	-	11 562	**11 976**
Current accounts and deposits placed	341 751	-	148 737	**490 488**
Debt securities	97 913	-	-	**97 913**
Extended loans	-	2 467 703	1 319	**2 469 022**
Other assets	2 342	13 975	1 396	**17 713**
LIABILITIES				
Financial liabilities held for trading	3 622	-	35 780	**39 402**
Derivatives used for hedging	34 897	-	30 389	**65 287**
Current accounts and deposits taken	611 524	50 791	7 953	**670 268**
Debt securities issued	313 104	-	-	**313 104**
Other liabilities	6 806	71	1 837	**8 714**
Guarantees received by the Group	**10 196**	**-**	**108 338**	**118 534**

In thousands of BGN

AS OF DECEMBER 31, 2020	PARENT COMPANY	SUBSIDIARIES	OTHER RELATED PARTIES	TOTAL
ASSETS				
Derivatives held for trading	1 522	-	2 320	**3 842**
Derivatives held for hedging	16	-	-	**16**
Current accounts and deposits placed	707 480	-	146 939	**854 419**
Debt securities	98 159	-	-	**98 159**
Extended loans	-	2 132 559	5 541	**2 138 100**
Other assets	3 143	9 946	1 704	**14 793**
LIABILITIES				
Financial liabilities held for trading	12 884	-	37 400	**50 284**
Derivatives used for hedging	56 335	-	49 348	**105 683**
Current accounts and deposits taken	1 488 765	24 698	17 273	**1 530 736**
Other liabilities	9 321	97	983	**10 401**
Guarantees received by the Group	**11 288**	**-**	**107 764**	**119 052**

In thousands of BGN

AS OF DECEMBER 31, 2021	PARENT COMPANY	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	1 468	14 053	-	281	15 802
Interest expenses	(13 567)	-	-	(9 690)	(23 257)
Dividend income		64 051	300	-	64 351
Fee and commissions income	758	14 468	-	992	16 218
Fee and commissions expenses	(8)	-	-	(85)	(93)
Net gains on financial assets and liabilities held for trading	4 830	-	-	577	5 407
Other operating income	-	616	-	44	660
Administrative and personnel expenses	(2 735)	(1 415)	(1 105)	(13 737)	(18 992)
Total	**(9 254)**	**91 773**	**(805)**	**(21 618)**	**60 096**

In thousands of BGN

AS OF DECEMBER 31, 2020	PARENT COMPANY	SUBSIDIARIES	ASSOCIATES	OTHER RELATED PARTIES	TOTAL INCOME (EXPENSE)
Interest incomes	2 114	14 156	-	258	16 528
Interest expenses	(14 665)	-	-	(9 900)	(24 565)
Dividend income	-	98 808	478	-	99 286
Fee and commissions income	284	10 456	-	1 318	12 058
Fee and commissions expenses	(35)	-	-	(91)	(126)
Net (losses) on financial assets and liabilities held for trading	(8 184)	-	-	(40 161)	(48 345)
Other operating income	-	620	-	25	645
Administrative and personnel expenses	(2 855)	(1 291)	(901)	(15 416)	(20 463)
Total	**(23 341)**	**122 749**	**(423)**	**(63 967)**	**35 018**

As of December 31, 2021 the loans extended to key management personnel amount to BGN 1 319 thousand (BGN 1 389 thousand in 2020). For the year ended December 31, 2021 the compensation paid to key management personnel amounts to BGN 2 723 thousand (BGN 3 213 thousand in 2020).

46. Cash and cash equivalents

In thousands of BGN

	31.12.2021	31.12.2020
Cash in hand and in ATM	263 345	252 791
Cash in transit	183 383	152 233
Current account with the Central Bank	6 230 708	6 190 628
Current accounts with banks	170 898	110 579
Placements with banks with original maturity less than 3 months	269 357	850 539
Total cash and cash equivalents	**7 117 691**	**7 556 770**

47. Leasing

Bank has concluded numerous operating lease agreements to support its daily activity. Under operating lease contracts Bank acts both as a lessor and lessee in renting office buildings and cars.

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

IFRS16, effective starting from January 01, 2019 introduced a new definition for leases. For all the leasing typologies, the recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

The amount of right of use assets and lease liabilities respectively are presented in Note 30 and respectively Note 38.

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

Summary of non-cancellable minimum lease payments as of December 31, 2021 and December 31, 2020 are presented in the tables below.

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2021	31.12.2020
Up to one year	30	30
Total	**30**	**30**

48. Other regulatory disclosures

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

UniCredit Bulbank AD possesses a full-scope banking licence for performing commercial banking activities. For the years ended December 31, 2021 and December 31, 2020 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

	2021	2020	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	746 478	680 083	Separate Income Statement and details in Notes 8,9,10,11,12,13 and 14
Profit before income tax	341 394	238 263	Separate Income Statement
Income tax expense	(27 568)	(14 285)	Separate Income Statement and details in Note 21
Return on average assets (%)	1.3%	1%	2021 Annual Report on Activity
Annual Turnover	770 532	753 249	Separate Income Statement
Full time equivalent number of personnel as of December 31	3 533	3 612	Note 16

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

49. IBOR Reform

The cases of attempted market manipulation and false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets, undermined confidence in the reliability and robustness of existing interbank benchmark interest rates. Uncertainty surrounding the integrity of these reference rates represents a potentially serious source of vulnerability and systemic risk.

Against this background, in 2013 the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans were consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

In the case of LIBOR, the UK Financial Conduct Authority (FCA) announced that it will not compel or persuade LIBOR panel banks to submit to LIBOR after the end of 2021. Cessation dates for LIBORs were defined: 31-Dec-2021 for all EUR, CHF, GBP, JPY tenors as well as USD 1-week and 2-month, and 30-Jun-2023 for all other USD settings.

The currencies affected in the case of UniCredit Bulbank were USD and CHF. Starting from the beginning of 2022, the Bank duly replaced respective LIBORs applied on customer business, as follows:

- In USD, through CME Term SOFR Reference Rates (forward-looking);
- In CHF, through SARON Compound Rate, in line with Regulation (EU) 2021/1847.

The change was reflected in the Bank's Cessation Plan. The General Terms & Conditions were duly updated and customers were notified about the change.

No impact is expected due to this change, either for customers or for the Bank, because the all-in customer rates remained unchanged. In particular:

- In USD, all LIBOR-linked transactions outstanding at the end of 2021 are based on tenors (1, 3, 6 months) for which USD LIBOR will be quoted until end of June 2023. All these transactions will mature by then; hence, no particular changes were made in respective contracts. From the beginning of 2022, all new USD-denominated floating-rate transactions are made at market prices, using the SOFR and SOFR-linked indices as benchmarks.
- In CHF, the only type of exposures outstanding at the end of 2021 are mortgage loans to private individuals – a remaining part of a legacy portfolio, with no new loans added for more than 10 years. The total amount is considered immaterial (less than 0.01% from total loans to customers). On these loans, in compliance with Regulation (EU) 2021/1847, starting from the beginning of 2022, CHF LIBOR was replaced by 3-month SARON Compound Rate (incl. statutory spread adjustment) and the customer margin was adjusted to ensure the same all-in customer rate being applied going forward. Currently, no new business has been planned in CHF but if any floating-rate transactions are entered into, they will be based on SARON or SARON Compound Rates.

50. Events after the reporting period

Merger of UniCredit Factoring (subsidiary of UniCredit Bulbank AD)

As of December, 31st 2021, UniCredit Bank owns 100% of the share capital of UniCredit Factoring EAD. On January 18, 2022, the merger of UniCredit Factoring EAD into UniCredit Bulbank AD has been officially registered in the Commercial Register. The accounting date of the merger is January 1st 2022.

The transaction has no effect on the shareholder's structure of the Bank.

In accordance with IFRS 3 "Business combinations" a legal merger of an entity into an acquirer represents in substance business combination from the position of the acquirer and for the purposes of the acquirer's separate financial statements. In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank's equity.

As of December, 31st 2021, the carrying amount of the assets and liabilities of UniCredit Factoring EAD are as follows:

In thousands of BGN

	31.12.2021
Assets	
Cash and cash equivalents	3
Receivables under factoring agreements	271 657
Tangible and intangible assets	1 400
Current tax assets	-
Deferred tax assets	21
Other short-term receivables	458
Total assets	**273 539**
Liabilities	
Liabilities to banks	223 250
Payables under factoring agreements	21 373
Lease liabilities	993
Current tax liabilities	74
Provision for credit risk of commitments	412
Other short-term liabilities	418
Total liabilities	**246 520**
Net assets at the accounting merger date	**27 019**
Investment as at the accounting merger date	3 000
Effect from the merger credited to equity (retained earnings)	**24 019**

Transactions eliminated on merger

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. As of the date of the accounting merger, except for the equity investment, from the Bank's statement of financial position intra-group transactions eliminated are amounting at BGN 223 250 thousand for assets (liabilities to banks in UniCredit Factoring's statement of financial position) and BGN 3 thousands for liabilities (cash and cash equivalents in UniCredit Factoring's statement of financial position).

From the moment of entry of the Merger in the Commercial Register at the Registry Agency the whole property of UCF as a set of property and non-property rights, obligations and factual relations has been transferred to the Bank in full, thus UniCredit Bulbank AD became the universal successor of UCF.

For the merger with its subsidiary UniCredit Factoring EAD the Bank has set up a project, following the strategy for simplification, efficiency and increased synergy between different product factories and structures in the UniCredit Group. The main concept is UniCredit Factoring EAD to be transformed into department within CIB Division/ UniCredit Bulbank. Existing factoring business expertise and knowledge will be kept in the new Factoring Department. All current control functions and monitoring processes will be transferred in to the new organizational model following the Bank's practices and models.

The merger of UniCredit Factoring EAD is carried out in a tax neutral way, whereby all assets and liabilities of UniCredit Factoring EAD are transferred to the Bank without change (accounting and tax values). All taxable/deductible temporary tax differences that existed within UniCredit Factoring EAD are also transferred to UniCredit Bulbank AD.

Updated credit risk models

As disclosed in note 4, on page 37, in February 2022 UniCredit Bulbank is planning to implement the updated credit risk models for Corporate PD, SME PD rating system and IPRE slotting system as well. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 70.2 mln as of December 2021.

The Bank considers the above as an adjusting event as per IAS 10.

There are no other significant events after the reporting period with effect on the financial statements as of December 31, 2021.

Protecting our most vulnerable: Doubravčice's Centrum péče Doubrava is a pillar of its local community, providing dignity in old age and peace of mind for families; we helped the facility expand.

Our Clients
Centrum Péče Doubrava
Czech Republic

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

The road back: After a difficult year for leisure and tourism, UniCredit Zagrebacka's #FirstTime project put Ranč Ramarin back in the public eye where it belongs.

Our Clients
Ranč Ramarin d.o.o
Croatia

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

Consolidated Financial Statements

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, 2021, and the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers	
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. 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 probability of default at the end of the reporting year, • Absolute factors such as limits set by IFRS 9 Financial Instruments (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. To assess the amount of allowances for expected credit losses, the Group applies statistical models with input parameters obtained from internal and external sources or determines the amount of allowances for expected credit losses on individual basis. 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. 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	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 modelling expertise in order to determine the appropriateness of the model development and model implementation. We have considered the adequacy of the risk parameters determined by the models. We have reviewed the quality of the data used in the computation of the risk parameters. 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. For a sample of exposures we recalculated the impairment based on the risk parameters resulted from the models or we formed an independent view on the levels of impairment

order to quantify the impairment allowance. As described in note 26 to the consolidated financial statements, the Group has recorded as at December 31, 2021 impairment allowances on loans and advances to customers amounting to BGN 862,988 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, and because of the impact that the current economic environment had on these estimates and assumptions, we identified impairment of loans and advances to customers as a key audit matter.	allowances for individually significant exposures. We analyzed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions on the credit risk of borrower, the valuation of collaterals, on estimates of expected cash flows and on other factors that may affect the recoverability of loans. We have assessed the adequacy of Management assumptions and adjustments resulting from the impact of the current economic environment on the estimation of expected credit losses. We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers.

Information Other than the consolidated financial statements and Auditors' Report Thereon

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

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

Based on the procedures performed, in our opinion:

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

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

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

- Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2021 by the extraordinary general meeting of the shareholders held on September 28, 2021 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2021 represents ninth total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and fifth total consecutive statutory audit engagement for the Group carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, dated March 4, 2022, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our joint statutory audit refers, Deloitte Audit OOD and Baker Tilly Klitou and Partners EOOD jointly have provided to the Bank, in addition to the statutory audit, the following services which have not been disclosed in the Group's management report or consolidated financial statements:
  - Agreed-upon procedures related to the application of BNB Ordinance 10 for the period January 01 – December 31, 2020, 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, 2020 and December 31, 2021. 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.

Independent Auditors' Report (continued)

- 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, 2020 and December 31, 2021. The audits were performed in accordance with ISA.
- Reviews of the Bank's reporting packages prepared in accordance with the UniCredit Group accounting policies as at and for the 6 months ending June 30, 2021, and the 9 months ending September 30, 2021. 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".
- Agreed-upon procedures for assessment of the SREP readiness of the Bank, incl. assessment of the Management Board's collective suitability.

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 EOOD

On behalf of
Baker Tilly Klitou and Partners EOOD

Galina Lokmadjieva
Registered Auditor, in charge of the audit

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

Spyridon Gkrouits
Authorized Representative

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

March 4, 2022

Consolidated Income Statement

In thousands of BGN

	Notes	2021	2020
Interest income		568 866	565 894
Interest expense		(49 784)	(49 617)
Net interest income	8	**519 082**	**516 277**
Dividend income		**927**	**752**
Fee and commission income		293 931	256 957
Fee and commission expense		(37 908)	(30 101)
Net fee and commission income	9	**256 023**	**226 856**
Net gains on financial assets and liabilities held for trading and hedging derivatives	10	80 393	78 427
Net gains/(losses) from financial assets mandatory at fair value	11	109	(99)
Net income from financial assets measured at FVTOCI	12	17 174	10 873
Other operating income/(expenses), net	13	5 797	(53 396)
TOTAL OPERATING INCOME		**879 505**	**779 690**
Net income related to property, plant and equipment	14	2 858	479
Personnel expenses	15	(169 721)	(160 960)
General and administrative expenses	16	(114 361)	(111 692)
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	17	(63 245)	(56 796)
Provisions for risk and charges	18	(760)	(4 308)
Net impairment loss on financial assets	19	(123 761)	(229 528)
PROFIT BEFORE INCOME TAX		**410 515**	**216 885**
Income tax expense	20	(40 483)	(21 779)
PROFIT FOR THE YEAR		**370 032**	**195 106**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 16, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

04.03.2022

Momchil Cherganski
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

4.03.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

Одиторско дружество София Рег. № 033 Делойт Одит ООД

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

The accompanying notes 1 to 49 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

In thousands of BGN

	Notes	2021	2020
Profit for the year		**370 032**	**195 106**
Other comprehensive income - items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses)	39	975	(803)
Revaluation reserve on tangible assets	29	2 603	(3 835)
Income tax relating to items of other comprehensive income that will not be reclassified subsequently to profit or loss		(359)	464
		3 219	**(4 174)**
Other comprehensive income - items that may be reclassified subsequently to profit or loss			
Investment securities		(44 231)	(42 327)
Cash flow hedge		4 780	(569)
Income tax relating to items of other comprehensive income that may be reclassified subsequently to profit or loss		3 523	4 736
		(35 928)	**(38 160)**
Total other comprehensive income net of tax for the year		**(32 709)**	**(42 334)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**337 323**	**152 772**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 16, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

04.03.2022

Momchil Chergansky
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

4.03.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

The accompanying notes 1 to 49 are an integral part of these consolidated financial statements.

Consolidated Financial Statements (continued)

Consolidated Statement of Financial Position

In thousands of BGN

	Notes	31.12.2021	31.12.2020
ASSETS			
Cash and balances with Central Bank	21	6 677 438	6 595 654
Non-derivative financial assets held for trading	22	4 901	17 007
Derivatives held for trading	23	87 039	78 880
Derivatives held for hedging	24	11 976	16
Loans and advances to banks	25	700 788	1 428 632
Loans and advances to customers	26	13 946 002	12 327 208
Investment securities	27	3 475 362	3 676 620
Investments in associates	28	3 426	3 482
Property, plant, equipment, right of use assets and investment properties	29	329 187	306 577
Intangible assets	30	91 343	79 989
Current tax assets	31	8	1 534
Deferred tax assets	32	3 940	4 500
Non-current assets and disposal groups classified as held for sale	33	12 292	19 357
Other assets	34	85 520	80 061
TOTAL ASSETS		**25 429 222**	**24 619 517**
LIABILITIES			
Financial liabilities held for trading	35	47 148	101 394
Derivatives used for hedging	24	65 287	105 683
Deposits from banks	36	1 211 620	2 048 060
Deposits from customers and other financial liabilities at amortized cost	37	19 800 871	18 728 712
Debt securities issued	38	313 104	-
Provisions	39	120 253	117 765
Current tax liabilities	31	5 647	1 317
Deferred tax liabilities	32	6 192	5 788
Other liabilities	40	147 317	136 338
TOTAL LIABILITIES		**21 717 439**	**21 245 057**
EQUITY			
Share capital		285 777	285 777
Revaluation and other reserves		139 207	173 358
Retained earnings		2 916 767	2 720 219
Profit for the year		370 032	195 106
TOTAL EQUITY	41	**3 711 783**	**3 374 460**
TOTAL LIABILITIES AND EQUITY		**25 429 222**	**24 619 517**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 16, 2022

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

07.03.2022

Momchil Cherganski
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

4.03.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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

The accompanying notes 1 to 49 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve tangible assets	Total
Balance as of January 1, 2020	285 777	342 378	2 376 330	185 886	(34 088)	(5 630)	71 035	3 221 688
Profit for the year	-	-	195 106	-	-	-	-	195 106
Actuarial (losses)	-	-	-	-	-	(803)	-	(803)
Change of revaluation reserve on investment securities	-	-	-	(42 327)	-	-	-	(42 327)
Change of revaluation reserve on cash flow hedges	-	-	-	-	(569)	-	-	(569)
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	(3 835)	(3 835)
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 678	-	-	-	(1 678)	-
Income tax related to components of other comprehensive income	-	-	(167)	4 679	57	80	551	5 200
Total other comprehensive income for the year net of tax	-	-	1 511	(37 648)	(512)	(723)	(4 962)	(42 334)
Total comprehensive income for the year net of tax	-	-	196 617	(37 648)	(512)	(723)	(4 962)	152 772
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2020	285 777	342 378	2 572 947	148 238	(34 600)	(6 353)	66 073	3 374 460

	Share capital	Statutory reserve	Retained earnings	Revaluation reserves: Financial Assets at Fair Value through OCI	Cash flow hedges reserves	IAS 19 reserve	Revaluation reserve tangible assets	Total
Balance as of January 1, 2021	285 777	342 378	2 572 947	148 238	(34 600)	(6 353)	66 073	3 374 460
Profit for the year	-	-	370 032	-	-	-	-	370 032
Actuarial gains	-	-	-	-	-	975	-	975
Change of revaluation reserve on investment securities	-	-	-	(44 231)	-	-	-	(44 231)
Change of revaluation reserve on cash flow hedges	-	-	-	-	4 780	-	-	4 780
Change of revaluation reserve on tangible assets	-	-	-	-	-	-	2 603	2 603
Transfers of Revaluation reserve of tangible assets to other net equity items	-	-	1 603	-	-	-	(1 603)	-
Income tax related to components of other comprehensive income	-	-	(161)	4 001	(478)	(98)	(100)	3 164
Total other comprehensive income for the year net of tax	-	-	1 442	(40 230)	4 302	877	900	(32 709)
Total comprehensive income for the year net of tax	-	-	371 474	(40 230)	4 302	877	900	337 323
Dividends paid	-	-	-	-	-	-	-	-
Balance as of December 31, 2021	285 777	342 378	2 944 421	108 008	(30 298)	(5 476)	66 973	3 711 783

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 16, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

04.03.2022

Momchil Chergansky
Registered auditor in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Baker Tilly Klitou & Partners EOOD

4.03.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

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

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

The accompanying notes 1 to 49 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	2021	2020
		In thousands of BGN	
Net profit		**370 032**	**195 106**
Current and deferred tax, recognized in income statement	20	40 483	21 779
Adjustments for non-cash items			
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties	17	63 245	56 796
Impairment of financial assets	19	135 526	237 323
Impairment of foreclosed properties	13	36	263
Provisions, net	39	2 281	6 087
Unrealized fair value losses through profit or loss, net		3 976	3 661
Unrealized fair value losses/(gains) on FX revaluation		97 301	(130 625)
Net expense for associates under equity method		56	141
Net (gains) from sale of property, plant and equipment		(9 021)	(1 486)
Net interest income	8	(519 082)	(516 277)
Dividend income		(927)	(751)
Increase in other accruals		6 709	22 455
Cash flows from profits before changes in operating assets and liabilities		**190 615**	**(105 528)**
Operating activities			
Change in operating assets			
Decrease in loans and advances to banks		206 142	355 668
(Increase) in loans and advances to customers		(1 742 685)	(360 649)
Decrease/(Increase) in investment securities		158 385	(130 188)
(Increase)/Decrease in financial instruments held for trading and hedging derivatives		(35 352)	70 517
Decrease in non-current assets held for sale		8 711	2 324
Decrease in other assets		3 846	15 643
Change in operating liabilities			
(Decrease)/Increase in deposits from banks		(851 364)	1 196 449
Increase in deposits from customers		949 306	1 114 025
Increase in debt securities issued		312 933	-
Provisions utilization		694	(5 823)
(Decrease) in other liabilities		(62 358)	(27 671)
Interest received		569 831	565 858
Interest paid		(49 596)	(48 912)
Dividends received		927	751
Taxes paid		(30 905)	(15 060)
Net cash flow from/(used in) operating activities		**(370 870)**	**2 627 404**

Consolidated Statement of Cash Flows (continued)

In thousands of BGN

	Notes	2021	2020
Cash flow from investing activities			
Cash payments to acquire PPE		(62 202)	(38 217)
Cash receipt from sale of PPE		9 022	1 486
Cash payments to acquire intangible assets	30	(31 271)	(24 097)
Net cash flow used in investing activities		**(84 451)**	**(60 828)**
Cash flow from financial activities			
Dividends paid		-	-
Cash payments related to lease liabilities		(6 775)	(7 141)
Net cash flows used in financial activities		**(6 775)**	**(7 141)**
Effect of exchange rate changes on cash and cash equivalents		**23 019**	**(1 803)**
Impairment of cash equivalents	19	**(2)**	**(126)**
Net increase/(decrease) in cash and cash equivalents		**(439 079)**	**2 557 506**
Cash and cash equivalents at the beginning of period	45	**7 556 772**	**4 999 266**
Cash and cash equivalents at the end of period	45	**7 117 693**	**7 556 772**

These consolidated financial statements have been approved by the Management Board of UniCredit Bulbank AD on February 16, 2022.

Tsvetanka Mintcheva
Chairperson of the Management Board and Chief Executive Officer

Andrea Tognetti
Member of the Management Board and Executive Director

Sandra Vojnovic
Member of the Management Board and Chief Financial Officer

Deloitte Audit OOD

04.03.2022

Momchil Chergansky
Registered auditor, in charge of the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

Baker Tilly Klitou & Partners EOOD

4.03.2022

Galina Lokmadjieva
Registered auditor, in charge of the audit

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

Baker Tilly Klitou & Partners EOOD

Spyridon Gkrouits
Authorized representative

The accompanying notes 1 to 49 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 license for performing commercial banking activities. It is domiciled in the Republic of Bulgaria with registered address city of Sofia, 7 "Sveta Nedelya" sq. and UIC 831919536 as per the Trade Register. The Bank is primarily involved in corporate and retail banking and in providing asset management services.

As of December 31, 2021 the Bank operates through its network comprising of 147 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 16, 2022.

(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 and investment properties that are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

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

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 4 and 6.

3. Significant accounting policies

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

(a) Basis of consolidation

These financial statements are prepared on consolidated basis whereas all entities where UniCredit Bulbank AD exercises control are consolidated applying full consolidation method and all participations in entities where UniCredit Bulbank AD exercises significant influence are consolidated applying equity method.

In accordance with IFRS 10 "Consolidated Financial Statements" control is achieved when cumulatively the Bank:

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

Following the above criterion, the Bank has performed assessment in two areas focused on:

1. Control existence assessment over all directly and indirectly owned equity participations;
2. Control existence assessment over entities where the Bank has no direct or indirect equity participation.

Upon completion of the first area of assessment, Bank reconfirmed that it has control over the investees in all the cases where it holds directly or indirectly more than 50% of the investee's voting rights. In addition Bank reconfirmed to exercise significant influence over investee's activities in all the cases where it does not exercise control or joint control but owns 20% and more of the investee's voting rights.

For the purposes of the second area of assessment, the Bank primarily focused on so called "troubled loans" analysis as well as special purpose entities (SPE) in the customer portfolio. It covered thorough assessment of the relationship and legally-binding obligations between the Bank and customers on all defaulted and forborne loans and advances to corporate customers as well as loans and advances to SPEs with material outstanding amount as of the reporting dates (for practical reasons materiality threshold of EUR 1 million was applied). As a result of performing the above mentioned assessment, the Bank concluded that in no cases the definition of control is met, therefore no consolidation procedures on such customers have been applied as of December 31, 2021 and December 31, 2020.

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, 2021 and December 31, 2020 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, 2021 has not changed to the one applied as of December 31, 2020 and it covers the following entities:

COMPANY	PARTICIPATION IN EQUITY AS OF 31.12.2021	DIRECT/INDIRECT PARTICIPATION	CONSOLIDATION METHOD
UniCredit Factoring EAD	100%	Direct	Full consolidation
UniCredit Fleet Management EOOD	100%	Direct	Full consolidation
UniCredit Consumer Financing EAD	100%	Direct	Full consolidation
UniCredit Leasing EAD	100%	Direct	Full consolidation
Cash Service Company AD	25%	Direct	Equity method

(b) Interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific arrangement, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the Income statement include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest rate basis;
- interest on Fair Value through other Comprehensive Income (FVTOCI) investment securities calculated on an effective interest rate basis;
- interest on financial instruments held for trading;
- interest on financial instruments designated at fair value through profit or loss;
- interest on derivatives designated as effective hedging instruments;
- excess liquidity interest based fees for accounts maintenance.

(c) Fee and commission income and other operating income

Fees and commissions income and other operating income are accounted for in the income statement as the entity satisfies the performance obligation embedded in the contract, according to “IFRS 15 Revenue from Contracts with Customers” rules.

In particular:

- if the performance obligation is satisfied at a specific moment (“point in time”), the related revenue is recognized in the income statement when the service is provided;
- if the performance obligation is satisfied over-time, the related revenue is recognized in the income statement in order to reflect the progress of satisfaction of such obligation.

Due to the above mentioned rules, transaction fees coming from trading in securities are typically booked in the moment when the service is provided while fees related to portfolios management, consulting or fund management are normally recognized over the term of the contract (input method).

For this second type of fees, in fact, it is deemed that the input which is necessary to provide the service incorporated in the performance obligation is evenly distributed during the term of the contract.

If the timing of cash-in is not aligned to the way the performance obligation is satisfied, the 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 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 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 realized and unrealized fair value changes and foreign exchange differences on assets which are managed on fair value basis and for which the Bank has applied "fair value option" upon initial recognition.

(g) Dividend income

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

(h) Leases

The Bank as a lessee applies the requirements of IFRS 16, and assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (under EUR 5 000). For these leases, as permitted by IFRS 16, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of similar duration and similar security of those implicit in the lease contract.

The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If the lessor transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

(i) Financial instruments

(i) Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date. For assets carried at fair value any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognized in profit or loss or in equity, depending on IFRS 9 category. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

Classification of the financial assets is based on business model and characteristics of the contractual cash flows.

The analysis of the business model was conducted by mapping the business areas that make up the Bank's portfolios and by allocating a specific business model to each of them.

In this regard, the business areas that make up the banking portfolio have been assigned "held-to-collect" or "held-to-collect and sell" business models according to holding intentions and expected turnover of the financial instruments.

The business areas that make up the Bank's trading portfolio have been assigned an "other" business model in order to reflect trading intentions.

For the purposes of classifying debt financial instruments in the categories envisaged by IFRS 9, the business model analysis must be complemented by an analysis of contractual flows ("SPPI Test").

In this regard, the Bank has developed systems and processes to analyze the portfolio of debt securities and loans in place and assess whether the characteristics of contractual cash flows allow for measurement at amortized cost ("held-to-collect" portfolio) or at fair value with effect on comprehensive income ("held-to-collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI Tool") to analyze the contract features with respect to IFRS 9 requirements, or by using external data providers.

In application of the aforementioned rules, the Bank's financial assets and liabilities have been classified as follows:

(ii) Classification

a) Cash and balances with the Central Bank

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

b) Financial assets and derivatives held for trading

Financial assets and derivatives held for trading are those that the Bank holds for the purpose of short-term profit taking. These include securities, derivative contracts and other trading instruments that are not designated as effective hedging instruments, and liabilities from short sales of financial instruments. All derivatives with positive fair values and purchased options are reported separately as derivatives held for trading. All derivatives with negative fair values and written options are reported as financial liabilities held for trading.

Financial assets and derivatives held for trading are carried at fair value in the statement of financial position. After initial recognition these financial assets are measured at their fair value through profit or loss.

A gain or loss arising from sale or redemption or a change in the fair value of a Held for Trading (HFT) financial asset is recognized in profit or loss. If the fair value of a financial instrument falls below zero, which may happen with derivative contracts, it is recognized as “Financial liabilities held for trading”.

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

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

A non-derivative financial asset can be designated at fair value if the abovementioned designation avoids accounting mismatches that arise from measuring assets and associated liabilities according to different measurement criteria.

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

d) Financial assets mandatorily at fair value

The portfolio Mandatorily at fair value through profit or loss (MFV) is introduced according to IFRS 9 principles. A financial asset is classified as financial asset mandatorily at fair value if it does not meet the conditions, in terms of business model or cash flow characteristics, for being measured at amortized cost or at fair value through other comprehensive income.

Specifically, the following assets have been classified in this portfolio:

- debt instruments, securities and loans for which the business model is neither held to collect nor held to collect and sell but which are not part of the trading book;
- debt instruments, securities and loans with cash flows that are not solely payment of principal and interest;
- equity instruments not held for trading for which the Bank does not apply the option granted by the standard of valuing these instruments at fair value through other comprehensive income.

Gains and losses, whether realized or unrealized, are recognized in profit or loss as “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 recognized in the Statement of comprehensive income and reported as Revaluation reserves.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss.

For unquoted equity securities whose fair value cannot be reliably measured, the Bank considers cost as the best estimate of fair value.

f) Fair value through other comprehensive income (FVTOCI) option

This category includes equity instruments not held for trading for which the Bank applies the option granted by the standard of valuing the instruments at fair value through other comprehensive income.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The Bank 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 Bank does not grant the right to acquire the relevant business plans developed by management for using internal valuation models; and their features are such that it is not possible to identify meaningful comparable investments to be used as benchmark.

With regard to equity instruments, the gains and losses arising from changes in fair value are recognized in the Statement of comprehensive income and reported as Revaluation reserves. Such an investment is not a monetary item and gain or loss that is presented in other comprehensive income includes any related foreign exchange component.

In accordance with the provisions of IFRS 9, no impairment losses on equity instruments are recognized in the income statement. Only dividends are recognized in profit or loss. No reclassification of gains and losses to profit or loss on derecognition is allowed.

g) Financial assets at amortized cost

A financial asset is classified as financial asset measured at amortized cost if:

- its business model is held to collect;
- its cash flows are solely the payment of principal and interest.

Held to collect investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

On initial recognition, at settlement date, financial assets at amortized cost are measured at fair value, which is usually equal to the consideration paid, plus transaction costs and income directly attributable to the instrument.

After initial recognition assets are measured at amortized cost which requires the recognition of interest on an accrual basis by using the effective interest rate method over the term of the loan.

Such interest is recognized in the income statement as Interest income and similar revenues.

The carrying amount of financial assets at amortized cost is adjusted to take into account the reductions/write-backs resulting from the valuation process as set out in the specific section for Impairment. Expected credit losses are recognized in profit or loss.

In the event of disposal, the accumulated profits and losses are recorded in the income statement as Gains (Losses) on disposal.

Amounts deriving from financial assets carrying amount adjustment, gross of cumulated write-downs, in order to reflect modifications on contractual cash flows that do not give rise to accounting derecognition, are recognized in 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 amortized cost using the effective interest rate method.

(iii) Derecognition

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

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

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

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

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

a) Contractual modifications and accounting derecognition (IFRS9)

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

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

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

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

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

(iv) Amortised cost measurement

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

(v) Fair value measurement principles

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

In accordance with IFRS 7 "Financial instruments: Disclosures" the Bank applies a three-level fair value hierarchy that reflects the significance of the inputs used in measurements (for more details see note 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 recognized 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 Probability of Default (PD), Loss Given Defaut (LGD) and Exposure At Default (EAD) parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the "Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses" issued by EBA.

In this context "forward looking" information was included through the elaboration of specific scenarios. The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses, which is aimed at transferring credit exposures from Stage 1 to Stage 2 (Stage 3 being equivalent to non-performing exposures).

Specific adjustments have been developed on PD, LGD and EAD parameters to compound the Expected Credit Loss (ECL), and a model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. For Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for "regulatory" purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to remove margin of conservatism and to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1Y regulatory model, removing margin of conservatism and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in UniCredit Group for other risk relevant purposes (i.e. processes adopted for translating macro-economic forecasts into Expected Credit Losses within both EBA Stress Test and ICAAP framework) and leverages on UniCredit Research independent function as well. The starting point will be therefore fully aligned, while the application will differentiate, to comply with different requirements, by using internally defined scenarios only.

A key aspect deriving from the model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (ii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

In the Bank, the Stage Allocation model is based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the bank's expectation of PD changes over time (e.g. age, maturity, PD level at the time of origination);
- absolute elements such as the backstops required by law (e.g. 30 days past-due);
- additional internal evidence (e.g. Forborne classification).

With regard to debt securities, the Group and the Bank opted for application of the low credit risk exemption on investment grade securities in full compliance with the accounting standard.

The expected credit losses of Bank's assets are regularly (by the end of each month) calculated to determine whether there is any objective evidence for impairment.

a) New Definition of Default

The New Definition of Default is applied since 01.01.2021, in full compliance with the EBA Guidelines. The regulatory approval / joint decision on permission to apply material changes to the definitions of default (DoD) used in the Internal Ratings Based approach for calculating own funds requirements for credit risk has been received issued by ECB on 30.08.2021. The new classification criteria envisages as main changes the review of the materiality thresholds of past due and a further articulated structures of Unlikely-To-Pay triggers (it is worth mentioning the one related to the Distressed Restructuring for forborne exposures, where a maximum threshold for diminished Net Present Value of 1% has been set), including additional requirements on default contagions effects in case of connected clients (primarily, Group of companies, joint credit obligations among individuals and link among natural persons and unlimited liability companies). Furthermore, a minimum probation period before returning in a non-defaulted status has been set as mandatory.

b) Update of credit risk models

In line with the Model Roadmap plan and after successful decision of the Internal Model Inspection by ECB/BNB, in February 2022 are expected to be implemented the updated credit risk models for Corporate PD and SME PD rating system and IPRE (Income producing and real estate) slotting system as well. All the models follow the updated modelling methodology of UniCredit Holding and are aligned with the New Definition of Default principles set it EBA/GL/2016/07 Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013. The expected impact of the new models on the RWA and EL and through it on the banks capital position have been properly evaluated and reflected in the Bank's budget and multi-year plan.

c) Impairment of assets carried at amortized cost

Loans and advances to banks and customers are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Financial and Credit Risk Committee – Credit Risk Session (formerly 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.

d) Impairment of financial assets remeasured to fair value directly in other comprehensive income

Financial assets remeasured to fair value directly through other comprehensive income are those classified as Fair value through other comprehensive income (FVTOCI).

Where a debt asset remeasured to fair value directly through other comprehensive income is impaired, impairment is recognized in profit and loss.

FVTOCI financial assets are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Financial and Credit Risk Committee – Credit Risk Session (formerly Provisioning and Restructuring Committee) which is a specialized internal body for monitoring, valuation and classification of risk exposures.

IFRS 9 requires to determine impairment on debt FVTOCI instruments using the same rules applied for financial assets at amortized cost.

Equity instruments presented in Financial assets at Fair Value through OCI are not subject to calculation of impairment as changes in fair value are always recognized in equity revaluation reserves through OCI.

(k) Derivatives held/used for hedging

As allowed by IFRS 9 Financial instruments, the UniCredit Group will continue to apply IAS 39 rules on hedge accounting. The MB of the Bank has approved "Hedge accounting methodology – UniCredit Bulbank AD".

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

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

Since 2009 the Bank applies Cash Flow Hedge accounting.

Since 2015 the Bank has started to apply Fair Value Hedge accounting. In accordance with the approved methodology, upon initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess and measure the effectiveness of the hedge relationship. Assessment is performed, both at the inception of the hedge relationship as well as on ongoing basis (based on Market risk function independent assessment), as to whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent (the limits for intragroup deals are to be reduced respectively to 90% and 111.8%). The Bank also makes an assessment for each cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as hedging instrument in a hedge of fair value of recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss. When the hedged item is classified as 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 amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life. Amortization starts immediately when hedge relationship no longer exists. When the hedged item is derecognized due to sale or expiration then the whole unamortized revaluation reserve is immediately recognized in profit and loss.

Cash flow hedge

Bank designates derivatives as hedging instruments in hedge of the variability in cash flows attributable to particular type of risk associated with highly probable forecast transaction that could ultimately affect profit or loss. While the derivative is carried at fair value in the statement of financial position, the effective portion of the changes of the fair value is recognized in other comprehensive income under cash flow hedge reserve and the ineffective part is recognized immediately in profit or loss. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked then the hedge accounting is discontinued prospectively.

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

(l) Property, plant, equipment and investment property

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

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

Starting from December 31, 2019 the Bank has adopted a policy to carry its items of property at revalued amount under the allowed alternative approach in IAS 16 Property, plant and equipment. Items of property are stated at fair value determined periodically by independent registered appraisers.

Positive changes in value are recognized in other comprehensive income reserve; if in previous periods negative changes were accounted for in the income statement, then subsequent positive changes will be recognized in the income statement up to the amount of negative change previously recognized.

Negative changes in value recognized in the income statement; if in previous periods positive changes in value were accounted for in other comprehensive income reserve, then subsequent negative changes will be recognized in other comprehensive income reserve (which can never be negative).

Depreciation is calculated based on revalued values and the revised remaining useful life.

Other comprehensive income reserve generated from revaluation (including the one, generated at First Time Adoption) is "reclassified" to retained earnings across the residual useful life of the asset. In case of disposal of the asset the entire other comprehensive income reserve is reclassified to retained earnings (with no impacts in the income statements).

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

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use for administrative purposes. Starting from December 31, 2019 the Bank has adopted a policy to carry its items of investment property at fair value determined periodically by independent registered appraisers. In periods after the first comparative period, the changes in fair value over the previous period is to be recognized in the income statement. No depreciation charges or impairment adjustments is to be recognized.

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

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

Depreciation on all items of property, plant and equipment (except investment property for which no depreciation charges are accrued) is provided on a straight-line basis at rates designed to write down the cost or valuation of fixed assets over their expected useful lives. Assets are not depreciated until they are brought into use and transferred from construction in progress into the relevant asset category.

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

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

(m) Intangible assets

Intangible assets are stated at cost less accumulated amortization and any impairment losses. As of December 31, 2021 and December 31, 2020 intangible assets include primarily investments in software and related licenses.

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

(n) Non-current assets held for sale

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

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

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

(o) Provisions

A provision is recognized when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2021 and December 31, 2020 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 Labor Agreement.

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

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

UniCredit Group Short and Long-Term incentive plans comprise of deferred cash payments (cash settled) as well as stock options and performance share (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, 2021 and December 31, 2020 UniCredit Bulbank presents the corresponding part of the economic value of the stock options and performance shares and respective accruals on the deferred cash payments as payroll costs under personnel expenses in the Income statement and the related obligation as other liability.

(q) Share capital and reserves

(i) Share capital

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

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

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

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

No changes in the amount of the share capital were made in 2021 and 2020.

(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, 2021 and December 31, 2020 the reserves include also the premium of previously issued shares corresponding to the difference between the issuing price and the face value.

(r) Taxation

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

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

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

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

As of December 31, 2021 and December 31, 2020 balances of deferred tax are presented net in the Statement of financial position as the respective netting requirements set out in IAS 12 are fully met.

(s) Segment reporting

The Bank has adopted IFRS 8 "Operating Segments" which requires the Bank to present operating segments based on the information that is internally provided to the Management. The business segments that have been previously determined and presented by the Bank in accordance with IAS 14 "Segment Reporting" are also the primary operating segments which are regularly reported to the Management of the Bank.

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

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform – adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 16 "Leases"** – Covid-19-Related Rent Concessions beyond 30 June 2021 (adopted by the EU on 30 August 2021 for financial years starting, at the latest, on or after 1 January 2021);
- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023);

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in 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 authorization of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU but not yet effective:

- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022);
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IFRS 17 "Insurance contracts"** – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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.

4. Financial risk management

(a) General framework

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

- market risk;
- liquidity risk;
- credit risk;

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

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

Financial and Credit Risk Committee – Financial Risk Session (FCRC – FRS), the former 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 Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS), the former Provisioning and Restructuring Committee (PRC). It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation, approval of changes in Credit Strategies, Retail and Corporate Credit Policy, rules, new credit products or changes and optimization in credit processes. Assessment of the credit risk is in accordance with the Group standards and for regulatory purposes in accordance with Bulgarian National Bank requirements.

Management of the Bank has approved certain limits aiming to mitigate the risk impact on the Bank's result. These limits are within the overall risk limits of the banking group. The limits for credit risk depend on size of the exposure. Management Board approves large exposures – above 10% of 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.

(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 Modeling Unit. Market risk control function is organized independently from the trading and sales activities. Prudent market risk management policies and limits are explicitly defined in the Market Risk Strategy Rule Book of UniCredit Bulbank, which is reviewed at least annually. A product development process is established in which risk managers play a decisive role in approving a new product.

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

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

For internal risk management and Group compliant risk measurement of Value at Risk (VaR), the Bank applies UniCredit Group's internal model for market risks. It is based on historical simulation with a 250-day market data time window for scenario generation and covers all major risk categories: interest rate risk and equity risk (both general and specific), currency risk and commodity position risk. The simulation results, supplemented with distribution metrics and limit utilization are reported on a daily basis to the Management and to the responsible traders. In addition to the risk model results, income data from market risk activities are also determined and communicated on a daily basis. Reporting covers the components reflected in IFRS-based profit and the market changes of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). Fair value adjustments (FVA) are applied to the extent that they are consistent with the objective of a fair value measurement. Credit/debit valuation adjustments (CVA/DVA) for OTC derivatives along with Funding Valuation Adjustments are complementing the presentation of performance results.

During 2021, VaR of FVtOCI positions (measured with 1 day holding period, confidence interval of 99%) of UniCredit Bulbank AD moved in a range between EUR 1.20 million and EUR 5.71 million, averaging EUR 2.87 million, with credit spreads and interest rate curves' movements being main drivers. VaR of FVtPL positions moved in a range between EUR 0.17 million and EUR 0.45 million, averaging EUR 0.26 million.

VaR of UniCredit Bulbank AD by portfolio in EUR million for 2021 on consolidated basis is as follows:

PORTFOLIO	MINIMUM	MAXIMUM	AVERAGE	YEAR-END
FVtPL	0.17	0.45	0.26	**0.18**
FVtOCI	1.20	5.71	2.87	**1.20**

In addition to VaR, risk positions of the Bank are limited through sensitivity-oriented limits. The most important detailed presentations include: basis point shift value (interest rate changes of 0.01% by maturity bucket), credit spread basis point value (credit spread changes of 0.01% by maturity bucket) and FX sensitivities. In the interest rates area, the Basis-Point-Value (BP01) limit restricts the maximum open position by currency and time buckets, with valuation changes based on shift by 0.01% (1 basis point).

The sensitivities' table below provides summary of the overall interest rate risk exposure of UniCredit Bulbank AD on consolidated basis as of December 31, 2021 (change in value due to 1 basis point shift, amounts in EUR, trading and banking books):

IR BASIS POINT SHIFT (EUR)

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM
EUR	(600)	11 613	(34 554)	58 324	1 677	36 461
BGN	9 545	40 373	91 592	80 114	(73 577)	148 048
USD	(6 084)	(3 070)	(888)	(1)	-	(10 043)
CHF	(592)	231	3	(27)	(1)	(386)
GBP	(201)	364	2	-	-	165
Other	3	2	-	-	-	5
Total	**2 073**	**49 513**	**56 155**	**138 411**	**(71 901)**	**174 250**

Measured by total absolute basis-point value, the credit spread sensitivity metric for UniCredit Bulbank AD as of December 31, 2021 totaled EUR 1,127,696. Instruments issued by governments account for the largest part of credit spread exposure.

SP BASIS POINT SHIFT (EUR)

ISSUER	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	SUM ABSOLUTE VALUE
Sovereigns	(3 828)	(20 169)	(115 191)	(825 273)	(69 846)	1 034 307
Regional governments	-	-	(227)	-	-	227
Corporates	-	(5 810)	(14 472)	(72 880)	-	93 162
Total Absolute	**3 828**	**25 979**	**129 890**	**898 153**	**69 846**	**1 127 696**

Internal model results are complemented by various stress scenarios to identify potential effects of stressful market conditions on the Bank's earnings. The assumptions under such stress scenarios include extreme movements in prices or rates and deterioration in market liquidity. Stress results for major asset classes and portfolios (credit, rates and FX) and estimated impact on liquidity position are reported at least monthly to FCRC-FRS. Throughout 2021 the Bank's Management continued prudent risk management practices with primary focus on client-driven business.

The impacts of the still ongoing Covid-19 pandemic on market risk exposures and liquidity are evaluated as insignificant, thanks to the conservative investment strategy and strong funding profile largely independent from wholesale markets. UniCredit Bulbank continued to closely monitor its liquidity and market risk position, in order to ensure regular execution of its Treasury activities, strict compliance with the set risk appetite and proper information flows to the Senior Management and the Supervisor.

The behavioral model of non-maturing deposits (NMDs), introduced in Q2 2020 in compliance with the respective EBA Guidelines, has been recalibrated in 2021. The model estimates the liquidity and interest rate characteristics of the customer positions following the real behavior, instead of the contractual/explicit profile. The modelling of NMDs (Sight and Saving deposits) aims to identify their stability (stickiness) defined as the tendency to be a permanent source of funding.

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

As of December 31, 2021 the FX balances of UniCredit Bulbank AD are as outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	6 654 510	22 928	**6 677 438**
Non-derivative financial assets held for trading	4 901	-	**4 901**
Derivatives held for trading	55 485	31 554	**87 039**
Derivatives held for hedging	11 976	-	**11 976**
Loans and advances to banks	392 920	307 868	**700 788**
Loans and advances to customers	13 808 375	137 627	**13 946 002**
Investment securities	3 459 813	15 549	**3 475 362**
Investments in associates	3 426	-	**3 426**
Property, plant, equipment, right of use assets and investment properties	329 187	-	**329 187**
Intangible assets	91 343	-	**91 343**
Current tax assets	8	-	**8**
Deferred tax assets	3 940	-	**3 940**
Non-current assets and disposal groups classified as held for sale	12 292	-	**12 292**
Other assets	85 091	429	**85 520**
TOTAL ASSETS	**24 913 267**	**515 955**	**25 429 222**
LIABILITIES			
Financial liabilities held for trading	15 813	31 335	**47 148**
Derivatives used for hedging	65 287	-	**65 287**
Deposits from banks	986 417	225 203	**1 211 620**
Deposits from customers and other financial liabilities at amortized cost	18 175 705	1 625 166	**19 800 871**
Debt securities issued	313 104	-	**313 104**
Provisions	113 425	6 828	**120 253**
Current tax liabilities	5 647	-	**5 647**
Deferred tax liabilities	6 192	-	**6 192**
Other liabilities	142 538	4 779	**147 317**
TOTAL LIABILITIES	**19 824 128**	**1 893 311**	**21 717 439**
EQUITY	**3 711 783**	**-**	**3 711 783**
Net off-balance sheet spot and forward position	(1 380 560)	1 378 011	**(2 549)**
Net position	**(3 204)**	**655**	**(2 549)**

As of December 31, 2020 the FX balances of UniCredit Bulbank AD are outlined in the table below:

In thousands of BGN

	EUR AND BGN	OTHER CURRENCIES	TOTAL
ASSETS			
Cash and balances with Central Bank	6 568 631	27 023	**6 595 654**
Non-derivative financial assets held for trading	15 263	1 744	**17 007**
Derivatives held for trading	45 786	33 094	**78 880**
Derivatives held for hedging	16	-	**16**
Loans and advances to banks	1 278 787	149 845	**1 428 632**
Loans and advances to customers	12 192 233	134 975	**12 327 208**
Investment securities	3 661 995	14 625	**3 676 620**
Investments in associates	3 482	-	**3 482**
Property, plant, equipment, right of use assets and investment properties	306 577	-	**306 577**
Intangible assets	79 989	-	**79 989**
Current tax assets	1 534	-	**1 534**
Deferred tax assets	4 500	-	**4 500**
Non-current assets and disposal groups classified as held for sale	19 357	-	**19 357**
Other assets	79 745	316	**80 061**
TOTAL ASSETS	**24 257 895**	**361 622**	**24 619 517**
LIABILITIES			
Financial liabilities held for trading	68 175	33 219	**101 394**
Derivatives used for hedging	105 683	-	**105 683**
Deposits from banks	1 778 839	269 221	**2 048 060**
Deposits from customers and other financial liabilities at amortized cost	17 206 208	1 522 504	**18 728 712**
Provisions	112 060	5 705	**117 765**
Current tax liabilities	1 317	-	**1 317**
Deferred tax liabilities	5 788	-	**5 788**
Other liabilities	132 250	4 088	**136 338**
TOTAL LIABILITIES	**19 410 320**	**1 834 737**	**21 245 057**
EQUITY	**3 374 460**	**-**	**3 374 460**
Net off-balance sheet spot and forward position	(1 559 025)	1 479 208	**(79 817)**
Net position	**(85 910)**	**6 093**	**(79 817)**

(c) Liquidity risk

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

Liquidity is operationally managed through Treasury unit and the structural liquidity through Asset-Liability Management unit. According to the Liquidity Policy, Treasury Unit 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, defined as a 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 standardized Group-wide scenarios. These scenarios describe the effects of market-driven or specific name-crisis signals, with assumptions about behavior 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 2021, 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 2021	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	4 901	-	**4 901**
Loans and advances to banks	660 037	40 751	**700 788**
Loans and advances to customers	5 296 533	8 649 469	**13 946 002**
Investment securities	409 946	3 065 416	**3 475 362**
Other assets	63 372	22 148	**85 520**
TOTAL FINANCIAL ASSETS	**6 434 789**	**11 777 784**	**18 212 573**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2020	UP TO 1 YEAR	OVER 1 YEAR	Total
ASSETS			
Non-derivative financial assets held for trading	17 007	-	**17 007**
Loans and advances to banks	1 329 989	98 643	**1 428 632**
Loans and advances to customers	3 181 454	9 145 754	**12 327 208**
Investment securities	130 644	3 545 976	**3 676 620**
Other assets	56 653	23 408	**80 061**
TOTAL FINANCIAL ASSETS	**4 715 747**	**12 813 781**	**17 529 528**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2021	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	**1 211 620**	(1 213 531)	(1 131 153)	(9 914)	(33 200)	(39 264)
Deposits from customers and other financial liabilities at amortized cost	**19 800 871**	(19 798 003)	(17 364 379)	(803 088)	(1 234 284)	(396 252)
Unutilized credit lines	**-**	(4 295 057)	(4 017 214)	(32 009)	(245 834)	-
Total non-derivative instruments	**21 012 491**	**(25 306 591)**	**(22 512 746)**	**(845 011)**	**(1 513 318)**	**(435 516)**
Derivatives held for trading net	**39 891**					
Outflow		(4 312 900)	(2 802 799)	(1 037 011)	(434 676)	(38 414)
Inflow		4 354 568	2 835 067	1 040 003	433 711	45 787
Derivatives used for hedging, net	**(53 311)**					
Outflow		(79 851)	(10 005)	(41 642)	(11 078)	(17 126)
Inflow		26 545	789	10 545	3 867	11 344
Total derivatives	**(13 420)**	**(11 638)**	**23 052**	**(28 105)**	**(8 176)**	**1 591**
Total financial liabilities	**20 999 071**	**(25 318 229)**	**(22 489 694)**	**(873 116)**	**(1 521 494)**	**(433 925)**

In thousands of BGN

MATURITY TABLE AS AT 31 DECEMBER 2020	CARRYING AMOUNT	GROSS IN (OUT) FLOW	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR
Non derivative instruments						
Deposits from banks	**2 048 060**	(2 047 464)	(1 919 658)	(9 971)	(36 625)	(81 210)
Deposits from customers and other financial liabilities at amortize cost	**18 728 712**	(18 728 598)	(16 021 338)	(959 938)	(1 454 518)	(292 804)
Unutilized credit lines	**-**	(4 115 840)	(3 895 277)	(42 191)	(178 372)	-
Total non-derivative instruments	**20 776 772**	**(24 891 902)**	**(21 836 273)**	**(1 012 100)**	**(1 669 515)**	**(374 014)**
Derivatives held for trading net	**(22 514)**					
Outflow		(3 975 756)	(2 756 362)	(908 237)	(239 495)	(71 662)
Inflow		3 956 426	2 727 890	903 518	242 700	82 318
Derivatives used for hedging, net	**(105 667)**					
Outflow		(114 063)	-	(10 485)	(12 282)	(91 296)
Inflow		10 323	-	7	1 006	9 310
Total derivatives	**(128 181)**	**(123 070)**	**(28 472)**	**(15 197)**	**(8 071)**	**(71 330)**
Total financial liabilities	**20 648 591**	**(25 014 972)**	**(21 864 745)**	**(1 027 297)**	**(1 677 586)**	**(445 344)**

(d) Credit risks

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

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

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

(i) Credit risk in the trading book

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

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

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

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

The analysis based on client credit quality and rating (where available) as of December 31, 2021 and December 31, 2020 is as shown in the next table:

In thousands of BGN

	31.12.2021	31.12.2020
Government bonds		
Rated BBB-	**2 269**	12 416
Equities		
Unrated	2 632	2 847
Loan		
Rated BBB	-	1 744
Derivatives (net)		
Banks and financial institution counterparties	(52 691)	(190 111)
Corporate counterparties	39 271	61 930
Total trading assets and liabilities	**(8 519)**	**(111 174)**

Government bonds presented as of December 31, 2021 and December 31, 2020 include bonds issued by Republic of Bulgaria.

(ii) Credit risk in the banking book

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

Competences for evaluation and classification of risk exposures, assessment and quantification of impairment allowances and provisions for credit risk are exclusively within the responsibility of Financial and Credit Risk Committee, Credit Risk Session (FCRC – CRS) established in the Bank.

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

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

Exposures with objective evidence of impairment (defaulted exposures) generally trigger specific impairment allowances (calculation amount based on individual assessment or portfolio model-based).

Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

During the financial year 2021, the Bank was monitoring the performance of the portfolio with Moratoria measures in order to identify negative development after their expiration. In general, the conclusion is that overall the situation is stable, registering 6.7% share of the loans with overdue payments from the bucket with the expired moratorium measures as of December 2021.

The achievement of this relatively good result is also due to the Bank’s preventive activities from Q4 of 2020, when the Bank had started several initiatives using internally defined criteria aiming to identify borrowers with unstable financial situation and to register UTP event. Together with day-past-due triggered classification there is net inflow in the amount of BGN ~270 mln on Bank stand-alone level.

Main affected industries related to the Moratorium portfolio are Tourism, Media & Paper, Textile and Real Estate (in particular commercial centers and small administrative buildings). Further restructuring measures in these sectors are highly likely considering the ongoing pandemic and the respective sanitary measures.

As already mentioned in February 2022 UniCredit Bulbank is planning to implement the updated credit risk models for Corporate PD, SME PD rating system and IPRE slotting system as well. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 70.2 mln as of December 2021.

The Bank has allocated further add-on on LLPs due to rising uncertainties for the forthcoming year driven by high inflation pressure due to continuous increase of energy prices in a context of still continuing pandemic situation, particularly heavy in the country. The overall impact is estimated at the level of BGN 45.0 mln.

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, 2021 and December 31, 2020:

In thousands of BGN

	CREDIT RISK EXPOSURE BEFORE RISK TRANSFER		CREDIT RISK EXPOSURE AFTER RISK TRANSFER		% OF OWN FUNDS	
	2021	2020	2021	2020	2021	2020
Biggest credit risk exposure to customers' group	540 003	531 720	483 464	459 431	14.6%	14.4%
Credit risk exposure to top five biggest customers' groups	1 284 703	1 395 066	1 010 028	1 078 781	30.6%	33.8%

The table below analyses the breakdown of loss allowances as of December 31, 2021 and December 31, 2020 on different classes:

In thousands of BGN

LOSS ALLOWANCE BY CLASSES	2021	2020
Cash and balances with Central Bank	167	165
Loans and advances to banks at amortized cost	271	374
Loans and advances to customers at amortized cost	862 032	847 283
Debt investment securities at amortized cost	956	117
Debt investment securities at FVTOCI	3 070	7 288
Loan commitments	31 185	18 844
Financial guarantee contracts and other commitments	**24 022**	**38 612**
Accumulated negative changes in fair value due to credit risk on non-performing exposures mandatory at FV	1 188	2 154
Total Loss allowance by classes	**922 891**	**914 837**

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

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES AND DEBT SECURITIES TO BANKS AT AMORTIZED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 31.12.2020	**(374)**	**-**	**-**	**-**	**(374)**
New financial assets originated or purchased	(209)	-	-	-	**(209)**
Financial assets that have been derecognized	307	-	-	-	**307**
Loss allowance as at 31.12.2021	**(276)**	**-**	**-**	**-**	**(276)**

In thousands of BGN

LOSS ALLOWANCE – LOANS AND ADVANCES AND DEBT SECURITIES TO CUSTOMERS AT AMORTIZED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Loss allowance as at 31.12.2020	**(69 126)**	**(115 813)**	**(661 724)**	**(737)**	**(847 400)**
Changes in the loss allowance:					**-**
Transfer to stage 1	(17 316)	9 495	7 821	-	**-**
Transfer to stage 2	72 889	(83 844)	10 955	**-**	**-**
Transfer to stage 3	18 831	32 526	(51 357)	-	**-**
Increases due to change in credit risk	(97 623)	(77 223)	(73 563)	-	**(248 409)**
Decreases due to change in credit risk	28 908	34 220	96 630	472	**160 230**
Write-offs	-	-	105 962	-	**105 962**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	(34 109)	(40 356)	(28 737)	-	**(103 202)**
Financial assets that have been derecognized	11 021	12 022	46 210	-	**69 253**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	578	-	**578**
Loss allowance as at 31.12.2021	**(86 525)**	**(228 973)**	**(547 225)**	**(265)**	**(862 988)**

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 2021 as per IFRS 9 requirements:

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	31.12.2021					
	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL	YEAR ENDED 2020
Grades 1-3: Low to fair risk	1 421 864	451 680	-	-	**1 873 544**	**3 867 153**
Grades 4-6: Monitoring	8 855 000	1 578 942	-	-	**10 433 942**	**7 588 209**
Substandard	83 720	635 544	35 387	-	**754 651**	**795 292**
Grade 9: Doubtful	-	-	434 762	-	**434 762**	**542 837**
Grade 10: Impaired	-	-	235 550	265	**235 815**	**294 290**
Total gross carrying amount	**10 360 584**	**2 666 166**	**705 699**	**265**	**13 732 714**	**13 087 781**
Loss allowance	(85 569)	(228 973)	(547 225)	(265)	**(862 032)**	**(847 283)**
Carrying amount	**10 275 015**	**2 437 193**	**158 474**	**-**	**12 870 682**	**12 240 498**

In thousands of BGN

DEBT INVESTMENT SECURITIES AT AMORTIZED COST	31.12.2021					
	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL	YEAR ENDED 2020
Grades 1-3: Low to fair risk	1 072 177	-	-	-	**1 072 177**	**80 191**
Grades 4-6: Monitoring	2 029	-	-	-	**2 029**	**4 263**
Substandard	-	-	-	-	**-**	**-**
Grade 9: Doubtful	-	-	-	-	**-**	**-**
Grade 10: Impaired	-	-	-	-	**-**	**-**
Total gross carrying amount	**1 074 206**	**-**	**-**	**-**	**1 074 206**	**84 454**
Loss allowance	(956)	-	-	-	**(956)**	**(117)**
Carrying amount	**1 073 250**	**-**	**-**	**-**	**1 073 250**	**84 337**

In thousands of BGN

LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	STAGE 1	STAGE 2	STAGE 3	POCI	TOTAL
Gross carrying amount as at 31.12.2020	**10 491 753**	**1 757 897**	**921 848**	**737**	**13 172 235**
Changes in the gross carrying amount:				**-**	
Transfer to stage 1	474 420	(453 929)	(20 491)	-	**-**
Transfer to stage 2	(1 133 107)	1 179 931	(46 824)	-	**-**
Transfer to stage 3	(46 361)	(50 647)	97 008	-	**-**
Changes due to modifications that did not result in derecognition	-	-	-	-	**-**
New financial assets originated or purchased	5 114 687	579 521	43 020	-	**5 737 228**
Financial assets that have been derecognized	(1 558 686)	(198 658)	(85 111)	-	**(1 842 455)**
Write-offs	-	-	(106 028)	-	**(106 028)**
Other changes	(1 907 916)	(147 949)	(97 723)	(472)	**(2 154 060)**
Gross carrying amount as at 31.12.2021	**11 434 790**	**2 666 166**	**705 699**	**265**	**14 806 920**

Pursuant to prescriptions provided on IFRS 9 principle as well as EBA Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), a Low Credit Risk Exemption (LCRE) is applied to financial instruments (including Loans) presenting a "low level of risk" at reporting date where the "low risk" is set out relying primarily on internal credit risk measures, keeping in the same time a reconciliation with Investment (IG) and Non-Investment Grade (NIG) classification. Therefore, according to the rationale described in the Group IFRS 9 Model Concept, an internal estimated PD threshold has been set equal to 0.3%. Therefore, all financial instruments belonging to client having a 1-year IFRS PD at reporting date lower than 0.3% would be then subject to LCRE and kept under Stage 1.

So far, since the Low Credit Risk Exemption has been related only to debt securities such table has not been previously reported. During Q4 of 2021 LCRE had been adopted also for Loan portfolio needs. The table below presents the amounts reported as of 31.12.2021

In thousands of BGN

	31.12.2021
Central banks	6 230 875
General governments	315 883
Credit institutions	581 581
Other financial corporations	24 819
Non-financial corporations	697 681
Of which: Small and Medium-sized Enterprises	226 644
Households	672 781
Total loans and advances at amortized cost	**8 523 620**

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	
	31.12.2021	31.12.2020
Defaulted exposures		
Cash collateral	**4 364**	6 567
Property	856 382	1 007 847
Debt securities	463	463
Other collateral	675 960	735 348
Performing exposures		
Cash collateral	117 872	60 079
Property	12 003 684	11 070 326
Debt securities	13 310	9 509
Other collateral	8 763 448	8 810 640
Total	**22 435 483**	**21 700 779**

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, 2021 and December 31, 2020:

In thousands of BGN

	LOANS AND ADVANCES TO CUSTOMERS		LOANS AND ADVANCES TO BANKS		INVESTMENT SECURITIES	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Concentration by sectors						
Sovereign	1 425 221	463 162	-	-	3 305 109	3 523 292
Manufacturing	2 587 054	2 595 487	-	-	47 430	50 923
Commerce	2 205 828	2 093 692	-	-	-	-
Construction and real estate	1 502 476	1 614 279	-	-	67	67
Agriculture and forestry	552 517	539 997	-	-	-	-
Transport and communication	797 163	749 997	-	-	107	107
Tourism	278 911	221 649	-	-	-	-
Services	266 100	496 608	-	-	-	-
Financial services	245 200	67 827	701 064	1 429 006	126 075	105 713
Retail (individuals)	-	-	-	-	-	-
Housing loans	2 760 459	2 370 470	-	-	-	-
Consumer loans	1 978 802	1 765 469	-	-	-	-
Other loans	210 447	198 125	-	-	-	-
	14 810 178	**13 176 762**	**701 064**	**1 429 006**	**3 478 788**	**3 680 102**
Impairment allowances	(862 988)	(847 400)	(276)	(374)	-	-
Total	**13 947 190**	**12 329 362**	**700 788**	**1 428 632**	**3 478 788**	**3 680 102**
Concentration by geographic location						
Europe	14 735 672	13 107 494	673 568	1 394 764	3 463 239	3 665 477
North America	18 506	18 646	9 902	9 135	15 549	14 625
Asia	55 038	49 770	17 060	24 843	-	-
Africa	442	195	241	131	-	-
South America	419	556	-	-	-	-
Australia	101	101	293	133	-	-
	14 810 178	**13 176 762**	**701 064**	**1 429 006**	**3 478 788**	**3 680 102**
Impairment allowances	(862 988)	(847 400)	(276)	(374)	-	-
Total	**13 947 190**	**12 329 362**	**700 788**	**1 428 632**	**3 478 788**	**3 680 102**

(iii) Significant increase in credit risk

In relation to quantitative criteria estimation used for stage transfers, the Bank has switched from an approach based on 1-year PD to a Lifetime PD. Following the Group guidelines and practices in this respect, the Bank has made further qualitative and quantitative enhancements:

- Removal of portfolio-based Stage 2 allocation mechanism (so called "quantile correction")[1];
- If the regulatory PD is equal or greater than 20% at the reporting date – Stage 2;
- If the IFRS PD at the reporting date is 3 times higher than the IFRS PD at inception – Stage 2;
- Introduction of obligatory 3-month probation period before returning the transactions back to Stage 1.

(e) 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

[1] The portfolio-based stage 2 correction mechanism is a measure set out since IFRS9 First Time Adoption in 1Q2018 with the aim to stabilize portfolio allocation in the different staging within boundaries around the long run quantile of the portfolio underlying the estimation sample of the Quantitative Staging Allocation model.

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, 2021 are 11.5%, 13%, 15% (as of December 31, 2020 – 11.5%, 13%, 15%), respectively.

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

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, 2021 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, 2021	Performing loans	
Agreed maximum portfolio volume:	EUR 85,000 thousand	
Nominal Value of reference portfolio:	BGN 1,352 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, 2021	BGN 0	BGN 1,082 thousand

(i) Own funds and capital requirements

The development of the own funds and capital requirements as of December 31, 2021 and December 31, 2020 are as follows:

In thousands of BGN

	31.12.2021	31.12.2020
Regulatory own funds		
Core Equity Tier 1 (CET 1)	3 301 187	3 143 905
Tier 1 capital	3 301 187	3 143 905
Tier 2 capital	44 515	46 533
Total regulatory own funds	**3 345 702**	**3 190 438**
Risk Weighted Assets (RWA)		
RWA for credit risk	10 056 725	10 108 655
RWA for market risk	91 651	85 813
RWA for operational risk	1 110 063	1 073 550
RWA for credit valuation adjustments	3 788	6 388
Total Risk Weighted Assets (RWA)	**11 262 227**	**11 274 406**
CET 1 ratio	**29.31%**	**27.89%**
Tier 1 ratio	**29.31%**	**27.89%**
Total capital adequacy ratio	**29.71%**	**28.30%**
Minimum CET 1 capital requirements (4.5%)	**506 800**	**507 348**
Minimum Tier 1 capital requirements (6%)	**675 734**	**676 464**
Minimum total capital requirements (8%)	**900 978**	**901 952**
Additional capital requirements for conservation buffer (2.5%)	281 556	281 860
Additional capital requirements for systemic risk buffer (3%)	312 385	310 552
Additional capital requirements for other systemic important institution (1%)	112 622	112 744
Additional capital requirements for countercyclical capital buffer (0.5%)	55 185	54 906
Combined buffers additional capital requirements (7%)	**761 748**	**760 062**
Adjusted minimum CET 1 capital requirements after buffers (11.50%)	1 268 548	1 267 411
Adjusted minimum Tier 1 capital requirements, including buffers (13%)	1 437 482	1 436 527
Adjusted minimum total capital requirements after buffers (15%)	1 662 726	1 662 015
Free equity, after buffers	**1 682 976**	**1 528 423**

(f) Climate-related and environmental risks (ESG)

The climate-related and environmental risks and the accompanying shift towards sustainable finance are mounting challenges to the financial sector. In the context of an evolving regulatory framework that since 2020 have been putting even stronger emphasis on the climate risk topic, the Bank, in line with the Group's strategy, continued to proactively address these challenges by means of increased commitment to sustainability and tangible initiatives aimed at improving the management of risks to anticipate the possible increases in the riskiness of specific sectors and to analyze the impact on the overall Bank's business and risk profile.

Regulatory changes in relation to environmental, social and governance (ESG) risk practices have continued at an accelerated pace since the UN Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs) were signed by world leaders in 2015. Other key developments in the regulatory landscape include the latest EU Taxonomy Regulation that requires compliance to minimum social and governance safeguards.

UniCredit defines the Climate related and environmental risks as the sources of structural changes that might affect the economic activities and led by the following risk drivers:

- Transition risk refers to the financial loss that can result, directly or indirectly, from the process of adjustment towards a lower carbon and more environmentally sustainable economy;
- Physical risk refers to the financial impact of extreme weather events and gradual changes in climate, as well as of environmental degradation (e.g. water and land pollution, water stress, biodiversity loss and deforestation) Physical risk can directly result in damage to property or reduced productivity;

The Group proceeds with the integration of Climate & Environmental risks within Risk Management framework through several concrete actions and in line with the defined Group Roadmap, as part of the "Risk and Credit" stream of the implemented in 2021 UniCredit Bulbank's ESG Governance Framework. We aim to achieve three main objectives:

- meeting regulatory expectations on banks business strategy and risk management processes;
- mitigating climate-related and environmental risks;
- identifying potential opportunities for financing the climate and environmental transition.

The Group carefully manages Transition Risk, ensuring proper origination, monitoring and management of the portfolios, following holistic approach including:

- Portfolio steering through Risk Appetite Framework, Credit strategies cascading and sector policies issuing;
- Portfolio analysis and monitoring;
- Single counterparty risk assessment (starting from Large Corporate);

Regarding Physical Risk, we are focused at the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Preliminary assessment of the collaterals portfolio has been performed by Collateral Management Unit on physical risk caused by sea-level rise and by flooding in line with the Group's methodology on the matter.

The Group continues to streamline data gathering and analytics, in order to further identify sources of climate related risks. Initiative has been launched for storage of the information for collaterals' Energy efficiency – new requirement for providing of issued Energy efficiency certificate of real estate properties proposed for collaterals is about to be implemented by the end of Q1 2022 with the respective proper flagging in the internal core banking system of the Energy class of the real estate properties. While this will be applied for all new business flows, the Bank explores possibilities for collaboration with third-party vendors on the assessment of the stock.

In line with the entered into force EBA Guidelines for Loan Origination and Monitoring, the bank uses ESG information in its underwriting process. We have adopted Groupwide questionnaire for climate risk assessment and diligently apply it for transactions with economic groups above predefined exposure threshold.

The Climate & Environmental (C&E) Risk Assessment Questionnaire aims to determine the customers' position on the transition pathway. The approach comprises:

- filling in of the above-mentioned questionnaire addressing both high and low emissive customers in line with regulatory expectations;
- generation of a Climate & Environmental (C&E) Risk Scorecard summarising the main KPIs and identifying the counterparty's positioning in one of the four risk areas (low, medium-low, medium-high, high) of the Transition Assessment matrix;
- the inclusion of the environmental scoring in the credit valuation process.

C&E assessment methodology is based on 3 key dimensions:

- the climate and environmental exposure considers the actual level of Green House Gas (GHG) emissions of corporate customers as well as other environmental metrics such as water and energy consumption, waste production and recycling;
- the climate and environmental vulnerability evaluates the climate change management maturity level of corporate customers, considering the company's plan to shift to a lower emission level business model, the transition investment plan, the GHG emissions reduction target as well as products and services associated with positive climate impact. This dimension considers cross-industry emission targets and ESG ratings together with management and industry specific environmental strategy;
- the economic impact on corporate customers' financial and industrial performance takes into account the effects on stranded assets, the decrease in market shares or revenues due to market shift, the increase in investment costs, constraints in accessing financing and indirect effects related to their supply chain or partner industries.

An extension of this methodology to those counterparties subject to the Local Credit Committee is expected in 2022.

The Group intends to further develop heatmap approach to better understand the impact across sectors as well as to cover the positions below the defined thresholds.

UniCredit Bulbank has approved, implemented and follows several Group policies regarding sensitive sector that may have significant implication on the environment and the society. Strict monitoring and evaluation is being performed on counterparties and deals within the Coal Sector, Defense / Weapons Industry, Mining Industry, Water Infrastructure/Dams, Nuclear energy, Non-Conventional Oil & Gas and Arctic region Oil & Gas industry sector. The analysis is performed in line with all ESG criteria, requirements, standards and best practices, and ensures that all such standards and local and international regulations are met.

In 2021 UniCredit joined the Net-Zero Banking Alliance (NZBA). In line with the Group commitment to a climate-positive future, UniCredit Bulbank has put the foundations of its Carbon Footprint Reduction Program also in 2021.

In 2022 the Group will continue to develop the activities in these areas in line with the Group approach and all applicable regulations, standards and best practices. The Bank aims to further progress with its efforts regarding climate-related risks and opportunities by refining the Group methodologies, working towards standard setting and expanding the scope. For instance, it's intended to expand the scope of our physical risk assessment for real estate and investigate the impact of transition risk on various sectors, as well as to include such assessments in the stress test scenarios for the Bank.

In its 2022 credit strategies the Bank, following the Group guidelines, will integrate climate and environmental risk factors, including by definition of KPIs to be used in order to differentiate Climate impact on Corporate Risk Strategy clusters and industry steering signals.

5. Non-financial risk management

UniCredit Bulbank AD is exposed to the following non-financial risks – Operational and Reputational risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (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 (ORR Unit). The responsibilities of the unit are in line with the envisaged by UniCredit Group. Appointed operational risk managers in the branch network and the Head Office, working on a decentralized basis, are responsible for loss data identification and reporting as well as for adoption of measures to reduce and prevent risks in their respective areas.

Reputational risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders/investors, regulators or employees (stakeholders). All relevant rules and policies for the management and monitoring of the Reputational risk exposure have been adopted in 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 Coal, Defense/Weapons, Nuclear energy, Water Infrastructure, Oil and Gas, etc.

The main activities of the ORR Unit in 2021 were focused on maintaining the excellence in managing the operational and reputational risks, as well as assessment and mitigation of risks participation in dedicated bank projects and initiatives.

The regular Operational Risk (OpRisk) tasks consist of: OpRisk Loss Data Collection and Reporting; General Ledger Analysis; Transitory and Suspense Accounts Analysis; Accounting Reconciliation; Key Risk Indicators Monitoring; Scenario Analysis; OpRisk Assessment for ICT and Cyber Risks; OpRisk Assessment of Relevant Transactions; Risk and Controls Self-Assessment (RCSA); Operational and Reputational Risk Strategies Definition and Monitoring. The RCSA activity was defined in 2019, performed in UniCredit Bulbank on an annual basis and further enhanced in 2020 and 2021. The activity's main goal is to involve process owners in performing a thorough self-assessment of already pre-defined risk bearing processes. Important element of this assessment is the role of ORR Unit, by being in the driving seat in coordinating the activity and challenging the process owners in evaluating the processes from risk perspective.

The following new processes have been implemented and are regularly performed in 2021:

- ICT Project Risk Assessment – defines the principles for the management and control of Operational Risks during the project definition and management in the UniCredit Bulbank.
- Process Risk and Controls Assessment for material changes – aims at defining rules and principles to assess the Operational Risk related to significant changes in bank processes.
- Operational Risk Oversight Model – the process defines the methodological approach for the Operational Risk Oversight on UniCredit Group Legal Entities, the criteria for the Legal Entities clusterization and the minimal requirements for each type of model (Extended, Essential, Simplified). The aim is to strengthen the Oversight mechanism with reference to small size subsidiaries of the UniCredit Bulbank.

All activities regarding operational and reputational risk management included in the annual plan, defined by the Group, were performed following the Group methodology and executed in a timely manner with no delay.

The Non-Financial Risk and Controls Committee – General Session (NFRC-GS) greatly enhances the regular exchange of information and promotion of the operational risk awareness within the Bank. The Committee meetings are held quarterly and attended by the Bank's senior management. The NFRC-GS acts also as a Permanent Workgroup, where current operational risk issues and developments are reported, and serves as a platform for discussion of unresolved issues for the purpose of finding risk mitigation solutions.

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

During 2021 the ORR Unit continued to develop and strengthen the reputational risk process in compliance with the UniCredit Group principles, policies and rules for monitoring the reputational risk exposure via adoption and implementation of key Group documents regulating the area. The Non-Financial Risk and Controls Committee – Reputational Risk Session (NFRC-RRS), is the decision-making body for reputational risk topics and holds monthly meetings to discuss deals and issues in the scope of the reputational risk.

The 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 2021 the ORR Unit organized dedicated trainings aiming to improve the expertise of the branch managers of the retail network of the Bank regarding operational risks in their daily activities. Moreover, two dedicated practical online trainings were held in the end of 2021 – one related to operational risk loss data reporting and confirmation by the operational risk managers and another covering the specifics of the ICT Project Risk Assessment performed by the project leaders. With regard to Reputational Risk, remote workshop sessions dedicated on the deals out of scope of the sector reputational risk policies were performed for all Business segments, aiming to increase overall support to the Business and optimize the time for response to clients' requests.

In 2021 the ORR Unit participated in several key business projects driving the digital transformation of the Bank – Omnichannel project, UniCredit Factoring Integration; UCX (Unified Customer Experience) project, Instant Payments, Robotic Process Automation Room project; Content Service Platform; Transaction monitoring; Flexcube upgrade; Compliance consolidation Program and many activities related to improving Compliance systems, processes and centralizing the most risky compliance processes for registration and KYC review of the customers.

The unit continues its methodological support, training and monitoring of the legal entities that are consolidated and constitute the UniCredit Bulbank Group in regards to the identification, reporting and mitigation of the Operational and Reputational risk according to the regulatory and UniCredit Group standards.

The 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., Group NFRC Committee);
- Rule the necessary escalation / decision-making processes (e.g. material events escalation process)

The overall reputational risk management framework relies on the following pillars:

- The involvement of Corporate Governing Bodies, in all the relevant decisions regarding the Reputational Risk management (i.e., escalation mechanisms);
- The independence of the function in charge of Reputational Risk management and control from the risk taking functions;
- An effective system of controls, in terms of roles and responsibilities for different control levels (first, second and third lines of defense model).

During the year a new Reputational Risk Policy regarding Coal Sector was adopted and implemented..

6. Use of estimates and judgements

For the purposes of preparation of these consolidated financial statements Management has used certain estimates and judgement in order to provide fair and true presentation of the financial position of the 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 2021 and 2020 see also Note 10).

Loans and advances to banks and customers

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

As all loans are not traded on active markets, attention should be paid to proper mapping them into the FV hierarchy as per IFRS 7. In this regard, according to the UniCredit Group methodology, also adopted by the Bank for 2021, whenever risk-free FV deviates by more than 2% from risk-adjusted FV, then the unobservable input has material impact on the final fair value determination, therefore the fair value of the respective instrument is mapped to Level 3. If the deviation is within the above mentioned threshold, the instrument is mapped to Level 2 fair value hierarchy.

Deposits from banks and customers

The adopted fair valuation technique represents DCF method, where the applicable discount factor is the sum of risk-free rate and own credit spread (liquidity spreads). Similarly to loans and advances to banks and customers, same risk-free to risk-adjusted thresholds are applied to deposits from banks and customers in assessing their fair value levels. In addition, according to updated Group Fair Value methodology, both as of December 31, 2021 and December 31, 2020 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, 2021 and December 31, 2020.

In thousands of BGN

INSTRUMENT CATEGORY	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	
	31.12.2021	31.12.2021	31.12.2021	31.12.2021	31.12.2020
Non-derivative financial assets held for trading	3 015	1 886	-	**4 901**	**17 007**
Derivatives held for trading	-	87 039	-	**87 039**	**78 880**
Derivatives used for hedging	-	11 976	-	**11 976**	**16**
Investment securities	2 259 097	1 153 602	62 663	**3 475 362**	**3 676 620**
Loans and advances to banks	-	608 723	92 594	**701 317**	**1 526 782**
Loans and advances to customers	-	6 261 668	6 699 744	**12 961 412**	**10 770 726**
	2 262 112	**8 124 894**	**6 855 001**	**17 242 007**	**16 070 031**
Financial liabilities held for trading	-	47 148	-	**47 148**	**101 394**
Derivatives used for hedging	-	65 287	-	**65 287**	**105 683**
Deposits from banks	-	21 373	1 209 821	**1 231 194**	**2 078 542**
Deposits from customers and other financial liabilities at amortized cost	-	993	19 782 612	**19 783 605**	**18 704 295**
Debt securities issued	-	312 933	-	**312 933**	**-**
	-	**447 734**	**20 992 433**	**21 440 167**	**20 989 914**

The movement in financial instruments belonging to Level 3 for the year ended December 31, 2021 is as follows:

In thousands of BGN

	INVESTMENT SECURITIES
Opening balance (January 1, 2021)	**43 273**
Increases	**20 350**
Purchase	19 500
Profit recognized in income statement	-
Profit recognized in equity	68
Transfer from other levels	-
Other increases	782
Decreases	**(960)**
Redemption	-
Losses recognized in income statement	(750)
Transfers to other levels	(210)
Other decreases	-
Closing balance (December 31, 2021)	**62 663**

The tables below analyze the fair value of financial instruments by classification as of December 31, 2021 and December 31, 2020.

In thousands of BGN

DECEMBER 2021	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 677 438	**6 677 438**	**6 596 935**
Non-derivative financial assets held for trading	4 901	-	-	-	-	**4 901**	**4 901**
Derivatives held for trading	87 039	-	-	-	-	**87 039**	**87 039**
Derivatives held for hedging	-	-	-	11 976	-	**11 976**	**11 976**
Loans and advances to banks	-	700 788	-	-	-	**700 788**	**701 317**
Loans and advances to customers	-	13 946 002	-	-	-	**13 946 002**	**12 961 412**
Investment securities	-	-	3 475 362	-	-	**3 475 362**	**3 475 362**
TOTAL ASSETS	**91 940**	**14 646 790**	**3 475 362**	**11 976**	**6 677 438**	**24 903 506**	**23 838 942**
LIABILITIES							
Financial liabilities held for trading	47 148	-	-	-	-	**47 148**	**47 148**
Derivatives used for hedging	-	-	-	65 287	-	**65 287**	**65 287**
Deposits from banks	-	-	-	-	1 211 620	**1 211 620**	**1 231 194**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	19 800 871	**19 800 871**	**19 783 605**
Debt securities issued	-	-	-	-	313 104	**313 104**	**312 933**
TOTAL LIABILITIES	**47 148**	**-**	**-**	**65 287**	**21 325 595**	**21 438 030**	**21 440 167**

In thousands of BGN

DECEMBER 2020	FAIR VALUE THROUGH PROFIT OR LOSS	LOANS AND RECEIVABLES	INVESTMENT SECURITIES	CFH DERIVATIVES	OTHER AMORTIZED COST	TOTAL CARRYING AMOUNT	FAIR VALUE
ASSETS							
Cash and balances with Central bank	-	-	-	-	6 595 654	**6 595 654**	**6 596 933**
Non-derivative financial assets held for trading	15 263	1 744	-	-	-	**17 007**	**17 007**
Derivatives held for trading	78 880	-	-	-	-	**78 880**	**78 880**
Derivatives held for hedging	-	-	-	16	-	**16**	**16**
Loans and advances to banks	-	1 428 632	-	-	-	**1 428 632**	**1 526 782**
Loans and advances to customers	-	12 327 208	-	-	-	**12 327 208**	**10 770 726**
Investment securities	-	-	3 676 620	-	-	**3 676 620**	**3 676 620**
TOTAL ASSETS	**94 143**	**13 757 584**	**3 676 620**	**16**	**6 595 654**	**24 124 017**	**22 666 964**
LIABILITIES							
Financial liabilities held for trading	101 394	-	-	-	-	**101 394**	**101 394**
Derivatives used for hedging	-	-	-	105 683	-	**105 683**	**105 683**
Deposits from banks	-	-	-	-	2 048 060	**2 048 060**	**2 078 542**
Deposits from customers and other financial liabilities at amortized cost	-	-	-	-	18 728 712	**18 728 712**	**18 704 295**
TOTAL LIABILITIES	**101 394**	**-**	**-**	**105 683**	**20 776 772**	**20 983 849**	**20 989 914**

(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, 2021 and December 31, 2020 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 amortized cost and at FVTOCI and in order to meet the requirements of IFRS 9, the Bank has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for regulatory purposes and adjusted in order to ensure consistency with accounting regulation, also following the “Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses” issued by EBA.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated for “regulatory” purposes, in order to ensure full consistency, net of different regulatory requirements, between regulatory and accounting treatment. The main adjustments are such to:

- remove the conservatism required for regulatory purposes only;
- introduce a “point in time” adjustment, instead of the “through the cycle” adjustment embedded in the regulatory parameters;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective;
- estimate present value of the expected credit losses;
- introduce Overlay Factor, integrating the combined effect of different macroeconomic scenarios over the ECL result.

The Bank continuously validates the models applied for impairment calculations for adequacy (at least once per year) and performs calibrations, if needed.

(d) Provisions

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

7. Segment reporting

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

The Bank operates the following main business segments:

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

In thousands of BGN

31.12.2021	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	260 876	235 737	22 469	**519 082**
Dividend income	-	-	927	**927**
Net fee and commission income	170 434	86 051	(462)	**256 023**
Net gains from financial assets and liabilities held for trading	27 507	52 744	142	**80 393**
Net gains/(losses) from financial assets mandatory at fair value	-	(46)	155	**109**
Net income from financial assets measured at FVTOCI	-	16 929	245	**17 174**
Other operating income/(expense)	(21 979)	3 005	24 771	**5 797**
TOTAL OPERATING INCOME	**436 838**	**394 420**	**48 247**	**879 505**
Personnel expenses	(74 930)	(27 167)	(67 624)	**(169 721)**
General and administrative expenses	(64 044)	(19 765)	(30 552)	**(114 361)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(23 968)	(6 582)	(32 695)	**(63 245)**
Total direct expenses	**(162 942)**	**(53 514)**	**(130 871)**	**(347 327)**
Allocation of indirect and overhead expenses	(76 651)	(34 962)	111 613	**-**
TOTAL OPERATING EXPENSES	**(239 593)**	**(88 476)**	**(19 258)**	**(347 327)**
Provisions for risk and charges	(5 031)	(3 197)	7 468	**(760)**
Net impairment loss on financial assets	(33 242)	(89 798)	(721)	**(123 761)**
Net income related to property, plant and equipment	-	4 222	(1 364)	**2 858**
PROFIT BEFORE INCOME TAX	**158 972**	**217 171**	**34 372**	**410 515**
Income tax expense	15 677	21 416	(77 576)	**(40 483)**
PROFIT FOR THE YEAR	**174 649**	**238 587**	**(43 204)**	**370 032**
ASSETS	**5 362 774**	**17 388 952**	**2 677 496**	**25 429 222**
LIABILITIES	**13 788 692**	**7 272 867**	**655 880**	**21 717 439**

In thousands of BGN

31.12.2020	RETAIL BANKING	CIB AND PRIVATE BANKING	ALM AND OTHER	TOTAL
Net interest income	325 171	223 069	(31 963)	**516 277**
Dividend income	-	-	752	**752**
Net fee and commission income	151 743	82 133	(7 020)	**226 856**
Net gains from financial assets and liabilities held for trading	22 552	49 642	6 233	**78 427**
Net gains/(losses) from financial assets mandatory at fair value	-	(2 292)	2 193	**(99)**
Net income from financial assets measured at FVTOCI	-	9 639	1 234	**10 873**
Other operating income/(expenses)	(30 735)	(32 042)	9 381	**(53 396)**
TOTAL OPERATING INCOME	**468 731**	**330 149**	**(19 190)**	**779 690**
Personnel expenses	(71 054)	(31 913)	(57 993)	**(160 960)**
General and administrative expenses	(60 729)	(21 158)	(29 805)	**(111 692)**
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	(22 452)	(8 046)	(26 298)	**(56 796)**
Total direct expenses	**(154 235)**	**(61 117)**	**(114 096)**	**(329 448)**
Allocation of indirect and overhead expenses	(73 221)	(34 763)	107 984	**-**
TOTAL OPERATING EXPENSES	**(227 456)**	**(95 880)**	**(6 112)**	**(329 448)**
Provisions for risk and charges	(279)	3 144	(7 173)	**(4 308)**
Net impairment loss on financial assets	(88 571)	(137 006)	(3 951)	**(229 528)**
Net income related to property, plant and equipment	-	(3 323)	3 802	**479**
PROFIT BEFORE INCOME TAX	**152 425**	**97 084**	**(32 624)**	**216 885**
Income tax expense	15 306	9 749	(46 834)	**(21 779)**
PROFIT FOR THE YEAR	**167 731**	**106 833**	**(79 458)**	**195 106**
ASSETS	**4 720 964**	**16 910 449**	**2 988 104**	**24 619 517**
LIABILITIES	**13 122 870**	**7 717 879**	**404 308**	**21 245 057**

8. Net interest income

In thousands of BGN

	2021	2020
Interest income		
Financial assets held for trading	71	262
Derivatives held for trading	-	28
Loans and advances to banks	2 229	2 492
Loans and advances to customers	493 285	497 211
Investment securities	50 958	56 652
Interest income on liabilities	22 323	9 249
	568 866	**565 894**
Interest expense		
Derivatives held for trading	-	(17)
Derivatives used for hedging	(19 301)	(19 345)
Deposits from banks	(2 600)	(3 718)
Deposits from customers	(1 895)	(4 030)
Debt securities issued	(239)	-
Interest expense on assets	(25 749)	(22 507)
	(49 784)	**(49 617)**
Net interest income	**519 082**	**516 277**

For 2020, fees and commissions for account services, presenting excess liquidity fees in the amount of BGN 6 824 thousand have been reclassified from Fees and commissions (account services) to interest income (Interest income on liabilities).

Interest income on liabilities and interest expenses on assets have been presented in separate positions due to materiality of the amounts.

9. Net fee and commission income

In thousands of BGN

	2021	2020
Fee and commission income		
Collection and payment services	137 256	114 445
Lending business	32 339	34 087
Account services	29 705	27 275
Management, brokerage and securities trading	18 493	10 949
Documentary business	18 201	17 007
Package accounts	23 632	23 534
Other	34 305	29 660
	293 931	**256 957**
Fee and commission expense		
Collection and payment services	(34 544)	(27 452)
Management, brokerage and securities trading	(2 328)	(1 360)
Lending business	(115)	(128)
Other	(921)	(1 161)
	(37 908)	**(30 101)**
Net fee and commission income	**256 023**	**226 856**

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

In thousands of BGN

	2021	2020
FX trading income, net	77 731	72 354
Net income from debt instruments	483	1 223
Net loss from equity instruments	(242)	(428)
Net income from derivative instruments	157	2 670
Net income from other trading instruments	1 792	2 876
Net income/(loss) from hedging derivative instruments	472	(268)
Net gains on financial assets and liabilities held for trading and hedging derivatives	**80 393**	**78 427**

The total CVA (net of DVA) for the years ended December 31, 2021 and December 31, 2020, included in position net gains on financial assets and liabilities held for trading and hedging derivatives is in the amount of BGN 609 thousand and BGN 1 351 thousand, respectively.

11. Net gains/(losses) from financial assets mandatory at fair value

In thousands of BGN

	2021	2020
Equity securities	281	1 983
Loans and advances	(172)	(2 082)
Net gains/(losses) from financial assets mandatory at fair value	**109**	**(99)**

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, 2021 and December 31, 2020 the gains are in the amount of BGN 17 174 thousand and BGN 10 873 thousand, respectively.

13. Other operating income/(expenses), net

In thousands of BGN

	2021	2020
Other operating income		
Income from non-financial services	6 678	5 481
Rental income	17 799	14 764
Other income	7 448	2 340
	31 925	**22 585**
Other operating expenses		
Deposit guarantee fund and RR fund annual contribution	(23 561)	(71 994)
Impairment of foreclosed properties	(36)	(270)
Losses on tangible assets measured at fair value	(52)	(263)
Other operating expenses	(2 479)	(3 454)
	(26 128)	**(75 981)**
Other operating income/(expenses), net	**5 797**	**(53 396)**

In 2021 and 2020 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, 2021 and December 31, 2020 the gains are in the amount of BGN 2 858 thousand and BGN 479 thousand respectively.

15. Personnel expenses

In thousands of BGN

	2021	2020
Wages and salaries	(142 297)	(134 012)
Social security charges	(20 252)	(20 143)
Pension and similar expenses	(1 521)	(1 779)
Temporary staff expenses	(637)	391
Share-based payments	(1 062)	(840)
Other	(3 952)	(4 577)
Total personnel expenses	**(169 721)**	**(160 960)**

As of December 31, 2021 the total number of employees, expressed in full time employee equivalent is 4 108 (December 31, 2020: 4 206).

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, 2020	2021 COST (GAINS)	SETTLED IN 2021	ECONOMIC VALUE AT DECEMBER 31, 2021
Deferred Short Term Incentive (ordinary shares)	7 945	1 062	(2 823)	**6 184**
ESOP and shares for Talents	72	-	-	**72**
Total Options and Shares	**8 017**	**1 062**	**(2 823)**	**6 256**

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 **39**.

16. General and administrative expenses

In thousands of BGN

	2021	2020
Advertising, marketing and communication	(7 635)	(6 386)
Credit information and searches	(2 056)	(2 087)
Information, communication and technology expenses	(51 809)	(51 468)
Consulting, audit and other professionals services	(2 468)	(2 923)
Real estate expenses	(15 866)	(15 401)
Rents	(6 411)	(8 160)
Travel expenses and car rentals	(1 349)	(1 369)
Insurance	(2 246)	(1 936)
Supply and miscellaneous services rendered by third parties	(13 071)	(13 094)
Other costs	(11 450)	(8 868)
Total general and administrative expenses	**(114 361)**	**(111 692)**

For 2021 the fees for audit services provided by the auditing companies amount to BGN 1 280 thousand (BGN 1 235 thousand for 2020).

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

In thousands of BGN

	2021	2020
Depreciation charge	(61 674)	(56 796)
Impairment	(1 571)	-
Amortization, depreciation and impairment losses on tangible and intangible fixed assets, investment properties and assets held for sale	**(63 245)**	**(56 796)**

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.

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 **39**).

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. Recognition of provisions resulting from it is presented in the income statement.

In thousands of BGN

	2021	2020
Additions of provisions		
Provisions on credit risk on commitments and financial guarantees	(38 476)	(25 250)
Restructuring provisions	(1 971)	(6 023)
Legal cases provisions	(5 325)	(4 424)
Other provisions	(585)	(298)
	(46 357)	**(35 995)**
Reversal of provisions		
Provisions on credit risk on commitments and financial guarantees	40 803	30 343
Legal cases provisions	4 794	1 344
	45 597	**31 687**
Net provisions charge	**(760)**	**(4 308)**

19. Net Impairment loss on financial assets

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS	2021	2020
Balance 1 January	**847 400**	**657 175**
Increase	498 136	564 059
Decrease		
Loans and advances to customers	(358 291)	(331 099)
Recoveries from loans previously written-off	(11 767)	(7 921)
	(370 058)	**(339 020)**
Net impairment losses	128 078	225 039
FX revaluation effect on impairment allowances	575	(1 566)
Other movements	(257)	(451)
Written-off	(124 575)	(40 718)
Balance December 31		
Loans and advances to customers	**862 988**	**847 400**

In thousands of BGN

PROVISIONS ON LOANS AND ADVANCES TO BANKS	2021	2020
Balance 1 January	**374**	**478**
Increase	60	295
Decrease	(161)	(397)
Net impairment losses	(101)	(102)
FX revaluation effect on impairment allowances	3	(2)
Balance December 31		
Loans and advances to banks	**276**	**374**

In thousands of BGN

PROVISIONS ON BALANCES WITH CENTRAL BANK	2021	2020
Balance 1 January	**165**	**39**
Increase	2	126
Decrease	-	-
Net impairment losses	2	126
Balance December 31		
Balances with Central Bank	**167**	**165**

In thousands of BGN

PROVISIONS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI	2021	2020
Balance 1 January	**7 288**	**2 823**
Increase	552	7 612
Decrease	(4 770)	(3 147)
	(4 218)	4 465
Balance December 31		
Financial assets at fair value through OCI	**3 070**	**7 288**

In thousands of BGN

	2021	2020
Net impairment losses on Loans and advances to customers	(128 078)	(225 039)
Net impairment losses on Loans and advances to Banks	101	102
Net impairment losses on Balances with Central Bank	(2)	(126)
Net impairment losses on Financial assets at fair value through OCI	4 218	(4 465)
Total net impairment loss on financial assets	**(123 761)**	**(229 528)**

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 2021.

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

In thousands of BGN

	2021	2020
Current tax	(36 138)	(15 612)
Deferred tax (expense) related to origination and reversal of temporary differences	(4 128)	(5 960)
(Overprovided) prior year current tax	(217)	(207)
Income tax expense	**(40 483)**	**(21 779)**

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

	2021	2020
Accounting profit before tax	**410 515**	**216 885**
Corporate tax at applicable tax rate (10% for 2020 and 2021)	(41 052)	(21 689)
Tax effect of non-taxable revenue	320	113
Tax effect of non-deductible tax expenses	(7)	(351)
Underprovided prior year income tax	256	148
Income tax expense	**(40 483)**	**(21 779)**
Effective tax rate	**9.86%**	**10.04%**

21. Cash and balances with Central bank

In thousands of BGN

	31.12.2021	31.12.2020
Cash in hand and in ATM	263 347	252 793
Cash in transit	183 383	152 233
Current account with Central Bank	6 230 708	6 190 628
Total cash and balances with Central Bank	**6 677 438**	**6 595 654**

22. Non-derivative financial assets held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Government bonds	2 269	12 416
Equities	2 632	2 847
Loans	-	1 744
Total financial assets held for trading	**4 901**	**17 007**

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.

23. Derivatives held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Interest rate swaps	18 320	34 214
FX forward contracts	919	5 484
FX swaps	36 924	7 778
Commodity swaps	16 319	15 744
Commodity options	14 557	15 660
Total derivatives held for trading	**87 039**	**78 880**

Derivatives consist of trading instruments that have positive market value as of December 31, 2021 and December 31, 2020. 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 (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, 2021 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 31.12.2021 is – PV (+) BGN 11 885 thousand and PV (-) BGN 31 047 thousand.
- Derivative used as hedging instrument for Cash flow hedge relationship – Present Value (PV) as of 31.12.2021 is – PV (+) BGN 91 thousand and PV (-) 34 240 thousand.

25. Loans and advances to banks

In thousands of BGN

	31.12.2021	31.12.2020
Debt securities	98 068	98 315
Loans and advances to banks	432 098	1 220 112
Current accounts with banks	170 898	110 579
Loans and advances to banks at amortized cost	**701 064**	**1 429 006**
Less impairment allowances	(276)	(374)
Total loans and advances to banks	**700 788**	**1 428 632**

26. Loans and advances to customers

In thousands of BGN

	31.12.2021	31.12.2020
Companies	7 605 233	7 551 858
Individuals		
Housing loans	2 760 459	2 370 470
Consumer loans	1 978 802	1 765 470
Other loans	65 020	65 238
Central and local governments	1 425 221	463 162
Finance leases	972 185	956 037
	14 806 920	**13 172 235**
Less impairment allowances	(862 988)	(847 400)
Loans and advances to customers at amortized cost	**13 943 932**	**12 324 835**
Loans and advances to customers mandatory at fair value	**2 070**	**2 373**
thereof: Accumulated negative changes in fair value due to credit risk on non-performing exposures	(1 188)	(2 154)
Total loans and advances to customers	**13 946 002**	**12 327 208**

27. Investment securities

In thousands of BGN

	31.12.2021	31.12.2020
Securities measured at FVTOCI		
Government bonds	3 305 110	3 523 292
Bonds of other financial institutions	94 535	75 533
Corporate bonds	47 430	50 923
Equities	11 660	11 660
Securities mandatory measured at FV		
Equities	16 627	15 212
Total Investment securities	**3 475 362**	**3 676 620**

Government and corporate bonds classified and measured at FVTOCI as of December 31, 2021 are held by the Bank for the purposes of maintaining middle-term and long-term liquidity and coverage of interest rate risk. They all have determinable fair value.

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

Part of bonds are subject to Fair value hedge. Notional of hedged securities as of 31.12.2021 is BGN 1 381 199 thousand and as of 31.12.2020 is BGN 1 576 587 thousand.

As of December 31, 2021 and as of December 31, 2020 there are pledged investments amounting to BGN 842 625 thousand and BGN 1 711 100 thousand respectively (see also Note **43**).

28. Investments in associates

As of December 31, 2021 and December 31, 2020 there is only one associated company, where the Bank exercises significant influence by holding 25% of the share capital of that company. This is Cash Service Company AD, presented at equity method. Summary of major financials of the associate as of December 31, 2021 and December 31, 2020 are as follows:

COMPANY	ACTIVITY	SHARE IN CAPITAL	CARRYING VALUE IN THOUSANDS OF BGN DEC 2021	CARRYING VALUE IN THOUSANDS OF BGN DEC 2020
Cash Service Company AD	Accepting, processing, safekeeping and delivering of valuable consignments with banknotes and coins to the banks	25%	3 426	3 482
		Total	**3 426**	**3 482**

In thousands of BGN

	2021	2020
Cash Service Company AD		
Total assets	16 117	15 384
Total liabilities	1 853	879
Revenue	7 989	8 266
Net profit for the year	973	1 363

29. Property, plant, equipment, rights of use assets and investment properties

In thousands of BGN

	LANDS	BUILDINGS	BUILDINGS – RIGHT OF USE	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost or revalued amount							
As of December 31, 2020	**12 117**	**223 746**	**61 245**	**12 850**	**88 872**	**148 997**	**547 827**
Additions	-	2 928	8 665	625	12 758	45 593	**70 569**
Transfers	-	(1 646)	-	12	134	(146)	**(1 646)**
Write offs	-	(1 233)	-	(774)	(4 107)	(11 109)	**(17 223)**
Disposals	-	-	-	-	(1 924)	(2 194)	**(4 118)**
As of December 31, 2021 before revaluation	**12 117**	**223 795**	**69 910**	**12 713**	**95 733**	**181 141**	**595 409**
Increase in revaluation reserve upon new revaluation	113	6 363	-	-	-	-	**6 476**
Decrease in revaluation reserve upon new revaluation	(809)	(3 064)	-	-	-	-	**(3 873)**
Decrease in value in profit or loss upon new revaluation	(23)	(29)	-	-	-	-	**(52)**
Revaluation adjustment	**(719)**	**3 270**	**-**	**-**	**-**	**-**	**2 551**
As of December 31, 2021 after revaluation	**11 398**	**227 065**	**69 910**	**12 713**	**95 733**	**181 141**	**597 960**
Depreciation							
As of December 31, 2020	**-**	**91 433**	**12 244**	**9 861**	**62 179**	**66 190**	**241 907**
Depreciation charge	-	5 778	7 395	785	8 198	22 308	**44 464**
Impairment	-	-	-	-	81	-	**81**
Write offs	-	(1 233)	-	(774)	(4 105)	(6 861)	**(12 973)**
On disposals	-	-	-	-	(1 919)	(2 192)	**(4 111)**
Transfers	-	-	-	-	-	-	**-**
As of December 31, 2021	**-**	**95 978**	**19 639**	**9 872**	**64 434**	**79 445**	**269 368**
Net book value as of December 31, 2021	**11 398**	**131 087**	**50 271**	**2 841**	**31 299**	**101 696**	**328 592**
Net book value as of December 31, 2020	**12 117**	**132 313**	**49 001**	**2 989**	**26 693**	**82 807**	**305 920**

In thousands of BGN

	LANDS	BUILDINGS	BUILDINGS – RIGHT OF USE	FURNITURE	ELECTRONIC EQUIPMENT	OTHER	TOTAL
Cost or revalued amount							
As of December 31, 2019	**12 117**	**225 777**	**55 913**	**12 765**	**81 721**	**136 429**	**524 722**
Additions	-	5 538	6 507	700	9 073	22 906	**44 724**
Transfers	-	(1 546)	-	(20)	172	1 394	**-**
Write offs	-	(1 716)	(1 175)	(595)	(1 873)	(8 834)	**(14 193)**
Disposals	-	-	-	-	(221)	(2 898)	**(3 119)**
As of December 31, 2020 before revaluation	**12 117**	**228 053**	**61 245**	**12 850**	**88 872**	**148 997**	**552 134**
Increase in revaluation reserve upon new revaluation	1 104	3 246	-	-	-	-	**4 350**
Decrease in revaluation reserve upon new revaluation	(882)	(7 303)	-	-	-	-	**(8 185)**
Decrease in value in profit or loss upon new revaluation	(222)	(250)	-	-	-	-	**(472)**
Revaluation adjustment	**-**	**(4 307)**	**-**	**-**	**-**	**-**	**(4 307)**
As of December 31, 2020 after revaluation	**12 117**	**223 746**	**61 245**	**12 850**	**88 872**	**148 997**	**547 827**
Depreciation							
As of December 31, 2019	**-**	**87 585**	**5 787**	**9 704**	**54 310**	**55 459**	**212 845**
Depreciation charge	-	5 564	6 678	752	9 953	19 780	**42 727**
Impairment	-	-	-	-	-	-	**-**
Write offs	-	(1 716)	(221)	(595)	(1 872)	(6 151)	**(10 555)**
On disposals	-	-	-	-	(212)	(2 898)	**(3 110)**
Transfers	-	-	-	-	-	-	**-**
As of December 31, 2020 before revaluation	**-**	**91 433**	**12 244**	**9 861**	**62 179**	**66 190**	**241 907**
Net book value as of December 31, 2020	**12 117**	**132 313**	**49 001**	**2 989**	**26 693**	**82 807**	**305 920**
Net book value as of December 31, 2019	**12 117**	**138 192**	**50 126**	**3 061**	**27 411**	**80 970**	**311 877**

In thousands of BGN

	INVESTMENT PROPERTY
Net book value as of December 31, 2020	**657**
Additions	-
Transfers	-
Write offs	-
Disposals	(62)
Net book value as of December 31, 2021	**595**

In thousands of BGN

	INVESTMENT PROPERTY
Net book value as of December 31, 2019	**20 750**
Additions	30
Transfers	(20 332)
Write offs	-
Disposals	-
Increase in fair value	209
Net book value as of December 31, 2020	**657**

Items of plant, equipment, right of use assets and other are carried at cost less any accumulated depreciation and adjusted for impairment, if any, while land and buildings used in business and investment properties are revalued to their fair value.

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

As of December 31, 2021 and December 31, 2020 all investment properties have undergone external independent fair valuation and results of revaluation are considered in these consolidated financial statements. Same is in place also for land and buildings used in business as described in **Note 3**.

The following table illustrates the fair value of investment properties as of December 31, 2021 and December 31, 2020, which is considered also their book value for these periods. The fair values of investment properties as of December 31, 2021 and December 31, 2020 are ranked Level 3 as per fair value hierarchy.

In thousands of BGN

	FAIR VALUE	
	2021	**2020**
Investment properties		
Land	71	70
Buildings	524	587
Total investment properties	**595**	**657**

Starting from January 01, 2019, in accordance with the IFRS 16 requirements, whenever the Bank acts as the lessee under contracts meeting the definition of the standard, there is recognition of an asset, representing the right of use of the underlying asset and, at the same time, a liability for the future payments requested by the lease contract.

The following table represent existing right of use assets as of December 31, 2021, while liabilities under lease contracts are presented in Note **37**:

In thousands of BGN

BUILDINGS – RIGHT OF USE	
Cost	
As of December 31, 2020	**61 245**
Additions	8 665
Write offs	-
As of December 31, 2021	**69 910**
As of December 31, 2020	**12 244**
Depreciation charge	7 395
Impairment	-
Write offs	-
As of December 31, 2021	**19 639**
Net book value as of December 31, 2021	**50 271**
Net book value as of December 31, 2020	**49 001**

30. Intangible assets

In thousands of BGN

Cost	
As of December 31, 2020	**156 860**
Additions	31 271
Write offs	(6 302)
Transfers	-
As of December 31, 2021	**181 829**
Depreciation	
As of December 31, 2020	**76 871**
Depreciation charge	17 210
Impairment due to obsolescence	1 490
Write offs	(5 085)
Transfers	-
As of December 31, 2021	**90 486**
Net book value as of December 31, 2021	**91 343**
Net book value as of December 31, 2020	**79 989**

In thousands of BGN

Cost	
As of December 31, 2019	**132 961**
Additions	24 097
Write offs	(198)
Transfers	-
As of December 31, 2020	**156 860**
Depreciation	
As of December 31, 2019	**62 994**
Depreciation charge	14 069
Write offs	(192)
Transfers	-
As of December 31, 2020	**76 871**
Net book value as of December 31, 2020	**79 989**
Net book value as of December 31, 2019	**69 967**

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, 2021 reported current tax assets are in the amount of BGN 8 thousand (as of December 31, 2020: BGN 1 534 thousand), while current tax liabilities represent net payable current tax position for the years 2021 (BGN 5 647 thousand) and 2020 (BGN 1 317 thousand), respectively.

32. Deferred tax

The origination breakdown of the deferred tax assets and liabilities as of December 31, 2021 and December 31, 2020 is as outlined below:

In thousands of BGN

	31.12.2021	31.12.2020
Property, plant, equipment, investment property and intangible assets	16 540	15 376
Provisions	(4 436)	(4 872)
Actuarial (losses)	(605)	(703)
Other liabilities	(7 612)	(7 079)
Tax losses carried forward	(1 635)	(1 434)
Net tax (assets) liabilities	**2 252**	**1 288**

The movements of deferred tax assets and liabilities on net basis throughout 2021 are as outlined below:

In thousands of BGN

	31.12.2020	RECOGNIZED IN P&L	RECOGNIZED IN EQUITY	31.12.2021
Property, plant, equipment, investment property and intangible assets	15 376	903	261	16 540
Investment securities at fair value through OCI	-	4 001	(4 001)	-
Provisions	(4 872)	436	-	(4 436)
Actuarial (losses)	(703)	-	98	(605)
Cash flow hedge	-	(478)	478	-
Other liabilities	(7 079)	(533)	-	(7 612)
Tax losses carried forward	(1 434)	(201)	-	(1 635)
Net tax (assets) liabilities	**1 288**	**4 128**	**(3 164)**	**2 252**

33. Non-current assets and disposal groups classified as held for sale

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

In thousands of BGN

	31.12.2021	31.12.2020
Land	5 558	5 660
Buildings	6 734	13 697
Total non-current assets and disposal groups classified as held for sale	**12 292**	**19 357**

34. Other assets

In thousands of BGN

	31.12.2021	31.12.2020
Receivables and prepayments	51 824	47 854
Receivables from the State Budget	2 015	205
Materials, spare parts and consumables	2 762	1 384
Other assets	6 771	7 211
Foreclosed properties	22 148	23 407
Total other assets	**85 520**	**80 061**

35. Financial liabilities held for trading

In thousands of BGN

	31.12.2021	31.12.2020
Interest rate swaps	6 652	20 249
FX forward contracts	5 478	1 360
FX swaps	4 121	48 385
Commodity swaps	16 314	15 724
Commodity options	14 583	15 676
Total financial liabilities held for trading	**47 148**	**101 394**

36. Deposits from banks

In thousands of BGN

	31.12.2021	31.12.2020
Current accounts and overnight deposits		
Local banks	129 550	102 008
Foreign banks	792 499	948 015
	922 049	**1 050 023**
Deposits		
Local banks	142 367	246 436
Foreign banks	96 414	745 130
	238 781	**991 566**
Other	**50 790**	**6 471**
Total deposits from banks	**1 211 620**	**2 048 060**

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, 2021 and December 31, 2020 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

	31.12.2021	31.12.2020
Current accounts		
Individuals	5 643 251	4 224 923
Corporate	7 727 541	7 149 652
Budget and State companies	429 133	405 134
	13 799 925	**11 779 709**
Term deposits		
Individuals	3 919 555	4 812 738
Corporate	246 346	264 138
Budget and State companies	26 551	20 458
	4 192 452	**5 097 334**
Saving accounts	**1 644 908**	**1 681 588**
Lease liabilities	**52 130**	**50 239**
Transfers in execution process	**63 036**	**65 856**
Other	**48 420**	**53 986**
Total deposits from customers and other financial liabilities at amortized cost	**19 800 871**	**18 728 712**

The following table represent liabilities under lease contracts, while existing right of use assets are presented in Note **29**:

In thousands of BGN

LEASE LIABILITIES	
As of January 01, 2021	**50 239**
Additions	8 666
Repayments	(6 451)
Accrued interest	(324)
As of December 31, 2021	**52 130**
Up to one year	8 312
From beyond 1 year to 2 years	8 186
From beyond 2 years to 3 years	8 112
From beyond 3 years to 4 years	7 272
From beyond 4 years to 5 years	5 306
Beyond five years	17 088
Total lease payments to be made for finance leases	**54 276**
Unearned finance expenses (Discounting effect)	(2 146)
Net book value as of December 31, 2021	**52 130**
Net book value as of December 31, 2020	**50 239**

In thousands of BGN

LEASE LIABILITIES	
As of January 01, 2020	**50 942**
Additions	6 438
Repayments	(6 407)
Accrued interest	(734)
As of December 31, 2020	**50 239**
Up to one year	6 658
From beyond 1 year to 2 years	7 309
From beyond 2 years to 3 years	7 219
From beyond 3 years to 4 years	7 204
From beyond 4 years to 5 years	6 621
Beyond five years	17 936
Total lease payments to be made for finance leases	**52 947**
Unearned finance expenses (Discounting effect)	(2 708)
Net book value as of December 31, 2020	**50 239**
Net book value as of December 31, 2019	**50 942**

38. Debt securities issued

In the last quarter of 2021, the Bank issued an own MREL bond (senior non-preferred), with a nominal amount of EUR 160 Mio, floating interest rate, maturity date in December 2027 and a call option exercisable in December 2026. As part of UniCredit Group, whose resolution strategy is of the type "Single Point of Entry", the Bank issues such instruments only within the Group, with a buyer UniCredit S.p.A.

39. Provisions for risk and charges

The movement in provisions for the years ended December 31, 2021 and December 31, 2020 is as follows:

In thousands of BGN

	OFF-BALANCE SHEET COMMITMENTS AND FINANCIAL GUARANTEES	LEGAL CASES	RETIREMENT BENEFITS	CONSTRUCTIVE OBLIGATIONS	OTHER	RESTRUCTURING PROVISIONS	TOTAL
Balance as of December 31, 2019	**62 602**	**30 586**	**11 676**	**302**	**11 412**	**-**	**116 578**
Allocations	25 250	4 424	1 779	-	298	6 023	37 774
Releases	(30 343)	(1 344)	-	-	-	-	(31 687)
Additions due to FX revaluation	293	2 371	-	-	-	-	2 664
Releases due to FX revaluation	(346)	(2 826)	-	-	-	-	(3 172)
Actuarial losses recognized in OCI	-	-	803	-	-	-	803
Utilization	-	(3 440)	(901)	-	(854)	-	(5 195)
Balance as of December 31, 2020	**57 456**	**29 771**	**13 357**	**302**	**10 856**	**6 023**	**117 765**
Allocations	38 476	5 325	1 521	-	585	1 971	47 878
Releases	(40 803)	(4 794)	-	-	-	**-**	**(45 597)**
Additions due to FX revaluation	382	1 856	-	-	-	**-**	**2 238**
Releases due to FX revaluation	(304)	(1 443)	-	-	-	**-**	**(1 747)**
Actuarial gains recognized in OCI	-	-	(975)	-	-	**-**	**(975)**
Other changes	-	2 685	-	-	-	**-**	**2 685**
Utilization	-	(478)	(758)	-	(288)	**(470)**	**(1 994)**
Balance as of December 31, 2021	**55 207**	**32 922**	**13 145**	**302**	**11 153**	**7 524**	**120 253**

(a) Provisions on letters of guarantees and credit commitment

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are in the perimeter subject to expected losses calculation for impairment. As a result of the assessment as at December 31, 2021 accumulated provisions are in the amount of BGN 55 207 thousand (as of December 31, 2020: BGN 57 456 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, 2021 Bank has assessed its position in legal cases against it, and provision in the amount of BGN 32 922 thousand has been recognized (BGN 29 771 thousand as of December 31, 2020).

(c) Retirement benefit provision

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

Major assumptions underlying in 2021 defined benefit obligation are as follows:

- Discount rate – 0.15%;
- Salary increase – 4.00% p.a.;
- Retirement age: Men 64 years and 3 months, women 61 years and 6 months for 2021 and increase by 2 months for women and 1 month for men each year thereafter until the age of 65 years for men and for women is reached.

The pension plan specified and required by the BG Labor Code has not changed in 2021. The Bank has approved an additional plan to the BG Labor Code one, defining additional payments (2 or 4 monthly salaries) on top of the obligations by law depending on service time within the company:

- Six times the gross monthly remuneration, when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 10 years and until 19 years and 11 months;
- Eight times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 20 years and until 29 years and 11 months;
- Ten times the gross monthly remuneration when the employee has worked for UniCredit Bulbank AD or its subsidiaries in Bulgaria for the last 30 years and above;
- 2 + (0.4 x N), where N shall be the number of full years, but not less than the gross labor remuneration thereof for a period of two month in the cases where the employee has not completed ten years of employment service for UniCredit Bulbank AD or its subsidiaries in Bulgaria – no change, i.e. less than six;

- For termination of the labor relation upon disability: 2.4 monthly salaries without connection with length of service;
- For termination of the labor relation upon death: 4 monthly salaries – without connection with length of service.

The movement of the defined benefit obligation for the year ended December 31, 2021 and expected services cost, interest costs and amortization of actuarial gains/losses for the following year are outlined in the table below:

In thousands of BGN

	TOTAL	THEREOF PLAN BY LAW	THEREOF PLAN BY THE BANK
Recognized defined benefit obligation as of December 31, 2020	**13 357**	**12 503**	**854**
Current service costs for 2021	1 497	784	713
Interest cost for 2021	25	24	1
Actuarial gains recognized in OCI in 2021	(975)	(945)	(30)
Benefits paid	(759)	(560)	(199)
Recognized defined benefit obligation as of December 31, 2021	**13 145**	**11 806**	**1 339**
Interest rate beginning of the year	0.20%		
Interest rate end of the year	0.15%		
Future increase of salaries	4.00%		
Expected 2021 service costs	1 297		
Expected 2021 interest costs	18		
Expected 2021 benefit payments	1 910		

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

	2021	2020
Sensitivity – Discount rate +/- %	0.15%	0.20%
DBO Discount rate -	13 499	13 744
DBO Discount rate +	12 807	12 988
Sensitivity – Salary increase rate +/- %	4.00%	5.00%
DBO Salary increase rate -	12 818	13 004
DBO Salary increase rate +	13 485	13 725

(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, 2021 and December 31, 2020 in the amount of BGN 302 thousand represent unutilized provision amounts as of the reporting dates with regards to energy efficiency of owned buildings.

(e) Other provisions

Other provisions in the amount of BGN 11 153 thousand as of December 31, 2021 (BGN 10 856 thousand as of December 31, 2020) relate to coverage of claims related to credit cards business as well as other claims.

(f) Restructuring provisions

As of December 31, 2020 the Bank has allocated restructuring provisions for the amount of BGN 6 023 thousand following the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. In December 2020 the Management Board has approved restructuring plan where the key restructuring rationale is to ensure efficient operations so that UniCredit Bulbank AD fits to the new competitive landscape shaped by digitalization trends and changed preferences of the customers.

At the end of planning horizon UniCredit Bulbank AD targets the Simple Banking Concept, being:

- # 1 in customer experience
- # 1 choice of employees
- # 1 in digitalization
- # 1 in ethical and sustainable business

The plan implies a review and improvement in the way of working and it will influence the Bank's business model in terms of customer experience, employee experience, digitalization and ethical and sustainable business. It includes network optimization through centralization, automation and simplification of branch processes, as well as envisages also to affect employees, who on voluntary basis and consistent with the business priorities, will have the opportunity to access the early retirement also getting an additional exit package.

During 2021 out of the restructuring provisions, BGN 470 thousand were utilized majorly for network optimization, brand management and other HR activities.

In 2021 the restructuring plan was updated following the Strategic plan of UniCredit Group. The key elements of the Strategic Plan aiming at unlocking the Group potential are as follows:

- Unified client segments
- Harmonized service model
- Simplified processes
- Common organizational structure
- Best-in-class factories delivering for our clients

Additional BGN 1 971 thousand were allocated with regard to new organizational model and change management activities.

As per the requirements of IAS 37 the Bank has duly communicated the approved restructuring plan to all employees in order to create a valid expectation.

40. Other liabilities

In thousands of BGN

	31.12.2021	31.12.2020
Liabilities to the State budget	2 524	5 074
Liabilities to personnel	22 764	20 784
Liabilities for unused paid leave	6 598	5 772
Dividends	959	974
Incentive plan liabilities	6 256	7 775
Other liabilities	108 216	95 959
Total other liabilities	**147 317**	**136 338**

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 2021 and 2020 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 **15** above.

41. Equity

(a) Share capital

As of December 31, 2021 and December 31, 2020 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 consolidated financial statements of the transferor as of the date of transfer.

(d) Revaluation and other reserves

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

Revaluation reserves related to available for sale investments and derivatives designated as effective hedging instruments in cash flow hedge relationship are subject to recycling through profit or loss upon certain conditions being met (e.g. derecognition, hedge revoke etc.).

For the years ended December 31, 2021 and December 31, 2020 only reserves related to FVTOCI investments have been recycled to profit or loss following their derecognition. The amounts are BGN 17 174 thousand and BGN 10 873 thousand, respectively.

42. Contingent liabilities

In thousands of BGN

	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
	STAGE 1		STAGE 2		STAGE 3		TOTAL	
Letters of credit and letters of guarantee	2 214 262	2 102 765	651	322	17 247	31 467	**2 232 160**	**2 134 554**
Credit commitments	4 181 860	3 471 217	461 744	342 533	41 645	49 780	**4 685 249**	**3 863 530**
Total contingent liabilities	**6 396 122**	**5 573 982**	**462 395**	**342 855**	**58 892**	**81 247**	**6 917 409**	**5 998 084**

(a) Letters of credit and letters of guarantee

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

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

As per IFRS 9 requirements, loan commitments and financial guarantees that are irrevocable are subject to expected losses calculation for impairment.

(b) Litigation

As of December 31, 2021 and December 31, 2020 there are some open litigation proceedings against the Bank. There is significant uncertainty with regard to the timing and the outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists that the Bank would have to settle the obligation. Litigation claims provisions provided for in these consolidated financial statements as of December 31, 2021 are in the amount of BGN 32 922 thousand (BGN 29 771 thousand in 2020), (see also Note 39).

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount, which is at clients’ disposal.

As of December 31, 2021 and December 31, 2020 the Bank presents unutilized credit facilities as part of its off-balance sheet positions.

43. Assets pledged as collateral

In thousands of BGN

	31.12.2021	31.12.2020
Securities pledged for budget holders' account service	229 969	164 606
Securities pledged on REPO deals	612 656	1 546 494
Loans pledged for budget holders' account service	254 864	254 864
Loans pledged on other deals	20 253	189 057
	1 117 742	**2 155 021**
Pledged assets include		
Securities received for reverse REPO	-	298 800
Investment securities	842 625	1 412 300
Loans and advances	275 117	443 921
	1 117 742	**2 155 021**

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

44. 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 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, 2021 and December 31, 2020 and Income statement items for the years then ended are as follows:

In thousands of BGN

AS OF DECEMBER 31, 2021	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL
ASSETS			
Derivatives held for trading	1 272	29 068	**30 340**
Derivatives held for hedging	414	11 562	**11 976**
Current accounts and deposits placed	341 751	149 814	**491 565**
Debt securities	97 913	-	**97 913**
Extended loans	-	3 484	**3 484**
Other assets	2 670	1 750	**4 420**
LIABILITIES			
Financial liabilities held for trading	3 622	35 780	**39 402**
Derivatives used for hedging	34 898	30 389	**65 287**
Current accounts and deposits taken	611 524	91 519	**703 043**
Debt securities issued	313 104	-	**313 104**
Other liabilities	7 448	1 837	**9 285**
Guarantees received by the Group	10 196	108 338	**118 534**

In thousands of BGN

AS OF DECEMBER 31, 2020	PARENT COMPANY	OTHER RELATED PARTIES	TOTAL
ASSETS			
Financial assets held for trading	1 522	2 320	**3 842**
Financial assets held for hedging	16	-	**16**
Current accounts and deposits placed	707 480	147 090	**854 570**
Debt securities	98 159	-	**98 159**
Extended loans	-	8 603	**8 603**
Other assets	3 263	2 333	**5 596**
LIABILITIES			
Financial liabilities held for trading	12 884	37 400	**50 284**
Derivatives used for hedging	56 335	49 348	**105 683**
Current accounts and deposits taken	1 488 765	148 694	**1 637 459**
Other liabilities	10 183	983	**11 166**
Guarantees received by the Group	11 288	107 764	**119 052**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2021	PARENT COMPANY	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	1 468	-	291	**1 759**
Interest expenses	(13 567)	-	(11 434)	**(25 001)**
Dividends	-	300	-	**300**
Fee and commissions income	758	-	1 026	**1 784**
Fee and commissions expenses	(8)	-	(134)	**(142)**
Net gains (losses) on financial assets and liabilities held for trading	4 830	-	578	**5 408**
Other operating income	624	-	44	**668**
Administrative and personnel expenses	(3 411)	(1 105)	(15 226)	**(19 742)**
Total	**(9 306)**	**(805)**	**(24 855)**	**(34 966)**

In thousands of BGN

YEAR ENDED DECEMBER 31, 2020	PARENT COMPANY	ASSOCIATES	OTHER RELATED PARTIES	TOTAL
Interest incomes	2 114	-	270	**2 384**
Interest expenses	(14 667)	-	(12 576)	**(27 243)**
Dividends	-	478	-	**478**
Fee and commissions income	284	-	1 356	**1 640**
Fee and commissions expenses	(35)	-	(139)	**(174)**
Net (losses) on financial assets and liabilities held for trading	(8 184)	-	(40 161)	**(48 345)**
Other operating income	625	-	25	**650**
Administrative and personnel expenses	(4 036)	(901)	(16 644)	**(21 581)**
Total	**(23 899)**	**(423)**	**(67 869)**	**(92 191)**

As of December 31, 2021 the loans extended to key management personnel amount to BGN 2 196 thousand (BGN 2 685 thousand in 2020).

For the year ended December 31, 2021 the compensation paid to key management personnel amounts to BGN 3 432 thousand (BGN 4 777 thousand in 2020).

45. Cash and cash equivalents

In thousands of BGN

	31.12.2021	31.12.2020
Cash in hand and in ATM	263 347	252 793
Cash in transit	183 383	152 233
Current account with the Central Bank	6 230 708	6 190 628
Current accounts with banks	170 898	110 579
Placements with banks with original maturity less than 3 months	269 357	850 539
Total cash and cash equivalents	**7 117 693**	**7 556 772**

46. 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, 2021 the Bank has recognized in these consolidated financial statements right of use assets and lease liabilities as disclosed in Notes **29** and **37**.

Summary of non-cancellable minimum lease payments as of December 31, 2021 and December 31, 2020 are presented in the tables below:

(a) Financial lease contracts, where the Bank acts as a lessor

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT		NPV OF TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Up to one year	380 865	308 152	336 628	289 681
Between one and five years	607 642	591 384	543 986	566 626
Beyond five years	20 730	25 850	18 744	31 878
Total	**1 009 237**	**925 386**	**899 358**	**888 185**

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

In thousands of BGN

RESIDUAL MATURITY	TOTAL FUTURE MINIMUM LEASE PAYMENT	
	31.12.2021	31.12.2020
Up to one year	17 291	13 077
Between one and five years	41 488	36 763
Total	**58 779**	**49 840**

47. Other regulatory disclosures

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

UniCredit Bulbank AD possesses a full-scope banking license for performing commercial banking activities. For the years ended December 31, 2021 and December 31, 2020 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

	2021	2020	REFERENCE TO OTHER NOTES AND REPORTS
Total operating income	879 505	779 690	Consolidated Income Statement and details in Notes 8,9,10,11,12 and 13
Profit before income tax	410 515	216 885	Consolidated Income Statement
Income tax expense	(40 483)	(21 779)	Consolidated Income Statement and details in Notes 20
Return on average assets (%)	1.5%	0.8%	2021 Annual Report on Activity
Annual Turnover	905 633	855 671	Consolidated Income Statement
Full time equivalent number of personnel as of December 31	4 108	4 206	Note 15

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

48. IBOR Reform

The cases of attempted market manipulation and false reporting of global reference rates, together with the post-crisis decline in liquidity in interbank unsecured funding markets, undermined confidence in the reliability and robustness of existing interbank benchmark interest rates. Uncertainty surrounding the integrity of these reference rates represents a potentially serious source of vulnerability and systemic risk.

Against this background, in 2013 the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and plans for reform to ensure that those plans were consistent and coordinated, and that interest rate benchmarks are robust and appropriately used by market participants.

In the case of LIBOR, the UK Financial Conduct Authority (FCA) announced that it will not compel or persuade LIBOR panel banks to submit to LIBOR after the end of 2021. Cessation dates for LIBORs were defined: 31-Dec-2021 for all EUR, CHF, GBP, JPY tenors as well as USD 1-week and 2-month, and 30-Jun-2023 for all other USD settings.

The currencies affected in the case of UniCredit Bulbank were USD and CHF. Starting from the beginning of 2022, the Bank duly replaced respective LIBORs applied on customer business, as follows:

- In USD, through CME Term SOFR Reference Rates (forward-looking);
- In CHF, through SARON Compound Rate, in line with Regulation (EU) 2021/1847.

The change was reflected in the Bank's Cessation Plan. The General Terms & Conditions were duly updated and customers were notified about the change.

No impact is expected due to this change, either for customers or for the Bank, because the all-in customer rates remained unchanged. In particular:

- In USD, all LIBOR-linked transactions outstanding at the end of 2021 are based on tenors (1, 3, 6 months) for which USD LIBOR will be quoted until end of June 2023. All these transactions will mature by then; hence, no particular changes were made in respective contracts. From the beginning of 2022, all new USD-denominated floating-rate transactions are made at market prices, using the SOFR and SOFR-linked indices as benchmarks.
- In CHF, the only type of exposures outstanding at the end of 2021 are mortgage loans to private individuals – a remaining part of a legacy portfolio, with no new loans added for more than 10 years. The total amount is considered immaterial (less than 0.01 % from total loans to customers). On these loans, in compliance with Regulation (EU) 2021/1847, starting from the beginning of 2022, CHF LIBOR was replaced by 3-month SARON Compound Rate (incl. statutory spread adjustment) and the customer margin was adjusted to ensure the same all-in customer rate being applied going forward. Currently, no new business has been planned in CHF but if any floating-rate transactions are entered into, they will be based on SARON or SARON Compound Rates.

49. Events after the reporting period

Merger of UniCredit Factoring (subsidiary of UniCredit Bulbank AD)

As of December, 31st 2021, UniCredit Bank owns 100% of the share capital of UniCredit Factoring EAD. On January 18, 2022, the merger of UniCredit Factoring EAD into UniCredit Bulbank AD has been officially registered in the Commercial Register. The accounting date of the merger is January 1st 2022.

The transaction has no effect on the shareholder's structure of the Bank.

In accordance with IFRS 3 "Business combinations" a legal merger of an entity into an acquirer represents in substance business combination from the position of the acquirer and for the purposes of the acquirer's separate financial statements. In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank's equity.

As of December, 31st 2021, the carrying amount of the assets and liabilities of UniCredit Factoring EAD are as follows:

In thousands of BGN

	31.12.2021
Assets	
Cash and cash equivalents	3
Receivables under factoring agreements	271 657
Tangible and intangible assets	1 400
Current tax assets	-
Deferred tax assets	21
Other short-term receivables	458
Total assets	**273 539**
Liabilities	
Liabilities to banks	223 250
Payables under factoring agreements	21 373
Lease liabilities	993
Current tax liabilities	74
Provision for credit risk of commitments	412
Other short-term liabilities	418
Total liabilities	**246 520**
Net assets at the accounting merger date	**27 019**
Investment as at the accounting merger date	3 000
Effect from the merger credited to equity (retained earnings)	**24 019**

Transactions eliminated on merger

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. As of the date of the accounting merger, except for the equity investment, from the Bank's statement of financial position intra-group transactions eliminated are amounting at BGN 223 250 thousand for assets (liabilities to banks in UniCredit Factoring's statement of financial position) and BGN 3 thousands for liabilities (cash and cash equivalents in UniCredit Factoring's statement of financial position).

From the moment of entry of the Merger in the Commercial Register at the Registry Agency the whole property of UCF as a set of property and non-property rights, obligations and factual relations has been transferred to the Bank in full, thus UniCredit Bulbank AD became the universal successor of UCF.

For the merger with its subsidiary UniCredit Factoring EAD the Bank has set up a project, following the strategy for simplification, efficiency and increased synergy between different product factories and structures in the UniCredit Group. The main concept is UniCredit Factoring EAD to be transformed into department within CIB Division/ UniCredit Bulbank. Existing factoring business expertise and knowledge will be kept in the new Factoring Department. All current control functions and monitoring processes will be transferred in to the new organizational model following the Bank's practices and models.

The merger of UniCredit Factoring EAD is carried out in a tax neutral way, whereby all assets and liabilities of UniCredit Factoring EAD are transferred to the Bank without change (accounting and tax values). All taxable/deductible temporary tax differences that existed within UniCredit Factoring EAD are also transferred to UniCredit Bulbank AD.

Updated credit risk models

As disclosed in note 4, on page 40, in February 2022 UniCredit Bulbank is planning to implement the updated credit risk models for Corporate PD, SME PD rating system and IPRE slotting system as well. The impact on the Expected Credit Loss was already anticipated in the annual result via adjustment in the amount of BGN 70.2 mln as of December 2021.

The Bank considers the above as an adjusting event as per IAS 10.

Conflict in Ukraine

The ongoing military conflict in Ukraine and the related sanctions targeted against the Russian Federation and Russian entities and physical persons will inevitably have impact on the European economies and globally in short and mid run. The Bank does not have any significant direct exposure to Ukraine, Russia or Belarus . Nevertheless, the events and the impact these might have on the macro environment may require revision of certain assumptions and estimates. This may lead to adjustments to the carrying value of certain assets and liabilities including but not limited to loan book, derivatives positions, bond holdings within the next financial year. Macro scenarios part of the IFRS9 model are currently being revised in light of expected repercussions on inflation and GDP growth.

Strict monitoring of the business activities, capital and liquidity position, as well as asset quality early warning indicators (also by revision of stress test scenarios and close contact with most vulnerable clients) and cyber security resilience is ensured with no significant negative impact detected at this stage.

The Bank promptly addresses and implements all sanctions restrictions and ensures compliance with the regulatory and normative regime in force at any time. Compliance Department constantly monitors the updates in the sanctions regulations in order to promptly ensure compliance with the sanctions' requirements. Working groups have been set up to address the sanctions updates and introduce changes in the bank's processes, if needed. The management is periodically informed about the developments in the sanction's regimes and takes adequate measures to comply with the applicable regulations. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

The longer-term impact may also affect trading volumes, cash flows, payment operations, profitability, new business origination and asset quality. Nevertheless, at the date of these financial statements the Bank and its subsidiaries continue to meet their obligations as they fall due and therefore continue to apply the going concern basis of preparation.

There are no other significant events after the reporting period with effect on the financial statements as of December 31st 2021.

Caring for our communities: When an earthquake devastated the Croatian region of Banija, the UniCredit Foundation sprang into action and launched a fundraising initiative to support those most affected.

Our People
Earthquake
Croatia

Curious to know more? Check out the entire story (and others!) on annualreport.unicredit.eu/en

Bank Network

Aitos
27, Stancionna str.	(0558) 296 00; (0558) 296 09; (0558) 296 07

Asenovgrad
8, Radi Ovcharov str.	(0331) 228 22; (0331) 228 31; (0331) 228 34

Balchik
3, Ivan Vazov str.	(0579) 740 61
34A, Cherno more str.	(0579) 711 11; (0579) 711 12; (0579) 711 17

Bansko
3, Pirin str.	(0749) 866 10; (0749) 866 13; (0749) 866 16

Berkovitsa
1, Yordan Radichkov sq.	(0953) 887 87; (0953) 882 82

Blagoevgrad
1, Macedonia sq.	(073) 867 028; (073) 867 016; (073) 867 017; (073) 867 027; (073) 867 025
17, Zelenopolsko shose str.	(073) 867 049
18, St. Kiril and Metodius blvd.	(073) 828 728; (073) 828 711; (073) 828 719
22, Ivan Shishman str.	(073) 828 625; (073) 828 617; (073) 828 629
5, St. Dimitur Solunski str.	(073) 867 048
57, Vasil Levski blvd.	(073) 828 611; (073) 828 612

Bojurishte
85, Evropa blvd.	(02) 993 8843; (02) 993 8845

Botevgrad
24, Saransk sq.	(0723) 668 72; (0723) 668 71

Burgas
103, Stefan Stambolov blvd.	(02) 926 4731
104, Democracia blvd.	(056) 874 111; (056) 874 121; (056) 874 122; (056) 874 123
22, Alexandrovska str.	(056) 877 231; (056) 877 184; (056) 877 155
22, Alexandrovska str.	(056) 877 241; (056) 877 261; (056) 877 178; (056) 877 213
68-70, Hristo Botev str.	(056) 806 811; (056) 806 813; (056) 806 817
94 block of Slaveikov District	(056) 896 684
Burgas, Meden rudnik, 118	(056) 871 942; (056) 871 952; (056) 871 945 (056) 871 944; (056) 871 946
Burgas, zh.k. Izgrev, 187	(056) 598 281; (056) 598 282; (056) 598 283
Izgrev district, 53, Transportna str.	(02) 926 4733
Slaveikov district, block 46	(056) 896 685; (056) 896 686

Chepelare
1, Han Asparuh str.	(03051) 20 35; (03051) 31 95

Chirpan
2, Yavorov str.	(0416) 901 00; (0416) 901 03; (0416) 901 04; (0416) 901 05

Damyanitsa
Damyanitsa Technopolis	(0746) 348 30

Devnia
Devnia in the building of Solvei Sodi	(05199) 971 23

Dimitrovgrad
4B, Bulgaria blvd.	(0391) 686 23; (0391) 686 20; (0391) 686 15

Dobrich
3, Bulgaria str.	(058) 655 717; (058) 655 729; (058) 655 735
54, Okolovrusten put Dobrotica	(058) 655 713
7, Nezavisimost str.	(058) 655 720

Dulovo
14, Vasil Levski str.	(0864) 210 61; (0864) 210 62; (0864) 210 65;

Dupnitza
3, Ivan Vazov str.	(0701) 599 14; (0701) 599 13; (0701) 599 15; (0701) 599 12

Elin Pelin
5, Nezavisimost sq.	(0725) 688 16; (0725) 688 19; (0725) 688 18; (0725) 688 17

Etropole
18 A, M. Gavrailova str.	(0720) 600 76; (0720) 623 11

Gabrovo
13, Radecki str.	(066) 814 210; (066) 814 216; (066) 814 217

Galabovo
8, dr. Jekov str.	(0418) 623 49; (0418) 623 80; (0418) 640 20

General Toshevo
5, Treti Mart str.	(05731) 21 37

Godech
2, Svoboda sq.	(0729) 223 06

Gorna Orjahovitsa
1A, M. Todorv str.	(0618) 681 12; (0618) 681 13; (0618) 681 22

Gotse Delchev
11, Byalo More str.	(0751) 696 12; (0751) 696 14; (0751) 696 27

Harmanli
1, Vazrajdane sq.	(0373) 800 61; (0373) 800 63; (0373) 800 74

Haskovo
4, Han Kubrat str.	(038) 602 711; (038) 602 715; (038) 602 728; (038) 602 735
Haskovo Tehnopolis	(038) 602 738

Ihtiman
8, Polk. B. Drangov str.	(0724) 87 720; (0724) 87 727; (0724) 87 733

Kardzhali
51, Bulgaria blvd.	(0361) 670 12; (0361) 670 17; (0361) 670 10

Karlovo
2, Vodopad str.	(0335) 905 15; (0335) 905 17; (0335) 905 28

Karnobat
14, Bulgaria blvd.	(0559) 288 21; (0559) 288 19; (0559) 288 03

Bank Network (continued)

Kavarna

37, Dobrotica str.	(0570) 811 11; (0570) 811 12; (0570) 811 16

Kazanlak

4, Rozova Dolina str.	(0431) 681 20; (0431) 681 25; (0431) 681 35

Knezha

5, Nikola Petkov str.	(09132) 67 50; (09132) 73 94

Kostenets

2, Belmeken str.	(07142) 22 52; (07142) 35 58

Kostinbrod

7, Ohrid str.	(0721) 681 16, (0721) 681 17; (0721) 681 18

Kozlodui

1, Kiril I Metodii str.	(0973) 800 04
Kozlodui Nuclear Plant	(0973) 802 30; (0973) 802 35

Kurdjali

51, Bulgaria blvd.	(0361) 670 12; (0361) 670 17
4, Belomorski blvd.	(0361) 670 10

Kyustendil

5, Gueshevo shosse str.	(078) 559 626
39, Democracy str.	(078) 559 613; (078) 559 611

Lom

14, Dunavska str.	(0971) 687 62; (0971) 687 63; (0971) 687 67

Lovech

10, Akad Ishirkov str.	(068) 689 913; (068) 689 921; (068) 689 927

Mezdra

8, Georgi Dimitrov str.	(0910) 920 78; (0910) 924 86

Montana

216 Treti Mart blvd.	(096) 383 169
72, Treti Mart blvd	(096) 391 954; (096) 391 959; (096) 391 964

Nessebar

Nesebar, 38, Han Krum str.	(0554) 219 21; (0554) 219 23; (0554) 219 25; (0554) 219 27; (0554) 219 28; (0554) 219 30

Nova Zagora

49, Vasil Levski str.	(0457) 612 61; (0457) 612 63; (0457) 612 64

Novi Pazar

4, Rakovski sq.	(0537) 258 52; (0537) 258 52 53; (0537) 258 52 54; (0537) 258 52 55

Panagiurishte

1, G. Benkovski str.	(0357) 619 01; (0357) 619 14; (0357) 640 87

Parvomai

2 B, Hristo Botev str.	(0336) 628 83; (0336) 620 54; (0336) 620 24

Pavlikeni

20, Svoboda sq.	(0610) 511 80; (0610) 511 87

Pazardzhik

13, Stefan Stambolov blvd.	(034) 441 225
5, Esperanto str.	(034) 405 718; (034) 405 726
6, Bulgaria blvd.	(034) 405 131; (034) 405 134; (034) 405 128

Pernik

21, St Kiril and Methodius blvd.	(076) 688 975
41, Krakra str.	(076) 688 983; (076) 688 988

Peshtera

19, Dimitar Gorov str.	(0350) 621 07; (0350) 690 92; (0350) 641 60

Petrich

48, Rokfeler str.	(0745) 695 21; (0745) 695 29; (0745) 695 17

Pirdop

Todor Vlaikov sq., block 2	(07181) 82 15; (07181) 82 12; (07181) 82 14

Pleven

1, Kosta Hadzhipakev str.	(064) 880 204; (064) 880 208; (064) 880 209
11, Metro str.	(064) 908 194
121, Vasil Levski str.	(064) 890 732; (064) 890 732 37; (064) 890 732 38
13, Danail Popov str., block Volga	(064) 892 178; (064) 892 177; (064) 892 174

Plovdiv

1, Asenovgradsko Shosse str.	(032) 905 836
13, Kniaz Alexander Ist str.	(032) 905 896; (032) 905 892; (032) 905 894
133, Sankt Peterburg blvd.	(032) 680 220; (032) 680 250
135, Sankt Peterburg blvd.	(032) 905 819; (032) 905 900
15 A, Vasil Aprilov blvd.	(032) 905 837
24, Tsar Assen Str.	(032) 905 844
31, Ivan Vazov str.	(032) 905 832; (032) 905 925; (032) 905 839
4, Ivan Vazov str.	(032) 601 615; (032) 601 697; (032) 601 626
41, Saedinenie str., Trakia	(032) 905 911; (032) 905 912; (032) 905 919
51, Raiko Daskalov str.	(032) 656 018; 021; 044; 045; 049
66, Pestersko Shosse str.	(032) 905 841
73A, Makedonia blvd.	(032) 271 923; (032) 271 924; (032) 271 926
8, Vasil Levski str.	(032) 905 824; (032) 905 881; (032) 905 865
82, Hristo Botev blvd.	(032) 656 012; (032) 656 013

Polski Trumbesh

55, Turgovska str.	(06141) 67 16

Pomorie

2a, Graf Ignatiev str.	(0596) 262 62; (0596) 262 63; (0596) 262 64; (0596) 262 65

Popovo

99, Bulgaria blvd.	(0608) 409 51; (0608) 409 53; (0608) 409 54

Primorsko

1, Chavdar str.	(0550) 337 82; (0550)337 83; (0550)337 86

Bank Network (continued)

Radnevo

10A, G. Dimitrov str.	(0417) 810 11; (0417) 810 12; (0417) 810 13

Rakovski

Rakovski, 19 B, Moskva str.	(03151) 50 12; (03151) 60 37

Razgrad

1, Momina Cheshma sq.	(084) 612 463; (084) 612 466; (084) 612 477
66, Aprilsko vastanie blvd.	(084) 612 461

Razlog

1, Eksarh Iosif str.	(0747) 898 11; (0747) 898 15; (0747) 898 17

Russe

1, Kiril Starcev str.	(082) 818 331; (082) 818 341
123 Lipnik blvd.	(082) 280 810
38, Hristo Botev str.	(082) 241 492
5, Sveta Troica sq.	(082) 818 233 (082) 818 242; (082) 818 225
60, Treti Mart blvd.	(082) 818 206

Samokov

3, Prof V. Zahariev str.	(0722) 688 13; (0722) 688 16; (0722) 688 19; (0722) 688 24

Sandanski

52, Macedonia str.	(0746) 348 23; (0746) 348 28; (0746) 348 29

Sevlievo

21, Svoboda sq.	(0675) 345 86; (0675) 349 28

Shumen

5, Simeon Veliki blvd.	(054) 858 116
8, Slavianski blvd.	(054) 858 137; (054) 858 121; (054) 858 125

Silistra

33, 7mi septemvri blvd.	(086) 878 379
4, Georgi S. Rakovski str.	(086) 878 374; (086) 878 370; (086) 878 375

Slanchev Briag

Slanchev bryag, business building Sapfir	(0554) 280 23; (0554) 280 22; (0554) 280 34

Sliven

14, Tzar Osvoboditel blvd.	(044) 613 137; (044) 613 147; (044) 613 148
6, Stephan Karadzha str.	(044) 613 122

Slivnitsa

2, Saedinenie sq.	(0727) 489 35; (0727) 489 31; (0727) 489 34

Smolyan

59, Kolio Shishmanov str.	(0301) 673 14; (0301) 673 20

Sofia

1, Briuksel blvd.	(02) 923 2106
1, Madrid blvd.	(02) 948 0972; (02) 948 0980; (02) 948 0986
1, P.U. Todorov blvd. block 1	(02) 818 6722; (02) 818 6753; (02) 818 6727
1, Skopie blvd.	(02) 802 1992; (02)802 1993
1, Yanko Sakazov blvd.	(02) 814 5025; (02) 814 5011; (02) 814 5022
100, Cherni Vruh blvd.	(02) 9690 027; (02) 9690 018; (02) 9690 013; (02) 9690 025
105, Gotse Delchev blvd.	(02) 818 2721; (02) 818 2724; (02) 818 2726
115, Tsarigradsko shose blvd.	(02) 806 3741; (02) 806 3743; (02) 806 3744
127, Slivnica blvd.	(02) 802 1983; (02) 802 1987; (02) 802 1985
13, 202 str.	(02) 833 4174
133, Tsarigradsko Shosse blvd. – 7th km	(02) 817 8024; (02) 817 8029; (02) 817 8025; (02) 817 8028
14, Gueshevo str.	(02) 947 4560; (02) 9474 561
140, Georgi S. Rakovski str.	(02) 815 7023; (02) 815 7036; (02) 815 7032
145, Georgi S. Rakovski str.	(02) 805 3163; (02) 805 3165
182, Europa blvd.	(02) 926 4785
199A, Okolovrasten pat, Malinova dolina	(02) 965 8198
2, Buzludzha str.	(02) 895 1024; (02) 895 1025; (02) 895 1027
2, Ivan Asen IInd str.	(02) 942 3024; (02) 942 3028; (02) 942 3034
2, Lomsko shosse str.	(02) 890 4952; (02) 890 4951
2, Sofroniy Vrachanski str.	(02) 937 7071; (02) 937 7077
214, Okolovrusten put str.	
22, Ierusalim str., MLADOST, Sofia	(02) 817 4914; (02) 817 4921; (02) 817 4922
22, Zlaten rog, str.	(02) 926 4716; (02) 926 4717; (02) 926 4738
3, Filip Avramov str.	(02) 817 4918; (02) 817 4919
3, Todor Kableshkov blvd.	(02) 895 4037; (02) 895 4038
3, Tsar Kaloyan str.	(02) 890 2312; (02) 890 2314; (02) 890 2316
32, Zlatuvruh str.	(02) 819 0712; (02) 819 0715; (02) 819 0711
38, Liubliana str.	(02) 926 4745; (02) 926 4323
41, Tzar Boris III blvd.	(02) 895 4028; (02) 895 4027
444 A, Slivnica blvd.	(02) 892 6815; (02) 892 6817
52, Kosta Lulchev str.	(02) 817 2927; (02) 817 2912
56, Georgi Sofiiski str.	(02) 818 8773; (02) 818 8774; (02) 818 8778
62, G.M. Dimitrov blvd.	(02) 816 9072; (02) 816 9073; (02) 816 9075
65, Shipchenski prohod str.	(02) 817 2924; (02) 817 2925; (02) 817 2926; (02) 817 2927
69, Bulgaria blvd.	(02) 926 4741; (02) 818 6727
7, Sveta Nedelya Sq.	(02) 923 2145; (02) 923 2456; (02) 923 2169
7, Sveta Nedelya Sq.	(02) 923 2485; (02) 923 2107; (02) 923 2164
8, Vitosha blvd.	(02) 923 2235; (02) 923 2223
84, Veslec str.	(02) 923 2105
88, Yanko Sakuzov blvd.	(02) 948 0966; (02) 948 0960; (02) 948 0968
9, Dondukov blvd.	(02) 921 8964; (02) 921 8951; (02) 921 8963; (02) 921 8955
9, Julio Kiuri str.	(02) 817 3712; (02) 817 3713; (02) 817 3718
9, Shipchenski prohod blvd.	(02) 892 4565; (02) 892 4563
90, Al. Stamboliyski blvd.	(02) 8102 614; (02) 8102 620; (02) 8102 621; (02) 8102 615
90, Vitosha blvd.	(02) 9173 018; (02) 9173 015; (02) 9173 020
9A, Boris Stefanov str.	(02) 819 2872; (02) 819 2873; (02) 819 2874
Business park Sofia, 2nd building	(02) 817 3320; (02) 817 3323; (02) 817 3327
Hotel Trivia, Botunec	(02) 948 0971; (02) 948 0974
Iliyanci	(02) 892 0521; (02) 8920 525; (02) 8920 526
Lyulin 4, block 417	(02) 814 5275; (02) 814 5276; (02) 814 5277
Lyulin center, block 752A	(02) 802 4215; (02) 802 4214; (02) 802 4212
Mladost; 265, Okolovrusten put	(02) 923 2112; (02) 923 2113
Simeonovo, 14A Momina salza str.	(02) 819 2873
Sofia, 2 Pozitano Sq., Perform Business Center.	(02) 935 7830; (02) 935 7853
Tsarigradsko Shosse blvd. – 7th-11th km	(02) 817 8018
Tsaritsa Ioanna blvd.	(02) 825 8946

Bank Network (continued)

Sozopol

2, Parvi May str.	(0550) 263 20; (0550) 263 22; (0550) 263 23

Stamboliiski

2, Osmi Mart str.	(0339) 624 87; (0339) 652 39; (0339) 622 64

Stara Zagora

115, Tsar Simeon Veliki blvd.	(042) 615 132; (042) 615 138; (042) 615 139
126, Simeon Veliki blvd.	(042) 696 275; (042) 696 250; (042) 696 252
126, Simeon Veliki blvd.	(042) 696 229; (042) 696 283; (042) 696 264
157, Tzar Simeon str.	(042) 610 781; (042) 610 783; (042) 610 784
80, Tzar Simeon Veliki blvd.	(042) 692 110; (042) 692 116; (042) 692 124; (042) 692 129
Nikola Petkov str.	(042) 696 254

Sungurlare

15, Hristo Smirnenski str.	(05571) 52 50; (05571) 51 21

Svilengrad

60, Bulgaria blvd.	(0379) 707 26; (0379) 707 28; (0379) 707 12

Svishtov

16, Tzar Osvoboditel str.	(0631) 611 14;(0631) 611 26; (0631) 611 28

Svoge

35, Tsar Simeon str.	(0726) 223 49

Targovishte

23, Vasil Levski str.	(0601) 612 20; (0601) 612 21; (0601) 612 25 (0601) 612 10

Tervel

7, Sv. Sv Kiril I Metodii str.	(05751) 41 47

Troyan

1, Gen. Karzov str.	(0670) 688 66; (0670) 688 61; (0670) 688 62

Tzarevo

20, Kraimorska str.	(0590) 554 63; (0590) 554 65; (0590) 554 67

Varna

115, Osmi Primorski polk blvd.	(052) 785 711; (052) 785 712; (052) 785 713; (052) 785 715
117, Republika blvd.	(052) 739 506; (052) 739 513; (052) 739 504; (052) 739 507
13, Treti Mart str.	(05131) 24 07
2, Atanas Moskov str.	(052) 739 518
2, Gabrovo str.	(052) 689 803; (052) 689 809; (052) 689 812
20, Drujba str.	(052) 663 692; (052) 663 693; (052) 663 694
267, Tsar Osvoboditel blvd.	(052)739 517; (02) 926 4708
36-38, Vladislav Varnenchik str.	(052) 687 935; (052) 687 946; (052) 687 947
39, Maria Luiza str.	(052) 663 130; (052) 966 3140; (052) 663 135
43, Kniaz Boris str.	(052) 664 020; (052) 664 023; (052) 664 025; (052) 664 026
61, Pirin str.	(052) 661 342; (052) 661 344; (052) 661 346
9, P. Karavelov str.	(052) 662 128; (052) 662 127; (052) 662 142

Veliko Tarnovo

13, Vasil Levskli str.	(062) 611 070; (062) 611 089; (062) 611 049
2B, Krakov blvd.	(062) 611 078 (062) 611 035 (062) 611 040 (062) 611 092
4, Magistralna str.	(062) 611 019
78, Balgaria blvd.	(062) 611 018

Velingrad

5, Aleksandar Stamboliyski str.	(0359) 570 20; (0359) 570 23

Vidin

3, Tzar Simeon Veliki str.	(094) 690 212; (094) 690 226; (094)690 241

Vratsa

17a, Krastio Bulgariyata str.	(092) 668 237; (092) 668 233; (092) 668 259

Yambol

173-175, Graf Ignatiev blvd.	(046) 641-153
3, Gorg Papazov str.	(046) 685-122; (046) 685-116; (046) 685-111

Bank Network (continued)

Corporate offices

Sofia

8, Aksakov str.	(02) 930 9662
7 St. Nedelya, floor 1	(02) 923 2039; (02) 923 2334; (02) 923 2989

Varna

28, Slivnitsa blvd.	(052) 678 013; (052) 678 020

Stara Zagora

126 Tzar Simeon Veliki blvd.	(042) 696 246; (042) 696 268

Burgas

22 Alexandrovska str.	(056) 877 218; (056) 877 171

Russe

5 Sveta Troitsa str.	(082) 818 265; (082) 818 226

Veliko Tarnovo

13 Vassil Levski str.	(062) 611 017; (062) 611 056

Pleven

11 Tzar Simeon str.	(064) 890 335; (064) 890 332

Plovdiv

4 Ivan Vazov str.	(032) 601 615; (032) 601 697

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