



**MIFID II – POLICY ON THE BEST EXECUTION OF  
CLIENT ORDERS FOR TRANSACTIONS IN FINANCIAL  
INSTRUMENTS**

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# 1 INTRODUCTION

## 1.1 PURPOSE AND CONTENT SUMMARY

This Policy for the best execution of client orders for transactions in financial instruments (hereinafter referred to as the „Policy”) has been prepared in accordance with the requirements of the Law on Markets in Financial Instruments /LMFI/ and Commission Delegated Regulation (EU) 2017/565 of 25 April 2016.

The Policy is applied to all orders transmitted by the clients to the Bank for purchase, sale or exchange of securities or other financial instruments within the meaning of Art. 4 of the LMFI.

The transactions in financial instruments are carried out according to the rules and requirements applicable to the respective venue of their execution and the legislation applicable to that venue.

The obligation for ensuring the best possible result upon execution of orders of a client applies to all types of financial instruments. Considering the differences in the market structures or in the financial instruments structure however, it would be difficult to define and apply a unique standard and a procedure for best execution which would be valid and effective with regard to all classes of instruments. Due to this, the best execution obligations apply in such a way that considers the specific circumstances related to specific types of financial instruments.

The bank in its capacity as an investment intermediary cannot execute orders at the expense of clients unless they have provided in advance their written consent with this Policy.

This Policy defines principles and rules in order to ensure that the Group complies with the Best Execution requirements set forth by MiFID II and the respective Delegated Act 2017/565/EU, RTS 27 (2017/575/EC) and RTS 28 (2017/576/EC), affecting UniCredit Group subject to MiFID II. A Group-wide approach is necessary to define a consistent Best Execution governance model to strengthen the controls around detection of deficiencies and the duty to regularly monitor the quality and appropriateness of their execution arrangements and Execution Policies at Group level, and set forth regular Disclosure Obligations. This document introduces the requirements of Group Policy MIFID II – Best execution (UC-2022-195).

The policy is applicable to UniCredit SpA, its foreign branches and its directly controlled legal entities. It is also applicable for the indirectly controlled legal entities performing MiFID relevant business. For Legal Entities/Branches located outside EU, extraterritorial effect/transmission of the law must be considered if the entity is performing any MiFID relevant business.

The present Policy cancels UCB TRE-45-5-10-03- MiFID II – Global Policy on the best execution of client orders for transactions in financial instruments.

## 1.2 REFERENCE TO THE EXTERNAL REGULATORY FRAMEWORK

MiFID / MiFIR is a regulatory framework which sets high investor protection standards throughout Europe and regulates and harmonizes trading in financial instruments. MiFID II is the revision and continuation of MiFID I (which came into force in 2007) due to changes in market structures because of the financial crisis in order to increase transparency in the markets and the efficiency and integrity of financial markets. The MiFID II Directive / MiFIR Regulation contains stricter rules for the sale of financial products to protect investors and is effective from 3 January 2018.

- MIFID II DIRECTIVE 2014/65/EC art. 27,
- Delegated Regulation (EU) No. 2017/565;
- Delegated Regulation (EU) No. 2017/575;
- Delegated Regulation (EU) No. 2017/576;

### 1.3 Glossary and acronyms

Key word	Definition
Holding Company	UniCredit S.p.A. (hereafter also “UniCredit”)
UniCredit Bulbank AD	Legal Entity directly or indirectly controlled by UniCredit S.p.A. (hereafter also “the company”, “entity”, “company” or “subsidiary”)
Group	UniCredit Group, composed of UniCredit S.p.A. and of the Group Legal Entities (hereafter also “UniCredit Group”)
Execution Policy	The “execution policy” may be understood as a document that describes the most important and/or relevant elements of those execution arrangements
Execution Arrangement	The “execution arrangements” are the means that the affected company employs to obtain the best possible result when executing orders or decisions to deal.
Size Specific to the Instrument (SSTI)	Size Specific to the Instrument (SSTI) Thresholds are defined at the class of bond level by ESMA.
Large in Scale (LIS)	Large in Scale: Thresholds are defined at the class of bond level by ESMA.
Execution venue	A Systematic Internaliser (SI) and a market maker or other liquidity provider (Broker, Finance Institutes) and comparable 3rd country entities
Trading venue (Trading venue)	Trading venue means a regulated market, multilateral trading facility (MTF), organised trading facility (OTF) and comparable 3rd country trading venue
Multilateral Trading Facility (MCT / MTF)	Multilateral Trading Facility: Similar to a Regulated Market but subject to lighter regulatory requirements
Organized Trading Facility (OCT / OTF)	Organized Trading Facility similar to MCT but with discretion allowed in relation to executing orders
Regulated Market (RM) (Regulated market)	Regulated market: a multilateral system to bring together multiple third-party buying and selling interests in accordance with non-discretionary rules
Request for Quote (RFQ)	financial term for certain way to ask a bank for an offer of a given financial instrument from a bank
Професионални клиенти (Professional clients)	Professional client is this client who has the experience, the knowledge and the expertise to make independent decisions and to assess correctly the risks to which it is imposed.
Непрофесионални клиенти (Retail clients)	A customer that is neither a professional client nor an eligible counterparty
Приемлива насрещна страна (Eligible counterparties)	Eligible counterparty is an investment intermediary, lending institution, insurance company, collective investment scheme, management company, pension-insurance company, pension fund, other financial institutions which are licensed or regulated by the EU law and the member states, the national governments, state bodies managing the state debt, central banks and international institutions as well as such parties from third countries to which requirements equivalent to those of the EU law apply.

Пазарно нареждане (Market order)	Market orders are unlimited buy or sell orders that shall be executed at the next price determined. The probability of execution is highest with Market Orders. Traders use Market Orders when orders need to be executed as quickly as possible.
Лимитирано нареждане (Limit order)	Limit orders are bid/ask orders, which are to be executed at their specified limit regarding the price or better.
Нареждане „Изпълни или отмени“ / Fill-or-Kill (FOK)	It is one which has to be executed and fully or not at all. If immediate and full execution is not possible, the FOK order is deleted without entry in the order book.
Нареждане „Незабавно изпълнение или анулиране“ / Immediate-or-cancel order (IOC)	It is one which has to be executed immediately and fully, or as fully as possible. Non-executed parts of an IOC order are deleted without entry in the order book.
Нареждане „Едно отменя друго“ / One-Cancels-the-Other Order	A one-cancels-other order is an order that combines a limit order and a stop market order. If the limit order is fully executed or the stop market order is triggered, the respectively other order will be deleted. If the limit order is partially executed, the stop market order will be modified to match the remaining volume of the limit order.
Нареждане „Въведи или отмени“ (book-or-cancel/ BOC)	It is one that is entered in the order book if it cannot be executed immediately. If a book-or-cancel order can be executed immediately, the order is rejected. BOC orders in the order book are deleted at the start of an auction. During the auction, incoming BOC orders are rejected. A BOC order is intended to ensure the passive execution of the order. This makes the book-or-cancel order particularly meaningful in the case of securities for which, with regard to the explicit transaction costs, passive execution (an order is already in the order book on execution) is preferred to aggressive execution (an order is entered, can be executed immediately and thus drains liquidity from the order book).
- An order that is valid until the close of trading on that particular trading day/ Good for Day (GFD)-	The order is valid until the close of trading on that particular trading day
- An order that is valid until the trading day specified / Good-till-date (GTD).	The order is valid until the close of trading on that particular trading day. The date can be at most 359 days in the future (360 days including the date of entry) or other date as per the conditions on the particular market.
- An order that is valid until it is canceled / Good-till-cancel (GTC).	The order remains valid until it is executed or canceled.
Central counterparty	Central counterparty is a juridical person performing the function of intermediary between the seller and the buyer on the stock exchange. In this quality the central counterparty acts as a seller for any buyer and as a buyer for any seller.
Certificate	The certificate gives right to the investor to participate directly in the respective instrument. In order to acquire the right to participation in the respective investment instrument by the means of a certificate, the investor pays the whole value of the instrument through this certificate.
Clearing / Settlement	Clearing is a mutual setting off of counter receivables of the parties under the transactions in securities.  Settlement means the fulfillment of the obligations under a transaction in securities for these latter's registration on security account of the acquirer with a depository institution, and for these latter's payment.

Derivative contracts	A large scope term for financial instruments the price of which is formed on the basis of the price of other securities or financial products (the so called underlying instruments, or underlyings). For example, derivatives are options, futures, and swaps.
Funds traded on the stock exchange	Funds traded on the stock exchange (known as indice shares, indice funds traded on a stock exchange) are investment funds traded on a stock exchange and usually operating as indice funds.
Market makers	Entities being continuously present on the financial markets with the purpose of trading for their own account through purchasing and selling of financial instruments against own funds at prices determined by themselves, which have requested and have been approved.
Financial futures	Financial futures are contracts for future delivery of shares, fixed rate securities, foreign exchange, indices, and precious metals.  They differentiate from the traditional futures by the circumstance that in principle the financial futures are not purposed for execution of the contract. In most of the cases the annulment of the contract is performed before the latter's maturity.
Investment intermediary	Investment intermediary is a local or foreign person having right, under its national legislation, to carry out transactions and activities under Art. 6, Para (2) and (3) of the Law on Markets in Financial Instruments
Fixed rate securities	Fixed rate securities are medium-term or long-term bonds, issued by shareholding companies, public institutions, specific banks, states, and large scale industrial organizations.  The fixed rate securities entitle investors with the right to receive a certain income and/or a probable compensation.  Fixed rate securities can be denominated in different kinds of currencies and can be subject to different payment and compensation conditions, as well as different maturing.
Forwards and Futures	Forwards and Futures are derivative financial instruments, predominantly traded on stock exchanges for which the execution of the contract, for example – purchase and delivery of commodities, foreign exchange, securities, etc., is performed in installments on a specified date under conditions which were specified in advance on the date of the purchase of the instrument.
Funds	Funds are capital assets, administered by investment trusts or investment companies and funds invested in shares, real estate, etc. The investors in such funds receive certificates for the assets of the fund. If the investment fund earns income on the basis of price rises on the stock exchange, dividends, interest rates and others, the usual practice is the income to be distributed among the owners of the above mentioned certificates. In case of increasing funds, these financial resources are re-invested which results in increasing the value of the fund's shares.
Public Offering (IPO) / Initial Public Offering (IPO)	Public offering of securities means the provision of information about the offering of securities, addressed to 150 and more persons, or to an indefinite circle of persons, in any whatsoever form and through any whatsoever means, containing sufficient data on the terms and conditions of the offering and the offered securities, so that the investors are able to make a decision for subscription or purchase of these securities. The offering of securities through an investment intermediary is also considered public offering, provided it meets the conditions stipulated in the first sentence above. Public offering becomes a fact also when in the public offering of securities takes part an entity/person which is not an investment intermediary or the owner of the securities.  Public offering is not a fact when the securities are offered in the cases of liquidation, forced execution or procedures or insolvency procedures as per the law.  Initial public offering is offering upon the conditions of the public offering of:  1. securities on subscription offered by their issuer thereof or by an authorized by the

	<p>latter investment intermediary (subscription) or</p> <p>2. securities for initial sale by an investment intermediary in conformity with a concluded with the issuer thereof agreement for undertaking.</p>
Special purpose vehicles	Investment companies are companies which raise capital from investors with the view of investing the capital, usually in very diverse forms and operating like funds on certain markets.
Options	<p>Derivative financial instrument which expresses the right to the purchase or sale of a specified number of securities or other financial instruments at preliminarily fixed price until the expiry of a specified time term or on a specified date.</p> <p>The option provides to the buyer the possibility to accept or reject a given negotiated offer during the period of maturing (American options) or on the very maturity date (European options).</p>
Shares	Share means a security certifying that its owner (shareholder) participates with the shown on the share nominal value in the capital of the shareholding company. Shares can be materialized (on a material bearer) - registered or bearer shares; and de-materialized (registered with a respective depository institution); - common or privileged (bearing additional rights as compared to the ones incorporated in the common shares). Shares materialize defined property and non-property rights of their owners in these latter's quality of shareholders, for example the right to dividend, to liquidation share, voting right at the general meeting of the company, as well as other rights defined by a law or in the Articles of Constitution of the shareholding company.
Share market indices	<p>Share market indices reflect the price fluctuation of the capital market covered by the index.</p> <p>Indices are calculated in conformity with a defined in advance mechanism (as weight of the individual shares included in the index, market capitalization, etc.)</p>
Subscription rights	Subscription rights are negotiable securities which are issued by the issuer in case of increase of the capital of the public company to its shareholders as to prior defined date, determined pursuant to the applicable legislation. The subscription rights in the meaning of the preceding sentence provide grounds to the shareholders to participate in the capital increase by subscribing for shares at a specified in advance issuing value based on a decision for increasing the capital of a public company.
Swaps	<p>Interest Rate Swap - a contract between two parties for exchange of interest payments in a specific currency for a specific term. Usually the interest payments due by one of the parties under the transaction are defined by a floating interest index for the entire term of the transaction. The amount of the interest payments is calculated based on the agreed principal for every interest period while the principal itself is not a subject to exchange.</p> <p>The interest swaps apply with the purpose of eliminating interest risk arising out of receivables or liabilities of the client which accrue interest based on a floating interest index.</p> <p>Currency swap - a contract between two parties for exchange of a specific amount in one currency to another at a fixed exchange rate on a specific near date and for the back exchange of this amount at a preliminary fixed forward exchange rate on a specific distant date.</p> <p>The two currency transactions are combined in a contract referred to as currency swap.</p>
Warrants	Warrant means a security which materializes the right to purchase of a defined number of securities at fixed price during a defined period of time. The warrant may be issued together with a bond, as a bond warrant, but it is traded independently and apart from the bond on the stock exchange.
Investment consultation	Providing personal recommendation to a client at the latter's request or on the initiative of the investment intermediary in connection with one or more transactions related to financial instruments. The recommendation is personal if it is provided to a person in the latter's quality of an investor or a potential investor, an agent of an



	<p>investor or a potential investor, respectively. The recommendation is not personal if it is provided exclusively through distributor channels in the meaning of the Law on Measures against Market Abuse with Financial Instruments, or it is provided to the public.</p> <p>The personal recommendation must be appropriate for the person it is provided to, or be prepared taking into consideration the circumstances related to the knowledge, skills, and experience of the person in the area of investments in financial instruments. The personal recommendation represents a recommendation for undertaking one of the following actions:</p> <p>a) purchase, sale, subscription, exchange, redemption, holding, or undertaking defined financial instruments;</p> <p>b) to exert or not exert a right under certain financial instruments for the purchase, sale, subscription, exchange, or redemption thereof.</p>
Portfolio management	Investment portfolio management, assigned by clients, which is performed at the discretion of the investment intermediary, for every individual client and for the investment portfolios which include one or more financial instruments.
Contracts for differences	A derivative financial instrument which expresses the right to receiving, respectively the obligation for paying of the difference between the market value of a defined number of securities or other financial instruments and their preliminarily fixed price in the contract.
Systematic internaliser	Systematic internaliser is an investment intermediary which without organizing a multilateral system in an organized, regular and systematic way in compliance with the criteria stipulated in art. 12 – 17 of Delegated Regulation (EU) 2017/565 performs significant in terms of size trade at its own expense in financial instruments by execution of client orders outside the regulated market, multilateral trading facilities (MTFs) and organised trading facilities (OTFs), in case the aforesaid criteria are simultaneously observed or in case the investment intermediary decides to apply the regime governing the activity of the systematic internalisers.
Acronym	Definition
<i>MIFID II</i>	EU Directive 2014/65/ and related implementing regulations
<i>ЕОЦКП/ ESMA</i>	<i>European Securities and Market Authority</i>
<i>Regulator FSC/ NCA</i>	<i>National Competent Authority</i>
<i>PTC/ RTS</i>	Regulatory Technical Standard: a secondary legislative instrument
<i>ИК (RFQ )</i>	<i>Request for Quote</i>
<i>СФЦК/ (SFT)</i>	<i>Security Financing Transactions</i>

## **2 BEST EXECUTION- MINIMUM GOVERNANCE REQUIREMENTS**

UniCredit Bulbank AD as a part of UniCredit Group has to take all sufficient steps to obtain the best possible result for its clients, when executing orders, receiving and submitting orders or when conducting portfolio management services, taking into account the execution factors. Nevertheless, where there is a specific instruction from the client, the investment firm shall execute the order following the specific instruction.

When executing a client order, the investment firm must take into account the following criteria for

- a) the characteristics of the client including the categorization of the client as retail or professional;
- b) the characteristics of the client order;
- c) the characteristics of financial instruments that are subject of that order;
- d) the characteristics of the trading/execution venue to which that order can be directed, and

in doing this, UniCredit Bulbank AD as part of UniCredit Group is responsible/ accountable for;

- establishing and implementing effective arrangements for complying with the best execution obligation, including an order execution policy that describes how these arrangements will operate;
- monitoring the quality effectiveness of their arrangements and execution policy on an ex-ante and ex-post basis to identify ongoing circumstances under which changes may be appropriate, as well as being able to demonstrate to clients that they have acted in accordance with that policy, by:
  - strengthening front office accountability; and
  - strengthening systems and controls according to which UniCredit Bulbank AD as part of the Group will ensure that their detection capabilities are able to identify any potential deficiencies;
- verifying on a consistent on-going basis that execution arrangements work well throughout the different stages of the order execution process; and
- using the results of the Group's robust monitoring and substantive review of execution arrangements, including corrective action where required, to demonstrate to clients that UniCredit Bulbank AD as part of UniCredit Group is delivering best execution on a consistent and ongoing basis.

### **2.1 RELATIONSHIP WITH CLIENTS Care for the interests of the clients**

The relations between UniCredit Bulbank („the Bank”), acting as an investment intermediary and its clients are built on the basis of mutual trust, confidentiality of the information and bilateral financial benefit in compliance with the statutory provisions stipulated in the applicable European and national legislation.

While executing a client order UniCredit Bulbank, acting as investment intermediary, observes the restrictions, bans, requirements and terms of the applicable legislation, considering the price, expenses, speed of execution of the order, the likelihood for execution and settlement, the amount, the nature and all other circumstances related to the execution of the order. In case of specific instructions provided by the client, the investment intermediary shall execute the order by following these instructions.

Upon the execution of an order transmitted by a professional and retail client, the best possible result is defined by the total amount of the transaction, including the price of the financial instrument and the costs, related to the execution of the order. The costs for the client related to the execution of the order include all costs directly related to the execution of the order, including fees for the execution venue, clearing/settlement fees, as well as other fees and remunerations, payable to third parties, participating in the execution of the order.

The Bank chooses only one execution venue only if it can reasonably expect that the chosen venue will allow it to achieve results for the clients which are at least so good as the results it could reasonably expect by choosing alternative execution venues.

To achieve the best possible result in the cases where more than one competitive venues for execution of an order in relation to a financial instrument exist and upon performance of assessment and comparison of the results which could be achieved for the retail and the professional clients upon execution of the order on any of the venues listed in the policy for execution of orders of the intermediary, which are suitable for its execution, it should be considered the commission of the intermediary and the costs for execution of the order on any of the possible venues for execution of the order.

The assessment for the best execution of the client orders is not bound only to the establishment of the best price for the client but also to all factors listed below. If for a specific transaction in financial instruments it is established that the price at which it has been concluded is not the best price possible, offered on the market at the time of its conclusion, this does not mean that the condition for best execution of the client order has been breached.

The assessment by the Bank of the execution of the client order under the best conditions for the client takes into account the overall impact of the following factors:

- Price of the financial instruments;
- Costs, related to the execution of the order;
- Speed of execution of the order;
- Probability for execution and settlement of the order;
- Size of the order;
- Type of order;
- Other factors that are important for the execution of the order.

In case of specific instructions provided by the client, the investment intermediary shall execute the order by following these instructions.

The investment intermediary shall not influence the client to provide it instructions for execution of the order in specific way through an explicit indication or implicit offering of the content to the instructions of the client, when the intermediary should reasonably know that such instruction would probably prevents it from achieving the best possible result for the client. However this should not prevent the investment intermediary from offering to the client to choose between two or more specific execution venues on condition that these venues comply with the policy for execution of orders of the intermediary.

All fees depending on the execution venue are indicated in the tariffs of the bank.

For clients defined as eligible counterparties within the meaning of MIFID and the classification of item 1.2.2.1.1 of this Policy, the Bank is not specifically bound to apply the best execution principle.

The best execution principle shall not be applicable in the cases where a specific transaction is concluded based on a request for quotes on behalf of a client in which the potential transaction is between the client and the bank in its capacity not as an agent and intermediary but as a party under the transaction. In these cases the transaction is based on the client order certifying the acceptance of the conditions quoted by the bank and the price of the order is fixed.

The bank executes the client orders by considering the specific parameters specified by the client in its order. The bank always executes a client order upon strict adherence to the specific instructions defined by the client in the order or provided in another way. In some cases the parameters of an individual order may not allow the Bank to apply this policy and conclude a transaction which does not meet its criteria for achieving the best possible execution of an order for transaction in financial instruments. All special instructions of the Client derogate the rules of this Policy, of which the Client shall be considered informed by signing an agreement with the bank and accepting this Policy. Upon execution of an order in accordance with the explicit instructions of the client the parties accept and unconditionally agree that the bank has executed its obligation for achieving the best possible result. The bank shall not be liable in case it has executed accurately and in good faith a client order, following the parameters of the transaction defined in it. The risk and consequences of the execution of such orders shall remain entirely at the expense, risk and responsibility of the client.

Where a third country market is chosen for execution, by his/her explicit instructions for a market the client confirms that s/he is acquainted with the market specificity, as well as with the specific conditions for safekeeping, settlement, registration and exercising of rights over the financial instruments which may differ from those regulated in the EU, if any. Upon the explicit instructions of the client it is assumed that the client is informed and hence aware of the fact that his/her rights related to the financial instruments or cash, may differ due to the applicability of the law of a third country, which also includes the conditions under which the following events might arise:

- - The availability of possessory lien or retention right over the client cash or financial instruments for the investment intermediary;
- - The availability of right to set-off over the client cash or financial instruments for the investment intermediary;
- - The availability and the conditions on which the investment intermediary has or may have right to set-off in relation to client financial instruments or cash;
- - The possibility the depository institution to have possessory lien, right to retention or of set-off over the client financial instruments or cash, wherever applicable.

## 2.2 PROCESS VALUE CHAIN: Actors and Phases

### 2.2.1. Disclosure Obligation

The following defined obligation regarding Disclosure are applicable to all companies when executing orders, receiving and transmitting orders or when conducting portfolio management services for Finance Instruments.

With specific reference to the Group Company that provides reception and transmission of orders service, it shall inform its clients about the order execution policy of the selected investment firm (internal or external to the Group) providing order execution service. This information can be done also by referring to the investment firm execution policy. The Group Company – in line with the local law - shall inform its clients also about the review of its Policy on any material change ad-hoc and regular

- **Execution Policy and Execution Arrangements**

The Group Company shall obtain the prior consent of clients to the order execution policy. The Group Company executing orders or decisions to deal on behalf of retail clients should provide the required information about its execution policy either in a durable medium or by means of a website under certain conditions.

The information on the execution policy shall be customized depending on the class of financial instrument and type of service provided. It will be made available to clients in good time prior to the provision of the service as the minimum standard.

Minimum information an Execution Policy should consider:

- a) An account of the relative importance the Group assigns, with the criteria to the factors, or the process by which UniCredit Bulbank AD determines the relative importance of those factors.
- b) A list of the execution venues on which UniCredit Bulbank AD places significant reliance in meeting its obligation to take all sufficient steps to obtain on a consistent basis the best possible result for the execution of client orders and specifying which execution venues are used for each class of financial instruments, for retail client orders, professional client orders and SFTs.
- c) A list of selection factors for an execution venue, including qualitative factors such as clearing schemes, circuit breakers, scheduled actions, or any other relevant consideration, and the relative importance of each factor.
- d) Execution Factors: Price, costs, Speed, likelihood of execution and settlement, size, nature, or any other consideration relevant to the execution of an order
- e) Where applicable, information that UniCredit Bulbank AD executes orders outside a trading venue, the consequences, for example counterparty risk arising from execution outside a trading venue, and upon client request, additional information about the consequences of this means of execution.
- f) Summary of the selection process for execution venues, execution strategies employed, the procedures and process used to analyze the quality of execution obtained and how the Bank monitors and verifies that the best possible results are obtained for clients.

In addition:

- a) UniCredit Bulbank AD shall not receive any remuneration, discount, or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements
- b) UniCredit Bulbank AD shall only receive third party payments in line within the regulation that comply with and shall inform clients about the inducements that the Group Company may receive from the execution venues.
- c) UniCredit Bulbank AD must not structure or charge their commissions in such a way as to discriminate unfairly between execution venues.
- d) Where UniCredit Bulbank AD apply different fees depending on the execution venue, the Group Company shall explain these differences in sufficient detail to allow the client to understand the advantages and the disadvantages of the choice of a single execution venue.
- e) The information shall specify the fees charged by UniCredit Bulbank AD to all counterparties involved in the transaction, and where the fees vary depending on the client, the information shall indicate the maximum fees or range of the fees that may be payable.
- f) Where a client makes reasonable and proportionate requests for information about its policies or arrangements and how they are reviewed to the company, UniCredit Bulbank AD shall answer clearly and within a reasonable time.
- g) Where UniCredit Bulbank AD executes orders for retail clients, it shall provide those clients with a summary of the relevant policy, focused on the total costs they incur. The summary shall also provide a link to the most recent execution quality data published for each execution venue listed by UniCredit Bulbank AD in its execution policy. The Bank should provide appropriate information to their clients on their order execution policy. That information shall explain clearly, in sufficient detail and in a way that can be easily understood by clients, how orders will be executed by the Group Company for the client.
- h) UniCredit Bulbank AD that executes orders or decisions to deal should notify its clients of any material changes to its execution arrangements or execution policy. A change is material where its disclosure is necessary to enable the client to make a properly informed decision about whether to continue utilizing the services of the company. UniCredit Bulbank AD should consider the materiality of any changes it makes to the relative importance of the best execution factors or to the venues on which it places significant reliance in meeting the overarching best execution requirement.
- i) Policy is compiled in Bulgarian language and it is translated in English language.
- j) If third party providers or other service providers (outsourcing) are involved, the Best Execution Policy must clearly state and name the provider that has been chosen to fulfill the requirement of best execution. Further, it must be ensured that the execution principles of the provider fulfill the requirements of our Execution Policy.

### **2.2.2. Factors for evaluation of the execution of an order in the best interest of the client**

The Bank shall provide clients with the following details on their execution policy in good time prior to the provision of the service in terms of how the execution factors of price, costs, speed, likelihood of execution and settlement, size, nature, or any other relevant to the execution of an orders are considered as part of all sufficient steps to obtain the best possible result for the client.

### **2.2.3. Price**

The Bank evaluates the price-formation mechanisms at the execution venues of orders the subject of which are the financial instruments that are included in the client order, in order to decide which is the most favourable venue in terms of price.

The price normally depends on the number of the participants on the market, the behaviour of the market makers (if any) and the organization of the stock exchange (reference market principle), where the respective financial instruments are traded.

To have complete transparency on the quality of execution for transactions in relation to price, it is appropriate that the information provided in relation to price should exclude all commissions or accrued interest, where relevant. In determining appropriate information for assessing price quality, both daily average levels and point-in-time information should be required. This will provide clients with an appropriate context and a more complete picture when analyzing the quality of execution obtained. To allow for price comparisons between financial instruments it is also necessary to specify the currency code of any reported transaction.

#### 2.2.4. Costs:

For the provided investment services the Bank may collect fees and commissions defined on the grounds and in the amount specified in its Tariff.

All costs, related to the execution of a client order, including, but not limited to, the fees of the execution venues, fees for clearing and settlement, as well as other fees and remunerations, payable to the Bank and/or third persons related directly to execution of the order, are indicated in the announced commission of the Bank that is collected after the execution of the client order.

Costs of execution should include the Bank entity's own commissions or fees charged to the client for the provision of the company service.

The Bank should be structuring or charging its commissions in a way, which discriminates unfairly between execution venues if it charges a different commission or spread to clients for execution on different execution venues, and that difference does not reflect actual differences in the cost to the Bank of executing on those venues. It is necessary to specify all costs in the execution of a client order relevant to the use of a specific venue and for which the client pays directly or indirectly. Those costs should include execution fees, including fees for the submission, modification or cancellation of orders or quotes withdrawals, as well as any fees related to market data access or use of terminals. The relevant costs may also include clearing or settlement fees, or any other fees paid to third parties involved in the execution of the order when they are part of the services provided by the execution venue. Information on costs should also include taxes or levies directly invoiced to or incurred by the venue on behalf of the members or users of the execution venue or the client to whom the order refers.

➤ **Direct execution of orders on stock exchange (regulated market) or other trading venues**

In addition to the commissions of the Bank the costs include any costs incurred in relation to third parties (for example stock exchanges, leading brokers/market makers active on the stock exchanges – including costs for central contracting parties – as well as participants related to the settlement of the orders), as well as costs for access to the respective market.

➤ **Indirect execution via intermediary**

If the Bank does not have a direct access to a given venue for execution of the order, it will not execute the order on its own at that venue, but will use the services of an intermediary. In that case, the costs for execution include both those under Item 1.2.1.2.1, and the ones of the intermediary.

➤ **Specificities of fixed price transactions with the bank**

For fixed price transactions with the Bank, usually the fees are included in the value of the financial instruments. These transactions are concluded based on a request for quotes on behalf of a client in which the potential transaction is between the client and the bank in its capacity not as an agent/intermediary, but as a party under the transaction. In these cases, respectively, the requirement for the best possible execution shall not apply.

#### 2.2.5. Other aspects related to the execution of client orders

According to the regulations, the Bank has also taken into account the following aspects related to the execution of client orders:

➤ **Speed of execution of the order;**

The speed of execution on a specific trading venue is determined to a large extent by the type of the market model (i.e. the organization of the trade on the respective market, determined in its rules and the applicable legislation).

Speed of execution may have different meanings for the different types of execution venues as the measurement of speed varies by both trading systems and trading platform. For continuous auction order books, speed of execution should be expressed in milliseconds while for other trading systems

it is appropriate to use larger units of time. It is also appropriate to exclude the latency of a particular participant's connection to the execution venue, as this is out-side of the control of the execution venue itself.

➤ **Probability for execution and settlement of the order;**

The probability for a specific order to be executed on a specific trading venue is determined to a large extent by the liquidity of the financial instruments, subject to the client order on the specific venue.

As probability for settlement the Bank considers the risk from a problematic settlement in the transfer of the financial instruments, which for its part may have a negative effect on the supply or payment.

Likelihood of execution and settlement indicates the probability of execution of a particular type of order and is supported by details on trading volumes in a particular instrument or other characteristics of orders and transactions. Information on likelihood of execution should allow for the calculation of metrics such as the relative market size of a venue in a particular financial instrument or a class of financial instruments. Likelihood of execution should also be assessed with data on failed transactions or cancelled or modified orders.

➤ **Type and size of the order**

The Bank makes a distinction according to the size of the order if it affects the choice of the execution venue in terms of price and costs.

Moreover, the Bank takes into account whether it is possible to execute a specific type of orders on a specific market.

In certain cases it is possible to submit various types of orders on the specific execution venue with subject the same financial instruments (limited and additional types of orders (for example “all or nothing”). When they submit an order the clients may specify the type of the order in the contract/order, despite the fact that some types of orders may be exceptional criteria for specific stock exchanges.

## **2.3 CLASSIFICATION OF THE CLIENTS. DETERMINING A RISK PROFILE OF THE CLIENT AND PERFORMING AN ASSESSMENT FOR SUITABLE SERVICE**

In accordance with the established provisions of the legislation, the Bank classifies its clients as retail clients, professional clients and eligible counterparties. The classification of clients does not affect the execution of the client order in terms of its execution venue.

The Bank classifies each client by applying the following criteria and rules:

### **2.3.1 Eligible counterparty**

Eligible counterparty is any client that is: investment intermediary, lending institution, insurance company, collective investment scheme, management company, pension-insurance company, pension fund, other financial institutions which are licensed or regulated by the EU law and the member states, the national governments, state bodies managing the state debt, central banks and international institutions as well as such parties from third countries to which requirements equivalent to those of the EU law apply.

### 2.3.2 Professional client

Professional client is this client who has the experience, the knowledge and the expertise to make independent decisions and to assess correctly the risks to which it is imposed. In order to be considered a professional client, the client must meet the following criteria:

The following categories shall be considered professional clients with regard to all investment services and activities and financial instruments for the purposes of the Directive:

- (1) Subjects that must be licensed or regulated in order to trade in financial markets. The list below is reviewed as covering all subjects having a license which perform the activity characteristic for the specified subjects: Subjects to which a license was issued by a member state pursuant to a directive, subjects to which a license was issued or they are regulated by a member state without referring to a directive and subjects to which a license was issued or they are regulated by a third country:
  - (a) lending institutions;
  - (b) investment intermediaries
  - (c) other licensed or regulated financial institutions;
  - (d) insurance companies;
  - (e) collective investment schemes and the companies managing such schemes;
  - (f) pension funds and companies managing such funds;
  - (g) dealers of commodities and commodity derivatives;
  - (h) local enterprises;
  - (i) other institutional investors
- (2) large companies which considered as separate enterprises meet two of the following requirements to their size:
  - a) total book value EUR 20,000,000;
  - b) net turnover: EUR 40,000,000;
  - c) own funds: EUR 2,000,000;
- (3) National and regional bodies of the state power, state bodies which are involved in the management of the state debt, central banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.
- (4) Other institutional investors, the main subject of activity of which is investing in financial instruments, including entities performing securitization of assets or other financial transactions.

Clients which may be treated as professional clients shall upon request in the process of performing the assessment of suitability satisfy at least two of the following criteria:

- During the preceding four quarters the client has concluded in average per a quarter 10 transactions of a significant volume on the respective market;
- The value of the client's investment portfolio, including financial instruments and money deposits by definition, exceeds EUR 500 000;
- The client works or has worked in the financial sector for not less than one year occupying a job position that requires knowledge of the scheduled transactions or services.

### 2.3.3 Retail client

All clients who do not meet the requirements applicable to a professional client, an eligible counterparty, respectively, are classified by the Bank as retail clients.

The Bank shall provide the possibility to its Clients, at their request and in observance of the legal prerequisites and requirements in place, to change the category assigned to them pursuant to the existing rules and procedures, as in this way they will make use of the respective protection level, specified for this category.

The highest protection of investment rights and interests, and property of a client is ensured for the retail clients, followed by the professional clients and the eligible counterparties.



While providing investment services, the Bank determines the risk profile of each and every bank client on the basis of presented by the latter information on the latter's investment objectives (including information about the period of time during which the client is willing to hold the investment, the client's preferences as regards the assumed risk, the client's risk profile, and the objectives of the investment), the financial conditions of the client (including, at discretion of the Bank, information about the sources and amount of the constant revenues, assets, including liquid assets, investments and real estate, as well as regular financial obligations), experience and risk appetite. The mentioned information is necessary for the Bank to ascertain the important facts with respect to the client and it provides reasonable grounds for the latter to consider, taking into account the nature and scope of the offered service, that the transaction which is going to be recommended or concluded satisfies the following criteria:

1. corresponds to the investment objectives of the client;
2. the client has the financial capability to assume all the related investment risks, compatible with the client's investment objectives;
3. the client possesses the necessary experience and knowledge in order to understand the risks related with the transaction or with the management of the client's portfolio.

The Bank assumes that, as regards the products, transactions and services offered to a professional client, the latter possesses the needed experience and knowledge, in order to understand the risks related to the transaction or the management of the client's portfolio and has the financial capacity to assume all the related investment risks which are compatible with the client's investment objectives.

In case the Bank has not collected the required information while providing investment advice or portfolio management and/or the client rejected to provide fully or partially the requested information, the Bank has not the right to recommend investment services or financial instruments to the client.

The Bank explicitly notifies its client if the transactions in financial instruments ordered by the latter do not correspond to the latter's risk profile. The Bank fulfills such orders on the prerequisite condition that the client has explicitly stated in writing to be acquainted with the circumstance that the transaction ordered by the latter does not correspond to the latter's risk profile, but despite this, the client is willing to have the transaction concluded.

The bank preserves its right to reject the execution of orders for transactions in derivatives which are not registered for trade in a securities trading venue (OTC Derivative market) in case they do not comply with the specific risk profile of the respective client.

## 2.4 CHARACTERISTICS OF THE CLIENT ORDER

When the company executes an order following specific instructions from the client, it should be considered as having satisfied its best execution obligations only in respect of the part or aspect of the order to which the client instructions relate.

In this respect:

- The Bank should be able to point to clear process which recorded the scope of their clients' instructions or implement them into execution arrangements. These included IT systems that recorded clients' venue preferences for all their orders and/or processes which left a clear audit trail of a client's wishes when they requested that the parameters of an algorithm should be customized by the company.
- The Bank should not exclude best execution requirements with regard to all types of algorithmic execution since the company applies its own judgement as part of its order routing logic;

### 2.4.1 Systematic internalisers<sup>1</sup>

This chapter only applies when the Group Company acts same time as Systematic Internaliser and provide Best Execution to their clients.

(SIs) are the investment firms which, on an organised, frequent, systematic and substantial basis, deal on own account by executing client orders outside a regulated market, MTF or OTF without operating a multilateral system.

Systematic internaliser is a counterparty and not an execution venue. This means, while trading venues are facilities in which multiple third party buying and selling interests interact in the system, a systematic internaliser operates a bilateral system and is not allowed to bring together third party buying and selling interests in functionally the same way as trading venue.

## 2.5 FINANCIAL INSTRUMENTS - TYPES OF FINANCIAL INSTRUMENTS EXECUTION OF CLIENT ORDERS WITH FINANCIAL INSTRUMENTS CONSTITUTING THE SUBJECT THEREOF

The Bank concludes transactions for its own or someone else's account and in the specified manners with the following classes of financial instruments:

### 2.5.1 Shares and other securities equivalent to shares, as well as depository receipts for shares

Bulgarian shares are traded on the Bulgarian Stock Exchange – Sofia, as a local market presuming a good price and lower costs related to the execution of the order.

All orders for shares and other local securities listed on the Bulgarian Stock Exchange – Sofia are executed in conformity with the official trading hours on the stock exchange.

In the case of securities falling in this class of assets the Bank pays especially great attention to such factors as probability for execution. Details may be provided to the clients upon request.

The Bank does not guarantee that an accepted order will be executed on the chosen trading venue during the same working day. Orders that have not been fulfilled in the same working day will remain at the execution venue unless the client has specified the prescription term of the order (for example in case of one-day orders), or the type of the order necessitates its annulment thereof.

### 2.5.2 Foreign shares and other securities

Considering the fact that the local market offers usually the greater liquidity and the higher price, respectively, as well as the circumstance that the price differences are to be felt usually in the cases of orders of big volumes, the related costs usually render more effective the following:

- a) the execution of orders having for a subject foreign securities which can be listed for trading also in Bulgaria, on the Bulgarian Stock Exchange – Sofia when the order involves small volumes, unless there are explicit instructions of the client with regard to a specific market.

In all other cases of transactions with foreign securities in addition to those specified in item 2.6.2., letter „a”, namely orders for great volumes, or for foreign securities which are not listed on the Bulgarian market, the orders will be executed on the leading market, in case it is accessible for the bank in

<sup>1</sup> Art. 4(1)(20) of MIFID II and DELEGATED REGULATION (EU) 2017/565 OF THE COMMISSION supplementing Directive 2014/65/EC

application of the respective rules of the execution venue, unless there are explicit instructions of the client with regard to a specific market.

Additional information can be provided to the clients upon request.

### **2.5.3 TRADING STOCKS ON AN OTC MARKET:**

Stocks with registration on a trading venue: Upon submission of an order with explicit instructions for OTC trading, the client agrees that the order be executed against the first ranking received order with UniCredit Bulbank meeting the criteria set by the client and in this way the client accepts that the Bank applied the principles stipulated in the Policy for Execution of client orders with a view to the specific instructions and aspects of the order communicated by the client. UCB shall check for availability of price on a regulated market where the stocks are traded and shall notify the client that there is an available market on which another price of execution may be achieved before accepting an order from the client with specific instructions for executing OTC trading.

Stocks without registration on a trading venue: In these cases by submitting instructions for execution of OTC trading, the client agrees the principle stipulated in item 2.3. a) to apply and agrees an order to be executed against the first ranking received order with UniCredit Bulbank meeting the criteria set by the client and in this way the client accepts that the Bank applied the principles stipulated in the Policy for Execution of client orders with a view to the specific instructions and aspects of the order communicated by the client.

### **2.5.4 Registered rights**

This class of assets includes both tradable registered rights and redemption rights.

Taking into account the limited term of registration, the aspects connected with the probability for execution and speed for execution are more important.

Orders for rights registered in the country (with the Central Depository AD or another local depository institution) are executed on the respective local regulated market (the Bulgarian Stock Exchange – Sofia AD) in compliance with its regulations. The orders for rights registered abroad are executed directly through a transaction on OTC or on the place in the respective country where these rights have been registered for trading in application of the respective foreign law and the rules of the execution venue. Detailed information is to be provided to the client upon request.

### **2.5.5 Bonds and similar securities**

This class includes fixed rate securities and securities on the money market, as well as other securities which are similar to bonds.

For this class of instruments the bank concludes the transaction under commission conditions on the regulated or over the counter market. If possible, the bank offers prices upon request on the part of the client. The purchase is performed at a fixed price. These transactions are concluded based on a request for quote by the client, therefore the best execution principle is inapplicable. In the event that the bank does not offer a quote a client may submit an order for execution on a trading venue, incl. a regulated market.

### **2.5.5.1 Government bonds issued on a local market**

The Bank executes orders for bonds issued by the Bulgarian Ministry of Finance through the Bulgarian National Bank by the means of trading on the over the counter market in case of initial offering or upon request on the part of the client – on the Bulgarian Stock Exchange – Sofia AD or another market for trading in case of secondary trade. In case of non-existence of alternative market, this type of securities is executed as fixed price transactions. These transactions are concluded based on a request for quotes on behalf of a client in which the potential transaction is between the client and the bank in its capacity not as an agent/intermediary, but as a party under the transaction. In these cases, respectively, the requirement for the best possible execution shall not apply. In case of transactions as commission transactions on the OTC market, the client agrees that the order be executed against the first ranking received order with UniCredit Bulbank meeting the criteria set by the client and in this way the client accepts that the Bank applied the principles stipulated in the Policy for Execution of client orders with a view to the specific instructions and aspects of the order communicated by the client.

For all types of securities of this asset class which are other than the above mentioned the Bank usually offers a possibility for their purchase from or sale to the Bank directly at current prices. The purchase or sale afterwards is performed at fixed price negotiated with the Bank (known as fixed price transaction). The Bank has no obligation to conclude such transactions. Upon conclusion of a fixed price transaction the Bank assumes price engagement for the respective securities, taking into account the market situation and the knowledge about all costs related to the execution of the transaction.

If no fixed price transaction is concluded, the Bank may accept and execute orders for the purchase or sale of the securities listed on the local Stock Exchange. For orders for securities that are not listed on the local Stock Exchange the Bank requires instructions from the client as regards the execution venue. In case of orders with explicit instructions, the Bank applies only the specified instructions.

### **2.5.5.2 Bonds in foreign currencies issued abroad**

The trade in bonds in foreign currencies is usually carried out on the over the counter market. For this reason the Bank usually offers a possibility for purchase and sale of these securities from or to the Bank directly at current prices. The transaction is performed at fixed prices agreed with the Bank (known as fixed price transactions). The Bank has no obligation to conclude such transactions. Upon conclusion of a fixed price transaction the Bank takes into account the market situation and the knowledge about all costs related to the execution of the transaction.

If no fixed price transaction is performed, the Bank has to receive instructions from the client as regards the execution venue. This same is applicable also when the client requires that the order is fulfilled as a commission transaction on the OTC market. In this case the client agrees that the order be executed against the first ranking received order with UniCredit Bulbank meeting the criteria set by the client and in this way the client accepts that the Bank applied the principles stipulated in the Policy for Execution of client orders with a view to the specific instructions and aspects of the order communicated by the client.

### **2.5.6 Investment securities (including ETPs)**

Shares/participating interests in funds of local public investment companies and foreign investment funds licensed for local trading may be traded by the means of a transaction on the OTC market or on a trading venue, if these are registered for trading on this venue. The Bank shall not accept a request for quotes for OTC transactions from clients categorized as retail clients.

Funds traded on the Stock Exchange have to meet the conditions for common shares and similar securities (to be equally treated and freely traded).

### **2.5.7 Certificates of participation**

The Bank executes all orders for certificates on shares and bonds registered on an organized market on the respective local market.

If there is no market with relatively high liquidity, the Bank may carry out an over the counter transaction at a fixed price or, respectively on a commission principle, observing the principle stipulated in 2.6.3.

### **2.5.8 Warrants**

The orders for warrants are executed as commission transactions if traded on an appropriate stock exchange, respectively if the warrants are not traded on a regulated market or are traded on the over the counter market, the Bank can offer fixed price transactions. The bank will execute orders for purchase or sale of warrants, traded on the Bulgarian market on the respective local market. The orders for the purchase and sale of warrants which are not listed at national level are executed on the respective local stock exchange where these latter are registered/deposited.

### **2.5.9 Certificates**

The purchase and sale of own issues of certificates (structured investment products) to third parties are carried out at fixed price agreed with the Bank. The Bank has no obligation to conclude transactions in such instruments. During the normal trading hours the Bank constantly offers binding prices taking into account the market situation, and has information on all costs related to the execution of the transaction.

For the purchase and sale of structured investment products by third parties issuers, the Bank usually offers to the client a possibility to buy from or sell directly to the Bank at current prices. The purchase or sale are performed as fixed price transaction concluded with the Bank. The Bank has no obligation to perform such transactions.

If no fixed price transaction is performed, the Bank will execute orders for structured investment products listed on a Bulgarian regulated market on this market, respectively. The orders for the purchase of structured investment products which are not listed at national level are executed on an appropriate local (foreign) stock exchange. Orders for the sale of similar securities are executed on a trading venue in the country where they are deposited, which can be other than the local stock exchange. Detailed information is to be provided to the client upon request.

If no respective regulated market (stock exchange) is determined, the Bank will accept the order for execution on the over the counter market at a fixed rate.

Orders for subscription of structured investment products are executed outside the stock exchange with the issuer as a counterparty. Detailed information is to be provided to the client upon request.

### **2.5.10 Derivatives**

This asset class includes options, futures, swaps, and other derivative contracts on securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial indicators, the obligations under which can be settled through delivery or cash payment. In addition, it includes the above mentioned instruments, related to a commodity that has to be settled in cash, or for which one of the negotiating parties can enact cash settlement, derivative instruments for credit risk transferring and financial margins business. This class includes, as well, all above mentioned instruments related to climate variables, transportation expenses, issuing rights, inflation rates, and other official economic statistics which has to be settled in cash, or for which one of the negotiating parties can enact cash settlement, as well as all other derivative contracts related to assets, rights, obligations, indices and indicators, which have similar attributes to other derivative financial instruments taking into account, for example, whether these are traded on regulated market or on (multilateral trading facility), irrespective whether clearing or settlement is performed through acknowledged clearing centers or whether these are subject to a margin requirement.

### **2.5.10.1 Derivatives traded by the Bank on a trading venue**

The existence of many and diverse forms of derivative instruments regulated in a different manner necessitates that the Bank require from the client explicit instructions as regards the execution venue of the particular derivative contract.

The markets which the Bank covers are specified in Appendix 1 of the present Policy constituting an integral part thereof.

### **2.5.10.2 OTC derivatives - derivatives that are not traded by the bank on a regulated market**

For this type of instruments the bank provides prices upon request of the client, as the transactions in this case are treated as fixed price transactions and the best execution principle is inapplicable to them. The bank has no engagement to conclude similar types of transactions.

The bank may, but is not obliged to accept an order for execution of OTC derivative by a client.

Concerning OTC derivatives with regard to which the Bank has accepted for execution an order on behalf of a client, the defined price shall be deemed achieved in case the bank manages to restrict the market risk arising out of the respective OTC derivative where the costs of the transaction of which the client was informed in advance, were preliminary added. The Bank restricts the market risk arisen out of the respective OTC derivative with a counterparty of UniCredit Group which on its turn has undertaken the obligation for the best possible execution and is regulated by the respective national regulator.

#### **a. OTC Derivatives and Other Bespoke Products:**

OTC Derivatives in this context are products not admitted to trading, or not traded on, a trading venue (i.e. regulated market, MFT or OTF).

#### **b. Security Financing Transactions (SFT):**

UniCredit Bulbank AD, when applying the criteria for best execution for professional clients, will typically not use the same execution venues for securities financing transactions (SFTs) and other transactions. SFT's are used as a source of funding subject to a commitment that the borrower will return equivalent securities on a future date and the terms of SFTs are typically defined bi-laterally between the counterparties ahead of the execution. The choice of execution venues for SFTs is more limited than in the case of other transactions, given that it depends on the particular terms defined in advance between the counterparties and on whether there is a specific demand on those execution venues for the financial instruments involved.

It is therefore appropriate that the UniCredit Bulbank AD summarize and make public the top five execution venues in terms of trading volumes where they executed SFTs in a separate report so that that a qualitative assessment can be made of the order flow to such venues. Due to the specific nature of SFTs, and given that their large size would likely distort the more representative set of client transactions (namely, those not involving SFTs), it is also necessary to exclude them from the tables concerning the top five execution venues on which the company legal entities execute other client orders<sup>2</sup>.

#### **c. Portfolio compression:**

When providing portfolio compression, incl. the termination or replacement of the component derivatives in the portfolio compression UniCredit Bulbank AD and market operators shall not be subject to the obligation in this Regulation with regard to RTS 27 (data to be published by execution venues on the quality of execution of transactions) and RTS 28 (for the annual publication by investment firms of information on the identity of execution venues and on the quality of the execution).

<sup>2</sup> [DELEGATED REGULATION (EU) OF THE COMMITTEE of 8 April 2016, PTC 28 par. 10]

### **3 AGGREGATION OF CLIENT ORDERS**

The investment intermediary UniCredit Bulbank executes a client's order or transaction for its own account combining them with other client orders only when the aggregation of the orders is technically possible - one and the same issue, equal price, type of the order, direction, etc. and in case this aggregation is without detriment to any of the clients and in case it has explained to each client the order of whom is to be aggregated that the aggregation may be unfavourable for the client with regard to the specific order.

In the cases where the investment intermediary aggregates a client order with one or more other client orders and the orders aggregated in this way are executed partially, the distribution is performed as the Bank satisfies entirely or partially the client orders observing as a priority the time of the receipt of the order subject to execution. Other than the mentioned distribution is admissible only upon the explicit consent of each and every one of the customers whose orders have been aggregated.

In case of aggregation of a client's order with a transaction for own account, the distribution shall be made in a way that is not detrimental to the client. In the cases where the investment intermediary aggregates a client order with a transaction for own account and thus aggregated order is executed partially, the investment intermediary distributes the transactions at the expense of the customer who has priority. The proportional distribution between oneself and the client is admissible only if the investment intermediary can substantiate that the latter could not have executed the client order under such lucrative for the customer conditions without the aggregation, or that could not have executed the client order at all.

Repeated distribution of the transactions is not admissible when it is to the detriment of the client.

## **4 ADDITIONAL PROVISIONS**

### **4.1 TRADING HOURS**

Orders received beyond the normal trading hours of the Bank, or beyond the normal trading hours of the execution venue are executed immediately after the start of the working hours of the Bank or upon the opening of the workday on the respective execution venue. Orders received beyond the normal trading hours of the Bank for an explicitly mentioned non-regulated market (OTC market) shall be executed immediately after the start of the working hours of the Bank and at the latest before the opening of the workday of the most relevant market with regard to the liquidity.

### **4.2 DISTRIBUTION OF THE SHARES**

The bank has effective organization requirements which guarantee that the distributions made as a part of the placement services do not place the interests of the intermediary before the interests of the issuer client.

The process of placement includes the exercising of a subjective opinion of the Investment intermediary with regard to the issue distribution and is based on the specific facts and circumstances of the agreements. The bank shall receive the consent of the issuer client for the distribution by types of clients for the transaction with regard to the policy related to the distribution.

For initial offerings made on a regulated market, the principles of distribution shall apply according to the rules of the respective market.

### **4.3 STEPS OF QUOTING**

With regard to limited orders accepted by the bank for a specific trading venue and within their term of validity if on the respective trading venue any changes in the steps of quoting occur due to a change in the scope of the liquidity or for other reasons, the Bank has the right to change the limit of the order with the purpose of retaining the order on the market and considering the new quoting steps in favour of the client depending on the type of the order - in case of a sale order the limit of the order is increased to the nearest possible step of quoting up and in case of a purchase order the limit shall be decreased up to the nearest possible step for quoting down.

### **4.4 EXECUTION STRATEGY GIVEN CHARACTERISTICS OF THE EXECUTION/ TRADING VENUES TO WHICH THAT ORDER CAN BE DIRECTED**

In conformity with this Policy, the Bank executes client orders on execution venues, incl. regulated markets, multilateral trading facility, non-regulated market (over the counter – OTC market), systematic internaliser or market maker or any other organizations through which such transactions are executed as well as similar public or private juridical institutions operating outside the territory of the Republic of Bulgaria whereby the law of a foreign country or the rules of a foreign institution or of non-regulated market (OTC market) are applicable. Regulated markets which are covered by the Bank and on which the Bank executes the client orders are included in a list maintained by the Bank of the trading venues. The list of trading venues shall be regularly reviewed (once a year) or in case of need.



Clients' orders with regard to financial instruments traded in the exchange market may be executed outside a trading venue only if the clients of the investment intermediary have been informed of this in advance and have provided their explicit consent with this. The consent under the first sentence may be general or may concern only individual transactions.

While choosing the execution venue of an individual order, the Bank takes into consideration these venues where the respective financial instruments, constituting the subject of the order, are traded in significant volumes, and it also takes into consideration whether it has direct access to these markets or has to make use of the services of an investment intermediary. The bank uses investment intermediaries in the cases where it has no direct access to a particular market. The Bank acts in cooperation with different investment intermediaries on the basis of contracts and/or general Terms and Conditions concluded with these latter, as, with a view to ensuring terms and conditions for execution in the best interests of the clients, the Bank performs on a regular basis review of the currently selected investment firms.

For OTC derivatives regarding which the Bank has accepted for execution an order by a Client, the Bank uses as an execution venue of the respective OTC derivative a counterparty of UniCredit Group which on its turn has undertaken the obligation for the best possible execution and is regulated by the respective national regulator.

A list of the trading venues updated as at any moment is available on the Internet site of UniCredit Bulbank AD.

This Policy includes information for the execution venues of the client orders with regard to each class of financial instruments, the advantages and disadvantages of each execution venue (according to the volume, price and costs for execution) and for the places on which the intermediary may achieve the best possible execution. The Policy includes at least the venues which allow the investment intermediary to achieve permanently the best possible results for the execution of its clients' orders.

The bank summarizes and publishes annually information for every class of financial instruments about:

1. The first five places for execution of orders with regard to the volume of the transactions on which it has executed clients' orders during the preceding year, and
2. Information on the quality of the execution.

#### Choosing between several execution venues

In case there is more than one competing venue to execute an order for a financial instrument, in order to assess and compare the results for the client that would be achieved by executing the order on each of the execution venues capable of executing that order listed in the Bank's order execution policy, the Bank's own commissions and the costs for executing the order on each of the eligible execution venues shall be taken into account in that assessment.

The Bank should regularly assess the market landscape to determine whether there are alternative venues that it could use at least once per year or ad hoc within material changes.

Where the Bank invite clients to choose an execution venue, fair, clear and not misleading information shall be provided to prevent the client from choosing one execution venue rather than another on the sole basis of the price policy applied by the Group Company.

#### 4.4.1 Single Execution Venue

In case the Bank uses a single venue, it must acknowledge in its Execution Policy that using a single venue does not diminish the company's responsibility to monitor the quality of execution.

- When the Bank using single venue to place orders should be able to show that this allows it to obtain best execution for its clients on a consistent basis and only where it can reasonably expect that the selected execution venue will enable it to obtain results for clients that are at least as good

as the results that it reasonably could expect from using alternative execution venues supported by the Top 5 venue report or by other internal analyses conducted by the legal entities;

- Where UniCredit Bulbank AD in the portfolio management transmits or places orders to other companies for execution, it may include in its policy a separate company, if it is able to prove that this allows it to satisfy the main best execution requirement. This means that in case UniCredit Bulbank AD transmits or places orders to separate companies for execution, UniCredit Bulbank AD shall define and shall be able to provide a reasonable evidence that the choice of only one company complies with the main best execution requirement. In addition, UniCredit Bulbank AD shall reasonably expect that the company selected by it will provide it possibility to achieve such results for its clients, that it could expect in case it uses alternative companies.
- For OTC derivatives for which the Bank has accepted for execution an order by a Client, the Bank uses as an execution venue of the respective OTC derivative a counterparty of UniCredit Group which on its turn has undertaken the obligation for the best possible execution and is regulated by the respective national regulator.

#### **4.5 SMART ORDER ROUTING/AUTOMATED ORDER ROUTING (АВТОМАТИЧНО И СМАРТ НАСОЧВАНЕ НА НАРЕЖДАНЯ)**

When UniCredit Bulbank AD uses within the possible variants, either Smart Order Routing (SOR) or Automated Order Routing to ensure that it provides best results for its clients, following should be taken into account:

The algorithmic trading strategies can be defined as:

- a) decision algorithms of UniCredit Bulbank AD (determining which financial instruments should be purchased or sold), or
- b) execution algorithms (optimizing order execution processes with the automated submission of orders and quotes to one or more trading venues),
- c) single algorithmic trading strategy combining both of the above elements.

Smart Order Routers (SORs) use algorithms for optimization of order execution processes that determine parameters of the order other than the venue or venues where the order should be submitted. SORs are undoubtedly qualified as algorithmic trading. In turn, algorithmic trading does not encompass Automated Order Routers (AOR) where, although using algorithms, such devices only determine the trading venue or venues.

When the bank is using SOR within the definition, it has to comply rigorous with the respective articles of Algorithm Trading/DEA within MiFID 2 incl. System and Controls.

#### **4.6 PROVIDING INFORMATION TO CLIENTS ON THE POSSIBILITY THAT ORDERS MIGHT BE EXECUTED OFF TRADING VENUE**

UniCredit Bulbank AD must obtain the prior express consent of their clients before proceeding to execute their orders outside a trading venue<sup>3</sup>. UniCredit Bulbank AD shall provide its clients or potential clients with information about where the orders are transmitted or placed for execution<sup>4</sup>, including consequences such as counterparty risk arising from execution outside a trading venue, and, upon client request, additional information about the consequences of this means of execution.

#### **4.7 DISCLOSURE OBLIGATION: Best Execution Quality (RTS 27/RTS28)**

The public reporting obligation in relation to best execution differs depending on whether UniCredit Bulbank AD is an acting company:

- a) **RTS 27 – Data to be published by execution venues on the quality of execution of transactions**

<sup>3</sup> The Group companies may receive such a consent in the form of a general agreement or for specific deals. [MiFID II art. 27(5)]

<sup>4</sup> [DELEGATED REGULATION (EU) OF THE COMMITTEE of 25 April 2016, Art. 65(6)], para 98:

Trading venues, systematic internalisers, and execution venues (including market makers and other liquidity providers) shall make available to the public, at no charge, **data relating to the quality of execution** of transactions on that venue on at least an annual basis (quarterly for execution venues (the “RTS27 Report”).

The RTS27 Report outlines the reporting requirements for trading venues, including systematic internalisers, market makers, and other liquidity providers, to evidence that they have taken “all sufficient steps” to obtain the best possible result for the client when executing orders. It deals with the content, format, and periodicity of data on execution quality to be published by the execution venues.

The RTS 27 Report shall include details about price, costs, speed, and likelihood of execution for individual financial instruments and the information should be made available in a machine-readable electronic format available for downloading by the public, free of charge and non-discretionary and should not be behind firewalls. UniCredit Bulbank AD shall keep each report available in the public domain for a minimum period of two years.

**b) RTS 28 – Annual Publication by investment firms of information on the identity of execution venues and on the quality of the execution**

The report prescribed by RTS 28 (“RTS 28 Report”) outlines the requirements designed to increase transparency related to executing client orders on trading venues, including systematic internalisers, market makers or other liquidity providers, intended to improve investor protection.

In relation to the client orders executed on trading venues (RM, MTF and OTF), systematic internalisers, market makers or other liquidity providers, or entities that perform a similar function in a third country UniCredit Bulbank AD is required to summarize and make public on an annual basis, for each class of financial instrument, the top five execution venues in terms of trading volumes where they executed client orders in the preceding year, as well as information on the quality of the execution obtained.

The RTS28 Report deals with the content and the format of information to be published by the investment firms and the information should be made available in a machine-readable electronic format available for downloading by the public, free of charge and non-discriminatory and should not be behind firewalls. UniCredit Bulbank AD shall keep each report available in the public domain for a minimum period of two years.

Management Body	RTS 27	RTS 28
Trading venue/ Execution venue: (Systematic Internaliser, Market Maker or other liquidity Provider)	X	
UniCredit Bulbank AD that executes orders		X
UniCredit Bulbank AD receiving and transmitting orders or passing orders onto others for execution as part of discretionary management services of UniCredit Bulbank AD		x <sup>5</sup>

The technical standards are embedded within the policy as Annex I and Annex II.

For each class of financial instruments<sup>6</sup> UniCredit Bulbank AD is required to disclose the top five execution venues in terms of trading volumes of executed orders (excluding securities financing transactions).

This information shall include:

- a) class of the financial instruments;
- b) name and identification number of the place;
- c) volume of the clients’ orders executed at the respective execution venue, expressed as a percent of the total executed volume;

<sup>5</sup> is required to provide information that is “consistent” with RTS 28. Therefore, whilst RTS 28 doesn’t directly apply to these investment firms, Article 65(6) of the Delegated Regulation creates a link by stating: “The information shall be consistent with the information published in accordance with the technical standards developed under Article 27(10)(b) of Directive 2014/65/EU.

<sup>6</sup> Included in Appendix I of RTS 28

- d) volume of the clients' orders executed at the respective execution venue, expressed as a percent of the total executed volume;
- e) percentage of the executed orders referred to in point (d) that were passive<sup>7</sup> and aggressive orders<sup>8</sup>
- f) percentage of orders referred to in point (d) that were directed orders<sup>9</sup>
- g) Confirmation of whether the investment intermediary has executed an average of less than one trade per business day in the previous year in that class of financial instruments

For securities financing transactions, the publication of the top five execution venues should contain:

- a) volume of the clients' orders executed at the respective execution venue, expressed as a percent of the total executed volume;
- b) number of the clients' orders executed at the respective execution venue, expressed as a percent of the total executed volume;
- c) Confirmation of whether the investment intermediary – UniCredit Bulbank AD has executed an average of less than one trade per business day in the previous year in that class of financial instruments

In addition to the qualitative criteria shown above, the Bank as an investment intermediary should also provide a summary of the analysis and conclusions it has drawn from its detailed monitoring of the quality of execution obtained on the execution venues where it executed all client orders during the previous year. The information shall include:

- a) an explanation of the relative importance the investment intermediary gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;
- b) a description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;
- c) a description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;
- d) an explanation of the factors that led to a change in the list of execution venues listed in the investment firm's execution policy, if such a change occurs;
- e) an explanation of how order execution differs according to client categorization, where the firm treats categories of clients differently and where it may affect the order execution arrangements;
- f) an explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;
- g) an explanation of how the UniCredit Bulbank AD has used the information acquired under RTS 27;
- h) where applicable, an explanation of how UniCredit Bulbank AD has used output of a consolidated data provider established under Article 65 of MiFID II.

<sup>7</sup> A passive order is an order entered into the order book that provided liquidity;

<sup>8</sup> An aggressive order is an order entered into the order book that took liquidity;

<sup>9</sup> A directed order is an order where a specific execution venue was specified by the client prior to the execution of the order.

## **5 INTERNAL CONTROLS (MONITORING OF ARRANGEMENTS AND POLICY) AND GOVERNANCE**

UniCredit Bulbank AD must apply the policy and strengthen the controls around including the ultimate accountability/ capability for ensuring that execution arrangements and policies to meet the requirements and also to take all sufficient steps is not limited to conduct cursory review of policy documents.

The accountability can be determined within two key elements:

- ownership of responsibility for delivering best execution; and
- how legal entities review/ monitor the adequacy of their arrangements.

### **5.1 ROLES AND RESPONSIBILITIES**

#### **5.1.1 The duties within First-Line of Defense (Business)**

UniCredit Bulbank AD and in particular the responsible business structure Client Risk Management and Treasury as first line of defense - should ensure there is an established governance with clear defining of roles and responsibilities for Best Execution Obligation in order to monitor the effectiveness of their order execution arrangements and execution policy in order to identify and, where appropriate, correct any deficiencies to have all sufficient steps in place.

In particular, UniCredit Bulbank AD shall assess, on a regular basis or ad hoc when material change occurs, whether the execution venues included in the order execution policy provide for the best possible result for the client or whether they need to make changes to their execution arrangements.

The monitoring and review purpose should include at minimum:

- Adequate, effective and embedded monitoring framework with clear roles and responsibilities for the ownership of the external Best Execution Policy and Execution Arrangement;
- Adequate, effective ownership on operational procedures for example: who is in charge to create and upload the respective Disclosure Documents such as RTS 27/28 and the Best Execution Policy.
- Escalation structures, resolution of issues, which underpins the delivery of best execution on consistent basis. It must be clear how the different components of monitoring contribute to relevant management information and inform the action taken by management to correct any deficiencies observed.
- The outcomes generated by monitoring should be adequately resourced with Staff with the relevant skills and data, needed to deliver best execution.
- The adequacy of monitoring should be reviewed and assessed as part of the at least as annual review or ad hoc on material changes of execution arrangements and policies.
- Sample sizes must be adequate to facilitate systematic corrective action if issues are detected. according to the business size/ nature and proportionality of the group company.
- Monitoring must cover all of the execution factors to reflect the full breadth of the best execution obligation, including (but not limited to) the costs incurred on behalf of clients. UniCredit Bulbank AD should avoid to limit the scope of the obligation in their dealing with clients, often through continued reliance on outdated market conditions.
- The reporting of monitoring results (e.g. negative events, corrective measures and the status of their implementation, customers' requests / complaints) to the Management Board / Committees.

- Control of the Investment intermediary and Market Integrity to be a part of the above outline duties via an established working group or decision/ monitoring panel as regulatory advisor.
- The Bank executes orders or decisions to deal and should notify its clients of any material changes to its execution arrangements or execution policy. A change is material where its disclosure is necessary to enable the client to make a properly informed decision about whether to continue utilizing the services of the company. The Bank should consider the materiality of any changes it makes to the relative importance of the best execution factors or to the venues on which it places significant reliance in meeting the overarching best execution requirement.

### **5.1.2 The duties within Second-Line of Defense (Compliance)**

Control of the Investment intermediary and Market Integrity (Compliance function) controls to run on a regular basis Second level Controls based on the internal conventions and control catalogue.

The present Policy was adopted by the Management Board of UniCredit Bulbank AD during its meeting № 30 on 24.10.2007, amended and supplemented by Protocol № 11 dated 09.03.2021 and with decision dated 31.08.2022.

## **6 APPENDICES:**

Appendix 1 – Regulatory Technical Standards (RTS) 27 for the data published by execution venues on the quality of execution of the transactions;

Appendix 2 – Regulatory Technical Standards (RTS) 28 on the annual publication by investment firms of information on the identity of execution venues and on the quality of the execution;

Appendix 3 – List of the execution venues for execution of client orders for transactions in financial instruments

Appendix 4 – Details on Best Execution process requirements and definitions