

UNITED BULGARIAN BANK AD
ANNUAL REPORT 2020



TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

ANNUAL SEPARATE AND CONSOLIDATED ACTIVITY REPORT	1-11
SEPARATE AND CONSOLIDATED CORPORATE GOVERNANCE STATEMENT	12-40
SEPARATE AND CONSOLIDATED NON-FINANCIAL DECLARATION.....	41-59
SEPARATE AND CONSOLIDATED STATEMENT OF PROFIT OR LOSS.....	60
SEPARATE AND CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	61
SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	62
SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	63
SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS	64-65
NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS	66-139
1. GENERAL INFORMATION	66
2. BASIS OF PREPARATION	67
3. SIGNIFICANT ACCOUNTING POLICIES.....	69
4. NET INTEREST INCOME.....	93
5. NET FEE AND COMMISSION INCOME	93
6. NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	94
7. NET OTHER INCOME	94
8. OPERATING EXPENSES	94
9. (IMPAIRMENTS)/ REVERSAL OF IMPAIRMENT.....	95
10. INCOME TAX EXPENSE	96
11. CASH AND CASH BALANCES WITH THE CENTRAL BANK.....	96
12. DUE FROM BANKS AND REVERSE REPOS WITH BANKS.....	96
13. LOANS AND ADVANCES TO CUSTOMERS	97
14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	99
15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME	100
16. SECURITIES AT AMORTISED COST.....	102
17. DERIVATIVE FINANCIAL INSTRUMENTS.....	103
18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES.....	103
19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT.....	105
20. INVESTMENT PROPERTIES.....	107
21. RIGHT-OF-USE ASSETS, LEASE LIABILITIES (IFRS 16).....	108
22. DEFERRED TAX	109
23. OTHER ASSETS	110
24. DEPOSITS FROM BANKS	110
25. DEPOSITS FROM CUSTOMERS.....	111
26. PAYABLES UNDER REPO AGREEMENTS	111
27. OTHER BORROWED FUNDS	111
28. PROVISIONS.....	112
29. OTHER LIABILITIES.....	113
30. RETAINED EARNINGS.....	114
31. REVALUATION RESERVE	114
32. CONTINGENT LIABILITIES AND COMMITMENTS.....	114
33. ADDITIONAL INFORMATION ABOUT CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT.....	115
34. FINANCIAL RISK MANAGEMENT	115
35. CREDIT RISK	118
36. MARKET RISK	126
37. LIQUIDITY RISK	130
38. FAIR VALUE MEASUREMENT	132
39. CAPITAL AND CAPITAL BASE.....	134
40. RELATED PARTY TRANSACTIONS	135
41. INFORMATION BASED ON REQUIREMENT OF ART. 70 § 6 FROM LAW FOR CREDIT INSTITUTIONS	139
42. EVENTS AFTER THE REPORTING PERIOD	139



Independent Auditors' Report

To the Shareholders of United Bulgarian Bank AD

Report on the audit of the separate and consolidated financial statements

Our opinion

We have audited the separate and consolidated financial statements of United Bulgarian Bank AD (the "Bank") and its subsidiaries (together - the "Group") which comprise the separate and consolidated statement of financial position as at 31 December 2020, and the separate and consolidated statement of profit or loss, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2020, and Bank's separate and Group's consolidated financial performance and Bank's separate and Group's consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the separate and consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the separate and consolidated financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

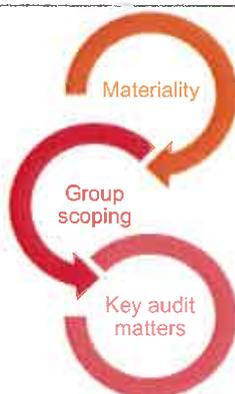
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Our audit approach

Overview



- Overall Bank and Group materiality: BGN 8,047 thousand, which represents 5% of the average separate and 5.1% of the average consolidated profit before tax for the years 2020, 2019 and 2018.
- We conducted audit of the Bank and audited specific balances of the only material subsidiary in Bulgaria.
- Our audit scope addressed 99.9% of the Group's assets and 96.7% of the Group's absolute value of underlying profit before tax.
- Estimation uncertainty with respect to the impairment allowance for loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall Bank and Group materiality	BGN 8,047 thousand
How we determined it	5% of the average separate and 5.1% of the average consolidated profit before tax for the years 2020, 2019 and 2018
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by the users of the separate and consolidated financial statements and it is a generally accepted benchmark. We applied the average profit before tax for the years 2020, 2019 and 2018 because of its volatility for the past three years.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Estimation uncertainty with respect to the impairment allowance for loans and advances to customers (Note 13 "Loans and advances to customers" and Note 35 "Credit risk")</p> <p>The appropriateness of the impairment allowance for loans and advances to customers requires significant judgement by management. Measuring impairment allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month and lifetime expected credit losses and assessment of significant increases in credit risk or whether loans and advances to customers are in default. As at 31 December 2020, the gross loans and advances to customers amounted to BGN 6,602 million on a separate basis and BGN 6,606 million on a consolidated basis and the related impairment allowance at that date amounted to BGN 278 million on a separate basis and BGN 281 million on a consolidated basis.</p> <p>The assessment of significant increase in credit risk and default, and the measurement of 12-month or life-time expected credit loss are part of the Bank's and the Group's estimation process and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating significant increase in credit risk, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral.</p> <p>The COVID-19 pandemic increased the uncertainty about the economic outlook and, together with various government measures, including a moratorium on credit payments, has increased the complexity of assessing and monitoring customers' financial condition, which requires an increased level of judgment in the determining of the expected credit losses.</p>	<p>Our audit procedures included an assessment of the overall governance of the credit, impairment and model validation processes of the Bank and the Group, including 12-month and lifetime expected loss modelling and individual impairment processes. We have also assessed the appropriateness of the impairment models and internal methodology of the Bank and the Group and their compliance with IFRS 9.</p> <p>We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes.</p> <p>For loan impairment allowance determined on an individual basis, we have performed, for a sample of credit exposures, a detailed examination of loans granted by the Bank and the Group. We challenged the default and significant increase in credit risk identification triggers and quantification of expected future cash-flows (recoverable amounts) determined based on valuation of underlying collateral and estimates of recovery on default.</p> <p>For the 12-month and lifetime expected credit loss impairment allowance, we challenged the significant increase in credit risk triggers and the macroeconomic scenarios and tested the underlying models, including the Bank's and the Group's model approval and validation process.</p> <p>Supported by our modeling experts, we have performed an independent recalculation of the expected credit loss for a sample of loans.</p> <p>We performed an assessment of the adequacy of the Bank's and the Group's assumptions and judgements related to the impact of the COVID-19 pandemic, including the moratorium on loan payments, the assessment of expected credit losses and all aspects of the process of their determination.</p>

The use of different modelling techniques, management overlays, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances to customers.

As the loans and advances represent significant part of the Bank's and the Group's total assets and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.

We also assessed the completeness and accuracy of the disclosures in the area of impairment allowance for loans and advances to customers and whether the disclosures are in compliance with the IFRS, as adopted by the European Union.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We have audited the financial information of the most significant component of the Group, which represents 99% of the Group's total assets. In addition, we audited specific balances of the only material subsidiary.

These together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Information other than the separate and consolidated financial statements and auditors' report thereon

Management is responsible for the other information. The other information comprises the Annual Separate and Consolidated Activity Report, the Separate and Consolidated Corporate Governance Statement and the Separate and Consolidated Non-financial Declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate and consolidated financial statements and our auditors' report thereon.

Our opinion on the separate and consolidated financial statements do not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Additional matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Separate and Consolidated Activity Report, the Separate and Consolidated Corporate Governance Statement and the Separate and Consolidated Non-financial Declaration, we have also performed the procedures added to those required under ISAs in accordance with the “Guidelines regarding the new and enhanced auditor reporting and communication by the auditor” of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- a) the information included in the Annual Separate and Consolidated Activity Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with those separate and consolidated financial statements.
- b) the Annual Separate and Consolidated Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) the Separate and Consolidated Corporate Governance Statement for the financial year, for which the separate and consolidated financial statements are prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.
- d) the Separate and Consolidated Non-financial Declaration for the financial year, for which the separate and consolidated financial statements are prepared, presents the information required by Chapter Seven of the Accountancy Act.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Bank’s and the Group’s separate and consolidated financial reporting process.

Auditors' responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on other legal and regulatory requirements

Additional reporting in relation to Ordinance 58/2018 issued by the Financial Supervision Commission ("FSC")

Statement in relation to Art. 11 of Ordinance 58/2018 issued by FSC in relation to the requirements for protection of the clients' financial instruments and cash, for product management, and for the providing or receiving of remuneration, commissions and other monetary or non-monetary benefits.

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Additional reporting on the audit of the separate and consolidated financial statements in connection with art. 10 of Regulation (EU) 537/2014 in connection with the requirements of art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2020 by the general meeting of shareholders held on 4 December 2020 for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as an auditor of the Bank and the Group on 14 June 2017.
- Grant Thornton OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2020 by the general meeting of shareholders held on 4 December 2020 for a period of one year. „Grant Thornton“ OOD was first appointed as an auditor of the Bank and the Group on 6 December 2017.
- The audit of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2020 represents the fourth of total uninterrupted statutory audit engagements for that entities carried out by PricewaterhouseCoopers Audit OOD and Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's and the Group's audit committee on 13 April 2021 in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

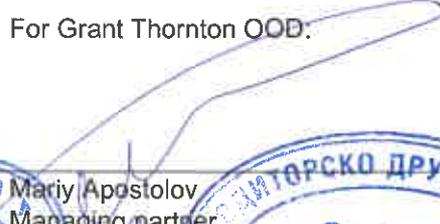
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank and the Group.
- For the period to which our statutory audit refers, PricewaterhouseCoopers Audit OOD has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services in the total amount of BGN 152 thousand which have not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
 - o Limited review of the consolidated group reporting forms, prepared by the Group in accordance with KBC Group accounting manual for the period ended 30 June 2020;
 - o Audit of the consolidated group reporting forms, prepared by the Bank in accordance with KBC Group accounting manual for the year ended 31 December 2020;
 - o Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2020 (jointly with Grant Thornton OOD);
 - o Participation in a training.
- For the period to which our statutory audit refers, Grant Thornton OOD has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following service in the total amount of BGN 6 thousand which has not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
 - o Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2020 (jointly with PricewaterhouseCoopers Audit OOD).

For PricewaterhouseCoopers Audit OOD:

For Grant Thornton OOD:



Jock Nunan
Procurist



Mariy Apostolov
Managing partner



Tsvetana Tsankova
Registered auditor responsible for the audit
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Date: 13-04-2021



Gergana Mihaylova
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Date: 13-04-2021



**ANNUAL SEPARATE AND CONSOLIDATED ACTIVITY REPORT
OF UNITED BULGARIAN BANK AD (UBB)**

As of 31.12.2020

(In accordance with the Accountancy Act)

1. REVIEW AND DESCRIPTION OF THE ACTIVITY

1.1. Development and operating results of the entity

In 2020 the registered capital of United Bulgarian Bank AD (UBB) is BGN 93 838 321 divided into 93 838 321 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. The total capital is paid in. UBB offers a wide range of bank services within the licence for conducting banking activities granted by the Bulgarian National Bank to domestic and foreign clients through the Headquarters Office in Sofia and 175 branches, 16 business centers and 34 remote work places across the country all serviced by 2,665 employees (2019: 2,801) and namely:

- Public attraction of deposits or other refundable funds and provision of loans or other financing on its own account and risk;
- Payment services in accordance with the Payment Services and Payment Systems Act;
- Issuance and administration of other payment means (traveller's cheques and credit letters) other than those covered under the preceding item;
 - Acceptance of valuables at safe custody;
 - Activity as a depositary or guardian institution;
 - Finance lease;
 - Guarantee transactions;
 - Trading on own account or on account of clients in foreign currency and precious metals with the exception of derivative financial instruments on foreign currency and precious metals;
- Provision of services and/or carry out of activities in accordance with Article 5, para. 2 and para. 3 of the Markets in Financial Instruments Act;
 - Money brokerage;
 - Acquisition of loan receivables and other forms of financing (factoring, forfeiting, etc.);
 - E-money issuance;
 - Acquisition and management of shareholdings;
 - Letting out safes;
 - Collection provision of information and references regarding client's creditworthiness;
 - Other similar activities as laid down in an ordinance of the Bulgarian National Bank (BNB).

At 31 December 2020 the Bank is a sole owner of UBB Factoring EOOD, UBB Insurance Broker EAD, UBB Centre Management EOOD and East Golf Properties EOOD. UBB also has its associated company named Druzhestvo za Kasovi Uslugi AD.

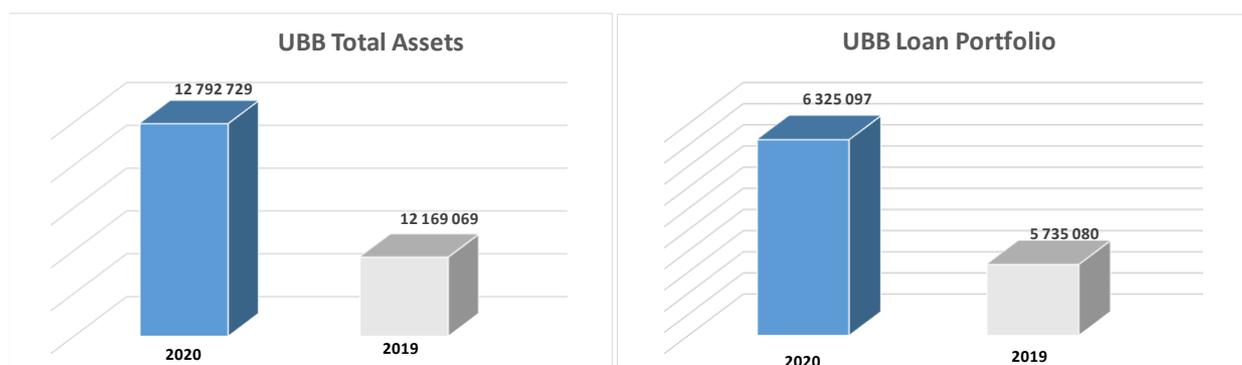
This Report provides information about the activity of the Bank and its subsidiaries hereinafter referred to as UBB.

The Bank has a two-tier management system – Management Board and Supervisory Board. All of the Management Board members are Executive Directors of UBB. Mrs. Hristina Filipova is Procurator of UBB.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

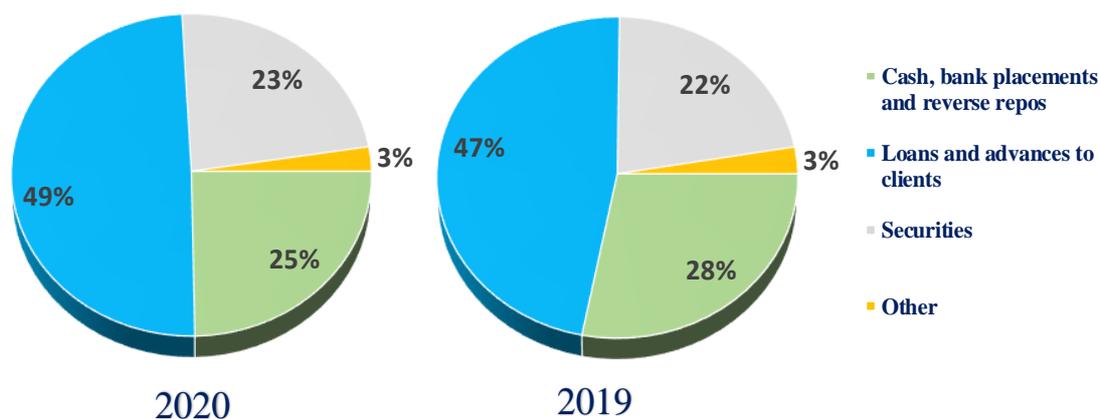
1.1. Development and operating results of the entity (continued)

During the last year UBB managed to achieve a significant increase in its assets strengthening its positions as one of the most dynamically growing bank groups in the Bulgarian market. In 2020 the Group's total assets grew by more than 5% compared to the end of 2019 reaching BGN 12 793 million (2019: BGN 12 169 million). The net book value of loans and advances to clients increased by 10.1% (or BGN 582 millions) driven primarily by the significant volume of new business.



Asset structure indicates that Loan and advances to clients prevail, while the total amount of financial assets at FVOCI, amortised cost and through Profit or Loss representing mainly debt instruments at amortized costs increase by impressive 11% (BGN 300 million). The latter is a result of the acquisition of mainly Bulgarian Government Debt securities throughout the year.

UBB Asset Structure



At 31 December 2020 the UBB's total liabilities on a consolidation base amounted to BGN 11 315 million (2019: BGN 10 790 million). Growing by 4.9% compared to the previous year mainly contributed by an increase of customer's deposits by 22.4%.

The 2020 net profit of UBB amounted to BGN 105.9 million on consolidation base. The decline compared to previous year (BGN 46 million on individual and BGN 45 million on consolidated basis) is caused mainly by additional impairments booked (BGN 44.9 million on a consolidated basis) in relation to expected future credit loss caused by COVID-19 economic impact.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.1. Development and operating results of the entity (continued)

Net interest income increased on annual basis by 1.8% (or BGN 4.7 million), supported by the strong loan portfolio growth and optimised interest expense. The net fee and commissions income decreased by 3.6% (or BGN 4.5 million) for UBB, impacted by the COVID-19 pandemic and the long periods of lockdowns when our clients decreased spending and branch visits, affecting the income from bank card transactions and the payment fees as a whole, which combined with SEPA regulation resulted in lower income from the payments business

We aspire to improve our operational efficiency through ongoing execution of our digital transformation roadmap and continuing optimization of Branch Network. These efforts helped us maintain the operating expenses relatively unchanged in 2020: a marginal increase of 0.3% (or BGN 0.7 million) for UBB Group compared to 2019.

1.2. Liquidity

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 225% Liquidity Coverage Ratio (LCR). Also during the year UBB maintained values of the NSFR well above the minimum required levels by European Regulators of 100%.

UBB have a solid funding structure as its loan portfolio is largely funded by customers' deposits.

Trends or risks which may influence the liquidity of the Bank/Group for 2021

In the light of COVID-19 pandemic the expectations are for preserving the stability of the financial parameters and maintaining sustainable liquid and capital buffers.

Additional measures have been taken to monitor the liquidity position on a local and group level on a daily basis, as well as to prepare forecasts based on highly adverse stress test scenarios.

Reverse stress test with target of 115% LCR was performed based on a combination of events such as increase of retail outflow (up to 25% vs. 5%), increase of corporate outflow (up to 45% vs. 25%), usage of undrawn credit lines by 10% for retail clients and 20% for corporate clients above regulatory run-off factors and 20% haircut of market value of liquid securities.

The COVID-19 stress test developed at Group level was also performed in which there is a significant increase in outflows and a decrease in inflows by calculating the LCR. Although the COVID-19 pandemic put a serious stress on the market, so far it has not affected UBB's liquidity and funding adequacy. Our stress tests currently indicate that UBB can withstand such adverse evolutions.

Lack or existence of significant shortage of liquid funds

During the reporting year, UBB has neither suffered from a shortage of cash funds, nor experienced any other liquid difficulties. No such problems are expected to occur in the next financial year as well.

1.3. Capital resources

The Bank has sufficient equity to ensure adequate equity coverage for its risk assets.

The UBB equity on individual level at 31 December 2020 as per accounting data amounts to BGN 1 478 786 thousand (2019: BGN 1 376 690 thousand) and as per the requirements of Basel 3 it amounts to BGN 1 348 556 thousand (2019: BGN 1 211 711 thousand).

The Group has sufficient equity to ensure adequate equity coverage for its risk assets.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3. Capital resources (continued)

The Group's equity at 31 December 2020 as per accounting data amounts to BGN 1 477 629 thousand (2019: BGN 1 378 344 thousand) and as per the requirements of Basel III it amounts to BGN 1 349 584 thousand (2019: BGN 1 217 312 thousand).

The following table presents the capital adequacy indicators of the Group which reflect its stability (solvency).

The following table presents the capital adequacy indicators of the Group which reflect its stability (solvency).

Ratio	Separate		Consolidated	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total capital adequacy ratio (%)	22.09%	19.04%	22.06%	19.15%
Tier-I capital adequacy ratio (%)	22.09%	19.04%	22.06%	19.15%

Trends, events or risks which are likely to have a material effect on the operations of UBB

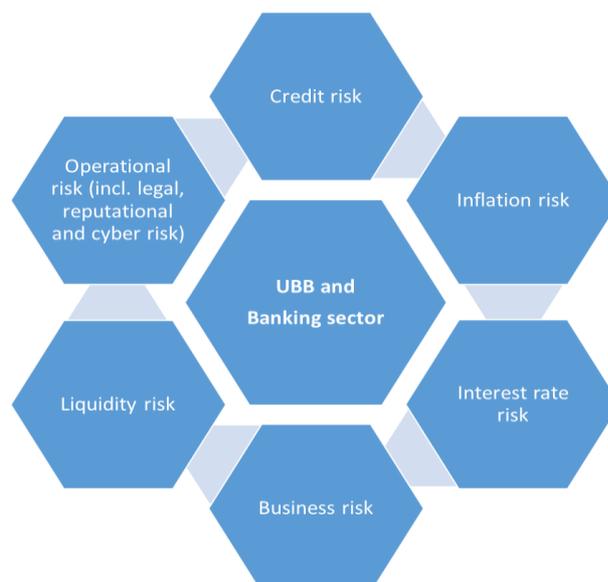
The effects of weaker-than-expected economic growth in the euro area expectations of a long period of low interest rates in the euro area and Bulgaria as well as the ever-increasing competition in the banking sector especially in the area of lending are the main factors influencing the prospects for development of UBB AD and of the banking system as a whole.

Expectations for slowing economic growth both globally and in Bulgaria require thorough and effective analysis and comprehensive risk monitoring. Overall projections are for reasonable growth in loans and attracted funds taking into account the uncertainty and volatile economic outlook.

In the situation of a limited economic growth the Bank works systematically for maintaining effective risk management whereas the efforts made are directed towards improving the processes in the areas of lending and settlement and maintaining the credit portfolio quality. The emphasis is placed on the implementation of timely measures for identification and collection of problem debts.

The trends for future development of the Bank as a whole are for continued growth in assets and foremost in loans and limiting the growth of the attracted funds as well as for offering new products in the area of innovative technologies and for development of the banking-insurance products.

The main risks related to the activity of the Group and of the banking sector in general are presented below:



1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3. Capital resources (continued)

Trends, events or risks which are likely to have a material effect on the operations of UBB (continued)

In view of the current economic environment the business risk and credit risk have the greatest impact on the operations of UBB. In order to meet these challenges UBB has defined its risk appetite through a system of limits as well as through a clear development strategy.

UBB maintains a stable funding structure and a sufficient volume of highly liquid assets thus ensuring regular and immediate fulfillment of its day-to-day obligations and meeting the liquidity regulatory requirements.

Regarding the price (interest) risk the bank aims at maintaining a balance between the fixed-interest-rate assets and liabilities and the floating-interest-rate ones. The bank also uses derivative financial instruments to hedge the interest rate risk.

The credit risk is managed by applying strict and conservative principles for securing loans and measuring collateral.

1.4. Strategic development of UBB

In 2020, despite the crisis of COVID-19, in support of its customers UBB confidently continued to develop its long-term strategy for creating and developing innovative and digital banking products and services, in line with the expectations and daily needs of customers and accessible at any time and through all distribution channels with special emphasis on digital. The goal of UBB, is to develop products to offer through all its sales channels, as the main focus continues to be to enrich mobile banking with new functionalities, modern design and services for the benefit of its customers.

Central to the bank's strategy in terms of target segments are adolescents and young people in order to build long-term relationships. UBB continued to be a preferred partner for customers from the following sub-segments - retail (mass-rich and wealthy customers, Premium customers), small and medium-sized enterprises and medium-sized and large corporate customers, in order to balance growth and profitability. In response to customer needs, a special program of products and services aimed at the Premium segment was launched by Retail customers with a separate service model and special meeting places for customers' in the segment.

As oriented to the needs and subordinated to the dynamics of the real life of its clients, the bank not only confirms its position of first choice for banking and insurance partners, but also upgrades its digital channels - mobile banking, website, enabling and providing access to all services to every bank's customer in the environment in which we lived in 2020.

In addition, the customer contact center was further actively expanding the scope of its activities, supplementing it with sales programs and initiatives for reporting customer satisfaction and programs aimed at building long-term relationships with our customers.

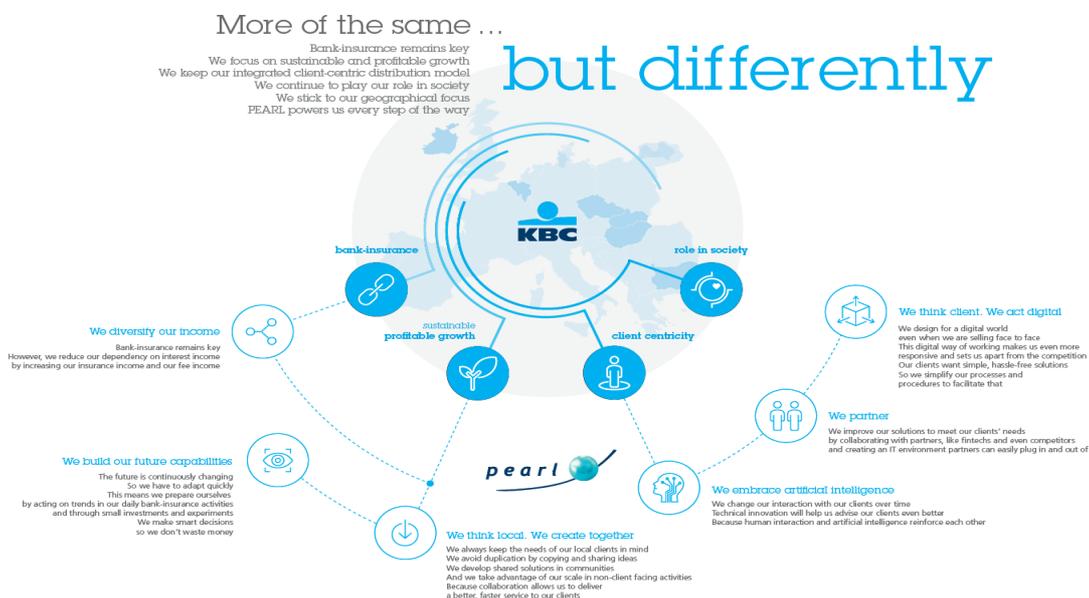
We encourage our employees to behave responsibly and to be customer and results oriented. In addition, we strive to build sustainable relationships with our customers - individuals, small and medium enterprises and large corporate companies in Bulgaria. We achieve this by constantly listening to their feedback through direct communication with them, as well as through surveys, surveys and consultations.

We respond to their identified needs not only by creating and improving the product portfolio, but also by establishing a wide variety of distribution channels.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.4. Strategic development of UBB (continued)

We summarize our business culture and values in the acronym *PEARL* meaning:



Last but not least, we focus our efforts on the sustainable development of the various communities in which and with which we work, because we believe that through unadulterated attitude and care for them, we become a real and responsible part of our community development and the lives of our clients.

1.5. Expected financial results

UBB's financial result is formed mainly of interest income, fees and commissions. A moderate growth in lending and provision of attractive deposit is expected during the financial year of 2021 with the focus being placed on the targeted segments of UBB (mass affluent and affluent Retail clients, small and medium-sized enterprises and average-in-size corporate clients). This growth will be supported by improving and simplifying business processes and offering new products and guarantee schemes under European and Bulgarian programs. The level of non-performing loans will be closely monitored while it is expected that impairment expenses will depend on the post-COVID-19 recovery of the economic activity. The over-liquidity and very competitive banking market will continue to exert pressure on interest margins. The negative interest rates on the inter-bank market will also result in decrease in yields on deposits placed and on investments in government securities.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.6. Information under Article 187e of the Commercial Act (CA) regarding held acquired or transferred treasury shares

At the end of 2020 the participation of the members of the Supervisory and Management Boards in commercial companies as unlimited responsible partners, the ownership of more than 25 per cent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators or board members is, as follows:

- **Luc Popelier – Chairman of the Supervisory Board**

- a) He does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) Legal entities, besides UBB AD, in whose management or control bodies he participates:

KBC Group NV	Member of the Executive Committee
KBC Group NV - Branch Bulgaria	Branch Manager
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
KBC Asset Management NV	Chairman of the Board of Directors; Non-executive director
DZI Life Insurance Jsc	Chairman of the Supervisory Board; Non-executive director
DZI - GENERAL INSURANCE JSC	Chairman of the Supervisory Board; Non-executive director
K&H Insurance Zrt	Chairman of the Supervisory Board; Non-executive director
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Verzekeringen NV	Member of the Board of Directors; Executive director
CSOB Banka Slovakia	Chairman of the Supervisory Board
KBC Bank Ireland Plc	Chairman of the Board of Directors; Non-executive director
KBC Focus Fund NV	Chairman of the Board of Directors; Non-executive director
KBC Securities NV	Chairman of the Board of Directors; Non-executive director
KBC Insurance NV Irish Branch	Chairman of the Supervisory Body

- **Christine Van Rijseghem – Member of The Supervisory Board**

- a) She does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;

- c) Legal entities besides UBB AD in whose management or control bodies she participates:

KBC Group NV, Belgium	Member of the Board of Directors and Executive Director
KBC Bank NV, Belgium	Member of the Board of Directors and Executive Director
KBC Verzekeringen NV, Belgium	Member of the Board of Directors and Executive Director
K&H Bank Zrt., Hungary	Non-executive member of the Board of Directors
KBC Ireland PLC	Non-executive member of the Board of Directors
Československá Obchodná Banka a.s., Republic of Slovakia	Member of the Supervisory Board
Československá Obchodní Banka a.s., Czech Republic	Member of the Supervisory Board
KBC Bank NV, Dublin Branch	Member of the Supervisory Board

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.6. Information under Article 187e of the Commercial Act (CA) regarding held acquired or transferred treasury shares (continued)

- **Franky Depickere – Member of the Supervisory Board**

- He does not participate in commercial companies as a general partner;
- There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- Legal entities besides UBB AD in whose management or control bodies he participates:

Almancora Beheersmaatschappij NV	Member of the Board of Directors and Executive Director
Cera Beheersmaatschappij NV	Member of the Board of Directors and Executive Director
Československá Obchodní Banka a.s.	Member of the Supervisory Board
KBC Ancora commanditaire vennootschap op aandelen	Member of the Board of Directors and Executive Director
KBC Bank NV	Non-executive member of the Board of Directors
KBC Group NV	Non-executive member of the Board of Directors
KBC Verzekeringen NV	Non-executive member of the Board of Directors
Euro Pool System International BV	Non-executive member of the Board of Directors
BRS Microfinance Coop cvba	Non-executive member of the Board of Directors
International Raiffeisen Union e.V.	Chairman and Non-executive member of the Board of Directors

- **Barak Chizi – Member of the Supervisory Board**

- He does not participate in commercial companies as a general partner;
- He holds directly or indirectly at least 25% of the votes in the general meeting of the following legal entities:

Chizi Technologic Consulting Ltd., Israel	Holds 60 % of the equity of the company
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- He does not participate in management or control bodies in legal entities besides UBB AD.

- **Svetoslav Gavriiski – Independent member of the Supervisory Board**

- He does not participate in commercial companies as a general partner;
- There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- Legal entities besides UBB AD in whose management or control bodies he participates:

Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board
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- **Victor Yotzov – Independent member of the Supervisory Board**

- He does not participate in commercial companies as a general partner;
- There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.6. Information under Article 187e of the Commercial Act (CA) regarding held acquired or transferred treasury shares (continued)

c) Legal entities besides UBB AD in whose management or control bodies he participates:

Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board
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1.7. Management Board of UBB AD

- **Peter Andronov – Chairman of the the Management Board and CEO**

- a) He does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) other legal entities different from UBB AD in whose management or control bodies he participates:
 - BORICA AD - Member of the Board of Directors
 - Mr. Peter Andronov is Chairman of the Association of Banks in Bulgaria which is a non-profit association.

- **Desislava Simeonova - Member of the Management Board and Executive Director**

- a) She does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which she has control;
- c) Legal entities besides UBB AD in whose management or control bodies she participates:
 - UBB Interlease EAD - Member of The Board of Directors
 - UBB Insurance Broker EAD - Member of The Board of Directors
 - "Atanas Burov" Foundation - Member of the Management Board

- **Svetla Georgieva - Member of the Management Board and Executive Director**

- a) She does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which she has control;
- c) There are no legal entities besides UBB AD in whose management or control bodies she participates.

- **Christof De Mil - Member of the Management Board and Executive Director**

- a) He does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) Legal entities besides UBB AD in whose management or control bodies he participates:
 - Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Chairman of the Executive Board
 - German – Bulgarian Chamber of Industry and Commerce – non-profit association – Chairman of the Expert Committee ‘Banking and Insurance’.

- **Teodor Marinov - Member of the Management Board and Executive Director**

- a) He does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) Legal entities besides UBB AD in whose management or control bodies he participates:
 - UBB Interlease EAD - Chairman of the Board of Directors
 - UBB Insurance Broker EAD - Chairman of the Board of Directors

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7. Management Board of UBB AD (continued)

- **Ivaylo Mateev - Member of the Management Board and Executive Director**

- a) He does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein he holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) Legal entities besides UBB AD in whose management or control bodies he participates:
 - Drujestvo za Kasovi Uslugi AD - Member of the Board of Directors
 - Non-profit association Marianka - Member of the Management Board
 - 'Zhivo selo' Foundation - Member of the Committee on the trainings control

- **Tatyana Ivanova – Member of the Management Board and Executive Director**

- a) She does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
- c) There are no legal entities besides UBB AD in whose management or control bodies she participates.

- **Hristina Filipova – Procurator**

- a) She does not participate in commercial companies as a general partner;
- b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which she has control;
- c) There are no legal entities besides UBB AD in whose management or control bodies she participates.

1.8. Contracts under Article 240b of Commercial Act concluded in 2020

In 2020 the members of the Supervisory and of the Management Boards of the Group had not concluded contracts with the Group beyond its ordinary activity or such which although concluded as part of the ordinary activity of the Group deviate materially from market conditions.

1.9. Information about the changes in the managing and supervisory bodies in the reporting financial year

In 2020 the following personal changes were made in the composition of the Management Board of the Bank:

- By decision of the Supervisory Board of UBB AD under Minutes No. 6 of 20.03.2020 Mr. Jan Swinnen was released as a Management Board Member of UBB AD and Mrs. Tatyana Ivanova was elected as a new member of the Management Board. The change was officially registered in the Commercial Register and Register of Non-profit Legal Entities on 09.04.2020. The number of members of the Management Board was not changed.

In 2020 the following personal changes were made in the composition of the Supervisory Board of the Bank:

- With a decision of the General Meeting of Shareholders from 17.12.2019 Mr. Willem Hueting was released as a Supervisory Board Member and Mr. Barak Chizi was elected as a new member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 17.01.2020.
- With a decision of the General Meeting of Shareholders from 15.04.2020 two new independent members of the Supervisory Board were elected – Mr. Svetoslav Gavriiski and Mr. Victor Yotzov. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 07.05.2020. It was made with respect to the requirement of Art. 10a of the Credit Institutions Act for having at least 1/3 independent members in the composition of the Supervisory Board, who should meet the requirements for independence according to Art. 10a of the Credit Institutions Act. The number of the Supervisory Board members was increased from 4 (four) to 6 (six).

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.10. Information on the amount of remuneration received during the year by the members of the board

The amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2020 is BGN 3 237 thousand (2019: BGN 3 228 thousand).

1.11. Information about shares and bonds of UBB acquired held or transferred by board members during the year

Although the Articles of Association of the Bank does not limit the rights of the members of the Management and Supervisory Boards of UBB AD to acquire shares and bonds of the credit institution in 2020 the members neither acquired, nor held or transferred shares and bonds of UBB.

1.12. Information about subsequent events after the date of preparation of the financial statements

There are no significant events after the date of preparation of financial statements which might have impact on the presentation of financial information for the year ended 31 December 2020.

1.13. Information about financial instruments

For more extensive information regarding financial instruments and risk associated with them please refer to the notes to the Separate and Consolidated financial statements.

1.14. Responsibility of management

The Management is required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the Bank as at the year end and its financial results. The management has prepared the enclosed separate and consolidated financial statements in accordance with IFRS adopted by the European Union.

The Management confirms that relevant accounting policies have been used.

The Management also confirms that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Management is responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.


Christof De Mil
Executive Director

Svetla Georgieva
Executive Director


Date: 13.04.2021

**Separate and Consolidated Corporate Governance Statement
of United Bulgarian Bank AD (UBB)
as of 31.12.2020
(In accordance with the Accountancy Act)**

TABLE OF CONTENTS

1. CORPORATE GOVERNANCE REVIEW
2. SUPERVISORY BOARD
 - 2.1. SUPERVISORY BOARD MEMBERS
 - 2.2. ELECTION AND MANDATE
 - 2.3. PROFESSIONAL EXPERIENCE AND OTHER ACTIVITIES AND FUNCTIONS
 - 2.4. INTERNAL ORGANIZATIONAL STRUCTURE
 - 2.5. ANNUAL REPORT OF THE SUPERVISORY BOARD
3. MANAGEMENT BOARD
 - 3.1. MANAGEMENT BOARD MEMBERS
 - 3.2. ELECTION AND MANDATE
 - 3.3. PROFESSIONAL EXPERIENCE AND OTHER ACTIVITIES AND FUNCTIONS
 - 3.4. ANNUAL REPORT OF THE MANAGEMENT BOARD
4. COMMITTEES TO THE SUPERVISORY BOARD
 - 4.1. RISK AND COMPLIANCE COMMITTEE
 - 4.1.1. RISK AND COMPLIANCE COMMITTEE MEMBERS
 - 4.1.2. RISK AND COMPLIANCE COMMITTEE REPORT
 - 4.2. REMUNERATION COMMITTEE
 - 4.2.1. REMUNERATION COMMITTEE MEMBERS
 - 4.2.2. REMUNERATION COMMITTEE REPORT
 - 4.3. NOMINATION COMMITTEE
 - 4.3.1. NOMINATION COMMITTEE MEMBERS
 - 4.3.2. NOMINATION COMMITTEE REPORT
5. AUDIT COMMITTEE
 - 5.1. AUDIT COMMITTEE MEMBERS AND PROFESSIONAL EXPERIENCE
 - 5.2. AUDIT COMMITTEE REPORT
6. COMMITTEES TO THE MANAGEMENT BOARD
 - 6.1. CREDIT COMMITTEES
 - 6.2. LOCAL RISK MANAGEMENT COMMITTEE
 - 6.3. NEW AND ACTIVE PRODUCTS AND PROCESSES COMMITTEE /NAPPC/
 - 6.4. LOCAL PROVISIONING COMMITTEE
 - 6.5. LOCAL INVESTMENT COMMITTEE AND INVESTMENT COMMITTEE
 - 6.6. PROJECTS AND OVERSIGHT COMMITTEE (POC) OF UBB AD
 - 6.7. CORPORATE SUSTAINABILITY AND RESPONSIBILITY STEERING COMMITTEE
7. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS
8. GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDER RIGHTS
 - 8.1. COMPETENCES
 - 8.2. CONVENING THE GENERAL MEETING OF SHAREHOLDERS
 - 8.3. QUORUM
 - 8.4. GENERAL MEETING OF SHAREHOLDERS IN 2020

1. CORPORATE GOVERNANCE REVIEW

This Corporate Governance Statement has been prepared by virtue of Art. 40, Para. 1 of the *Accountancy Act* in relation to Art. 100, letter 'n', Para. 9 of the *Public Offering of Securities Act and UBB AD Corporate Governance Code*.

Over the recent years regulatory authorities and various international organizations have focused their attention on financial institutions' corporate governance since an experts' assessment has determined the weaknesses and unsound practices in this field as a substantial factor that has contributed to the evolvement of the financial crisis. While aiming at financial stability improvement the volume of legislative and regulatory acts, imposing ever stringent requirements to the corporate governance at banks has increased tremendously. In order to respond to the public's expectations, *Corporate Governance Code of United Bulgarian Bank AD* has been adopted and is kept up to date. This Code is based on the regulatory requirements pertaining to UBB and adopted in the Bulgarian and international legal and regulatory framework while also transposing the best international practices, embedded in series of European codes and recommendations of the European Commission. This Code's introduction targets thorough harmonization with the philosophy of those practices and UBB warrants, definitely and transparently, as to how this philosophy is going to be applied in everyday practice. This document has been published at UBB's official web page - Division *KBC Group*, Section *Important Documents*:
(https://www.ubb.bg/attachments/Tab/923/download_en/Corporate-Governance-Code-UBB-EN-05082019.pdf).

Management structure

UBB is a joint-stock company with a two-tier management system (a Supervisory Board and a Management Board).

Supervisory Board (SB)

The Supervisory Board has been empowered to exercise preliminary ongoing and subsequent control on the compliance of UBB's activity with the applicable law, the Articles of Association and the decisions of the General Meeting of Shareholders in the interest of the clients and shareholders of UBB AD. The competence of the Supervisory Board is stipulated in the law, the Articles of Association and with decisions of the General Meeting of Shareholders. The particular powers of the Supervisory Board are listed in UBB's Articles of Association as well as in the Operational Rules of the Supervisory Board of UBB AD and UBB AD's Corporate Governance Code.

UBB AD's Supervisory Board comprises from 3 (three) to 7 (seven) persons elected by the General Meeting of Shareholders. The Supervisory Board members are being elected for a mandate of 4 (four) years and may be re-elected without limitation. Each member's mandate may be terminated by the General Meeting of Shareholders at any time. The candidate-members of the Supervisory Board shall have to comply with the requirements indicated in Art. 11 of the Credit Institutions Act, Ordinance № 20 of the BNB for issuance of approvals to management board members (the Board of Directors) and the supervisory board of a credit institution and requirements in line with the performance of their functions and in the Bank's Articles of Association and are subject to preliminary approval by the Bulgarian National Bank. In 2020 the following personal changes were made in the composition of the Supervisory Board of the Bank:

With a decision of the General Meeting of Shareholders from 17.12.2019 Mr. Willem Hueting was released as a Supervisory Board Member and Mr. Barak Chizi was elected as a new member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 17.01.2020.

With a decision of the General Meeting of Shareholders from 15.04.2020 two new independent members of the Supervisory Board were elected – Mr. Svetoslav Gavriiski and Mr. Victor Yotzov. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 07.05.2020. It was made with respect to the requirement of Art. 10a of the Credit Institutions Act for having at least 1/3 independent members in the composition of the Supervisory Board, who should meet the requirements for independence according to Art. 10a of the Credit Institutions Act. The number of the Supervisory Board members was increased from 4 (four) to 6 (six).

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Supervisory Board

The following committees have been established to the Supervisory Board in support of its activity: Risk and Compliance Committee, Remuneration Committee and Nomination Committee.

- **The Risk and Compliance Committee** is a sub-committee to the Supervisory Board. This committee consults the Supervisory Board on the overall current and future risk appetite and risk strategy, as well as the current and future rules on compliance. It supports the Supervisory Board in the monitoring and control on the application of these elements and rules by the senior management. This committee has no other powers and responsibilities than those delegated by the Supervisory Board. In principle only the Supervisory Board has decision-making powers, while the Risk and Compliance Committee has a consultative role unless some particular decision-making powers have been delegated to it by the Supervisory Board or such have been granted pursuant to the local legislation. The Supervisory Board bears full responsibility for the risks. The Risk and Compliance Committee comprises of the members of the Supervisory Board as envisaged in Art. 6 of Ordinance № 7 of the BNB on the Organization and Management of Risks in Banks. The Committee members are nominated by the Supervisory Board, where majority of them are external to and independent from the Bank.

- **The Remuneration Committee** is a sub-committee to the Supervisory Board established in accordance with Ordinance № 4 of the BNB on the requirements for remunerations in banks, as well as with all applicable legal and regulatory requirements and with the best corporate governance practices. This committee performs competent and independent assessment of the remuneration policies and practices, as well as the incentives envisaged for managing risk capital and liquidity. The Committee is responsible for elaboration of decisions relating to remunerations, while taking into account the possible risk and the risk management at UBB, the long-term interests of shareholders, investors and the other interested parties connected to UBB. UBB AD Remuneration Committee comprises of members of the Supervisory Board, who are being appointed by the latter and majority of them are external to and independent from the Bank.

- **The Nomination Committee** is a sub-committee to the Supervisory Board responsible for the election of candidate-members for the Management Board and the Supervisory Board in compliance with Ordinance № 20 of the BNB for issuance of approvals to management board (board of directors) as well as supervisory board members of credit institutions and the requirements in line with the performance of their functions, as well as the applicable statutory and regulatory requirements. The Nomination Committee comprises of members of the Supervisory Board, who are being appointed by the latter and majority of them are external to and independent from the Bank. The Committee defines and recommends Supervisory Board candidate-members for election by the General Meeting of Shareholders and Management Board candidate-members for election by the Supervisory Board, while taking into account the balance of professional knowledge and skills the various qualifications and professional experience of the boards members, needed for UBB's management. Besides, the Committee elaborates a description of the functions and the requirements to the candidates and determines the time expected to be dedicated by the elected members to the activity of the Management Board and the Supervisory Board.

Audit Committee

The Audit Committee is a specialized body of UBB with functions, pursuant to the Independent Financial Audit Act. The Audit Committee together with the Supervisory Board execute preliminary, ongoing and subsequent control on the compliance of UBB's activity with the applicable laws, the Articles of Association and the decisions of the General Meeting of Shareholders in the interest of UBB's clients and its shareholders. The Audit Committee members are elected by the General Meeting of Shareholders by proposal of either the Management Board's or by the Supervisory Board's chairperson. Eligible Audit Committee members can also be non-executive Supervisory Board or Management Board members. Audit Committee members can be re-elected without limitation. Eligible Audit Committee members should be persons, having a master's degree in terms of education and qualification, knowledge in the field of banking, as at least one of the members should have not less than 5-year professional experience in the field of accounting or auditing. The majority of the Audit Committee members are external to and independent of UBB pursuant to Art. 107, Para. 4 of the Independent Financial Audit Act.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Audit Committee (continued)

The Audit Committee of UBB AD comprises of two members external to and independent from the bank and one member who is at the same time Supervisory Board member. The Audit Committee is established as a separate and independent body from the Supervisory Board and the other bodies within the bank and reports directly to the General Meeting of Shareholders.

Management Board

The Management Board is responsible for UBB's activity while executing its rights and obligations as provided for in the law, its' Articles of Association, its Operational Rules and in the other Internal Rules of UBB. The Management Board makes decisions on all issues, which are not of the exclusive competence of the General Meeting of Shareholders or the Supervisory Board, while observing the provisions of the law and the Articles of Association, in compliance with the resolutions of the General Meeting of Shareholders and under the Supervisory Board's control. The particular powers of the Management Board are listed in UBB's Articles of Association, as well as in the Operational Rules of the Management Board of UBB AD and UBB AD's Corporate Governance Code.

UBB is being managed and represented by a Management Board comprising from 3 (three) up to 9 (nine) persons elected by the Supervisory Board for a mandate of up to 4 (four) years. The Management Board members may be re-elected without limitations. The Supervisory Board upon a decision of its elects the Management Board members. Each Board member may be dismissed by decision of the Supervisory Board prior to the expiration of his/her mandate.

Upon making a decision for appointment of MB members, the Supervisory Board is being assisted by the Nomination Committee, which has been established as its consultative body. The candidate-members of the Management Board shall have to comply with the requirements, indicated in Art. 11 of the Credit Institutions Act, Ordinance № 20 of the BNB on the issuance of approvals to the members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements in line with the performance of their functions, as well as with UBB AD's Articles of Association and are subject to the preliminary approval of the Bulgarian National Bank.

In 2020 the following personal changes were made in the composition of the Management Board of the Bank:

By decision of the Supervisory Board of UBB AD under Minutes No. 6 of 20.03.2020 Mr. Jan Swinnen was released as a Management Board Member of UBB AD and Mrs. Tatyana Ivanova was elected as a new member of the Management Board. The change was officially registered in the Commercial Register and Register of Non-profit Legal Entities on 09.04.2020. The number of members of the Management Board was not changed.

Committees to the Management Board

Pursuant to Art. 43, Para. 3 of UBB AD's Articles of Association in view of the bank's specific activity, the Management Board may establish specialized units and bodies. There are the following specialized bodies, established to the Management Board:

- **Credit committees** – UBB AD's credit committees are standing bodies performing management and monitoring of UBB's credit activity with regard to corporate and SME clients, as well as of specifically defined cases of clients – natural persons - within their delegated levels of competences and limits.
- **Local Risk Management Committee** – this committee is a collective body of UBB, supporting the Management Board in the decision-making regarding the risk management strategy, the risk appetite and the overall risk framework; determining the present and targeted risk profile and the capital adequacy, based on the risk appetite and the allocation of the capital; as well as all issues, relating to changes in UBB's risk profile.
- **New and Active Products and Processes Committee (NAPPC)** – It aims at ensuring the compliance of the products and processes at the bank with its approved strategy and risk appetite as well as ensuring the prerequisites for their successful implementation and distribution through all available channels (digital, mobile, traditional ones).

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Management Board (continued)

- **Corporate Sustainability and Responsibility Steering Committee Bulgaria** – A committee functioning on country level (reviewing matters common for all companies within KBC Group in Bulgaria). It assists the Country Team with the implementation and proper functioning of the approved KBC Group’s corporate social responsibility (CSR) framework in Bulgaria.
- **Sustainable Finance Committee (“GREEN-COM”)** - A committee functioning on country level (reviewing matters common for all companies within KBC Group in Bulgaria). It oversees climate-related risks within the entities of the Group in Bulgaria (UBB, DZI and UBB Interlease EAD, mainly) and supports the customers in their adaptation to climate change.
- **Local Provisioning Committee** - The Committee is established by and has received its authority by the Management Board. It is a collective body of UBB that makes decisions and recommendations on all topics related to impairments of financial assets of the Bank.
- **Local Investment Committee**, empowered to adopt decisions and has the right to approve the acquisition, investment and sale of real estate, in connection with collateral for loans from Legacy or a new bank and acquired assets, with a value equal to at least EUR 250,000 but less than EUR 1,000,000.
- **Investment Committee**, empowered to adopt decisions and has the right to approve the acquisition, investment and sale of real estate, in connection with collateral for loans from Legacy or a new bank and acquired assets with a value higher than EUR 1,000,000.
- **The Project Oversight Committee (POC)** is authorized to review, prioritize and approve all projects and project proposals including their budget and capacity requirements. POC reviews and monitors the project portfolio's progress, takes decisions on initiation, termination, closing or postponing of projects, approves or rejects requests for a change, approves or rejects the allocation of project resources (budget and IT).

Communication with shareholders

UBB AD engages itself with the principle of impartial attitude towards all its shareholders, including minority and foreign ones, by guaranteeing them equal treatment upon access to information. The shareholders are being provided with full accounting information for the year, to keep them up-to-date of UBB AD’s performance and development. The annual General Meeting provides the shareholders with an opportunity to ask questions to the UBB AD’s management and controlling bodies.

The Bank believes that the thorough disclosure and transparency of its operations is in the interest not only of its good governance, but also to the benefit of a sound and stable banking sector.

Shareholding structure

As of 31.12.2020 the share capital was allocated into 93 838 321 ordinary registered shares with nominal value of BGN 1 (one Bulgarian lev) each. Each share entitles to one vote at the General Meeting of Shareholders, right to dividend and a proportionate share upon liquidation of UBB AD’s property. UBB AD has neither issued securities with special controlling rights, nor are there envisaged restrictions in line with exercising the rights materialized in the shares issued by UBB AD.

Main shareholder of UBB AD is KBC Bank N.V. a company duly incorporated and existing under the laws of Belgium (registration No BE 0462.920.226) with seat and registered address: No.2 Havenlaan Str. 1080 Brussels Belgium with share participation in UBB AD’s capital equaling to 99.92 %.

The Supervisory Board and the Management Board members have not been vested with any special rights for acquiring UBB AD’s shares.

2. SUPERVISORY BOARD (SB)

2.1. Supervisory Board Members

Name	Year of Birth	Education/Qualifications	First election in	Mandate's validity
Luc Popelier SB Chairperson	1964	Master's Degree in Business Economics	2017	2024
Christine Van Rijseghem SB Member	1962	Master's Degree in Law and Business Administration (MBA) – Financial sciences	2017	2024
Franky Depickere SB Member	1959	Master's degree in commercial and financial sciences	2018	2022
Barak Chizi SB Member	1974	Master's degree in Industrial Engineering, Data Mining; PhD degree in Industrial Engineering, Machine learning and AI	2020	2024
Svetoslav Gavriiski Independent SB Member	1948	Master's degree in Economics of the external trade	2020	2024
Victor Yotzov Independent SB Member	1961	Master's degree in Economics, PhD degree in Economics	2020	2024

2.2. Election and mandate

UBB's Supervisory Board comprises from 3 (three) up to 7 (seven) persons elected by the General Meeting of Shareholders for a mandate of 4 (four) years and may be re-elected without limitation. Members of the SB may also be legal entities, which appoint their own representatives. The Supervisory Board elects a Chairperson and may elect a Deputy Chairperson among its members. It adopts its Operational Rules.

To date the Supervisory Board comprises of 6 (six) persons:

- 2 (two) of them have been elected SB members by virtue of a resolution of the General Meeting of Shareholders dated 14.06.2017 for a period of 3 (three) years, in accordance with the requirement of Art. 233, Para. 2 of the Commerce Act and with a resolution of the General Meeting of Shareholders dated 15.04.2020 they were re-elected for a new 4-year mandate;
- 1 (one) has been elected SB member with a resolution of the General Meeting of Shareholders dated 04.12.2018 for a period of 4 (four) years;
- 1 (one) has been elected SB member with a resolution of the General Meeting of Shareholders dated 17.12.2019 for a period of 4 (four) years; and
- 2 (two) have been elected independent SB members with a resolution of the General Meeting of Shareholders dated 15.04.2020 for a period of 4 (four) years;

SB Responsibilities pursuant to UBB Articles of Association

The Supervisory Board holds its meetings at least once per quarter. The meetings are being convened by either the Chairperson or in his/her absence - by the Deputy Chairperson through the latter's own initiative. A meeting of the Supervisory Board may be convened upon a written request by members of either the Supervisory or the Management Boards.

A meeting of the Supervisory Board shall be deemed compliant with the law if more than half of its members are either personally present or are represented by another member of the Board under a written power of attorney. A member of the Supervisory Board may not represent more than one absent member.

2. SUPERVISORY BOARD (SB) (CONTINUED)

The Supervisory Board shall make decisions with the majority vote of its members, involved in the voting. Each Board member shall be entitled to one vote.

The Supervisory Board meetings are being documented with minutes, entered into a special book, which minutes are being signed by all present or represented SB members. The Supervisory Board may also make decisions without holding of meetings, which decisions shall also be entered in the book of minutes under the condition that the proposed decisions have been provided to each and every member in writing and all Supervisory Board members have stated in writing their consent to the made decision. The Chief Executive Officer participates in the Supervisory Board meetings with advisory vote entitlement. The other Executive Directors may attend meetings of the Supervisory Board, if invited to do so. Third persons may also attend meetings without the right to vote, if invited to do so by the Supervisory Board.

The Supervisory Board has the following powers:

- ✓ it appoints and releases members of the Management Board and concludes contracts for settling the relations with them;
- ✓ approves the Operational Rules of the Management Board;
- ✓ convenes meetings of the General Meeting of Shareholders and proposes the initiation of appropriate measures when the interests of UBB make it necessary;
- ✓ makes proposals to the General Meeting of Shareholders for release of MB members from responsibility;
- ✓ through a nominated member of its, it shall represent UBB in disputes with either the Management Board or individual members of its;
- ✓ it approves the business plan of UBB, the annual budget, as well as UBB's policy on crediting and provisioning by proposal of the Management Board;
- ✓ approves decisions of the Management Board for which this has been explicitly provided in the Articles of Association;
- ✓ gives a preliminary approval for granting of internal loans under Art. 45 of the Credit Institutions Act by the Management Board. The Supervisory Board preliminary approves limits within which the Management Board standalone could make decisions for granting of internal loans under Art. 45 of the Credit Institutions Act.
- ✓ the Supervisory Board may provide an opinion on any other issue referred to it by the Management Board.

2.3. Professional experience and other activities and functions

Mr. Luc Popelier

Supervisory Board Chairman

Chief Executive Officer of International Markets Business Unit in KBC Group N.V.

Year of Birth: 1964

Mr. Popelier holds a master's Degree in Business Economics from the University in Antwerp, Belgium. He started his career as Account Officer at Overpelt (Belgium), Corporate Branch of KBC Bank (formerly Kredietbank N.V.), where he worked over the period 1988 – 1995, reaching the position Senior Account Officer CD Corporates. Mr. Popelier joined UBS – London (formerly Warburg Dillon Read) over the period April 1995 – December 1995 as Associate Director, Credit Risk Management. From January 1996 until September 1999 he held the position Director Corporate Finance Leveraged Finance Group at UBS – London (formerly SBC Warburg). In October 1999 he became Executive Director Corporate Finance at KBC Securities N.V., holding that position until September 2002. In October 2002 Mr. Popelier joined the team of KBC Group N.V. as General Manager Group Strategy and Business Development. Over the period May 2008 – February 2009 he held the position General Manager Group Trade Finance at KBC Bank N.V. From March 2009 until August 2009 Mr. Popelier was Managing Director and Member of the Executive Committee of KBC Asset Management N.V., while from September 2009 until May 2011 - CEO Market Activities and Member of the Executive Committee of KBC Group N.V. Prior to taking over his present position at KBC Group N.V. he was CFO and Executive Director at KBC Group.

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.3. Professional experience and other activities and functions (continued)

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Popelier participates:

KBC Group NV	Member of the Executive Committee
KBC Group NV - Branch Bulgaria	Branch Manager
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
KBC Asset Management NV	Chairman of the Board of Directors; Non-executive director
DZI Life Insurance Jsc	Chairman of the Supervisory Board; Non-executive director
DZI - GENERAL INSURANCE JSC	Chairman of the Supervisory Board; Non-executive director
K&H Insurance Zrt	Chairman of the Supervisory Board; Non-executive director
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Verzekeringen NV	Member of the Board of Directors; Executive director
CSOB Banka Slovakia	Chairman of the Supervisory Board
KBC Bank Ireland Plc	Chairman of the Board of Directors; Non-executive director
KBC Focus Fund NV	Chairman of the Board of Directors; Non-executive director
KBC Securities NV	Chairman of the Board of Directors; Non-executive director
KBC Insurance NV Irish Branch	Chairman of the Supervisory Body

Ms. Christine Van Rijsseghem

Supervisory Board Member

Chief Risk Officer at KBC Group NV

Year of Birth: 1962

Ms. Van Rijsseghem holds a Master's Degree in Law from Ghent University, Belgium. Moreover, she also holds a master's Degree in Business Administration (MBA) – Financial Sciences from Vlerick Business School. Ms. Van Rijsseghem started her professional career in University Graduates Team, Kredietbank in 1987. From 1988 until 1991 she worked for Central Department Foreign Entities at Kredietbank (risk management and controlling). In 1992 she became Head of Central Department of Foreign Entities (incl. International acquisition strategy). Over the period from 1994 until 1996 she held the position Head of Credit Department at Irish Intercontinental Bank (KBC subsidiary). Ms. Van Rijsseghem became Chief Executive Officer of KBC France (KBC branch) in 1996 and in 1999 – Chief Executive Officer of KBC London (KBC branch). From 2000 until 2003 she held the position Senior General Manager of Securities and Derivatives Processing Directorate, while during the period 2003 – 04.2014 she took the position of Senior General Manager Group Finance at KBC Group. In effect since May 2014 Ms. Christine Van Rijsseghem has been the elected CRO of KBC Group and Member of the Executive Committee of KBC Group.

Legal entities, other than UBB AD, in which management and controlling bodies Ms. Van Rijsseghem participates:

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.3. Professional experience and other activities and functions (continued)

KBC Group NV Belgium	Member of the Board of Directors and Executive Director
KBC Bank NV Belgium	Member of the Board of Directors and Executive Director
KBC Verzekeringen NV Belgium	Member of the Board of Directors and Executive Director
K&H Bank Zrt. Hungary	Non-executive member of the Board of Directors
KBC Ireland PLC	Non-executive member of the Board of Directors
Československá Obchodná Banka a.s. (Republic of Slovakia)	Member of the Supervisory Board
Československá Obchodní Banka a.s. (Czech Republic)	Member of the Supervisory Board
KBC Bank NV Dublin Branch	Member of the Supervisory Board

Mr. Franky Depickere

Chief Executive Officer at CERA and KBC Ancora

Year of Birth: 1959

Mr. Depickere holds a master's Degree in Commercial and Financial Sciences from the University of Antwerp (HHS-UFSIA – Belgium).

He joins CERA Group in 1982 and held several Executive Positions there for more than 17 years. In 1999 he becomes managing Director and Chairman of the Executive Committee of F. van Lanschot Bankiers Belgie NV, as well as group director of F. van Lanschot Bankiers in the Netherlands. Since 2005 onwards Mr. Depickere is also a member of the Strategic Committee of F. van Lanschot Bankiers (the Netherlands). As of September 2006, he is Managing Director of Cera and KBC Ancora.

Mr. Franky Depickere participates in managing bodies of several non-profit legal entities – Chairman of BRS vzur (Leuven, Belgium). He is a Chairman of the 'International Raiffeisen Union' (I.R.U. – Bonn, Germany). Member of the Executive Committee of EACB (European Association of Cooperative Banks in Brussels Belgium). Mr. Depickere is also Chairman of the Board of Directors of Flanders Business School (Antwerp Campus KU Leuven, Belgium), as well as a member of the Senate KU Leuven (Catholic University Leuven Belgium) and a member of the Board of Directors of KU Leuven Kulak (Kortrijk, Belgium).

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.3. Professional experience and other activities and functions (continued)

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Depickere participates:

Almancora Beheersmaatschappij NV	Member of the Board of Directors and Executive Director
Cera Beheersmaatschappij NV	Member of the Board of Directors and Executive Director
Československá Obchodní Banka a.s.	Member of the Supervisory Board
KBC Ancora commanditaire vennootschap op aandelen	Member of the Board of Directors and Executive Director
KBC Bank NV	Non-executive member of the Board of Directors
KBC Group NV	Non-executive member of the Board of Directors
KBC Verzekeringen NV	Non-executive member of the Board of Directors
Euro Pool System International BV	Non-executive member of the Board of Directors
BRS Microfinance Coop cvba	Non-executive member of the Board of Directors
International Raiffeisen Union e.V.	Chairman and Non-executive member of the Board of Directors

Mr. Barak Chizi

Supervisory Board Member

General Manager Big Data, Data Analytics and AI at KBC Group N.V.

Year of Birth: 1974

Mr. Barak Chizi graduated in 1996 as an industrial and management engineer in the Technion – Israel Institute of Technology.

He further specialized in AI and machine learning (MSc and PhD in Tel – Aviv University), and since then teaches this subject at Tel – Aviv University and In Ben – Gurion University. In 2003 he became a data specialist for the Israeli government. In parallel, he started his own consulting firm, providing unique knowledge to global companies. In 2011 he was appointed as senior R&D director and Senior Researcher at Deutsche Telekom. In May 2015, he joined KBC and from August that year he started his role as general manger big data, data analytics and AI.

He does not participate in management or control bodies in legal entities besides UBB AD.

Mr. Svetoslav Gavriiski

Independent Supervisory Board Member

Year of Birth: 1948

Svetoslav Gavriiski is independent member of the Supervisory Board of UBB as of May 2020. He graduated with major in Foreign Trade Economics from Karl Marx Higher Institute of Economics (presently re-named to University of National and World Economy, or UNWE) in 1972. His professional path started at the Ministry of Finance in 1972, where up to 1997 he held the following positions – specialist, chief specialist, expert, head of department, head of main department.

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.3. Professional experience and other activities and functions (continued)

In the period 1992 – 1997 Mr. Svetoslav Gavriiski was first Deputy Minister of Finance and from February until May 1997 he was Minister of Finance in the caretaker government. Over the period 1991 – 1994 he led the negotiations with the creditors from the Paris Club, and after that was part of the negotiations team with the London Club of private creditor banks for rescheduling and renegotiating Bulgaria’s foreign debt. Over the period 1991 – 1997 Mr. Gavriiski was member of the Management Board of Bulbank. Over the period June 1997 – October 2003 he was elected BNB Governor by the 38th National Assembly. He led the executing of the monetary reform and the introducing and maintaining of the Currency Board in Bulgaria. Mr. Svetoslav Gavriiski was representative for Bulgaria in the International Monetary Fund from 1992 until 2003, and as of 2004 – 2005 he was an advisor. From 2006 until 2016 Mr. Svetoslav Gavriiski was a member of the Management Board (from 2011 until 2016 its chairperson) and Chief Executive Officer of Allianz Bank Bulgaria AD, and from 2016 until 2018 he was Chairperson of the Management Board of Allianz Bank Bulgaria AD.

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Gavriiski participates:

Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board
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Mr. Victor Yotzov

Independent Supervisory Board Member

Year of Birth: 1961

Assoc. prof. Victor Yotzov is independent member of the Supervisory Board of UBB as of May 2020. He graduated in 1985 from the University of National and World Economy as a Master of Economics with major in Management and Planning of the National Economy (Socio-economic planning). In 2001 he acquires educational and scientific degree ‘doctor’ of Economics.

Assoc. prof. Victor Yotzov’s career path and research activity started in 1986 when, after a special competition procedure, he was appointed as a research fellow in Analytic and Forecasting Activity Section of the Economic Institute with the Bulgarian Academy of Sciences. From 1992 until 1994 he was part-time lecturer in Macroeconomics at the International Management, Trade and Marketing (MT&M) College. In the period 1998 – 2001 he is part-time lecturer in Theory of Money and Credit in Finance Department with the University of National and World Economy.

In 1995 Victor Yotzov started working at the Bulgarian National Bank as an expert in Balance of Payments and Foreign Debt Department, while in 1997 he became head of the Economic Research Department at the BNB. In 2001 Assoc. prof. Victor Yotzov was appointed as Head of Economic Research and Forecasts Directorate and acting as Chief Economist of the BNB. Over the period 2003 – 2010 he worked as a representative for Bulgaria at the International Monetary Fund and counsel to the Executive Director. In 2014 upon obtaining an academic rank Victor Yotzov became Associate Professor in Finance Department of the University of National and World Economy and at the same time was appointed at the Macroeconomics Section at the Institute of Economic Research with the Bulgarian Academy of Sciences. He is author of many publications in the field of finance. His scientific interests are in the domains of monetary theory, banking, public finance and foreign trade. In the period 2016 – 2018 he is a Director of the Economics and Policies Institute with the University of National and World Economy. In June 2015 Assoc. prof. Victor Yotzov was nominated for holding a BNB Governor position.

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Yotzov participates:

Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board
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2. SUPERVISORY BOARD (SB) (CONTINUED)

2.4. Internal organizational structure

Allocation of responsibilities among the Supervisory Board members

SB Member	Supervisory Board	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Luc Popelier	(Chairman)		(Chairman)	(Chairman)
Christine Van Rijsseghem	•	(Chairperson)		
Franky Depickere	•			
Barak Chizi	•			
Svetoslav Gavriiski	•	•	•	•
Victor Yotzov	•	•	•	•

2.5. Annual Report of the Supervisory Board

In 2020 the Supervisory Board of United Bulgarian Bank held 22 meetings, of which 4 *in praesentia* and 24 *in absentia* ones, pursuant to Art. 39, Para. 4 of the UBB's Articles of Association, namely: The proposed decisions were provided to every member in writing and all SB members have stated their consent to those in writing.

The requirement of Art. 38, Para. 1 of the Bank's Articles of Association has been observed, according to which the Supervisory Board is to hold its meetings at least once per quarter, as in 2020 regular *in praesentia* meetings were held every quarter – April, June, September and December 2020.

The average duration of the Supervisory Board meetings was 2 hours, which is deemed sufficient and optimal for detailed discussions on the agenda items, in view of the approval practices. In brief, the main reviewed, discussed and approved topics by the SB in 2020 may be summarized, as follows:

1. The first group of topics reviewed by the Supervisory Board during 2020 are related to approval of changes in the composition of the Management Board of UBB AD, as well as in the composition of the committees to the Supervisory Board.

2. The second group of issues reviewed by the SB in 2020 are changes in the internal banking regulation (for the documents, which according to the Articles of Association of the bank need to be ratified by the Supervisory Board).

3. By virtue of Art. 37, Para. 2, Item 7 in relation to Art. 48, Para. 1, Item 3, letters „d“ and „h“ of the UBB's Articles of Association were approved material internal organizational changes; establishment and closing of directorates and standalone departments, as well as appointment of heads of such structural units; allocation of the functions among the UBB's representatives in terms of the subordination of the main structural units at UBB – directorates and standalone departments.

4. The agenda of the *in praesentia* meetings of the SB during 2020 included review of the financial performance from UBB's activity as at the end of each quarter, reports on the activity of the Chief Executive Officer of UBB for the respective quarter were discussed, reports on the effect on the activity of the Bank coming from the changed economic environment as a result of the coronavirus COVID-19 pandemic, as well as other issues which were of the SB competence, pursuant to UBB AD's Articles of Association, the Operational Rules of the Supervisory Board and the UBB's internal rules and regulations.

5. Decisions related to subsidiaries and associated companies of the bank in the cases when this is required by the law or the Articles of Association of UBB AD.

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.5. Annual Report of the Supervisory Board (continued)

6. Giving preliminary approval by the Supervisory Board for forming of internal exposures of the bank, pursuant to Art. 45 of the Credit Institutions Act and Ordinance 37 of BNB for the Internal exposures of the banks in all cases except when the amount of the exposure is within the limit pre-approved by the Supervisory Board and within which the Management Board could standalone form these exposures (including the decision for defining this limit by the Supervisory Board).

7. Other SB decisions adopted in 2020 – approval of the report of the MB for the activity of UBB AD for 2019 and the certified by the auditors annual financial report for 2019, annual review of all equity participations of UBB AD in other entities, approval of the selection of first and second auditing companies for verification and certification of UBB’s annual financial statements for 2019 by virtue of Art. 76, Para. 1 and 4 of the Credit Institutions Act; approval of the decisions made by the committees to the SB at the meetings held by them; convening of the General Meeting of Shareholders, when this was necessary; approval of the split per month and per segments of APC budget of UBB AD for 2020, on consolidated basis, as well as the KPIs of UBB AD for 2020, on consolidated basis.

The activity of the Supervisory Board over 2020 aimed at ensuring effective control on the compliance of UBB’s operations with the applicable laws the Articles of Association and the resolutions of the General Meeting of Shareholders in the interest of UBB’s clients and its shareholders while guaranteeing the implementation of the long-term strategy and the set immediate objectives before UBB AD for the accomplishment of which UBB’s Management Board is accountable.

3. MANAGEMENT BOARD

3.1. Management Board Members

Name	Year of Birth	Position	Education/ Qualification
Peter Andronov Chairman	1969	Chief Executive Officer	Master's Degree in Finance
Christof De Mil Member	1973	Executive Director Finance	Master's Degree in Applied Economics and Business Administration
Svetla Georgieva Member	1967	Executive Director Risk	Master's Degree in International Business Management and Business Administration qualification in Industrial Electronics
Desislava Simeonova Member	1972	Executive Director SME & Corporate Segment	Master's Degree in Law
Teodor Marinov Member	1971	Executive Director Legacy and Subsidiaries	Master's Degree in Systems & Management and Business Administration
Ivaylo Mateev Member	1967	Executive Director Operations	Master's Degree in Economics & Management of Commerce
Tatyana Ivanova Member	1975	Executive Director Marketing and Retail Distribution	Master's degree in Finance and Management Business Administration
Persons non-members of the Management Board but present at the Board meetings with advisory vote entitlement:			
Hristina Filipova Procurator	1952	Procurator	Master's Degree in Economics

3. MANAGEMENT BOARD (CONTINUED)

3.2. Election and mandate

The Management Board comprises from 3 (three) up to 9 (nine) persons elected by the Supervisory Board for a mandate of up to 4 (four) years. The Management Board members may be re-elected without limitations. The Supervisory Board upon a decision of its elects the members of the Management Board. Each board member may be dismissed by decision of the Supervisory Board prior to the expiration of his/her mandate. The Management Board upon the Supervisory Board's approval elects a Chief Executive Officer among its members. The Chief Executive Officer performs the overall management organization and the day-to-day managerial control on the UBB's activity. The Management Board adopts its Operational Rules which is approved by the Supervisory Board.

To date the Management Board comprises of 7 (seven) persons who have been elected MB members by virtue of decisions of the Supervisory Board dated 14.06.2017, 20.07.2017, 28.11.2018 and 20.03.2020, for a period of 4 (four) years in accordance with the requirement of Art. 41, Para. 1 of the UBB's Articles of Association.

MB Responsibilities pursuant to UBB's Articles of Association

The Management Board makes decisions on all issues which are not of the exclusive competence of the General Meeting of Shareholders or the Supervisory Board, while observing the provisions of the law and the Articles of Association in compliance with the resolutions of the General Meeting of Shareholders and under the Supervisory Board's control.

In view of the UBB's specific activity the Management Board holds regular meetings at least once per month. The meetings are being convened by the Management Board Chairman upon his initiative by request of a Board member or by request of the Supervisory Board Chairperson. The Management Board may make decisions if more than half of the Board members are present at the meeting - either in person or represented by another Board member empowered with a written power of attorney.

The Management Board decisions are made with the majority vote of the present Board members, unless the law or the Articles of Association require another majority type. When a decision is being made as regards election, dismissal or defining the scope of an executive director's responsibilities, the latter shall not be involved in the voting. The Management Board may adopt decisions in writing also without holding meetings in case that the proposed decisions are provided to each Board member in writing and all MB members have stated in writing their consent to the decisions made.

The Management Board has the following powers:

- ✓ Defines the general trends of the UBB's activity in its credit interest rate and accounting policy;
- ✓ Organizes and steers the implementation of the resolutions of the General Meeting of Shareholders;
- ✓ Upon the SB's approval makes decisions on closing or transferring UBB's enterprise or essential parts thereof; opening and closing of branches; material change in UBB's activity; essential internal and organizational changes; establishment and closing of directorates and standalone departments as well as appointment of heads of such structural units; long-term cooperation of essential importance for UBB or termination of such cooperation; acquisition of 25 % or more of the voting rights or of a legal entity's registered capital as well as in any case when the value of such acquisition exceeds 10% of UBB's equity; empowering at least two of its members - Executive Directors - to represent UBB and to carry out its operational management, as well as election of a MB Chairperson and Chief Executive Officer; allocation of the functions between the persons managing and representing UBB in terms of the subordination of main structural units at UBB – directorates and standalone departments; empowerment of commercial representatives and procurator/s of UBB and conclusion of a procurator's contract; disposal of a substantial part of UBB's property including rights on intellectual property which value exceeds 5% of the Bank's equity in accordance with the recent monthly accounting statements;
- ✓ Adopts the internal rules on UBB's activity and its Operational Rules which are approved by the Supervisory Board;

3. MANAGEMENT BOARD (CONTINUED)

3.2. Election and mandate (continued)

✓ Makes decisions on granting of large exposures as per Art. 44 of the Credit Institutions Act and of internal loans pursuant to Art. 45 of the same act for restructuring early collection, as well as initiation of enforcement actions with respect to risk exposures exceeding in amount the figures as determined in the internal rules of UBB upon a reasoned proposal by the respective specialized body of UBB;

✓ Prepares and submits for approval to the Supervisory Board the annual financial statements, the report on the company's activity and the profit allocation proposal.

✓ Makes decisions on the organizational structure of the specialized internal audit unit, its staff number, the requirements for professional qualification, experience and the other requirements to the internal audit inspectors in view of the reasonable needs of control while complying with the budget, as determined by the General Meeting of Shareholders.

✓ Also performs other functions assigned to it by the General Meeting of Shareholders, the SB, the Articles of Association and the law.

3.3. Professional experience and other activities and functions

Mr. Peter Andronov

Chairman of the Management Board and Chief Executive Officer

Year of Birth: 1969

Mr. Andronov holds a master's Degree in Finance from the University of National and World Economy - Sofia. He started his career as expert at USW Financial Consulting company where he worked during the period June 1994 – November 1994, after which until May 1996 he worked as Expert / Chief Expert and Unit Manager in the field of analysis and methodology at two commercial banks in Bulgaria. Mr. Andronov started working for the Bulgarian National Bank in 1997, holding the position of Expert and later on Chief Expert to the BNB Governor's Office. From 2003 until May 2007 Mr. Andronov was member of the BNB Investment Committee and from 2002 until 2007 he was General Director of Banking Supervision Department at the BNB. In 2007 Mr. Andronov joined the team of CIBANK EAD as Executive Director, while in 2008 he was elected Chief Executive Officer of that same bank. On 14.06.2017 he was also elected Chairman of the Management Board and Chief Executive Officer of UBB AD.

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Andronov participates:

- Borica AD - Member of the Board of Directors
- Mr. Peter Andronov is Chairman of the Association of Banks in Bulgaria which is a non-profit organization.

Mr. Christof De Mil

Management Board Member and Executive Director Finance

Year of Birth: 1973

Mr. De Mil holds a master's Degree in Applied Economics from Ghent University, Belgium and in Business Administration from INSEAD. He started his professional development as manager of Ghent branch at Kredietbank, Ghent, Belgium in 1995. In 2000 he joined KBC Group, Zelzate, Belgium, where he held positions as Zelzate Branch Manager (until 2003) and Cluster Manager (from 2003 until 2005). Over the period from 2006 until 2011 Mr. De Mil was elected Executive Director, responsible for the management of the branch network at CSOB (part of KBC Group) Prague, Czech Republic. Since 2013 he has been part of the team of CIBANK EAD, holding the positions Executive Director Distribution, Payments, Marketing, Data Analysis and member of the Country Team of KBC Group for Bulgaria, with responsibilities for the bank-insurance business, while in 2017 he was elected Executive Director Finance and Country Finance Director. Since June 2017 Mr. Christof De Mil has been UBB AD Management Board Member and Executive Director Finance.

3. MANAGEMENT BOARD (CONTINUED)

3.3. Professional experience and other activities and functions (continued)

Legal entities, other than UBB AD, in which management and controlling bodies Mr. De Mil participates:

- Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Chairman of the Executive Board
- German – Bulgarian Chamber of Industry and Commerce – non-profit association – Chairman of the Expert Committee ‘Banking and Insurance’

Ms. Svetla Georgieva

Management Board Member and Executive Director Risk

Year of Birth: 1967

Ms. Georgieva holds a master’s Degree in Management of International Business from the University of National and World Economy in Sofia, Bulgaria, a Master’s Degree in Business Administration from the University of Washington, USA, as well as qualification with major in Industrial Electronics from Moscow Power Engineering Institute, Russia.

She started her career as a computer engineer in Proton OOD - Dimitrovgrad in August 1991 and continued to work there until March 1992. In August 1992 Ms. Georgieva started work in 7M-AD Financial & Brokerage House at the position of FX Cashier. Over the period from October 1994 until May 2005 she worked at ING Bank N.V., Sofia branch holding consequently the following positions: Chief Cashier, Office Manager, Documentary Operations and Credit Administration (Corporate Banking and Retail Banking). From May 2005 until October 2008 Ms. Georgieva was head of Credit Risk Management Services at CITIBANK Sofia branch. In October 2008 she joined the team of CIBANK JSC at the position of head of Retail Credit Risk Department while in March 2013 she was promoted to the position Deputy Director of Credit Management Directorate. In 2014 Ms. Georgieva was elected Country Risk Manager and Executive Director Risk at CIBANK EAD. In 2017 she joined UBB AD as MB Member and Executive Director Risk.

There are no legal entities, other than UBB AD, in which management and controlling bodies Ms. Georgieva participates.

Mrs. Desislava Simeonova

Management Board Member and Executive Director SME & Corporate Segment

Year of Birth: 1972

Desislava Simeonova holds a master’s degree in Law. She started her professional career as a legal trainee at Sofia City Court. In 2000 she was appointed as a public enforcement agent at the State Receivables Collection Agency to the Ministry of Finance. Subsequently she also worked as a legal counsel at the Legal Directorate and an expert to the Inspectorate of that same institution.

Over the period 2004 – 2008 she worked as a legal counsel at the Bulgarian National Bank, Banking Supervision Department. She joined the team of CIBANK at the Corporate Officer position. Later on, she consecutively managed Legal Services and Methodology Directorate and in 2016 she was appointed SME Director, while achieving excellent results in that segment. After the acquisition of UBB AD by the Belgian financial group KBC in 2017 Desislava Simeonova took over the function of SME Distribution Director at UBB. As of February 2nd, 2019 she is a MB Member and Executive Director SME and Corporate at UBB AD.

Legal entities, other than UBB AD, in which management and controlling bodies Mrs. Simeonova participates:

- UBB Interlease EAD - Member of The Board of Directors
- UBB Insurance Broker EAD - Member of The Board of Directors
- "Atanas Burov" Foundation - Member of the Management Board

3. MANAGEMENT BOARD (CONTINUED)

3.3. Professional experience and other activities and functions (continued)

Mr. Teodor Marinov

Member of the MB and Executive Director Legacy and Subsidiaries

Year of Birth: 1971

Mr. Marinov holds a master's Degree in Systems Control from the Technical University, Sofia, as well as an MBA from London Business School. He is also a Chartered Financial Analyst. Mr. Marinov started his career as a Financial Analyst at the Bulgarian Stock Exchange and then worked as a Customer Relationship Manager at the Bulgarian Investment Bank AD before being promoted to Credit Analysis Unit Manager. In 1997 Mr. Marinov was recruited as Investments Manager in Balkan Regional Division of the National Bank of Greece. He held the position of Executive Director of Interlease EAD during the period 2001-2010 and currently he is a Chairperson of the Board of Directors of UBB Interlease EAD. Also, he was member of the Board of Directors of NBG Leasing DOO, Serbia and NBG Leasing – Romania until June 2017. Mr. Marinov is a member of CFA Institute since 2001, member of the Bulgarian CFA Association and the Bulgarian Turnaround Management Association. In June 2017 Mr. Marinov was elected MB member and Executive Director Legacy of UBB AD, while in July 2017 - also a MB member and Executive Director Legacy at CIBANK JSC. As of 2019 he is also responsible for the subsidiaries of UBB AD.

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Marinov participates:

- UBB Interlease EAD - Chairperson of the Board of Directors
- UBB Insurance Broker EAD - Chairperson of the Board of Directors

Mr. Ivaylo Mateev

Member of the MB and Executive Director Operations

Year of Birth: 1967

Mr. Mateev holds a master's Degree in Management of Commerce at the University of National and World Economy (UNWE) Sofia. He started his career in 1992 in the Bank Policy Unit, United Bulgarian Bank. From 1993 to 1995 he worked at Strategic Planning Unit of UBB. In 1996 he was appointed Manager Management Accounting Unit at UBB and in 1998 - Project Manager of the EQUATION Project. During the period 2000-2008 he held the following positions at UBB: Project Manager – GLOBUS system implementation project Director Business Processes and Organization Department, Director Branch Network Management Department. In 2008 he had a long-term assignment for implementing the T24 core banking system, managing a centralization project at Vojvodjanska Banka Novi Sad. Mr. Mateev has been Chief Operating Officer of UBB since 2009. In June 2017 he was elected MB Member and Executive Director Operations of UBB AD, while in July 2017 - MB member and Executive Director Operations at CIBANK EAD.

Legal entities, other than UBB AD, in which management and controlling bodies Mr. Mateev participates:

- Drujestvo za Kasovi Uslugi AD - Member of the Board of Directors
- Non-profit association Marianka - Member of the Management Board
- 'Zhivo selo' Foundation - Member of the Committee on the trainings control

Mrs. Tatyana Ivanova

Member of the Management Board and Executive Officer Marketing and Retail Distribution

Year of Birth: 1975

Tatyana Ivanova started her career 20 years ago in Société Generale and built since then a broad and international career in various subsidiaries of the Group. She was, amongst others, Retail Director in the Republic of Macedonia, worked several years as Head of Sales promotion in Russia, as Marketing manager in the HQs Paris, as well as Head of Marketing and Digital banking in Société Generale, Bulgaria. As of the beginning of November 2018 until taking the position of a Management Board Member and Executive Officer Marketing and Distribution – Retail banking, she is Director of Retail Marketing and Digital Sales Directorate in UBB. Tatyana holds EMBA from HEC-Paris. She is fluent in English, French and Russian.

3. MANAGEMENT BOARD (CONTINUED)

3.3. Professional experience and other activities and functions (continued)

There are no legal entities, other than UBB AD, in which management and controlling bodies Ms. Ivanova participates.

Ms. Hristina Filipova

Procurator

Year of Birth: 1952

Ms. Filipova holds a master's Degree in Economics from the University of National and World Economy - Sofia. She started her career path in 1978 as an accountant at the Bulgarian National Television. From 1980 until 1983 Ms. Filipova worked as Specialist - Economist at the Institute for Hydrotechnical Equipment and Meliorations.

In 1983 she worked as a primary school teacher in Havana, Cuba, while in 1986 she returned to Bulgaria and started work at the Institute for Hydrotechnical Equipment and Melioration. Ms. Filipova held the position Specialist at the BNB - Blagoevgrad until 1991, after which she worked as branch manager of Rila branch at BTB AD – Blagoevgrad. Over the period from August 1992 until April 1996 she worked at TS Bank AD, consequently holding the positions Deputy Branch Manager of Blagoevgrad Branch, Deputy Chief Accountant and Chief Accountant. In January 1996 Ms. Filipova was elected member of the Board of Directors of the Bulgarian-Russian Investment Bank AD, as in March 1996 she became Executive Director, while in October 1997 - Commercial Representative at that same bank. In 2000 Ms. Filipova was empowered as a procurator of BRIBANK. Since 2007 until February 2018 she is part of the team of CIBANK EAD, while holding the following positions: Commercial Representative (2007 – 2011), MB Member and Executive Director (2001 – 2014) and Procurator (from 2014 until February 2018). In August 2017 Ms. Filipova was empowered as a Procurator of UBB AD.

There are no legal entities, other than UBB AD, in which management and controlling bodies Ms. Filipova participates.

3.4. Annual report of the Management Board

In 2020 the Management Board of United Bulgarian Bank held 65 meetings of which 56 *in praesentia* (which as of March 2020 are held via videoconference connection) and 9 *in absentia* ones, pursuant to Art. 46, Para. 1 of the bank's Articles of Association, namely: the proposed decisions were provided to every member in writing and all MB members stated their consent to those decisions in writing. The requirement of Art. 44, Para. 1 of UBB's Articles of Association, according to which the Management Board shall hold regular meetings at least once per month has been complied with. The average duration of the Management Board meetings was 3 hours, which is deemed sufficient and optimal for detailed discussions on the agenda items, in view of the approval practices. In brief, the main reviewed, discussed and approved topics by the MB in 2020 may be summarized, as follows:

1. Issues within the competence of the Management Board pursuant to Art. 48 of the UBB's Articles of Association and Art. 21 of the Operational Rules of UBB AD's Management Board, which have been described in detail in Item 1 of the present Statement.
2. All issues not explicitly stated as competences of UBB AD's Management Board in the Articles of Association, the Operational Rules of the MB and UBB's internal rules and regulations but which had to be discussed by UBB's managing body pursuant to Art. 48, Para. 1, Item 8 (also performs other functions assigned to it by the General Meeting of Shareholders, the Supervisory Board, the Articles of Association and the law) and while abiding by the provisions of Art. 43, Para 2 (...all issues which are not of the exclusive competence of the General Meeting of Shareholders or of the Supervisory Board ...) of UBB AD's Articles of Association.

The activity of the Management Board over 2020 aimed at ensuring flexible, however sustainable development and budget fulfillment, defining the long-term strategy thus strengthening UBB's management and control while guaranteeing the implementation of the long-term strategy and the set immediate objectives before UBB AD for the accomplishment of which UBB's Management Board is accountable.

4. COMMITTEES TO THE SUPERVISORY BOARD

4.1. Risk and Compliance Committee

4.1.1. Risk and Compliance Committee Members

Ms. Christine Van Rijsseghem

UBB Risk and Compliance Committee Chairperson
UBB Supervisory Board Member

Mr. Svetoslav Gavriiski

UBB Risk and Compliance Committee Member
Independent member of the UBB Supervisory Board

Assoc. prof. Victor Yotzov

UBB Risk and Compliance Committee Member
Independent member of the UBB Supervisory Board

Pursuant to amendments in Ordinance 7 of BNB for the organization and risk management of banks, adopted in 2019, the Risk and Compliance Committee should have at least three members and the majority of them should be independent according to Art. 10a, Para. 2 of the Credit Institutions Act. After the personal change in the composition of the Supervisory Board in the beginning of 2020 was executed, namely the election of two new independent members, they have been elected as members of the Risk and Compliance Committee.

4.1.2. Risk and Compliance Committee Report

The Risk and Compliance Committee advises the Supervisory Board on the present and future risk appetite and the risk management strategy as well as the present and future compliance rules. This Committee supports the Supervisory Board in the monitoring and management of the process for implementing these elements and rules by the executive management. Besides, it controls as to whether the value of the assets and liabilities and the off-balance sheet product categories offered to clients comply with the business model and the risk management strategy and controls whether the risk tolerance and the strategic framework have been integrated in UBB's Remuneration Policy.

The Risk and Compliance Committee holds its meetings at least four times a year as the external auditors are invited to and should participate in at least two meetings within a year. The Risk and Compliance Committee has a standing secretary appointed by the Chairperson.

In 2020 UBB's Risk and Compliance Committee held four meetings attended by all its members.

In brief, the main topics were: review of the regular integrated risk report; the regular report on the results from the management of the Bank's legacy portfolio; overview of the situation on the real estate market; review of the regular compliance report; information about legal claims of large importance; information about the risk-based pricing; information about internal control statements and information about risk assessment of the remuneration policy and practice.

The members of the Risk and Compliance Committee discussed and accepted the Annual Compliance Report, Annual MIFID Report, the Annual Anti-Money Laundering Report and the Annual Data Protection Officer Report. The Committee also acknowledged and approved the priorities of Risk Management Directorate and Compliance Directorate for 2021.

The Committee reviewed and proposed to the SB for ratification the following documents: Risk Appetite Framework of UBB for the period 2020-2022, ICAAP/ILAAP Reports, revised version of the Compliance Function Charter and revised version of Integrity Policy of UBB.

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.2. Remuneration Committee

4.2.1. Remuneration Committee Members

Mr. Luc Popelier

UBB Remuneration Committee Chairman
UBB Supervisory Board Chairman

Mr. Svetoslav Gavriiski

UBB Remuneration Committee Member – external and independent
UBB Supervisory Board Member

Mr. Victor Yotzov

UBB Remuneration Committee Member – external and independent
UBB Supervisory Board Member

Pursuant to amendments in Ordinance 4 of BNB for the requirements for remunerations in banks, adopted in 2019, the Remuneration Committee should have at least three members and the majority of them should be independent according to Art. 10a, Para. 2 of the Credit Institutions Act.

In the beginning of 2020 two new independent members of the Supervisory Board were elected, they were elected for members of the Remuneration Committee as well. In order to comply with the requirement to have majority of independent members in the committee, one of the existing members of the Remuneration Committee was released and only one member remained from the representatives of the majority shareholder – KBC Bank NV.

4.2.2. Remuneration Committee Report

UBB Remuneration Committee performs its activities in conformity with the objectives, principles and scope of UBB Remuneration Policy.

It is subordinate to the Supervisory Board and consists of members of this Board. The Committee elects Chairman and Secretary and operates effectively according to its work rules, approved by the Supervisory Board. The Remuneration Committee exercises competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. It is responsible for the preparation of decisions regarding remunerations, while taking into account the implications for the risk and risk management at the bank, the long-term interests of shareholders, investors and other stakeholders in the bank. In 2020 the Committee held two meetings. The main topics on the agenda and the decisions were related to approval of an amendment with regard to the risk gateway parameters for 2020 in the UBB Remuneration Policy, approval of variable remuneration for the previous year and payment of the deferred amounts for past years, changes in fixed remuneration, approval of the KPIs for the Board members. At the second meeting of the Committee in 2020 the topics and decisions taken were related to Ratification of the new KBC Group Remuneration Policy and a new UBB Remuneration Policy. All proposals were approved by the Supervisory Board.

4.3. Nomination Committee

4.3.1. Nomination Committee Members

Mr. Luc Popelier

UBB Nomination Committee Chairman
UBB Supervisory Board Chairman

Mr. Svetoslav Gavriiski

UBB Nomination Committee Member – external and independent
UBB Supervisory Board Member

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.3.1. Nomination Committee Members (continued)

Mr. Victor Yotzov

UBB Nomination Committee Member– external and independent

UBB Supervisory Board Member

Pursuant to the Ordinance 20 of BNB for Issuance of Approvals to Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties, adopted in 2019, the Nomination Committee should have at least three members and the majority of them should be independent according to Art. 10a, Para. 2 of the Credit Institutions Act. In the beginning of 2020 two new independent members of the Supervisory Board were elected, they were elected for members of the Nomination Committee as well. In order to comply with the requirement to have majority of independent members in the committee, one of the existing members of the Nomination Committee was released and only one member remained from the representatives of the majority shareholder – KBC Bank NV.

4.3.2. Nomination Committee Report

The Nomination Committee identifies and recommends for selection by the General Meeting of Shareholders candidate members of the Supervisory Board, or by the Supervisory Board – candidate members of the Management Board, taking into account the balance of professional knowledge and skills, the various qualifications and experience of the members of the Board necessary for the management of the bank. In addition, the Committee prepares description of the functions and the requirements for candidates and determines the time that the selected members are expected to spend in the work of the Management Board and of the Supervisory Board.

The Committee determines a target level in relation to the participation of the under-represented gender in the composition of the Management Board and of the Supervisory Board and develops a policy to increase the number of representatives of the under-represented gender in the composition of the boards to achieve this level.

The Nomination Committee performs analysis periodically but not less than once a year of the structure, composition, number of members and the results of the work of the Management Board and of the Supervisory Board and provides recommendations for possible changes. It analyses periodically but not less than once a year, the knowledge, skills and experience of the members of the Management Board and of the Supervisory Board, as a whole and individually of each member, and reports to each of them.

Reviews periodically the Management Board policy for selection and appointment of members of the senior management staff and provides recommendation to it.

While performing its functions the Nomination Committee analyses periodically the necessity to guarantee that the process of decision making by the Management Board and by the Supervisory Board is not controlled by a separate person or a small group of people in a way which could harm the interests of the bank.

The Committee reports to the Supervisory Board on the activities, conclusions and recommendations for improvement after each meeting. Minutes of the meetings held by the Nomination Committee are kept by a permanently appointed secretary, an employee at the Human Resources Management Directorate, which Minutes should be presented to the Committee members and the Supervisory Board for approval.

In 2020 the Committee held two meetings with the participation of all of its members. The main topics on the agenda and the decisions were related to the acknowledgement of the results from the conducted self-evaluation of the activity of the Supervisory Board and the identified areas for improvement.

At the second meeting of the Nomination Committee in 2020, the topics and the decisions taken were related to annual assessment of the structure, size, composition and performance of the Management Board and Supervisory Board of UBB for 2020 acknowledging the changes with respect to Management Board and Supervisory Board of UBB as well as acknowledging the collective suitability assessments of the new members of the Management Board and Supervisory Board.

All proposals of the Committee were ratified by the Supervisory Board.

5. AUDIT COMMITTEE

5.1. Audit Committee Members and professional experience

In compliance with the requirements in the new Independent Financial Audit Act in December 2018 changes were adopted in the composition and the place of the Audit Committee within the structure of the bank, with a decision of the General Meeting of Shareholders as of 04.12.2018.

As a result, the Audit Committee of UBB AD comprises of two members external to and independent from the bank (majority) and one member who is at the same time Supervisory Board member – Mr. Luc Popelier. One of the external and independent members of the Audit Committee - Prof. Statty Stattev, is also Chairperson of the Committee, pursuant to the requirements of the Independent Financial Audit Act (Art. 107, para. 6).

The Audit Committee is established as a separate and independent body from the Supervisory Board and the other bodies within the bank, which reports directly to the General Meeting of Shareholders.

Prof. Statty Stattev

Audit Committee Chairman

Year of Birth: 1955

Prof. Statty Stattev was Rector of the University of National and World Economy (UNWE) in Sofia, Bulgaria throughout 2011-2019. For the period (2012 – 2019) he was also Deputy Chairman of the Rectors Council in the Republic of Bulgaria.

He is professor of Macroeconomics and Political economy, Doctor of Economic Sciences. For 40 years Prof. Stattev has been holding different academic and other positions in the UNWE such as Head of the Economics Department, Director of the Institute of Economics and Politics, Dean of Faculty, Deputy Rector and first Deputy Rector. He has also international academic experience at Boston University, Massachusetts, USA and Moscow University, Russia. In 1990, he worked as a consultant to the World Bank, in the Development Economics Department, Washington, USA. He is head and consultant of numerous national, international and European scientific projects on macroeconomics and financial analyses, entrepreneurship, education, business, etc. In addition, Prof. Stattev is a member of several professional bodies and academic organizations. He has more than 180 scientific publications in Bulgarian, English, Russian, Polish, Greek, Serbian and Albanian.

In the period June 2004 – June 2016 Prof. Stattev was member of the Governing Council of the Bulgarian National Bank. From 2015 to 2018 he was also Chairman of the Board of Directors of Bulgarian Mint EAD.

Ms. Snezhana Kaloyanova

Audit Committee Member

Year of Birth: 1966

Ms. Kaloyanova holds a Master's Degree in Accountancy and Control from the University of National and World Economy (former Karl Marx Higher Institute of Economics). She started her professional career in 1985 as an accountant at the Agrarian and Industrial Complex in Dragovishtitsa town. Over the period January 1988 – October 1989 she held the position of an accountant at the Machines and Tractors Facility in Shishkovtsi village. Over the period December 1991 – May 1995 Ms. Kaloyanova was Chief Accountant at Manov&Co enterprise. Ms. Kaloyanova was manager and senior manager at Audit and Business Consultancy Services and partner in the specialized auditing company PricewaterhouseCoopers Audit OOD for the period from May 1995 until September 2006. Over the period September 2006 - May 2007 she was co-founder and partner in the specialized auditing company Moore Stephens Bulmar Financial Audit OOD. Since May 2007 to date she has been managing partner in NS CONSULTING OOD auditing company. Ms. Kaloyanova is a certified public accountant and a registered auditor, Member of the Institute of Chartered Certified Public Accountants since 1994 to date.

5. AUDIT COMMITTEE (CONTINUED)

5.1. Audit Committee Members and professional experience (continued)

She has been in charge of engagements for expressing assurance (audits and reviews) on individual and consolidated annual and interim financial statements prepared in accordance with the National Financial Reporting Standards for Small and Medium-sized Enterprises (NFRSSMSE) or with the International Financial Reporting Standards (IFRS) (including also their first-time application), on group reporting forms prepared in accordance with the IFRS, the Generally Accepted Accounting Principles of the Great Britain and Italy of more than 200 different enterprises including: banks insurance companies; she has been involved in and managed projects for due diligence engagements for performance of agreed procedures on financial and other type of information including also the implementation of agreements for provision of gratuitous financial aid under PHARE Programme and the EU Operational Programmes projects for compiling of financial information, consultations on financial reporting and business restructuring projects for elaboration of business plans, she has been expert witness in litigation proceedings.

Ms. Kaloyanova has been Deputy Chairperson of the Professional Ethics Committee (PEC) of the Institute of Certified Public Accountants and Chairperson of the Committee for Oversight of the Quality of Audit Services (COQAS) of that same Institute.

Mr. Luc Popelier

Audit Committee Member

Chief Executive Officer of International Markets business unit in KBC Group N.V.

Year of Birth: 1964

Autobiography – please, see it. 2.3. Professional experience and other activities and functions of the current statement.

5.2. Audit Committee Report

The main topics, discussed during the 2020 meetings of the UBB AD Audit Committee were related to the reporting in the area of Finance and Risk, monitoring on the Internal Audit activity and the implementation of the Audit Plan and review of documents, addressing material risks to the Bank including also reports by internal and external auditors and regulatory institutions.

Furthermore, the Audit Committee prepared and provided its annual report to the Commission for public oversight of statutory auditors.

6. COMMITTEES TO THE MANAGEMENT BOARD

6.1. Credit Committees

UBB AD credit committees are standing bodies for effecting the management and monitoring on UBB's lending activity with regard to corporate and SME clients, as well as specifically defined cases of clients – natural persons within the framework of their delegation levels and competence limits. Within their competences the credit committees comply with UBB's risk appetite in the field of corporate lending, as determined by the Management Board and the Local Risk Management Committee and strictly apply UBB's approved policy on corporate lending, as well as all other instructions, procedures and methodologies, applicable to this activity.

The credit committees have the following functions to:

1. Review and analyze proposals for concluding new credit deals with separate clients and with economically related parties, make decisions on those in compliance with their delegated limits of competence.
2. Assess the creditworthiness and the credit risk, related to requests for conclusion of credit deals beyond their competence limits, while observing the subordination hierarchy and provide opinions to the authorized bodies with a higher level of competence - MB or the KBC Headquarters (GCRD), for consideration and final decision-making.

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

6.1. Credit Committees (continued)

3. Analyze the submitted proposals by the business units or by the Problem Loans Collection Directorate (PLC) concerning UBB's problematic exposures in the cases when this is within their delegated limits of competence, as well as make decisions on their renegotiation, restructuring action plan for their monitoring, which should either continue in the business units or be taken up by PLC Directorate, announcement of early collection; proposals for provisions' allocation /write-back; proposals for participation into public auction sales, determining the sale price of assets (collaterals) and others, which nature resembles amendment of terms and conditions under existing credit contracts proposals for PD ratings' change/validation; other proposals (presented as reports or memos) of lending nature.

4. Review and approve the annual/planned reviews of all credit exposures within their approved competence limits and powers.

5. Review proposals for appeal of decisions on credit deals, which have been considered at lower approval levels and are within their delegated limits of competence and authorities.

6. Review also of retail credit deals above certain parameters in terms of consumer and mortgage loans, proposed as an exception to the approved characteristic features of the respective products.

Types of credit committees at UBB AD:

1. Regular Loans Credit Committee – as regards all proposals, pertaining to existing clients with regular exposures, as well as loans to new clients.

2. Problem Loans Credit Committee

3. Credit Committees levels I – III – for approval of credit deals and for problem loans of various levels of competence.

4. Credit committees for Retail Segment, as follows:

4.1. Committee for the new credit business in Retail Segment – Level 1 - approves requests for credit deals at an amount lower or equal to BGN 1 000 000 including total exposure of the borrower and related parties for Micro business and standard requests for credits of individuals as well as requests for applying exceptions for risk parameters with the exception of the maximum product limit of a mortgage loan to individuals at an amount lower or equal to BGN 500 000 including total exposure of the borrower and related parties.

4.2. Committee for the new credit business in Retail Segment – Level 2 – approves requests for loans at the amounts, according to the local delegations in compliance with the Rules for approval of credits of SME and corporate clients and delegation of the credit committees.

6.2. Local Risk Management Committee

The Local Risk Management Committee is a collective body of UBB, supporting the Management Board in making decisions on:

1. The strategy for management of risk, risk appetite and the overall risk framework;
2. Determining the present and target Risk profile and capital adequacy, as compared to the risk appetite and the allocation of capital;
3. The capital allocation to individual business units in line with their business plans and within the limits set by the group;
4. Review of the results from the activity relating to an assumed risk, observance of the compliance with the limitations of the risk framework;
5. Specific roles and responsibilities related to asset and liabilities' management;
6. All issues relating to changes in UBB's risk profile.

The Committee comprises of the MB members, the procurators and/or the commercial representatives of UBB, the Director of Risk Management Directorate; the Director of Credit Management - Retail Banking Directorate; the Director of Credit Management – SME & Corporate Segment the Director of Treasury Directorate, the Director of Finance Directorate and the Director of Markets and Investment Banking Directorate.

LRMC convenes meetings at least once per month. The Committee may adopt decisions in case at least five of its members are present in person, as at least four of those should be MB members, commercial representatives or procurators.

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

6.3. New and Active Products and Processes Committee /NAPPC/

NAPP is among the Management Board committees, established by the MB of UBB AD, with responsibilities, explicitly assigned by the latter.

‘New and Active Products Process’ (NAPP) ensures that all products and services offered to the customers of UBB and all client-facing processes have first gone through an in-depth risk assessment. More specifically, the NAPP aims to:

1. **Ensure a fair treatment of the client.** This requires a careful balancing between the return which the product offers for the client and for KBC and the risks linked to the product. NAPP is put in place to avoid that products and services are being launched which are not in the client’s interest and thereby protects KBC against conduct risk.
2. **Guard the strategic fit of products/services.** In a rapidly changing environment, NAPP plays a key role in ensuring that new and existing products/services support the digital transformation and fit into the current KBC strategy.
3. **Pro-actively identify and mitigate risks.** The NAPP is the most important process to ensure early identification and mitigation of all risks related to products, services and changes to client facing processes, which might negatively impact the customer and/or KBC. During NAPP, all financial, legal, compliance, operational and other risk aspects of products/services are considered and addressed.
4. **Comply with regulation.** The NAPP safeguards that all products and services are in line with regulations.
5. **Support innovation and smart copy.** The NAPP strives to support business during transformation & digitization. On the one hand, it ensures new risks entailing from transformation & digitization are detected and mitigated. On the other hand, the process itself needs to be fast and frictionless to support a fast-time-to-market.

NAPP, being product or distribution committee, holds at least one regular monthly meeting. Prior to creating/buying/changing/reviewing/selling a product a NAPP decision should be made, while observing the appropriate format – regular proposal for new products, changes, reviews, decommissioning, immaterial change, experiment track, crisis track.

The Committee comprises of members from the business and all relevant risk-related advisory functions, whereas the Chairperson is Executive officer from the business, and the committee is jointly conducted with the CRO, Risk management unit head. Minutes are prepared of the NAPPC meetings, containing the made decisions by the Committee and these are subject to subsequent approval by the MB.

6.4. Local Provisioning Committee

The Local Provisioning Committee is established by and has received its authority by the Management Board. It is a collective body of UBB that makes decisions and recommendations on all topics related to impairments of financial assets of UBB.

The mission of the Local Provisioning Committee is to assist the Management Board in the approval (changes to) the UBB’s Impairment Policy for financial assets under IFRS 9, challenging and approval of the monthly impairment results/loss allowances on financial assets not at Fair value through profit or loss (FVPL) on a UBB level under IFRS 9, Challenging of Expected Credit Loss (ECL) model - in case of unusual/ unexpected model output inform the Local Risk Management Committee and potentially trigger a model review.

The Local Provisioning Committee holds meetings on a monthly basis or ad hoc if needed. It takes decisions provided more than half of its permanent members are present in person. Each member is entitled to one vote. Decisions of the Local Provisioning Committee shall be made with total majority (unanimously) of the attending members. If no consensus is reached a final decision will be taken by the Management Board.

The Local Provisioning Committee Minutes are submitted for final endorsement by the Management Board not later than 5 days after the Committee meeting.

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

6.5. Local Investment Committee and Investment Committee of UBB AD

The **Local Investment Committee (LIC)** takes decisions and is empowered to approve acquisitions, investments and sales of real estates in relation to collaterals on loans in Legacy and New bank portfolios and acquired assets, at the amount of at least EUR 250 000, but less than EUR 1 000 000.

Decisions relating to investments are being made on the basis of separate proposals for each particular investment. The representatives at the Committee are being determined according to the rules of the Credit Committee for Problem Loans.

The proposals to the Local Investment Committee are being provided for approval in principle and for review of impairments by the Credit Committee for Problem Loans, while the final decisions on acquisitions of and investments in real estates in line with Legacy loans and New bank shall be made by UBB's Management Board. Decisions on acquisition, investments and sale of assets acquired as collaterals from Legacy or New bank portfolios, at the amount of EUR 250 000, are taken standalone by the Management Board of the bank.

The **Investment Committee of UBB AD** is empowered to approve acquisitions, investments and sale of real estates in line with Legacy loans or New Bank loans and acquired assets of value exceeding EUR 1 000 000.

The final decisions on acquisitions, investments and sale of real estates in line with Legacy or new bank loans and acquired assets are being made by UBB's Management Board.

6.6. Projects Oversight Committee (POC) of UBB AD

POC is authorized to review, prioritize and approve all projects and project proposals including their budget and capacity requirements. It meets quarterly (ad-hoc meetings are possible) and approves the IT Masterplan (where the work of IT, Business Processes and Organization, Digital and Online Banking Business Program, Central Data and Card Center is planned) and changes related to it.

POC decides on the strategic projects and priorities for the upcoming year before finalization of the APC cycle and follows-up on the progress and requests for status updates during the execution of the projects. It also decides on scope, time and resources for all projects and is the only body (other than MB) that can approve related changes.

POC reviews and monitors the project portfolio's progress, takes decisions on initiation, termination, closing or postponing of projects, approves or rejects requests for a change, approves or rejects the allocation of project resources (budget and technical resources).

6.7. Corporate Sustainability and Responsibility Steering Committee and Sustainable Finance Committee

Corporate Sustainability and Responsibility Steering Committee Bulgaria is chaired by the Country Manager of KBC Group in Bulgaria – Mr. Peter Andronov. The Committee assists the Country Team with the implementation and proper functioning of the approved KBC Group's corporate social responsibility (CSR) framework in Bulgaria. It has overall responsibility locally for the CSR-related policies of the Group. The Corporate Sustainability and Responsibility Steering Committee Bulgaria provides strategic guidance and approves the CSR projects and follows up on their progress within the country.

The purpose of the **Sustainable Finance Committee ("GREEN-COM")** chaired by Teodor Marinov, MB Member of UBB is to oversee climate-related risks within the entities of KBC in Bulgaria (UBB, DZI and UBB Interlease EAD, mainly) and support the customers in their adaptation to climate change. A main tool in this respect is the elaboration of the so-called White Papers - policy documents presenting key trends related to sustainability in the sectors and segments mostly affected by climate change. Next to this, a process of collection of sustainable finance-related metrics and preparation for climate-related dialogue with customers is on-going.

7. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2020 is BGN 3 237 thousand (2019: BGN 3 228 thousand).

8. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS

The General Meeting of Shareholders (GMS) is the superior management body of UBB. The GMS defines the major trends of UBB's activities and involves all shareholders, who either personally or through their authorized representatives participate in its sessions.

The members of the Management and Supervisory Boards may participate in the sessions of the General Meeting of Shareholders, if invited, but are not entitled to vote.

8.1. Competences

The General Meeting of the Shareholders

- a) amends and complements UBB's Articles of Association;
- b) adopts resolutions on capital increase or decrease;
- c) adopts resolutions as regards UBB's reorganization and termination upon a preliminary approval from the Central Bank;
- d) elects and releases the Supervisory Board members;
- e) determines the management commitment fee and the remuneration of the Supervisory Board as well as the period for which these are payable;
- f) elects and releases the members of the Audit Committee and the management of the specialized internal audit unit;
- g) after preliminary coordination with the Central Bank, elects and releases auditing companies by the Audit Committee's recommendation which are registered auditors pursuant to the Independent Financial Audit Act, have all rights and obligations as per the Independent Financial Audit Act including to perform verification and certification of UBB's annual financial statements in accordance with the applicable financial reporting standards;
- h) approves the annual financial statements after certification by the auditing companies; makes decisions on profit allocation for replenishing the Reserve Fund and for payment of dividends;
- i) makes decisions on the issuance of bonds;
- j) upon the Central Bank's preliminary approval makes decisions on liquidation and appoints liquidators for voluntary liquidation of UBB;
- k) determines the amount of management commitment fee to be provided by the members of the Management and Supervisory Boards;
- l) releases from responsibility the members of the Supervisory and Management Boards;
- m) makes decisions on transferring UBB's commercial enterprise;
- n) decides on disposal of assets which total value during the current year exceeds half of the value of UBB's assets in accordance with the latest certified annual financial statements;
- o) decides on the undertaking of commitments or providing of collateral to one person/entity or related parties which commitments' amount during the current year exceeds half of the value of UBB's assets in accordance with the latest certified annual financial statements;
- p) decides also on any other issues within its competence as stipulated by the law and UBB's Articles of Association.

8.2. Convening of the General Meeting of Shareholders

The General Meeting of Shareholders has to be convened at least once every year, but no later than 6 months after the end of the reporting year.

8. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS (CONTINUED)

8.2. Convening of the General Meeting of Shareholders (continued)

The General Meeting of Shareholders may be convened by the Management Board or by the Supervisory Board, as well as upon the request of shareholders, who have been holding shares for at least three months, which represent at least 5% of the capital. The General Meeting has the needed quorum if more than half of the shares are represented.

The General Meeting of Shareholders is convened with an invitation, announced in the Commercial Register. The period of time from the announcement in the Commercial Register until the opening of the General Meeting of Shareholders may not be less than 30 days. The Management Board and the Supervisory Board may also convene the General Meeting of Shareholders with written invitations sent to all shareholders of UBB, containing the agenda with the items proposed for discussion. Notwithstanding the content of the invitation, any issues not included on the agenda may be discussed and resolved at the meeting only under the condition that all shareholders of UBB are present at the meeting. Each shareholder is entitled to receive on request the written materials, concerning the General Meeting's agenda, which are made available to the shareholders by the date of announcing the notice in the Commercial Register, at the latest, or by the date of mailing of the invitations for the General Meeting's convening.

8.3. Quorum

The General Meeting has the needed quorum if more than half of the shares are represented.

A simple majority vote of the capital represented at the General Meeting is required except for decisions under letters "a" "b" "n" and "o" of Item 8.1 above - where a qualified majority of 2/3 of the capital is needed and under letters "c" and "m" - where the required qualified majority of capital is 3/4.

In case of absence of quorum, a new General Meeting may be convened not earlier than after a fourteen-day period has elapsed and is deemed legitimate regardless of the capital, represented at it. The invitation for the first meeting may also indicate the date of the new meeting.

Each shareholder has the right to authorize in writing a person to represent him/her at the General Meeting. The power of attorney shall have to be drawn up for the particular meeting shall have to be explicit in written form with attestation of the signature by a notary public and of the minimum statutory content. A shareholder shall not be represented by a Management Board or a Supervisory Board member.

There are Minutes kept of the General Meeting, which are signed by the Chairperson, the Secretary of the Meeting and the Vote-tellers.

8.4. General Meeting of the Shareholders in 2020

The Regular General Meeting of Shareholders of UBB AD (GMS) in 2020 took place on 12.06.2020. At the GMS are taken decisions in relation to the approval of the report on the activity of UBB AD and a consolidated activity report for 2019, as well as a corporate governance statement of UBB AD for 2019 and a non-financial declaration of UBB AD for 2019, the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of UBB AD for 2019, certified by the auditors annual financial report, as well as of the certified by the auditors consolidated annual financial report of UBB AD for 2019. The proposal of the Management Board confirmed also by the Supervisory Board of the bank for non-allocation of UBB AD's profit for 2019 was approved, with respect to a letter from the Bulgarian National Bank (BNB) with № БНБ – 30910/13.03.2020, regarding decision of the Management Board of BNB № 87 as of 12.03.2020, pursuant to which the credit institutions in Bulgaria should not allocate a part or the whole profit for 2019, as dividends or other similar payments, as part of the macro prudential measures in relation to the effects for the economy from the spread of coronavirus COVID-19.

8. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS (CONTINUED)

8.4. General Meeting of the Shareholders in 2020 (continued)

On 12.06.2020 the General Meeting of Shareholders of UBB AD also took a decision regarding relief of liability of the members of the Supervisory Board and of the Management Board of UBB AD concerning their activity during 2019 and accepting the report of the Audit Committee of the bank for 2019.

In 2020 two extraordinary General Meetings of Shareholders of the bank were held, as follows:

- At the General Meeting on 15.04.2020 a decision is taken regarding changes in the composition of the Supervisory Board of UBB AD: appointment of two new independent members of the Supervisory Board of UBB – Svetoslav Gavriiski and Victor Yotzov, defining their mandates, remuneration and the management guarantee of the new members of the Supervisory Board of UBB.
- At the GMS on 15.04.2020 a decision was also taken for re-election of two of the members of the Supervisory Board of UBB – Luc Popelier and Christine Van Rijseghem, for a new four-year mandate, as well as amendment were adopted in the Articles of Association of UBB AD in connection with amendments in the Credit Institutions Act, namely the adopting of a new Art. 10a, pursuant to which the number of independent members in the supervisory board of each significant bank should be at least one-third.
- At the General Meeting on 04.12.2020 a decision was taken for appointment of auditing companies for examination and certification of the annual financial report of UBB for 2020, preliminary coordinated with BNB in accordance with art. 76, para. 4 of the Credit Institutions Act.


Christof De Mil
Executive Director

Svetla Georgieva
Executive Director



Date: 13.04.2021

**SEPARATE AND CONSOLIDATED NON-FINANCIAL DECLARATION
OF UNITED BULGARIAN BANK AD (UBB)
AS OF 31 DECEMBER 2020
(In accordance with Law of Accountancy)**

1. SCOPE OF ACTIVITY

Established in 1992 through the merger of 22 Bulgarian regional commercial banks, United Bulgarian Bank is the first and largest in terms of scope consolidation project in the Bulgarian banking sector.

In 2017 the Belgian bank-assurance group KBC acquired UBB from the National Bank of Greece. After the CIBANK-UBB merger the new united bank UBB became the third largest bank in Bulgaria in terms of assets of nearly BGN 12.8 billion, with approximate market share of 10.3%.

Jointly UBB, its subsidiaries and DZI thus became the largest bank-assurance group in Bulgaria, one of the main markets of KBC Group. As a result of that KBC Group became active on the leasing market, too, as well as on the asset management and factoring markets in Bulgaria, offering to its clients the full range of financial services.

Currently KBC Group in Bulgaria offers products and services to business clients and citizens – micro, micro, medium and small enterprises, large corporate clients and institutions, focusing on the digitalization and provision of basic banking services as well as investment banking.

In 2020 Fitch rating agency reconfirms the UBB's long term rating to 'A-' capped by the Bulgarian country Ceiling of 'A-', two notches above the Bulgarian sovereign rating (BBB/Stable).

1.1. OUR GOAL AMBITION AND STRATEGY

We aspire to help our clients realize their dreams and projects, while rendering at the same time high quality services. Our ambition is to be a Bank reference on the market.

We implement our strategy within the framework of stringent control on the risk and on the capital and liquidity management.

Sustainability for us is not a part of a standalone plan, but it is interwoven in our corporate strategy, hence it is embedded in its four pillars (financial literacy, entrepreneurship, health and environment) and in our daily commercial activities. To us it means that we are capable of meeting the expectations of all stakeholders, not only today, but with an outlook to the future.

For this reason, it is important to us that we should:

- Be able to fulfill all our commitments without external support and
- While doing it, retain the trust of our clients, investors, government and supervisory authorities, our shareholders and employees

Sustainability, however, is only possible if we also uphold the public trust, meaning that we should operate as responsible companies, while:

- Constantly being aware of the impact of our activity on the society
- Meeting the public needs and expectations in a balanced, appropriate and transparent way

That is why UBB targets its efforts in the direction of:

- Enhancement of our positive influence on the society
- Mitigating our negative imprint on the society
- Encouraging responsible behavior among employees

1. SCOPE OF ACTIVITY (CONTINUED)

1.2. HOW WE CREATE VALUE

With the capacity and experience we have, we provide our clients with the opportunity to invest and save, while being well-acquainted. In this way, each of our clients can increase their assets relative to their personal risk profile and rely on the expertise of the bank's employees. We use depositors' funds to fund citizens, businesses and institutions that use the funds to create added value in society.

We also hold a portfolio of investments, which means we are indirectly involved in the economy. In addition, through loans to individuals and businesses, we support specific sectors such as social projects, infrastructure projects and green energy projects that have a significant impact on the local economy.

The role we play as depositary and creditor ultimately means that we take on our clients' risks to them. Our risk and capital management know-how allow us to manage these risks. We also offer other various services to our clients that are important to their daily needs, including payments, cash management, trade finance, asset management, insurance brokerage and factoring. In this way, we also contribute to the sustainable growth of the economy.

Our clients, employees and offices of the Bank on individual base

Clients	
<i>Retail</i>	874 989
<i>Business</i>	66 874
Employees	2 665
Bank branches and offices	225

UBB's long-term credit rating

Fitch (May 2020)	BCRA (September 2020)
A-	BBB+

Our shareholders

KBC Bank N.V.	99.92%
Other shareholders	0.08%

Generation of income

We lend to clients, taking into account our risk appetite and relevant legislation. We accumulate funds for our lending activity mainly through customer savings. We offer our clients a wide range of investment products and advise them on managing their assets. We support our clients by offering services in the areas of payments, securities, access to financial markets and derivatives, as well as asset management, insurance brokerage, factoring, leasing and more. We invest part of our funds in securities.

Risk of hedging and payment of costs

We set aside provisions to cover losses. We invest in our employees to ensure seamless customer service and further develop our business strategy. We invest in our infrastructure and technology to improve our efficiency and serve our customers even more effectively. We contribute to society by paying income tax and special bank levies.

1. SCOPE OF ACTIVITY (CONTINUED)

1.3. WHAT MAKES US WHO WE ARE

We summarize our business culture and values in the acronym PEARL, which stands for abbreviation of English words for performance, empowerment, accountability, responsiveness and local embeddedness.

- **Performance** - we aspire at top performance and we sign up to that
- **Empowerment** - we give a chance to every employee to be creative and to develop his/her talent
- **Accountability** - we preempt and readily respond to the questions, proposals, contributions and efforts of our clients, colleagues and managers.
- **Responsiveness** - we are personally responsible towards our clients, colleagues, stakeholders and the society
- **Local embeddedness** - we treat the variety of our teams and our clients as power and we remain close to them

We encourage our employees to be responsive, responsible and result-oriented, while keeping an eye on the process of how this culture is embedded in our employees. In addition to our culture and our values, we stand out from our competitors in several specific ways.

We aim at building sustainable relations with individuals, small and medium-sized enterprises and large corporate clients in Bulgaria. Responsiveness is very important to us. This means that we know and understand better our clients, that we effectively identify their signals and react adequately to those, as well as that we offer products and services, tailored to their specific needs. We focus our efforts on the sustainable development of the different communities in which we operate.

Our strengths

A well-developed strategy that allows us to respond immediately to the needs of our customers

Successful experience in achieving core business results

Strong capital position and strong liquidity

Embedded in the economy

Our challenges

Macroeconomic environment characterized by low interest rates, demographic aging, increased nervousness and uncertainty

Strict regulation in areas such as customer protection and solvency

Competition, new market players, new technologies and changing customer behavior

Cybercrime, the public image of the financial sector

2. THE ENVIRONMENT WE OPERATE

The main challenges we face are naturally the economic situation, increasing competition and technological change, regulation and cyber and IT risks.

We offer our customers a unique bank

We respond comprehensively to the banking needs of our customers and also position ourselves as part of an integrated financial group. This integrated model offers the customer the benefit of a comprehensive, one-stop service that allows them to choose from a broader, complementary and optimized range of products and services. The model offers group benefits in terms of income and risk diversification, potential for additional sales through intensive collaboration between banking distribution channels and significant cost savings. As the largest financial group in Bulgaria, we provide our clients with the opportunity to receive complete financial decisions, saving money and time.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES

The outlook for the global economy has deteriorated following the significant slowdown in global economic growth during the year as a result of the COVID-19 pandemic. Over the next two years, global growth is expected to gradually stabilize, albeit at relatively low levels. Significant risks remain, in particular to weak global trade and industry, volatile financial conditions in the world and the strong and growing geopolitical uncertainty to which, the rise of protectionist policies has contributed. In particular, the COVID-19 pandemic has subsided more slowly than expected, which could have a negative impact on business performance, threaten supply chains and slow global growth.

The intensification of the pandemic in Bulgaria in the last weeks of the year and the epidemiological situation mean that our forecasts in the covered period are subject to an extremely high degree of uncertainty and risks. In 2020 Bulgaria's gross domestic product (GDP) decreased by 4.2% on an annual basis, according to preliminary data from the National Statistical Institute (NSI), compared to an increase of 3.7% in 2019. The EU economy fell by 6.2% compared to the previous year, and that of the euro area - by 6.6%. The forecasts are that the Bulgarian economy will return to its level from 2019 in about two years - at the end of 2022. The gradual recovery of exports will help, but the main credit will go to domestic demand. Our forecasts in our baseline scenario are for 3% growth in 2021, stronger GDP growth of 4% in 2022 and 3% growth for 2023.

The second lockdown in Bulgaria is a fact and is expected to deal a severe blow to the economy and the labor market. The Employment Agency reports a registered unemployment rate of 6.7% at the end of December 2020, remaining compared to the previous month, and compared to a year earlier it reported an increase of 0.8 percentage points. The registered unemployed at the end of December 2020 were a total of 220,292 persons, and their number increased by 0.7% on a monthly basis and by 13.1% on an annual basis. In these conditions, our forecast for registered unemployment is at levels of 7.0% for 2021, 7.5% for 2022 and 6.5% for 2023.

Incomes will rise slightly, but mainly because the government is raising public sector wages and raising the minimum wage and social security contributions. For the expenses of the Bulgarians, there is probably some reassurance that the year end with 0.1% inflation (then we expect it to rise to 2.1% in 2021 and to 2.2% in 2022) and will move mainly from the services sector and the dynamics of oil and commodity prices on international markets.

Bulgaria entered the pandemic with strong fiscal positions, allowing the government to declare aid measures of about 2% of GDP and spend two-thirds of 2020 with a budget surplus. In the fourth quarter of 2020, the more significant reporting of the budget deficit will begin, and by the end of 2020 the budget balance reported -3.0% of GDP, and it is projected by MF at - 3.9% in 2021, calculated including government funding for pandemic measures.

In 2020, the banking sector in Bulgaria operates in conditions of reduced economic activity affected by the COVID-19 pandemic. The latest BNB public data on banks have shown that bank activity has declined moderately. But this does not mean that the stability of the sector is affected. On the contrary, Bulgarian banks have indicators that exceed EU requirements.

According to BNB data, as of the end of December 2020, the assets of the banking system have increased to an impressive BGN 124 billion. Loans to non-financial corporations continued to grow by 4% on an annual basis to BGN 38 billion, as well as to loans to households (by 7% on an annual basis to BGN 25.9 billion). The unfolding of the crisis continues to increase savings in banks. The total volume of customer deposits increased by 9.6% on an annual basis to BGN 100.7 billion. Households have entrusted the management of banks with over BGN 63 billion, and non-financial enterprises with nearly BGN 32 billion.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES (CONTINUED)

The profit of the banking system as of December 2020 amounts to BGN 814.6 million, by 51.4% less than the reported for the same period of 2019. The financial result of the sector is influenced by the incurred expenses for impairments and accrued provisions, the dynamics of the credit activity, the lower revenues from fees and commissions, the low interest rates, the management of the operating expenses and the quality of the loan portfolio. Some one-off effects on individual banks, such as dividends received from subsidiaries, a positive write-off of financial assets and liabilities, currency differences, higher impairment charges and provisions, also affect the financial performance of the system.

Under COVID-19, banks achieve capital ratios that are well above regulatory requirements. At the end of December 2020, the ratios of core tier 1 capital, tier 1 capital and total capital adequacy were 21.69%, 22.10% and 22.74%, respectively. The liquidity coverage for the banking system is solid at the level of 279% and is significantly above the required minimum level of 100% by the end of December 2020.

Despite the concerns, it turned out that the total volume of non-performing loans according to the latest data as of the end of December 2020 is 7.5% and remains relatively unchanged. It is expected that this trend will continue despite the introduction of moratoriums on loan payments due to COVID-19, with a possible moderate deterioration after the end of the moratorium on loan payments after March 31, 2021.

In July 2020, the ECB officially announced that our country is joining the Banking Union and ERM-2. From 1 October 2020, the ECB took over the direct supervision of UniCredit Bulbank, DSK Bank, United Bulgarian Bank, Postbank and Raiffeisenbank. The selection was made according to two criteria - the three most important banks in our country and those that are part of important groups. With this decision the control over 65.8% share of the assets of the banking system is already under double supervision - of the BNB and the ECB.

2.2. COMPETITION AND TECHNOLOGICAL CHANGE

The COVID-19 pandemic has changed the banking sector in several ways. Banks, like many other sectors, have faced the challenge of working from home. This affected the internal organization of the bank the most, not so much the customers. The second factor was the influence of digitalization, which accelerated significantly as a result of the coronavirus. What the sector has been trying to do over the last few years, trying to provide digital solutions and encourage customers to work digitally, COVID-19 has achieved this in just a few months.

For our customers, the change was drastic - from branch banking to remote banking for literally a day. They started using card payments much more often than cash payments, they switched to communication with us through digital channels or contact centers. Thus, according to our observations, in 2020 the use of digital banking channels increased by 20%.

From today's point of view, it is more and more convenient for people to make more digital transactions and have the comfort of searching and buying more and more products in a completely online environment.

Adapting to the new reality created by the pandemic has led to increased digitalisation of products, services and relationships, the challenge of the traditional workplace and work order and, above all, the rise of personalized solutions customer-oriented, which from now on will have higher requirements for all services, including financial. These are all processes that started a long time ago and are now simply being accelerated by COVID-19. KBC Group has always worked in this direction, but still the speed has increased significantly. Our goal is to continue with our current product plan, which expands our digital services, offering not only financial products. We will just deliver them even more.

Customers will less and less often go to a branch of a bank for transactions but will visit it for advice and recommendation. This is OUR BIG competitive advantage over those market participants who are completely digital.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.2. COMPETITION AND TECHNOLOGICAL CHANGE (CONTINUED)

With so many people working remotely, most of the services offered at the bank's branches can also be used digitally in some form. This can be done online, but also via a mobile device.

Now anyone can become a customer of the bank without visiting a branch - only with the help of a smartphone, then, again fully digitally, to apply and receive a consumer loan.

Opening an account or deposit, payment for utilities is entirely digital and free of charge. We are doing this precisely in order to encourage people to use these channels at the moment. UBB also supports the multibanking service.

UBB customers can see their accounts from other banks only through our UBB Mobile application. Even more - we transferred our loyal UWIN program back to a mobile application. In this way we are able to motivate our customers by providing them with discounts and bonuses while on the go - in the stores themselves, partners of our loyalty program, whether they are physical or online.

In order for many of these processes to happen, we introduced the electronic signature after the beginning of the crisis. You no longer need to visit a bank branch to sign a document. We have created a service through which all contracts can be signed with an electronic signature.

Successful digital transformation encompasses several elements that we follow:

First of all, these are innovations that are not created by several people in the organization working in an isolated laboratory. A truly innovative company implements the innovative spirit throughout the organization. This is a change in the way of thinking for the whole company. Innovation is driven by technology. But technology alone is not enough. It only matters when it helps us make our lives easier. Therefore, useful applications of technologies that combine several different solutions simultaneously - such as mobile interfaces with artificial intelligence - this is what creates added value and usefulness.

Second of all, a transformation is strategically successful when the banking institution is relevant to its customers, focusing on its core business, namely, to provide excellent and impeccable banking services. But when we see that customers have no problem buying banking products from major technology players, we need to make sure that in turn we also increase our importance to customers by offering them services outside of banking. Services that are important to customers and that they would be happy to receive from their bank with a single contact. Undoubtedly, we are competing with fintech companies in this transformation. We work to simplify banking processes, products and systems, and then partnering with fintech services can even be a success for the banking industry, as well as for fintech companies and our customers.

Third of all is security - in this transformation to digital channels, we as a bank must work for the trust of customers and pay close attention to the security of their personal data. This does not only apply to banks - it is valid everywhere. A key driver that will be the driving force in the future will be the consulting role in our branches, mobile applications and digital services are here to stay and go even beyond banking. But all these services are managed by data. Being helpful to your customers also means offering the right services at the right time through the right channel. Providing such personalized services in an increasingly digitalized world can only be done by knowing our customers, and this is driven by data and their proper use.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION

COVID-19 outbreak had a major impact on the whole sector and new legislation. The Law on Measures in State of Emergency, as amended through the year, implemented a package of standstill and deviating from the regular legislation measures to mitigate adverse effects and apply for the period of the emergency. Subsequent amendments to the Law on Health aimed to mitigate the Covid-19 state of emergency consequences and extend the application of most of the measures adopted by the Law on Measures in the State of Emergency for an additional period of time and introduce new anti-crises measures.

As an anti-crisis measure and following ECB's instructions BNB put **limitation on the distribution of dividends of banks**.

UBB was qualified as a significant supervised person as per the meaning of Regulation (EU) 1024/2013 and Regulation (EU) 468/2014 and from 01 October 2020 the Bank shall be under **the direct supervision of the European Central Bank (ECB)**.

UBB applies the deferral of payment (principal/interest) options approved by BNB in response to Covid-19 measures. The measures have been initially elaborated by the Association of Banks in Bulgaria in line with the instructions of the European Banking Authority - Guidelines EBA/GL/2020/15 amending EBA/GL/2020/02 and represent private moratoria on loan repayments, applied in light of the COVID-19 crisis.

UBB participates in the anti-crisis facility provision programs assigned by the government to BDB to support individuals and expects to start providing the BDB COVID-19 guarantee facility for SME and Large yearly next year.

UBB used COVID-19 as an opportunity **to optimize its digital experience and secure a long-term digitalization**, reducing in-person interaction, promoting digital document transmission, negotiating and validation of documents. This process requires strict compliance review given the conservative culture in the sector; therefore, **the bank's effort is focused on ensuring regulatory compliance**.

The other amendments in the ordinary legislation mainly transpose European law and good practices.

New legislation of key relevance to note is:

- (i) the amendments of the Bulgarian National Bank Act to address the setting of the official conversion rate of the BGN to the EUR to the central rate between the EUR/BGN, **applicable after date of participation of Republic of Bulgaria in ERM II**;
- (ii) the amendments in the **Consumer Protection Act** transposing the key principles of **Regulation (EU) 2017/2394 to enhance consumer protection** vesting supervisory/sanction rights to the Bulgarian Consumer Protection Commission and Bulgarian National Bank regarding consumer credits and credits concerning real estate and payment systems and payment services;
- (iii) the amendment in the **Civil Procedural Code allowing electronic notification by court** which means that as of 30 June 2021 on, by rule of law, all court notifications to banks, other financial institutions, public institutions, state institutions, municipalities, incl. insurance companies shall be made in electronic way to E-mail address;

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

- (iv) the amendments in the **Obligations and Contracts Act** introducing for first time of **an absolute 10-year prescription period for discharging the monetary debts of individuals**. The new revisions in the **Obligations and Contracts Act** with effect as of 03.06.2021 introduce an absolute 10-year prescription period for monetary debts, due by physical persons. The new rule shall apply also to existing debts of physical persons as of the date of entering into force of the amendments. The rule shall not apply to monetary obligation arisen from tort, unjustified enrichment, alimentation, labor.

The revisions in the **Credit Institutions Act** provide that the Bulgarian National Bank shall respect the guidelines and the requests issued by European Central Bank and shall undertake all necessary measures to accomplish the legal acts of European Central Bank issued to apply Regulation of the EU Nr 1024/2013. Subject to requests of the European Central Bank, the Bulgarian National Bank shall impose [on credit institutions] pecuniary penalty for breach of Regulation Nr 575/2013 or of other directly applicable acts.

Latest amendments of **Ordinance on the General Requirements for Information Systems, Registers and Digital Administrative Services** require banks, as providers of public services, to comply their electronic sites and mobile application with the international standards.

New Ordinance № 3 of 31 July 2020 for keeping, storing and accessing the Central Register of Special Pledges introduces **new special pledges legislation**. This Ordinance is of big importance for the corporate lending since special pledges are established over most of the business loan agreements. The Ordinance enters into force from 1 January 2022 and requires the bank to be prepared to the new electronic form for registration, new application templates for registration of pledges and specific requirements concerning the description of pledged property.

The Management Board approved the Commercial Policy for Passporting and Cross-border Activities of UBB. The approval and the implementation of this policy was requested by KBC for all banks in the Group due to requirements posed by ECB towards the KBC Group banks for compliance with EU rules for performance of banking (licensed) activities only within territories for which the bank has a passport. The policy explicitly defines that UBB shall provide products and services to clients with habitual residence in Bulgaria only and UBB shall not actively solicit or target any clients from third countries (both in and out of EEA).

The ongoing amendments in the financial and payment legislation, such as the revisions in the **Law on Markets in Financial Instruments; Law on Public Offering of Securities; Market and Financial Instrument Act; Law on Mortgage Bond;** Act of Payment Services and Payment Systems Act, including related secondary legislation, aim to harmonise the legislation with best European practices.

The amendments in the **Judiciary System Act** foreseeing the Ministry of Justice to create and maintain an information system, related to the enforcement and foreclosure proceedings with access for creditors, debtors, enforcement agents, shall add benefit to the units of the Bank, engaged with foreclosure proceedings and litigation, allowing effective collection of proceed.

UBB is reviewing, on an ongoing basis, the latest guidelines for implementation of the PSD2 and AML in order to ensure compliance and implementation of appropriate security measures for operational and security risks.

A special team focuses on contacts with government and regulators. We participate in working groups at sector organizations where we analyze draft texts, provide revisions and give legislative proposals. We produce guidelines and provide training courses for the business side.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.4. CYBER RISK/INFORMATION SECURITY

Hacking and cyber-attacks are a constant threat in an increasingly digital world with the potential to cause significant financial and reputational harm. Our focus here is on the optimum protection of both our clients and our group itself. We raise our employees' awareness of cyber risks by providing training in areas like phishing and vishing and fraud in general. We work to achieve highly secure and reliable IT systems and robust data protection procedures and we constantly monitor our systems and environment.

We analyse cyber risks from an IT and business perspective so that we can offer maximum resistance and are able to protect our assets against cyber-attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information.

Cyber risks and defense mechanisms are evaluated on an annual basis by international team of internal KBC Group information security experts. A group-wide Competence Centre for Information Risk Management concentrates on the risks associated with information security and cybercrime and on IT risks.

3. OUR EMPLOYEES, CAPITAL NETWORK AND RELATIONSHIPS

Our employees are the most valuable asset of UBB. They are ambassadors of our corporate culture.

We build our HR policy, based on PEARL+ - our strategy and business culture. The behavior of the employees should be fully consistent with these values: Respect, Responsiveness and Result-driven behavior, Accountability, Empowerment, Local embeddedness. We expect that this behavior will not only help us improve the trust in the company, but also be the reference in banking and insurance.

The Bank provides various opportunities for career development, training systems, programs for managers. We understand that good managers are the basis for employees to do their best in the professional field.

This is why we focus on new mentoring programs, participation in meetings and trainings, programs for newly hired employees, developing leadership skills and competencies. In the first months of 2020 we launched a Mentoring programme, involving a mentor for the newly appointed employees at the front office of the Bank's Branch Network. The role of the mentors is to train, advise and monitor the progress of employees, for whom they are responsible.

UBB has zero tolerance for any form of discrimination and unequal treatment, regardless of whether direct or indirect; related to staff or clients and irrespective of whether the discrimination is based on race, sex, family status, sexual orientation, age, disability, religion or in relation to insurance, access to employment, conditions of employment, training, promotion or classification of positions.

The world is constantly changing, and Y2020 put to test our values, habits and traditions. In order to truly position ourselves as a factor in social life and respond to new needs, expectations and desires of all our stakeholders we should act in a purpose-driven manner, while caring for and attending to society. We want to give a clear sign to society that, as an employer, we treat our employees in an equal, fair and responsible manner and that our relationships are based on mutual trust and respect. We can confidently say that in 2020 we took all possible measures in order to maintain our branches a safe place for both our employees and clients, as meanwhile we were striving to also improve the digital channels, so the ones who prefer that type of channel to be able to bank from their homes. As always, our focus is on promoting responsible employee behavior, with the belief that we will be more effective in our operations and will contribute to making socially responsible ambitions come true.

3. OUR EMPLOYEES, CAPITAL NETWORK AND RELATIONSHIPS (CONTINUED)

As at 31.12.2020 the employees split per type of employment for the Bank:

Full-time	99.3%
Part-time	0.7%

The past year was a dynamic one also in terms of work organization among the employees in view of COVID-19 prevention measures. Flexible working hours and home office were introduced. Additional measures, related to health protection of our employees and clients, were applied. In the Head Office the staff teams were split in groups in order to remotely ensure maximum workflow capacity. The risk group employees (such being pregnant, having chronic diseases or aged over 60 years, etc.) remained working from home. The “front line” employees worked on a rotation principle in order to ensure maximum physical distance.

Remunerations in UBB are determined, based on work on an 8-hour business day for a 5-day working week. Despite the difficulties, caused by the pandemic situation in the country, the Bank continued in 2020 to care for the development and retention of employees, by providing them with the necessary professional training and remuneration, consistent with their duties and responsibilities, as well as with their performance. The Bank provides various financial incentives to employees for high performance and good results at specific time intervals. We care for our employees and so UBB provides them with additional health insurance, Life Risk Insurance, incl. COVID-19 coverage for the “front line” employees, supplementary pension insurance and different payments for personal events (marriage, childbirth etc.).

In its efforts to constantly improve effectiveness UBB assesses staff performance and competencies on an annual basis.

In 2020, because of the COVID-19 situation, all internal trainings were adapted into digital format and uploaded in UBB’s e-learning system.

A new section with technical trainings was introduced in the e-learning platform. The first of our proposals in the section was Microsoft Excel, suitable for self-study, with included tasks for functions and formulas, as well as additional help videos.

We upgraded the soft skills e-learning section by adding new, up-to-date topics, mainly related to the Bank’s strategy and the virtual work.

In 2020 we launched KBC Bulgaria Managers Academy, where we included new and newly promoted managers in the Bank. The project was developed jointly with an external company, specialized in soft skills trainings. The Academy was held online in five different modules, related to the role of the manager and leadership styles, performance management, personal effectiveness, team and team development and motivation.

The Trade Union of the Bank Employees and Workers at UBB (TUBEW) is registered at the court as a non - profit organization, established to regulate the employment and social relations between the employees of UBB and their Employer. There are excellent relations with the Trade Union and full cooperation with regard to internal campaigns in 2020. In the pandemic-related conditions in the country, we maintained weekly communication with the Trade Union in order to exchange latest news and ideas for improving the work environment. We have successfully completed the negotiations about the Collective Labour Agreement for 2021.

The activity of the Trade Union is stipulated in its Statutes and Rules on the activity. In accordance with the Statutes, the Management bodies are the General Meeting, the Management Board and the Controlling Board. The Trade Union Management Board and the Employer sign a Collective Labour Agreement.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE

4.1. CORNERSTONES OF OUR STRATEGY

The foundation of the corporate strategy of UBB is based on **four key pillars**:

- **Client first** – UBB conforms all its actions to the interests and needs of the clients. Putting the clients at the heart of its activities and initiatives, the bank strives to offer high-quality, fast service, and relevant solutions at all times;
- **Unique bank-insurance experience** – UBB aims to build a sustainable and ever-evolving pack of interrelated services, covering the full-scale bank-insurance portfolio, also complimented whenever possible with factoring, investment and leasing products and offers
- **Sustainable and profitable growth** - UBB's business ventures and activities are driven by the long-term perspective, with clear focus within solid risk, capital and liquidity boundaries. The bank is dedicated to build long-term relationships with its clients, and to avoid high short-term returns that imply excessive risks;
- **Responsibility towards society** and local economy – as part of the PEARL strategy, UBB is committed to acting with clear understanding of the local specifics, combined with global regulations, to achieve the utmost effect of honest and consistent corporate behavior in its everyday activities.

These four pillars remain the solid foundation of the updated **Corporate Strategy “Differently: the next level”**, where the ambition is driven beyond, with the introduction of the data-driven strategic efforts, increased operational efficiency, enhanced access to non-financial solutions and even broader set of offers, and last, but not least, by expanding initiatives related to **corporate social responsibility and sustainability**, particularly with respect to climate-related activities. Thus, UBB aims to evolve by retaining its key market position as sustainable financial institution and innovator.

We have to earn our clients' trust every day. We work hard to offer them complete accessible and relevant solutions at a fair price and to achieve an optimum client experience. That means taking their needs rather than our banking products as our starting point. In the context of the rapidly changing economic environment, and market health-driven fluctuations in 2020, UBB aims to not only deliver the well-known products and services digitally, but also to keenly listen and create proper contextual offers, while respecting the risk for both the organization and the clients.

To make our efforts even more effective we plan to upgrade our expertise and focus our energy toward using our conventional knowledge and observations of client behavior and expectations in combination with data analysis and custom-based proposals and solutions. Respecting the regulation and supporting an excellent privacy policy, we partner with our clients not only to deliver intuitive products and services, but also to communicate with them within the acceptable level of interaction. Hence, we view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust.

Being of utmost importance, client satisfaction is safeguarded throughout all our activities, data analysis being only one of them. While we retain traditional channels, and further develop digital ones, we are already few steps ahead by focusing on fully-digital experience and intensive internal process optimization and automation.

In 2020 we already made significant progress in this respect – we accelerated further the introduction of RPAs (robots performing routine activities), of video-banking services for retail clients, of remote services for businesses, of digital onboarding, youth-aimed digit products and many more.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.2. WE ARE FOCUSING ON SUSTAINABLE AND PROFITABLE GROWTH

To secure our long-term future, we build long-term relationships with our clients. We do not pursue high short-term returns that come with excessive risks but rather focus on sustainable and profitable growth in the long run. Stringent risk management in everything we do is an absolute precondition in terms of guaranteeing sustainability.

Corporate Sustainability is an integral part of KBC Group overall business strategy, which is anchored in our day-to-day activities. KBC Sustainability strategy, which is geared towards the local economy and society, consists of three cornerstones: encouraging responsible behavior on the part of all our employees, increasing our positive impact on society and limiting any adverse social impact we might have.

The implementation of KBC Group Corporate Sustainability Strategy is governed by KBC Internal Sustainability Board (ISB) Chaired by the Group CEO and comprises of the group CFO, senior managers of all business units and core countries and KBC Sustainability General Manager.

Peter Andronov, Country manager KBC Bulgaria is member of ISB and has the overall responsibility for the Sustainability activities at KBC Bulgaria. ISB reports to the Group Executive Committee and it to the Group Board of Directors. KBC Bulgaria Corporate Sustainability Committee chaired by Mr. Andronov governs the corporate sustainability activities.

4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS

We can be really resilient if we maintain the confidence of society in us. We achieve this by taking into account the impact our activities have on society and responding to societal needs and expectations in a balanced, reasonable and transparent manner.

We carry out our socially responsible activities by:

Reducing our negative impact on society

Generating sustainable and profitable growth goes hand in hand with contributing to a more sustainable society. This means that, as a banking group, we also strive to limit our adverse impact on society. We want to achieve this ambition of ours by:

- enforcing strict policies for sustainability in our trading activities related to respect for human rights, the environment, business ethics and sensitive issues of public interest
- reducing the footprint, we leave on the environment

Environmental responsibility is one of the chosen areas that KBC focuses on. As climate change is one of the greatest challenges of the 21st century, our primary goal is to contribute to the transition to a low carbon economy and society.

We are aware that our operations and businesses are having an impact. To limit our direct and indirect impact on global warming, a program to reduce our environmental footprint has been launched at a group level.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS (CONTINUED)

Increasing our positive impact on society

Sustainability is not just about philanthropy and supporting local initiatives through sponsorship, although these aspects continue to be of great importance to the group. UBB contributes positively to society through its core business. However, we want to go further, so we have identified four main areas to focus our attention on to develop meaningful projects. Key to our renewed approach to sustainability is the fact that we want to provide basic business solutions for loans, investments, insurance and consulting that contribute positively to addressing these challenges for society.

For another consecutive year, we are focusing our efforts in four main areas:

- Financial literacy
- Promoting entrepreneurship
- Health
- Environment

Promoting Financial literacy

UBB has traditionally supported a number of initiatives in these areas, continuing to follow a prearranged and approved annual plan. In the area of Financial Literacy in 2020, the BCause Foundation and the Children Foundation launched trainings under the UBB My Finance program, which aims to improve the financial literacy of children and young people under 18 years of age. At this stage the program will include children placed in residential care centers who need more knowledge and skills for personal finance planning and responsible behavior when interacting with banks and credit institutions. The children from the family-type accommodation center "Vrabnitsa" were the first to have the opportunity to develop skills through the new entertaining game for financial literacy "All the money" board game.

In the spring of 2020, the web series "I am Issy" was launched, created by the NetInfo team with the support of UBB. In line with our faith in young people and the bank's desire to be closer to them, UBB's participation in the series aims to increase the financial literacy of the younger generation. The plot of the teen series presents the life of a group of young people who face a sequence of life situations, including financial dilemmas and problems. The series now has over 900,000 views.

As a member of the UN Global Compact, for another year we joined the initiative "I am proud of the work of my parents" - a project that introduces children to a variety of professions. The eighth edition of the initiative was held entirely online. The participation of KBC Group in Bulgaria in the project is a kind of way to express our gratitude to our employees, giving them the opportunity to present their skills and work life to the most important audience - their children. UBB employees showed in an accessible and fun way what it is like to be a banker, what we care about and how banks help society. As part of a short educational video they introduced the audience to interesting facts about money, what knights have to do with the history of money, what is the first Bulgarian banknote, how to save and what are the main banking products.

Promoting entrepreneurship

In 2020 we supported the implementation of programs that promote entrepreneurial culture. ABLE Activator, supported by UBB, enabled 30 active young people (students and young professionals up to the age of 35) to develop their entrepreneurial and leadership skills. UBB speakers were included in the program to emphasize on financial innovation. In 2020, the program lasted not 5 but 7 weeks. DZI supported the biggest hackathon in Bulgaria "Hack the crisis". The event brought together over 850 people and 111 conceptual projects to minimize the effects of COVID-19.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS (CONTINUED)

Promoting entrepreneurship (continued)

The competition gathered ideas and suggestions from all over Bulgaria, focused on three areas: Save a Life, Save a Community and Save a Business. The jury selected 15 projects that received support and mentorship from successful Bulgarian entrepreneurs.

Promoting Healthy lifestyle

The outbreak of the COVID-19 pandemic outlined the next significant cause for KBC Group in Bulgaria - supporting the society in dealing with the consequences. In just a few days, the employees raised BGN 33,000, and together with Mastercard UBB donated a total of BGN 200,000 to the Military Medical Academy in Sofia for the modernization of its specialized laboratory. Another BGN 120,000 were donated to 8 hospitals in the country to fight the pandemic. The funds were raised by two initiatives, conducted jointly by UBB and Mastercard, and were distributed among hospitals involved in the treatment of coronavirus in Blagoevgrad, Burgas, Plovdiv, Stara Zagora, Gabrovo, Vidin, Ruse and Varna.

Major initiatives promoting active lifestyles among UBB employees and partners were upgraded in 2020. The challenging situation caused by the pandemic, as well as the limitations of mass events, gave us the opportunity to organize the first e-sports tournaments - KBC e-Games, as an alternative to the traditional UBB Games. Within the game day 5 tournaments were held, respectively in chess, backgammon, santase, FIFA 20 and Counter-Strike 1.6. More than 100 employees signed up for the tournaments, with the largest number of players participating in the backgammon tournament - 34.

Protecting Environment

To limit our direct and indirect impact on global warming we launched a group-wide program to reduce our own footprint on the environment. In 2015, KBC Group committed to reducing the carbon emissions it produces by at least 20% by 2020 (compared to 2015). We translated this goal into action plans in each country in which we operate. As we were ahead of schedule, we decided in 2018 to increase our target to -25% by 2020 compared to 2015. Reaffirming our commitment, we went even further, aiming to reduce our carbon footprint and reach 0 CO₂ emissions in 2050. In 2015, the total carbon emissions produced by KBC Group in Bulgaria are 16,880 tons of CO₂. In 2019 we reached - 55%. By optimizing processes, innovating in every area of our work and engaging our employees, we will reduce carbon emissions to: -71% in 2030; -85% in 2040; -100% in 2050.

As part of KBC Group's commitment to increase green electricity and reduce carbon emissions, a photovoltaic plant was launched at the DZI customer service center in the Orlandovtsi district of Sofia. It produces 34 mWh per year, which represents nearly 20% of the total consumption of DZI's second largest power plant, and the saved electricity is enough to meet the needs of an average household for over 10 years. The solar panels located in DZI Orlandovtsi produced 22 MWh in 2020. Thanks to the solar panels the company's carbon footprint will be reduced by 18 tons of CO₂ per year. The photovoltaic installation is another step that DZI is taking towards fulfilling its commitment to society. The remaining 82.5% of the energy needs of the administrative building in Orlandovtsi and UBB Millennium Center are supplied by the purchase of 100% green electricity produced from renewable sources.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.4. FOCUS ON RESPONSIBLE AND ETHICAL BEHAVIOR

As a financial institution that is responsible for environmental issues and contributes to reducing the adverse effects of human activity on the planet's climate and making efforts to counteract risks and maximize prevention, UBB has implemented various activities aimed at reducing our negative impact on the environment.

If we want to maintain and increase the confidence of our stakeholders, it is crucial that we act responsibly in everything we do. We strive to go beyond regulatory and compliance requirements: since customer focus is at the heart of our strategy, we focus specifically on sales and consulting with the right degree of responsibility. The basic principles here are respect for customers, colleagues and society. This provides us with legitimacy, guides our behavior and guarantees our long-term survival. Responsible behavior is at the heart of honesty, fairness, transparency and confidentiality, combined with sound risk awareness.

Responsible behavior is especially important for the banker when it comes to proper advice and sales. That is why we pay particular attention to the training and awareness of our employees in this regard. As a first step in building a corporate culture of ethical behavior, a separate segment is dedicated to the initial training of newly hired employees. In addition, staff surveys are planned to assess the degree of awareness of the importance of the topic and incorporate the principles of responsible and ethical behavior into daily operations.

In the area of responsible behavior, throughout 2020, we continued to provide trainings for the Bank's branch network aimed at paying attention to employees (especially those working directly with clients) of KBC's principles of responsible customer service and ways of their application.

Every quarter, the Compliance Departments in KBC Group issue a compliance bulletin, which informs employees about the risks associated with inappropriate behavior (Conduct risk), ethics and fraud, personal data protection and more. In order to better understand the topics, specific situations are described and examples from practice are given.

Fraud Information Week was held in 2020 - an initiative held simultaneously in all KBC companies on the week of December 7-11, which presents the importance of the topic "fraud and the fight against it" in a non-traditional, fun and accessible way, including non-standard videos, comics and case studies.

4.5. FOCUS ON CLIMATE CHANGE

KBC launched a structural approach to the management and reporting of climate-related risks and opportunities via Sustainable Finance Programme at 2019. The programme is intended to implement the Task Force on Climate-related Financial Disclosures recommendations, to facilitate engagement to the Collective Commitment to Climate Action, to pursue the objectives of the Paris Climate Agreement as well as the upcoming EU regulations by integrating them in all relevant business units and business lines. Climate change was also embedded more firmly in KBC's risk policy and management.

On a Group level the programme consist of several projects and is overseen by a Sustainable Finance Steering Committee chaired by the Group CFO. Progress is discussed regularly within the Internal Sustainability Board, the Executive Committee and the Board of Directors, including via the KBC Sustainability Dashboard.

As of 2020 the programme is extended to cover also all KBC core countries including Bulgaria.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.5. FOCUS ON CLIMATE CHANGE (CONTINUED)

The purpose of the **Sustainable Finance Committee (“GREEN-COM”)** is to oversee climate-related risks in the Group’s portfolio in Bulgaria and support its customers in their adaptation to climate change. A main tool in this respect is the elaboration of the so called White Papers - policy documents presenting key trends related to sustainability in the sectors and segments mostly affected by climate change. Next to this, a process of collection of sustainable finance-related metrics and preparation for climate-related dialogue with customers is on-going.

4.6. MEASURES

Complaints management

The process of receiving and handling complaints and providing legal protection against human rights violations.

Any complaint received at UBB is registered and sent for verification analysis and opinion to the relevant competent unit. All complaints from clients related to personal data are registered and directed to the Products and Segments Unit at the Retail Banking and Digital Sales Directorate, and clients’ requests for performance of data subjects’ rights as per GDPR, are referred for handling by Static Data, Monitoring and Distrains Unit at Operations Directorate, always with the involvement and assistance of the Data Protection Officer. All complaints related to unauthorized transactions are directed to the Card Center and support digital services. Complaints related to payments corrections write-offs are sent to the Director of Retail Banking and Digital Sales as well as to the respective Directorate and in case of unauthorized transactions to the Dispute Resolution Commission under Art. 22 of the Rules for Solving Complaints of UBB Clients.

The UBB customer complaint handling rules are a shared acceptance basis for all competent units for more effective conflict resolution and prevention. The total number of complaints received in 2020 at UBB is 5 673 (2019: 6 655) which are less than 982 compared to the previous year.

Anti –corruption Program

Criteria used to assess the risk of corruption are provided for in UBB Anti-corruption program and are set up in conjunction with the national legal framework for the prevention of corruption and fraud and conflict of interest based on the British Bribery Act (with Territorial Effect) introduced in 2011 and implemented by Group Compliance Rule No. 19 (Anti-Corruption Program) of the KBC Group.

Risk assessment

When assessing the risk of corruption as per the UBB Anti-corruption Program the following criteria of internal and external risk of bribes are taken into consideration:

Key external risks:

- Risk coming at country level (high level of corruption bad legislation low transparency). For example: The countries with less than 50 points in accordance with the index of the: “Transparency without borders” (<http://www.transparency.bg/bg/>), excluding Bulgaria, are considered as higher corruption risk <http://www.transparency.bg/en>. The exception provided for Bulgaria should not be applicable to: Politically Exposed Persons (PEPs); businesses that are associated with higher corruption risk (as per a list); parties involved with cash intensive activities, which are still considered to be higher risk.
- Sectoral Risk (some departments of a financial institution or cross-border activities are more exposed; risks are different for a bank as compared to other activities as leasing, investments services or a factoring company, etc.).

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.6. MEASURES (CONTINUED)

- Transaction Risk (charitable contributions, licenses and permits, public procurement).
- Business Opportunity Risk (complex projects including many intermediaries, not at market prices, no clear legitimate objective).
- Business Partnership Risk (transactions with foreign public officials, joint ventures, PEPs, agents and intermediaries).
- Due Diligence Risk (absence of due diligence on parties performing services on behalf of the Bank e.g. to establish business in a foreign market, M&A's).

Key internal risks:

- Human Resources (employee training, skills and knowledge, bonus culture, excessive risk taking).
- Monitoring and Control (Lack of monitoring, lack of reporting, lack of clear financial/ accounting controls).
- Other (Lack of clarity in procedures for hospitality, promotional expenses charitable contributions, etc., lack of anti-bribery message from the top management, specific divestment risks).
The anticorruption program is coordinated by Compliance Directorate and implementation and realization is responsibility of all the participating units.
The Bank organizes trainings to newcomers and refreshing trainings and tests to the personnel. The number of employees trained in 2020 is as follows:
 - Trainings for new employees on internal rules on ethics:
 - Number of employees invited at training sessions – 367
 - Number of employees who attended the trainings, including testing – 295
 - Training for whole bank staff on internal procedures, prohibiting provision of unacceptable services and assistance:
 - Number of employees invited – 2 743
 - Number of employees who passed the test – 2 282None was dismissed or was at suit for corruption in 2020.
The Bank has developed mechanism for sending signals for malpractices and violations of internal rules, including corruption. The following regulations in force in UBB and are directly or indirectly linked to corruption prevention:
 - Code of conduct
 - Policy on gifts, entertainment, donation and sponsorship
 - Whistle-blowing Rules
 - Rules for prevention of money laundering/financing of terrorism
 - Internal rules for inventory and non-remuneration of management mandates executed in other companies on nomination of KBC.

4.7. IMPORTANT NEW SUSTAINABILITY POLICIES

Blacklist of companies and activities

We place businesses on this list that are involved with controversial weapons systems or which commit serious breaches of UN Global Compact Principles. The employees of the Bank / The Group are not permitted to do business with such enterprises.

Human rights

We have updated our human rights policy to bring us in line with the UN Guiding Principles on Business and Human Rights and UN Global Compact Principles.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.7. IMPORTANT NEW SUSTAINABILITY POLICIES (CONTINUED)

Controversial regimes

We do not wish to be involved in financial activities with controversial regimes that fundamentally violate human rights and lack any form of good governance rule of law or economic freedom. We do however make an exception for humanitarian goods. Based on reputable external sources we decide each year what countries are to be included on our list of controversial regimes.

Arms-related activities

We are very reluctant to fund any kind of arms-related activities. Even though the arms industry plays a role in security funding is only provided to companies that meet strict conditions.

Project finance

We do not provide financing or advisory services to projects where the client does not comply with the Equator Principles.

Other socially sensitive sectors

We have imposed restrictions on other socially sensitive sectors such as narcotic crops, gambling, palm oil production, mining deforestation, land acquisition and involuntarily resettlement of indigenous populations and prostitution.

4.8. WE AIM TO ACHIEVE OUR AMBITIONS WITHIN A STRINGENT RISK MANAGEMENT

Framework

We set the bar high aiming to be the banker that puts its clients center stage and so become ‘the reference’ Sound risk management plays an important role in that regard.

Risk management is an integral part of our strategy and our decision-making process

- We perform risk scans to identify all key risks
- We define our risk appetite in a clear manner
- We translate that into strict limit tracking per activity and business unit
- We monitor the risk profile of existing and new products via a New and Active Product Process
- We challenge the results of the periodic planning process via stress tests
- We have installed independent chief risk officers in all relevant parts of our organisation

Although the activities of a financial group are exposed to risks that only become apparent in retrospect, we can currently identify a number of major challenges for our Bank.

As a banker we are also exposed to the typical risks for the sector associated with these general risks such as credit risk, country risk, interest rate risk, foreign exchange risk and operational risk.

4.9. OUR ‘THREE LINES OF DEFENCE’ MODEL

The business operations side is responsible for managing its risks. As independent control functions the UBB risk function and Compliance and – for certain matters – Finance, Legal, Data Quality Management and Information Risk Security constitute the second line of defence.

As independent third line of defence Internal Audit provides support to the Management Committee the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

4.10. SECTOR – SPECIFIC RISKS

Credit risk

The potential negative deviation from the expected value of a financial instrument caused by default on the part of a party to a contract due to the inability or unwillingness of that party to pay or perform or due to particular situations or measures on the part of political or monetary authorities in a particular country.

Existence of a robust management framework

Recording impairment charges taking risk-mitigating measures optimising the overall credit risk profile etc.

Market risk in trading activities

The potential negative deviation from the expected value of a financial instrument caused by fluctuations in interest rates exchange rates and share or commodity prices.

Existence of a robust management framework

Historical VaR method, 'greeks' for products with options stress tests, open currency position monitoring, etc.

Operational and other non-financial risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes and IT systems human error or sudden external events whether man-made or natural. Other non-financial risks include reputational risk business risk and strategic risks.

Existence of a robust management framework

Group key controls risk scans Key Risk Indicators (KRIs) etc.

Market risk in non-trading activities

Structural market risks such as interest risk, equity risk, real estate risk, currency risk and inflation risk. Structural risks are risks inherent to the commercial activity or long-term positions.

Existence of a robust management framework

Basis Point Value (BPV), NII simulation and stress testing, nominal amounts limit tracking for crucial indicators, open currency position in banking book monitoring, etc.

Liquidity risk

The risk that the Bank will be unable to meet its payment obligations as they come due without incurring unacceptable losses.

Existence of a robust management framework

Liquidity stress tests management of funding structure etc.

Solvency risk

Risk that the Bank's capital base will fall below an acceptable level.

Existence of a robust management framework

Minimum solvency ratios active capital management etc.

In addition to the comprehensive monitoring of risk indicators, we monitor our solvency and liquidity performance using a number of Key Performance Indicators (KPIs).


Christof De Mil
Executive Director


Svetla Georgieva
Executive Director

Date: 13.04.2021

SEPARATE AND CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Interest income		272 014	272 343	272 669	273 092
Interest expenses		(9 881)	(14 985)	(9 881)	(14 985)
Net interest income	4	262 133	257 358	262 788	258 107
Fee and commission income		137 982	139 283	142 145	145 879
Fee and commission expenses		(20 695)	(20 045)	(21 057)	(20 246)
Net fee and commission income	5	117 287	119 238	121 088	125 633
Dividend income		4 983	6 774	429	85
Net result from financial instruments at fair value through profit or loss	6	594	15 759	594	15 759
Net result from financial instruments at fair value through OCI		-	135	-	135
Net result from hedging derivatives	17	(15)	65	(15)	65
Net other income	7	5 229	1 230	6 169	1 399
Total income		390 211	400 559	391 053	401 183
Operating expenses	8	(220 238)	(219 770)	(223 510)	(222 842)
Staff expenses		(95 461)	(94 622)	(97 876)	(97 413)
General administrative expenses		(98 663)	(100 644)	(99 435)	(100 841)
Depreciation and amortisation expenses		(26 114)	(24 504)	(26 199)	(24 588)
Impairment expenses	9	(49 400)	(9 242)	(50 069)	(10 738)
On financial assets at amortised cost and at fair value through OCI		(43 169)	(7 131)	(43 838)	(8 627)
On off-balance sheet commitment		(4 273)	1 112	(4 273)	1 112
On non-financial assets		(1 958)	(3 223)	(1 958)	(3 223)
Share in results of associated companies		-	-	380	316
PROFIT BEFORE TAX		120 573	171 547	117 854	167 919
Income tax expense	10	(11 769)	(16 712)	(11 926)	(17 009)
PROFIT FOR THE YEAR		108 804	154 835	105 928	150 910
UBB equity shareholders		108 804	154 835	105 934	150 773
Non-controlling interest		-	-	(6)	137

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2021 and signed by:

Christof De Mil
Executive Director

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit



Stavros Apostolov
Grant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit
Date: 13-04-2021



Jock Numan
PricewaterhouseCoopers Audit OOD
Date: 13-04-2021

SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
PROFIT FOR THE YEAR	108 804	154 835	105 928	150 910
<i>Other comprehensive income that may be recycled to profit or loss</i>				
Changes in the fair value of debt instruments at fair value through OCI	(6 083)	7 607	(6 083)	7 607
Gains/ losses reclassified through PL	(4 910)	-	(4 910)	-
Other comprehensive (loss)/ income that may be recycled to profit or loss	(10 993)	7 607	(10 993)	7 607
<i>Other comprehensive income that will not be recycled to profit or loss</i>				
Changes in the fair value of equity instruments at fair value through OCI, net of tax	4 170	3 518	4 170	3 518
Actuarial gains/(losses)	115	(196)	115	(196)
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>	4 285	3 322	4 285	3 322
<i>Other comprehensive income/(loss), net of taxes</i>	(6 708)	10 929	(6 708)	10 929
Total comprehensive income for the year	102 096	165 764	99 220	161 839
Attributable to UBB equity shareholders	-	-	99 226	161 702
Attributable to non-controlling interest	-	-	(6)	137

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2021 and signed by:

Christof De Mil
CFO

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mileva
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jock Numan
PricewaterhouseCoopers Audit OOD

Date: 13-04-2021

Date: 13-04-2021



SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
ASSETS					
Cash and cash balances with the Central Bank	11	1 635 776	648 925	1 635 776	648 925
Due from banks	12, 33	940 818	479 281	940 818	479 281
Reverse repos with banks	12, 33	586 708	2 287 637	586 708	2 287 637
Loans and advances to customers	13	6 324 032	5 741 398	6 325 097	5 743 388
Financial assets at fair value through profit or loss	14	22 252	34 403	22 252	34 403
Financial assets at fair value through OCI*	15	822 373	962 374	822 373	962 375
Securities at amortized cost	16	2 144 648	1 692 632	2 144 648	1 692 632
Derivative financial instruments	17	5 928	1 191	5 928	1 191
Investments in subsidiaries and associated companies	18	20 732	21 368	3 477	3 560
Intangible assets	19	10 705	8 155	11 235	8 244
Property and equipment	19	104 567	108 650	104 635	108 736
Investment properties	20	127 342	126 344	137 026	136 753
Right-of-use assets	21	22 043	27 993	22 138	28 084
Deferred tax assets	22	5 240	5 119	5 450	5 238
Corporate income tax receivables		1 983	-	1 983	-
Other assets	23	22 012	27 230	23 185	28 622
TOTAL ASSETS		12 797 159	12 172 700	12 792 729	12 169 069
LIABILITIES					
Deposits from banks	24	103 735	9 644	103 735	9 644
Deposits from customers	25	10 744 124	8 778 132	10 739 901	8 771 796
Payables under repo agreements	26	282 755	1 797 115	282 755	1 797 115
Derivative financial instruments	17	46 641	10 642	46 641	10 642
Other borrowed funds	27	68 200	126 100	68 200	126 100
Current income tax liabilities		-	2 098	47	2 127
Provisions	28	14 186	12 858	14 290	12 869
Lease liabilities	21	22 063	28 010	22 160	28 088
Deferred tax liabilities	22	-	-	1	15
Other liabilities	29	36 669	31 411	37 370	32 057
TOTAL LIABILITIES		11 318 373	10 796 010	11 315 100	10 790 453
SHAREHOLDERS' EQUITY					
Share capital		93 838	93 838	93 838	93 838
Share premium		210 058	210 058	210 058	210 058
Retained earnings	30	1 116 219	1 012 325	1 115 062	1 013 979
Revaluation reserve	31	60 028	61 941	60 028	61 941
Reserve related to actuarial losses	28	(1 357)	(1 472)	(1 357)	(1 472)
TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS		1 478 786	1 376 690	1 477 629	1 378 344
Non-controlling interest		-	-	-	272
TOTAL EQUITY		1 478 786	1 376 690	1 477 629	1 378 616
TOTAL EQUITY AND LIABILITIES		12 797 159	12 172 700	12 792 729	12 169 069

* Financial assets at fair value through OCI includes pledged under repo deals and for securing state budget funds government bonds amounting to BGN 299 298 thousand (2019: BGN 2 105 915 thousand).

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2021 and signed by:

Christof De Mil
CFO

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit

Marko Apostolov
Prizant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jock Numan
PricewaterhouseCoopers Audit OOD

Date: 13-04-2021

Date: 13-04-2021

SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

SEPARATE	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation Reserve	Total
Balance as of 1 January 2019	93 838	210 058	1 033 378	(1 276)	50 816	1 386 814
Profit for the year	-	-	154 835	-	-	154 835
Other comprehensive loss for the year, net of tax	-	-	-	(196)	11 125	10 929
Total comprehensive income	-	-	154 835	(196)	11 125	165 764
Paid dividends	-	-	(175 888)	-	-	(175 888)
Transactions with owners	-	-	(175 888)	-	-	(175 888)
Balance as of 31 December 2019	93 838	210 058	1 012 325	(1 472)	61 941	1 376 690
Balance as of 1 January 2020	93 838	210 058	1 012 325	(1 472)	61 941	1 376 690
Profit for the year	-	-	108 804	-	-	108 804
Other comprehensive income for the year, net of tax	-	-	(4 910)	115	(1 913)	(6 708)
Total comprehensive income	-	-	103 894	115	(1 913)	102 096
Balance as of 31 December 2020	93 838	210 058	1 116 219	(1 357)	60 028	1 478 786

CONSOLIDATED	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation reserve	Total attributable to UBB equity shareholders	Non-controlling interest	Total
Balance as of 1 January 2019	93 838	210 058	1 039 117	(1 276)	50 816	1 392 553	254	1 392 807
Profit for the year	-	-	150 773	-	-	150 773	137	150 910
Other comprehensive income for the year, net of tax	-	-	-	(196)	11 125	10 929	-	10 929
Total comprehensive income	-	-	150 773	(196)	11 125	161 702	137	161 839
Changes in non-controlling interest	-	-	(23)	-	-	(23)	-	(23)
Paid dividends	-	-	(175 888)	-	-	(175 888)	(119)	(176 007)
Transactions with owners	-	-	(175 911)	-	-	(175 911)	(119)	(176 030)
Balance as of 31 December 2019	93 838	210 058	1 013 979	(1 472)	61 941	1 378 344	272	1 378 616
Balance as of 1 January 2020	93 838	210 058	1 013 979	(1 472)	61 941	1 378 344	272	1 378 616
Profit for the year	-	-	105 934	-	-	105 934	(6)	105 928
Other comprehensive income for the year, net of tax	-	-	(4 910)	115	(1 913)	(6 708)	-	(6 708)
Total comprehensive income	-	-	101 024	115	(1 913)	99 226	(6)	99 220
Changes in non-controlling interest	-	-	59	-	-	59	(266)	(207)
Transactions with owners	-	-	59	-	-	59	(266)	(207)
Balance as of 31 December 2020	93 838	210 058	1 115 062	(1 357)	60 028	1 477 629	-	1 477 629

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2021 and signed by:

Christof De Mil
CFO

Svetla Georgieva
Executive Director

In reference to the auditors' report

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jack Numan
PricewaterhouseCoopers Audit OOD

Date: 13-04-2021

Date: 13-04-2021



**SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**



All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITY:					
Profit before tax		120 573	171 547	117 854	167 919
Adjustments for non- cash items:					
Impairment of loans and advances to customers	9	43 169	7 131	43 838	8 627
Impairment on off-balance sheet commitments	9	4 273	(1 112)	4 273	(1 112)
Impairments on non-financial assets	9	1 373	3 223	1 373	3 223
Provisions for legal cases	7	(2 972)	(864)	(2 868)	(850)
Depreciation related to fixed assets and investment property	7,8	26 320	25 286	26 779	25 723
Amortization related to intangible assets	8	3 308	1 952	3 311	1 980
Other provisions	8	268	(288)	261	(274)
Dividend income from associates companies and subsidiaries		(4 983)	(6 774)	(429)	(85)
Cash flow from operating profit before tax and before changes in operating assets and liabilities		191 329	200 101	194 392	205 151
Movements in operating assets and liabilities					
(Increase)/ Decrease in receivables from banks		(171 889)	474 529	(171 889)	474 529
Increase in loans and advances to clients		(626 919)	(562 368)	(626 668)	(564 388)
Decrease/(Increase) in trading securities		12 151	(1 718)	12 151	(1 718)
Decrease in derivative financial instruments		31 262	13 393	31 262	13 393
(Increase)/ Decrease in other assets		(1 972)	5 124	(1 648)	4 415
(Decrease)/Increase in deposits from banks including payables under repo deals		(1 420 269)	296 650	(1 420 269)	296 650
Increase in deposits from customers		1 965 992	576 511	1 968 105	579 345
Increase in lease liabilities		212	715	181	698
Increase in other liabilities		10 378	16 359	10 415	16 586
Income tax paid		(14 556)	(14 251)	(14 538)	(14 436)
NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITY		(24 281)	1 005 045	(18 506)	1 010 225

(Continued on next page)

**SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
(CONTINUED)**



FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended	Year ended	Year ended	Year ended
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
CASH FLOWS FROM INVESTING ACTIVITY:					
Purchases of fixed assets		(21 865)	(43 382)	(268 440)	(43 389)
Purchase of intangible assets		(10 095)	(9 071)	(55 373)	(9 092)
Proceeds from sale of fixed assets		16 942	26 722	308 314	26 721
Increase in shareholding in associates		-	(2 475)	-	(784)
Proceeds from sale of investments in associates		636	-	83	-
Redemption of FVOCI debt securities		268 689	136 426	268 690	136 426
Purchase of AC debt securities		(455 879)	(665 316)	(455 879)	(665 316)
Purchase of FVOCI securities		(130 579)	(66 900)	(130 579)	(66 900)
Dividend received		4 983	6 774	429	85
NET CASH FLOW USED IN INVESTING ACTIVITY		(327 168)	(617 222)	(332 755)	(622 249)
CASH FLOWS FROM FINANCING ACTIVITY:					
Dividends paid		-	(175 888)	(207)	(176 030)
Repayments to long-term financing		(57 900)	(7 541)	(57 900)	(7 541)
Repayments of lease liabilities		(9 772)	(10 965)	(9 753)	(10 977)
NET CASH FLOW USED IN FINANCING ACTIVITY		(67 672)	(194 394)	(67 860)	(194 548)
CHANGE IN CASH AND CASH EQUIVALENT					
Net (decrease)/increase in cash and cash equivalents		(419 121)	193 429	(419 121)	193 428
Cash and cash equivalents on 1 January		2 229 833	2 035 943	2 229 833	2 035 944
Effect of the change in exchange rate of cash flows and cash equivalents		(973)	461	(973)	461
Cash and cash equivalents on 31 December	33	1 809 739	2 229 833	1 809 739	2 229 833
Operating cash flows related to interests and fees:					
Paid interests		(9 842)	(14 064)	(9 842)	(14 064)
Received interests		282 990	278 668	282 990	278 668
Paid commissions		(20 695)	(20 045)	(21 057)	(21 095)
Received commissions		137 982	126 746	142 145	133 342

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2021 and signed by:

Christof De Mil
CFO

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit

Marko Apostolov
Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jack Numan
PricewaterhouseCoopers Audit OOD

Date: 13-04-2021

Date: 13-04-2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

1. GENERAL INFORMATION

United Bulgarian Bank AD Company Identification Number: 000694959 (“UBB” or the “Bank”) is a joint stock company registered in Sofia Bulgaria 89B Vitosha Blvd. in September 1992 through the consolidation of 22 commercial banks. In June 2017 KBC Bank N.V. (“KBC”) acquired UBB from National Bank of Greece, followed by a merger in Feb 2018 of UBB with former Cibank EAD (fully owned by KBC Bank N.V). After the merger KBC Bank N.V. holds 99.92 % of the shares in the capital of the bank (93 767 689 shares out of totally 93 838 321 shares in the capital of United Bulgarian Bank AD). The consolidated financial statements present the financial position of United Bulgarian Bank AD (the Bank) and its subsidiaries as one reporting unit (“UBB or the Group”).

UBB is managed by a Supervisory Board and a Management Board which as at 31 December 2020 are in the following configurations:

Supervisory Board:

- 1) Luc Popelier - Chairman of the Supervisory Board
- 2) Christine Van Rijssseghem - Member of the Supervisory Board
- 3) Franky Depickere - Member of the Supervisory Board
- 4) Svetoslav Gavriiski – Independent Member of the Supervisory Board
- 5) Victor Yotzov – Independent Member of the Supervisory Board

Management Board:

- 1) Peter Andronov - Chairman of the Management Board and Chief Executive Officer
- 2) Christof De Mil - Member of the Management Board and Chief Finance Officer
- 3) Svetla Georgieva - Member of the Management Board and Chief Risk Officer
- 4) Desislava Simeonova - Member of the Management Board and Executive Officer SME and Corporate Segment
- 5) Teodor Marinov - Member of the Management Board and Executive Officer Legacy and Subsidiaries
- 6) Ivaylo Mateev - Member of the Management Board and Chief Operations Officer
- 7) Tatyana Ivanova - Member of the Management Board and Executive Officer Marketing and Retail Distribution

* Hristina Filipova – Procurator – not a MB member, participates in the MB meetings without voting right.

The Bank is represented by two Executive Officers acting together or Executive Officer acting together with Procurator.

The Bank holds a license granted by the Bulgarian National Bank (the “Central Bank” or “BNB”) to take deposits in local and foreign currency trade and invest in treasury bonds and other securities and perform other banking operations. The Bank is allowed to maintain its activities both locally and internationally. The international activities of the Bank are mainly related to nostro accounts transactions placements with foreign contracting banks, dealing securities portfolio and foreign exchange contracts.

As at the end of 2020 the Bank’s operations were conducted through a Headquarters Office in Sofia and 175 branches, 16 business centers and 34 remote workplaces throughout Bulgaria.

The number of full-time employees of the Bank as of 31 December 2020 was 2 665 (2019: 2 801).

The number of full-time employees of UBB as of 31 December 2020 was 2 722 (2019: 2 861).

These separate and consolidated financial statements have been approved for issue by the management Board on 13.04.2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by EU. IFRSs as adopted by the EU is the commonly accepted name of the general-purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act “International Accounting Standards” (IASs).

Historical cost convention: The financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

The financial statements were prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical and accounting estimates. It also requires management of the Bank to execute its judgment and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.4.

The consolidated subsidiaries and associates in the UBB Group consolidated financial statements are as follows:

As of 31.12.2020:

Entity name	Ownership (%)	Method of consolidation	Activity
UBB Factoring EOOD	100 %	Fully consolidated	Factoring services
UBB Insurance Broker AD	100%	Fully consolidated	Insurance brokerage services
East Golf Properties EAD	100%	Fully consolidated	Real estate
UBB Centre Management EOOD	100%	Fully consolidated	Real estate
Druzhestvo za Kasovi Uslugi AD	25%	Equity method of consolidation	Cash management services

Investments in subsidiaries and equity method investments in separate financial statements

In the Bank’s financial statements subsidiaries associates and joint ventures are measured at cost less impairment.

Impairment assessment of investments in subsidiaries associates and joint ventures in separate financial statements

At each reporting date The Bank assesses whether there is any indication that an investment in a subsidiary or equity method investments may be impaired. If any such indication exists The Bank estimates the recoverable amount of the investment. Where the carrying amount of an investment is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

a) New and amended standards adopted by the Bank and the Group

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2020:

Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The new amendments do not have a significant impact on the Bank’s financial results or position.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION (CONTINUED)

Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The new amendments do not have a significant impact on the Bank's financial results or position.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The new amendments do not have a significant impact on the Bank's financial results or position.

Amendments to IFRS 3 Business Combinations (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The new amendments do not have a significant impact on the Bank's financial results or position.

Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The new amendments do not have a significant impact on the Bank's financial results or position.

All changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and are not expected to have a significant effect on the current or future periods.

b) New standards and interpretations not yet adopted by the Bank and the Group

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2020 and have not been previously adopted by the Bank have been published. The Bank is in process of assessment of the impact of those changes on the financial statements. Earlier adoption is not considered by the Bank. The UBB's assessment of the impact of these new standards and interpretations is set out below. The amendments of the standards listed below are not expected to be material for the Bank and for the Group.

Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021)

There are no other standards that are not yet adopted, and which are expected to have a significant impact on the Bank during the current or future reporting period as well as in the foreseeable future transactions.

c) New standards, interpretations and amendments not yet adopted by the EU

The amendments of the standards listed below are not expected to be material for the Bank and for the Group.

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); **including Amendments to IFRS 17** (issued on 25 June 2020).

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively and effective for annual periods beginning on or after 1 January 2023).

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Scope

The accounting policy aims to present UBB' policies and the basic principles related to:

- Significant accounting judgements estimates and assumptions
- Accounting policies of UBB

The policy aims to give the basic principles without detailed explanations of the accounting transactions and booking rules.

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policy has been applied consistently for all years of presentation unless otherwise stated.

3.2. Compliance

The accounting policies and the judgements estimates and assumptions applied are in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU).

In case of revision or introduction of new Financial Reporting Standards UBB assesses the effects of the application of the new / revised standards and discloses the effects in the annual financial statements.

3.3. COVID-19

Introduction:

The continuing public health crisis around the world has distressed financial markets amid concerns that the global economy, and the EU's economies in particular, are heading towards a sharp contraction in full year 2020. The Coronavirus pandemic has triggered a chain of events in the markets that has led to a sharp increase in volatility.

The significant deterioration in the economic outlook has brought about an unprecedented monetary policy response from central banks and governments around the world.

Meanwhile, the Bank has been working hard with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals.

Latest status overview of the different government and sector measures in our country include the following options, which were effective as 31.12.2020:

- **Deferral of payments** approved by BNB – this option is applicable for retail and non-retail customers with the possibility for deferral of principal with or without deferral of interest payments. In case of principal deferral only, the tenor is extended by 6 months. Interest is accrued over the deferral period and is payable in 12 months (consumer and non-retail) or 60 months (mortgages) in equal instalments.
- **Guarantee scheme & Liquidity assistance** – UBB participates actively in anti-crisis credit guarantee programmes for **SME and Corporate clients** such as COVID COSME, COVID InnovFin, COVID JEREMI, Trade finance and expects to start providing the Bulgarian Development Bank (BDB) COVID-19 and Fund Manager of Financial Instruments in Bulgaria (FMFIB) COVID programmes early next year. Next to this UBB applies actively also the BDB-COVID programme to support **individuals**.

The application period of the relief measures under the payment moratorium is valid until 31 March 2021.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 COVID-19 (CONTINUED)

More details related to the loans and advances subject to EBA-compliant moratoria, other loans and advances subject to COVID-19-related forbearance measures, newly originated loans and advances subject to public guarantee schemes are disclosed in Note 35 (part of COVID-19 reporting requirements).

Details related to the impact of the Corona crisis on the loan impairments during 2020:

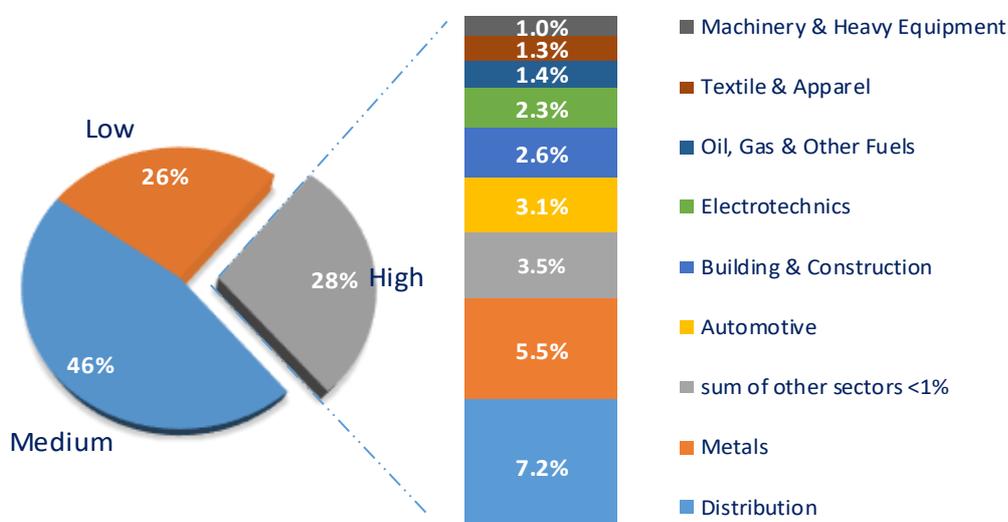
Given the unprecedented macroeconomic circumstances, the IFRS 9 ECL models cannot adequately capture the impact on the collective ECL. Hence, the bank booked a management overlay reflecting the IFRS 9 forward-looking view, based on a long-term approach, taken into account potential macroeconomic scenarios in the COVID-19 environment.

The assessment reflects expected credit losses for loans where credit risk is deemed to have increased. In particular, the Bank is continuously monitoring the industries that have been most affected by the financial impacts of the pandemic, including those related to leisure and tourism, wholesale distribution and services, the automotive, aviation and shipping industry, the oil & gas and metals sectors.

The following approach was applied to estimate the additional COVID-19 impact:

1) The migration per stages was determined based on an expert judgement. The portfolio was transformed using this stage migration, whereby a certain portion of exposures moved from stage 1 to stage 2 / stage 3 and from stage 2 to stage 3. After this transformation, the ECL was calculated again based on the new portfolio structure. The estimate of COVID-19 base-case ECL impact was then determined as the difference between the ECL calculated on the portfolio before and after applying the migration between the stages.

2) A sectoral effect is incorporated in the calculation to refine the COVID-19 ECL in order to reflect the fact that some sectors will be more heavily affected than others. Exposures to sectors as aviation, shipping, real estate, hotel's industry and tourism are included in other sectors <1%. All exposures in the SME and Corporate portfolio are classified as high, medium or low risk based on the expected impact of the COVID-19 crisis on the sector affected (for Mortgages and Consumer Finance, no sectoral stress was applied).



3) Finally, a probability-weighted management overlay was calculated based on base-case, optimistic and pessimistic scenarios with the following weights: 55% for the base-case, 10% for the optimistic and 35% for the pessimistic scenario.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 COVID-19 (CONTINUED)

For the non-performing stage 3 collective exposures, an additional impact assessment was performed based on the expert judgement of the local credit risk management departments. Additional impairments due to COVID-19 on individually assessed stage 3 loans are already reflected in the specific allowance of the exposure (hence already included in P&L impairments) and thus not included in the management overlay.

COVID-19 ECL on IFRS 9 collectively assessed loan exposures:

BGN million	Performing portfolio				TOTAL	Non-performing portfolio	TOTAL 2020
	Non-retail exposures			Retail exposures			
	High risk sectors	Medium risk sectors	Low risk sectors				
Base-case scenario	3.4	7.8	1.4	17.4	30.0		
Optimistic scenario	1.5	3.4	0.6	8.4	13.9		
Pessimistic scenario	6.4	13.4	3.2	25.7	48.7		
	Total COVID-19 impact				34.9	9.9	44.9

The approach applied to the performing portfolio and the additional impact assessment of the non-performing portfolio resulted in a total collective COVID-19 ECL of BGN 44.9 million. In 2020, the ECL models captured an impact of BGN 13.8 million through the updated macroeconomic variables used in the calculations. The total COVID-19 management overlay booked in 2020 amounts to BGN 31.1 million. The management overlay is fully presented as stage 2, with the exception of the management overlay on the existing non-performing portfolio which is part of stage 3.

A change in the weight assigned to base case scenario by 50% towards the pessimistic scenario would result in an increase in COVID-19 impact by BGN 5.2 million at 31 December 2020. A corresponding change towards the optimistic scenario weight would result in a decrease in COVID-19 impact by BGN 4.4 million at 31 December 2020.

Including the collective COVID-19 ECL, the Credit Cost Ratio (Net Credit Impairments recognised in the Profit or Loss relative to the average loan portfolio) amounted to 0.71% in 2020 which is by 59 bps higher than 2019 entirely driven by COVID-19 Management overlay.

Credit cost %	2020	2019
Without collective COVID-19 ECL	0.05%	0.12%
With collective COVID-19 ECL	0.71%	-

3.4. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The Bank makes estimates and judgments for the purposes of the accounting and disclosure. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Critical accounting estimates and judgments (continued)

a) Extension and termination options and critical judgments in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of office buildings and cars, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

b) Classification of properties acquired from collateral foreclosure

UBB classifies those properties as investment property in case they are held by UBB for generation of rental income or for capital appreciation or for both and are not used by UBB for own administrative purposes.

c) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the statement of financial position cannot be derived from active markets they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible a degree of judgement is required by management in establishing fair values. The judgement includes liquidity assumptions and model inputs such as correlation and sensitivity of longer dated derivative financial instruments.

d) Allowance for impairment losses and uncollectability

The IFRS 9 impairment model is an Expected Credit Loss (ECL) model which means that it is not necessary for a loss event to occur before an impairment loss is recognised. All financial assets except the ones measured at fair value through profit or loss will generally carry a loss allowance.

It uses a dual measurement approach under which the loan loss allowance for the financial instruments in scope will be measured at either:

- 12-month expected credit losses; or
- lifetime expected credit losses

e) Allowance for impairment losses and uncollectability (continued)

The measurement basis will depend on whether there has been a significant increase in credit risk since initial recognition.

There are two types of impairment calculations:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Critical accounting estimates and judgments (continued)

Impairment Type	Description
Model Based (i.e. Collective)	Expected future cash flows are based on statistical assumptions. ECL is calculated as the product of the probability of default (PD) the estimated exposure at default (EAD) and the loss given default (LGD).
Individual	Applicable for significant non performing exposures /PD 10-12/

Calculating ECL requires significant judgement of various aspects including the borrowers' financial position and repayment capabilities the value and recoverability of collateral projections and macroeconomic information. UBB applies a neutral bias-free approach when dealing with uncertainties and making decisions based on significant judgements.

e) Valuation of Investment properties

Investment property acquired in the process of Non-performing loans management (repossessed collateral) is measured initially at acquisition cost representing their fair value at the acquisition date or in case of a transaction where the management believes that the acquisition cost is not the FV the initial recognition is booked at the FV of the respective property. The fair value of investment property is determined by independent real-estate valuation experts by using generally accepted valuation methods.

Such methods include the revenue method and the cash flows discount method. In some cases, fair values are assessed on the basis of recent transactions with similar property in the same location and condition to that of UBB's assets (market analogues method) or based on the received offers for purchase of the property.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from the assets and discount rates applicable to these assets. These estimates reflect the local market conditions at the date of acquisition and the date of the statement of financial position.

Annually UBB performs an impairment test for investment property in which the book value of the property is compared to the fair value less costs to sell based on an independent market valuation. Impairment is booked in case that fair value less costs to sell is lower than the book value of the asset.

3.5. Functional and presentation currency

The Bank and its subsidiaries' functional and presentation currency is BGN.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated in the functional currency at the closing rate of exchange set by the Bulgarian National Bank at the end of each day. All exchange rate differences are recognised in the statement of profit or loss as commission income. Non-monetary assets and liabilities in foreign currency measured at historical cost are translated into the functional currency using the exchange rate at the date of the initial transaction (acquisition).

Non-monetary assets and liabilities in foreign currency measured at fair value are reported at the spot rate that existed when the fair value was determined.

Since 1 January 1999 the Bulgarian lev has been pegged to Euro at an exchange rate of BGN 1.95583: EUR 1.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments

- **Recognition**

Financial assets and liabilities are recognised in the statement of financial positions when UBB becomes a party to the contractual provisions of the instruments.

Regular purchases or sales of financial assets are recognised on the settlement date. Regular purchases or sales are purchases or sales of financial assets that require the delivery within the time frame established by regulation or market convention.

- **Classification and measurement**

Under IFRS9 the classification of financial assets is different for debt and equity instruments. Therefore, before applying the classification requirements UBB need to define whether the financial assets is an investment in an equity instrument, or it is a debt instrument both as provided by IAS 32. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets (that is all assets after deducting all of its liabilities). While the main characteristics of debt instruments that it provides a contractual right to the holder of receiving cash (in the form of interest/coupon principal repayment) and the issuer cannot exercise discretion in avoiding the settlement.

The determination is based on the substance of the instrument and not merely on its name.

Following the categorisation of the instrument as debt or equity instrument the appropriate classification model should be selected. The classification of the financial liabilities depends on the intention of UBB when the financial liabilities is issued and on the product characteristics of the financial instruments.

The category will determine how the financial instrument is measured. Under IFRS 9 the category and the valuation method are linked and the standard allows reclassification between the different categories only in very exceptional cases.

- **Financial assets at at amortised cost (AC)**

Reverse Repos

A reverse repo is a transaction in which UBB purchases a financial asset and simultaneously enters into an agreement to sell the asset (or a similar asset) at a fixed price on a future date; this agreement is accounted for as a Reverse repo, and the underlying asset is not recognised in the financial statements.

- **Financial assets – debt instruments**

The classification of the financial assets – debt instruments is based on the business model for managing the financial assets ("*Business Model assessment*") and the contractual term of the cash flows of the financial assets ("*SPPI test*").

- **Debt instruments at amortised cost (AC)**

In line with IFRS 9 a financial asset debt instrument is measured at **amortised cost** if both of the following conditions are met:

- *The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;*
- *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding*

This requirement has to be applied to the entire debt instrument even if it is a hybrid instrument containing embedded derivative. Under IFRS 9 embedded derivative cannot be separated from the host contract. When the contractual cash flows of a hybrid instrument give rights to cash flows other than principal and interest then the amortised cost is not appropriate and the instrument should be classified as fair value through profit or loss.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

Business model assessment

The assessment of the actual business model has to be made by each legal entity separately. The analysis is the responsibility of the finance team on which the CFO has to give its final approval because this may require making professional judgement and it should be done on the basis how the financial assets are managed in the business and not at the level of an individual asset. IFRS 9 states the business model is not a choice and does not depend on the intention of management for an individual instrument. It is a matter of fact that is observable through the way how financial assets are managed and how information is provided to the key management personnel.

All debt instruments at amortised cost are held in business model whose objective is to hold the assets in order to collect contractual cash flows. It does not mean that debt instruments measured at amortised cost cannot be sold. In assessing the impact of sales activity on the business model determination UBB have to consider the frequency and value of sales in prior periods and expected sales activity going forward but it should be clear that sales activity in the AC business model is only a rare incidental activity.

Here below are the hold to collect business models in UBB:

- *Retail Corporate&SME and Legacy business models – the models relate to Loans and advances to clients*
- *Products managed by Treasury directorate as part of Assets liability management (ALM) such as , Bank placements, Government bonds*

SPPI test

All debt instruments acquired in the above business models have to be assessed against the second criteria whether the cash flows under the contractual terms are solely payments of principal and interest on the principal amount outstanding. Only those instruments will pass the test which have basic lending arrangements attribute. Only debt instruments meeting the SPPI condition can be measured at amortised cost. The following are some of the indicators of non-basic lending arrangement features:

- *Mismatch between the reference interest rate and the rate re-set date of floating rate loans;*
- *FX mismatch in pricing vs. repayment currency of the loan*
- *Embedded floor options which are in-the-money at inception of the loan contract;*
- *Non-recourse or partial recourse debt instruments;*
- *Assessment of embedded prepayment options in loan contracts;*
- *Debt instruments where contractual cash flows (principal or interest) is linked to the business risk (e.g.: bonds cash flows dependent on the utilization of the toll road);*
- *Multi-currency options;*
- *Embedded floor or cap options resulting in leveraged interest rate;*
- *Deeply sub-ordinated debt instruments.*

UBB uses the KBC Group NAPP (new active product procedure) tailored it its local business need in order to identify debt instruments which fails SPPI test. Debt instruments failing the SPPI test have to be classified as debt instruments at fair value through profit or loss (FVPL) – SPPI failure. UBB does not have material positions in instruments failing the SPPI test ((only Investments in Mutual Funds which are reported as FI measured at FVPL - Mandatory).

- **Debt instruments at fair value through other comprehensive income (FVOCI)**

Under IFRS 9 a financial asset debt instrument is measured at **fair value through other comprehensive income** if both of the following conditions are met:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- *The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets;*
- *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding*

This requirement has to be applied to the entire debt instrument even if it is a hybrid instrument containing embedded derivative. Under IFRS 9 embedded derivative cannot be separated from the host contract. When the contractual cash flows of a hybrid instrument give rights to cash flows other than principal and interest then the fair value through other comprehensive income measurement is not appropriate and the instrument should be classified as fair value through profit or loss.

Business model assessment

Similarly to the AC category the business model is determined by Finance team and approved by CFO for the FVOCI category. Again this business model is observable through the way how financial assets are managed and how information is reported. Unlike for hold-to-collect business model in the hold-to-collect and sell the objective of the business model is achieved through the collection of the contractual cash flows and the sale of the debt instruments. Due to that this business model involves in general greater frequency and value of sales because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However there is no threshold for the frequency or value of sales that must occur in this business model because both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

Within UBB there are examples of business models whose objective is both to collect contractual cash flows and sell:

- *Products part of Treasury activity such as government Bonds*

SPPI test

Nonetheless the debt instruments classified in this category shall also meet the second classification criteria of SPPI test. This means that similar to the AC category only relatively simple debt instruments will qualify for measurement at FVOCI. Therefore the same features as highlighted above should be analysed in order to classify an instrument at FVOCI.

- **Debt instruments at fair value**

Next to the AC and FVOCI category IFRS 9 also defines for debt instruments fair value through profit or loss categories but the reason of fair value categorisation can be different and the Bank identifies these separately.

- **Debt instruments at fair value through profit or loss held for trading (HFT)**

A debt instrument is classified as held for trading if it is:

- *Acquired or incurred principally for the purpose of selling it in the near term; or*
- *Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;*

These financial assets have to be measured at fair value and fair value changes have to be reported in profit or loss. Held-for-trading is mainly used for instruments that are held with a trading intent. These are instruments that are acquired or incurred principally for the purpose of selling (in case of asset) or repurchasing (in case of liability) in the near term. Instruments that are used with the objective of generating a profit from short-term fluctuations in price or dealer's margin. These positions may include for example positions arising from client servicing (e.g. matched principal broking) and market making. In this category are classified mainly debt issued by public bodies.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- **Debt instruments upon initial recognition designated by the entity at fair value through profit or loss (FVPL)**

Under IFRS 9 debt instruments which would normally be categorised at AC or FVOCI may be designated as measured at fair value through profit or loss at initial recognition using the fair value option (FVO) if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise. This designation is regardless of the actual business model and will result that all fair value changes of the debt instrument will be recognised in profit or loss subsequently. Once a debt instrument is classified as FVO category it cannot be reclassified into other categories.

In accordance with IFRS 9 the FVO category can only be used for accounting mismatches. The accounting mismatches can arise from measuring assets and liabilities or recognising the gains and losses on them on different bases and when designating as FVO UBB need to clearly document the reason of the accounting mismatches.

- **Debt instruments at fair value through profit or loss – SPPI failure (FVSP)**

Debt instruments have to be classified in this category when they are measured at fair value through profit or loss because of failing SPPI test. Instruments failing SPPI test are those that have characteristics non-consistent with basic lending arrangements. This category has to be used regardless of the actual business model used and can include debt instruments held in hold-to-collect (AC) or hold-to-collect and sell (FVOCI) business model.

Debt instruments in this category have to be measured at fair value through profit or loss.

- **Financial assets – equity instruments**

Only instruments can be classified as equity instruments which passes the requirements of representing residual interest in another entity’s net assets.

The basic measurement category of equity instruments under IFRS 9 is fair value through profit or loss however equity instruments can also be designated as fair value through other comprehensive income. Classification is on an instrument by instrument basis taking into consideration the substance of the instrument and not merely on its name.

For the implementation of IFRS 9 the following categories of financial assets for equity instruments were distinguished:

- **Equity instruments at fair value through other comprehensive income**

Under IFRS 9 equity instruments are normally measured at fair value through profit or loss but on initial recognition UBB may make an irrevocable election (on an instrument-by-instrument basis) to present in other comprehensive income the subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9. This option only applies to instruments that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Designating an equity instrument under the fair value through other comprehensive income category will result that all fair value changes will be recognised in other comprehensive income. The only exception relates to the dividend received which can be recognised in profit or loss.

The irrevocable election as fair value through other comprehensive income means also that even when the instrument is derecognised the accumulated fair value gains and losses in other comprehensive income cannot be recycled to profit or loss.

Within the fair value through other comprehensive income category additional distinction is made between quoted and unquoted equity instruments:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- For quoted equity instruments the fair value information will be mostly available so they have to be measured in all circumstances at fair value.
- For unquoted equity instruments the determination of the fair value requires using valuation techniques. It is expected that for most unquoted instruments fair value can be estimated.
- **Derivative instruments**

Derivative financial instruments are instruments:

- (a) whose value changes in response to changes in a specific interest rate financial instrument price exchange rate price or interest rate index credit rating or credit index or another variable.
- (b) which do not require an initial net investment or require a small initial net investment compared to other types of contracts that respond in a similar manner to changes in market conditions.
- (c) which are payable at a future date.

Derivative financial instruments include foreign exchange swaps interest rate swaps currency forwards options and futures and are usually not initially recognized in the statement of financial position because they are not related to costs and their net fair value is closed to zero. After initial recognition derivatives are measured at fair value. Fair value is determined on the basis of quoted market prices discounted cash flow models or other valuation models.

IFRS 9 distinguishes between two main categories of derivative instruments based on whether the derivative is specifically designated in a hedge accounting relationship or not. UBB does not define separately categories for assets and liabilities because the classification criteria are equally valid for both positions.

- **Trading derivative**

A derivative is always measured at fair value however entities rarely enter into derivative transactions for speculative reasons and all derivative instruments will have to be categorised in this category that are not included in an effective hedge accounting relationship.

- **Hedging derivatives**

Hedging derivatives are derivatives which are specifically designated in a hedge relationship. For hedge accounting purposes only instruments that involve a party external to UBB (i.e., external to the group or individual entity that is being reported on) can be designated as hedging instruments.

Although UBB applied IFRS 9 as from 1 January 2018 the hedge accounting requirements is based on the requirements of IAS 39 (EU carve out version). This is because IFRS 9 provides an accounting policy choice for entities either to continue applying the hedge accounting requirements of IAS 39 pending the macro hedge accounting project being finalised or they can apply the new IFRS 9 requirements with the scope exception only for fair value portfolio hedges of interest rate risk. The accounting policy choice has to be applied to all hedge accounting and accordingly UBB decided to continue applying the IAS 39 requirements.

IAS 39 distinguishes between three types of hedging relationships i.e. fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. A hedging relationship only qualifies for hedge accounting if a number of conditions are met (see IAS 39.88). All derivative instruments have to be measured at fair value. The accounting treatment of fair value changes depends on the type of hedge.

- **Fair value hedges**

Hedge accounting applies to derivative financial instruments used to hedge the fair value of an asset (fair value hedges) if certain conditions have been met.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

When hedge occurs UBB documents the relationship between the hedged item and hedging instrument its goals in view of risk management as also its hedging strategy.

Any changes in the fair value of derivatives that are designated and classified as fair value hedges are included in the statement of profit or loss together with the changes in the fair value of the hedged assets attributable to the hedged risk. Changes in the fair value of interest rate swaps and hedged items related thereto are reported as „Net profits or (-) losses on hedge reporting”. The effects of the market adjustments relating to the risk of counterparty non-performance (CVA) and the possibility of non-performance by UBB (DVA) are taken to this item as well.

When a hedge no longer meets the criteria for hedge accounting the change in the carrying amount of the hedged item calculated using the effective interest rate method is amortised through profits or losses for the period up to the item’s maturity. Changes in the carrying amount of a hedged equity instrument continue being reported as other comprehensive income up to the time the equity instrument is derecognised.

Interest income and interest expense from hedging derivatives and hedged assets are recognised as „Interest income” and „Interest expenses” in the statement of profit or loss. The ineffective portion of hedging transactions is stated as „Net result from held-for-trading financial instruments”.

- **Financial liabilities**

IFRS 9 distinguishes between three categories of financial liabilities (similar to IAS 39):

- **Financial liabilities held for trading (HFT)**

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the near term; or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or a derivative. These financial liabilities have to be measured at fair value. Fair value changes have to be reported in profit or loss.

- **Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss (FVPL)**

Under certain conditions IFRS 9 permits an entity to measure a (group of) financial liability(s) on initial recognition at fair value whereby fair value changes are recognized in profit or loss except for fair value changes related to the changes in own credit risk which are presented separately in OCI.

This means that elements of the fair value movement of the liability are presented in different parts changes in own credit risk is presented in OCI and all other fair value changes are presented in profit or loss.

The amounts recognized in OCI relating to the own credit risk are not recycled to the profit or loss even when the liability is derecognized and the amounts are realized. Although recycling is prohibited the amounts in OCI can be transferred to other reserves within equity so entities can transfer realized amounts from OCI to retained earnings.

The category is referred to as the ‘fair value option’ or FVO and it is prohibited to reclassify financial instruments into or out of this category after initial recognition. Contrary to IAS 39 the criteria for designating financial liabilities at fair value is different than for financial assets.

- **Financial liabilities measured at amortised cost (AC)**

This category consists of all other non-derivative financial liabilities that are not classified as held for trading and not designated by the entity as at fair value through profit or loss. All these liabilities have to be measured at amortised cost.

Financial liabilities measured at amortised cost within UBB include:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- *Deposits from credit institutions and investment firms*
- *Deposits from customers*
- *Repos*
- *External funding*
- *Other*

Deposits from banks, other financial institutions, non- financial institutions and other clients

Deposits from banks and other financial institutions non- financial institutions and other clients include funds attracted by UBB in the form of current escrow deposit saving budget and other accounts. They are recognised at initial recognition at the fair value of deposit received. Financial liabilities are subsequently measured at amortised cost and those denominated in foreign currency are revalued on a daily basis at the central exchange rate of the BNB for the respective currency. Deposits are stated together with the contractual interest accrued thereon at the date of the financial statements.

Other borrowed funds

Borrowings are recognised initially at the fair value of cash flows received at the origination of the liability less the transactions costs. Subsequently borrowings are stated at amortised cost with any premium/discount recognised in statement of profit or loss using the effective interest rate method.

Repos

In a repo transaction, UBB sells a security and simultaneously agrees to repurchase it (or a substantially similar asset) at a fixed price on a future date. UBB continues to recognise the securities in their entirety because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and the financial liability is recognised for the obligation to pay the repurchase.

- **Reclassification**

In this chapter an overview is given of the reclassifications between the different IFRS 9 portfolios indicating whether or not they are allowed.

- **Reclassification of financial assets: debt instruments**

IFRS 9 has very strict requirements for the reclassification of debt instruments which is linked to change in business model. According to the standard an entity shall reclassify financial assets into new business model when and only when there is a change in an entity's business model for managing financial assets. In all other circumstances reclassification is prohibited.

Changes in business model must be determined by the entity's senior management as a result of external or internal changes. This must be significant to the entity's operations and demonstrable to external parties. Such event will be very infrequent and normally will occur only when an entity either begins or ceases to perform an activity that is significant to its operations for example when the entity has acquired disposed of or terminated a business line.

Once there is a change in an entity's business model then financial assets shall be reclassified prospectively from the reclassification date. The entity shall not restate any previously recognized gains losses or interest. The reclassification date is the first day of the first reporting period following the change in business model. The change in the objective of the entity's business model must be effective before the reclassification date.

- **Reclassification of financial assets: equity instruments**

In accordance with IFRS 9 for equity instrument no reclassification is possible.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- **Reclassification of financial liabilities**

IFRS 9 restricts reclassification of financial liabilities. This is because all reclassification between amortised cost and fair value categories are prohibited. Even within the different fair value categories reclassification is not allowed because the fair value option designation is irrevocable.

The only exception relates to derivative instruments. Trading derivative instruments can be subsequently designated as a hedging derivative in an effective accounting hedge or vice versa.

- **Impairment of financial assets**

Background

The IFRS 9 impairment model is an Expected Credit Loss (ECL) model which means that it is not necessary for a loss event to occur before an impairment loss is recognised. All financial assets except the ones measured at fair value through profit or loss will generally carry a loss allowance including:

- Financial assets that are measured at amortised cost;
- Debt instruments that are measured at fair value through other comprehensive income;
- Loan commitments that have been issued and are not measured at fair value through profit or loss;
- Financial guarantees given that are not measured at fair value through profit or loss;
- Lease receivables recognised by the lessors (in scope of IFRS 16f); and
- Contract assets (in scope of IFRS 15)

The impairment model is an expected credit loss model where the impairment amount is measured at an amount equal to 12 month expected credit losses (the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the next 12 months after the reporting date) or lifetime expected credit losses (resulting from all possible default events over the expected life of a financial instrument). The measurement basis for impairment depends on the approach that is applied for the financial instruments in scope.

Measurement of ECL

ECL is calculated as the product of probability of default (PD), estimated exposure at default (EAD) and loss given default (LGD).

Definition of default

UBB defines defaulted financial assets in the same way as the definition for internal risk management purposes and in line with the guidance and standards of financial industry regulators. A financial asset is considered in default if any of the following conditions is fulfilled:

- there is a significant deterioration in creditworthiness;
- the asset is flagged as non-accrual;
- the asset is flagged as a forbore asset in line with the internal policies for forbearance;
- UBB has filed for the borrower's bankruptcy;
- the counterparty has filed for bankruptcy or sought similar protection measures;
- the credit facility granted to the client has been terminated.

UBB applies a backstop for facilities whose status is '90 days or more past due'. In this context, a backstop is used as a final control to ensure that all the assets that should have been designated as defaulted are properly identified.

The ECL is calculated in a way that reflects:

- an unbiased probability weighted amount;
- the time value of money; and
- information about the past events current conditions and forecast economic conditions.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

Lifetime ECL represents the sum of ECL over the lifetime of the financial asset discounted at the original effective interest rate. The 12-month ECL represents the portion of lifetime ECL resulting from a default in the 12-month period after the reporting date.

UBB uses specific IFRS 9 models for PD EAD and LGD in order to calculate ECL. As much as possible and to promote efficiency UBB uses modelling techniques similar to those developed for prudential purposes (i.e. Basel models). That said UBB ensures that the Basel models are adapted so they comply with IFRS 9. For example:

- UBB removes the conservatism that is required by the regulator for Basel models;
- UBB adjusts how macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a 'point-in-time' estimate rather than one that is 'through the cycle' (as required by the regulator).
- UBB applies forward-looking macroeconomic information in the models.

Significant increase in credit risk

The measurement basis (12-month PD or Lifetime PD) depends on whether there has been a significant increase in credit risk since initial recognition. Different tiers are used in the assessment for significant increase in credit risk, followed by the two multi-tier approaches (one for loans and advances and another for debt securities) used for staging such as:

- Internal credit rating at the reporting date versus the one at initial recognition
- Forbearance flag
- Days past due
- Internal credit rating corresponds to PD09 at reporting date
- Collective assessment
- Forward looking information

UBB also considers three different forward-looking macroeconomic scenarios with different weightings when calculating ECL. The base case macroeconomic scenario represents its estimates for the most probable outcome and also serves as primary input for other internal and external purposes. The maximum period for measurement of ECL is the maximum contractual period (including extensions) except for specific financial assets that include a drawn and an undrawn amount available on demand and UBB's contractual ability to request repayment of the drawn amount and cancel the undrawn commitment does not limit the exposure to credit risk to the contractual period. Only for such assets can a measurement period extend beyond the contractual period.

3.7. Derecognition

3.7.1. Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired;

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Derecognition (continued)

3.7.1. Financial assets (continued)

- the contractual rights to receive cash flows from the asset have been retained but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement; or the contractual rights to receive cash flows from the financial asset have been transferred and either (a) UBB has transferred substantially all the risks and rewards of the financial asset or (b) UBB has neither transferred nor retained substantially all the risks and rewards of the financial asset but has transferred the control of the asset.

When UBB has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset the asset is recognised to the extent of UBB's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that UBB could be required to repay.

3.7.2. Financial liabilities

Financial liability is derecognised from the statement of financial position when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

- **Financial liabilities – Undrawn commitment, Financial guarantees and LC**

Financial guarantee contract is one that requires UBB to make specified payments to reimburse holders for losses they incur because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Derecognition (continued)

3.7.2. Financial liabilities (continued)

For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

The letter of credit is an irrevocable commitment of the Bank to pay the seller in a commercial transaction in strict conformity to the terms and conditions set in the letter of credit upon its opening.

Such financial guarantees and letters of credit are provided to banks financial institutions and other clients as a financial protection related to specified payments that the holder may be required to settle.

3.8. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

3.9. Fair value measurement

- **Fair value definition**

UBB measures at Fair value its financial instruments such as derivatives and HFT / FVOCI debt and equity instruments at the reporting date. The Bank also disclosed the fair values of financial instruments measured at amortised cost and investment properties measured at cost less accumulated depreciation and accumulated impairment losses.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a distress sale or forced liquidation).

Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- They are independent of each other (if they are not related parties);
- They are knowledgeable having a reasonable understanding about the asset or liability and the transaction using all available information including information that might be obtained through due diligence efforts that are usual and customary;
- They are able to enter into a transaction for the asset or liability;
- They are willing to enter into a transaction for the asset or liability i.e. they are motivated but not forced or otherwise compelled to do so.

The principal or the most advantageous market must be accessible to by UBB.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

If there are no quotations available techniques used to measure reliably the fair value of the financial instrument through: matching it with the current market value of another similar financial instrument or determining the discounted cash flows that are expected from the financial instrument by applying discount rates equal to the prevailing rate of return fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its most effective and best use or by selling it to another market participant that would use the asset in its most effective and best use.

UBB uses valuation techniques such as DCF models market equivalent models Real value method that are appropriate in the circumstances and for which sufficient data is available to measure fair value maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

- **Fair Value Hierarchy**

The IASB set forth a fair value hierarchy in order to increase consistency and comparability in fair value measurements and the related disclosures.

To increase consistency and comparability in fair value measurements and related disclosures IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are defined as follows:

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available except in very specific circumstances defined by IFRS 13. Level 1 fair value measurements are also referred to as mark to market valuations.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. If the asset or liability has a specified (contractual) term a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 fair value measurements are often based on a valuation technique (mark to model valuation) using observable inputs.
- **Level 3** inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available thereby allowing for situations in which there is little if any market activity for the asset or liability at the measurement date. However the fair value measurement objective remains the same ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability including assumptions about risk. Level 3 fair value measurements are often based on a valuation technique (mark to model valuation) using at least one unobservable input that is significant to the entire fair value measurement or using a valuation technique for which the aggregate effect of unobservable inputs is significant to the entire fair value measurement.

The fair value hierarchy gives the highest priority to the level 1 since mark to market valuation is considered to be the most reliable way of determining a fair value.

In case that an active market exists published price quotations have to be used to measure the financial asset or financial liability. In case that no published price quotations are currently available a valuation technique has to be applied. Hereby the use of observable parameters needs to be maximized whereas the use of unobservable parameters needs to be minimized.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis UBB determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

UBB's management determines the policies and procedures for both recurring fair value measurement such as FVOCI financial assets and for non-recurring measurement such as land and buildings.

At each reporting date the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the UBB's accounting policies. For this analysis the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management in conjunction with the valuation experts also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

- **Market value adjustments**

It defined Fair Value as *“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”*. As such it is not the amount that an entity would receive or pay in a forced transaction or distressed sale. When available published price quotations in well-established active markets are used to determine the fair value (also referred to as mark-to-market valuation).

The accounting standards require the use of bid prices for long positions and ask prices for short positions applied to net open positions and impose adjustments in case of mid or stale prices illiquid markets or the use of model prices instead of market quotes. IFRS does not allow for adjustments solely to reflect the impact on market price of 'dumping' large holdings in the market (the so-called block discounts).

Market Value Adjustments are applicable for all trading and banking book positions that are measured at Fair Value with value changes reported either through profit and loss or Other Comprehensive Income. This encompasses positions classified as Fair Value Through P&L (FVPL) including financial instruments subject to the Fair Value option and Fair Value Through Other Comprehensive Income (FVOCI). Market Value Adjustments cover close-out costs funding costs model linked valuation adjustments and counterparty exposures as well as transaction specific adjustments.

3.10. Property, plant and equipment

Items of property plant and equipment are measured at cost less any accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the useful life of the assets. Land is not depreciated as it has undefined useful life.

The annual depreciation rates per category of PPE are as follows:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. Property, plant and equipment (continued)

	Annual depreciation rates (Useful life)
Buildings	3% (33.3 years)
Leasehold improvements	The lease term
Hardware and notebooks	30% (3.4 years)
Other office equipment	15% (6.7 years)
Copy machines	33.3% (3 years)
Cars	25% (4 years)
Office furniture	15% (6.7 years)
Equipment for building installations	4% (20 years)
Machines equipment servers ATMs and POS	20% (5 years)
GSMs	50% (2 years)
Safe/ Strong box	10% (10 years)
Other	15% (6.7 years)

3.11. Intangible assets

Intangible assets including computer software are items which didn't have physical substance and UBB expect future economic benefits to be generated for more than 1 year. They are measured at cost less any accumulated amortisation and impairment.

The applicable annual amortisation rates are as follows:

	Annual depreciation rates (Useful life)
Software	20% (5 years)
Patents, licenses, trademarks and trade rights	20% (5 years)

3.12. Investment property

Investment property is recognized when UBB holds the property with the intention either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business or use for administrative purposes.

Upon their initial acquisition investment properties are measured at acquisition cost being their fair value at that date determined by an independent valuator. Subsequently investment properties are measured using the „cost model” i.e. the price of acquisition less any accumulated depreciation and accumulated impairment losses. If there are indications for impairment of a specific investment property, UBB determines its recoverable amount being the highest of: the value in use and the fair value less by costs of sale of the investment property. The carrying amount of the property is decreased to its recoverable amount with the difference recognised as impairment in the Statement of profit or loss. Impairment loss recognised in the previous years is recovered through the Statement of profit or loss in case there are subsequent changes in the forecasts for defining the recoverable value. Subsequent costs are capitalised only when the existence of future economic benefits are presumable and the expenses can be reliably estimated. All other repairs and maintenance costs for the investment properties are expensed as at the moment of occurrence. The investment properties are depreciated over their useful life which for buildings is set at 33.3 years, for the equipment at 5 years and land is not depreciated.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12.1. Valuation of investment property

Investment property (being a repossessed collateral or Investment property acquired in the normal bank operation) is measured initially at acquisition cost representing their fair value at the acquisition date. The fair value of investment property is determined by independent real-estate valuation experts by using generally accepted valuation methods. Such methods include the revenue method and the cash flows discount method. In some cases fair values are assessed on the basis of recent transactions with similar property in the same location and condition to that of the UBB's assets (market analogues method).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from the assets and discount rates applicable to these assets. These estimates reflect the local market conditions at the date of acquisition and the statement of financial position date.

UBB tests for impairment its investment property annually by comparing the book value of the property with its fair value less costs to sell based on an independent market valuation.

3.13. Repossessed collateral

Repossessed collateral represents non-financial assets acquired by UBB in settlement of overdue loans. The assets are initially recognized at fair value when acquired and presented as investment properties or inventories within other assets line depending on their nature and the intention in respect of recovery of these assets and are subsequently measured in accordance with the accounting policies for these categories of assets. In this category are included collaterals on NPL loans acquired before 2017 (changes in Accounting policy such assets to be treated as Investment properties which does not meet the criteria of IAS 40 for reclassification). They are subsequently measured at a lower of initial cost and their fair value less cost to sell.

3.14. Impairment of non financial assets

When UBB prepares financial statements it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it ('recoverable amount'). UBB assesses at each reporting date whether there are indications that an asset may be impaired. Indications that an impairment loss is required may stem from either an internal source (e.g. the condition of the asset) or an external source (e.g. new technology or a significant decline in the asset's market value).

If any such indications exist or when annual impairment testing for an asset is required UBB makes an estimate of the asset's recoverable amount.

The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell. Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.

The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation models quoted share prices for publicly traded subsidiaries or other available fair value indicators.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Impairment of other receivables

Other receivables other than the Loan related (eg. On rental contracts, receivables on service contracts which are predominantly short term) are tested for impairments applying a simplified approach (due to low materiality) on annual basis in case of indications for deterioration of the financial status of the client (e.g. triggers are days past due, other information indicating non performing status). In the assessment UBB takes into account the provided collateral and the received Guarantees. All receivables with days past due above 90 are in Stage 3 and are impaired with 50% and those with DPD >180 are 100% impaired. Receivables below 90 days past due are in Stage 2 (not impaired) and are subject to ECL: of 2.3% for trade receivables; 2.7% for operating leases and 0.2% for Cash collateral deposited on derivative transactions or rental contracts. The Expected credit losses (ECL) are reported as impairment charge on Other receivables and the latter are reported net of the ECL on the face of the BS.

3.16. Tax

Taxes reported in the financial statements are in line with Bulgarian law. Income tax benefits or expenses in the statement of profit or loss comprise the sum of current taxes for the reporting period and any changes in deferred taxes.

Current tax for the reporting period is the amount of income taxes in respect of the taxable profit for a period calculated at the tax rate in effect at the date of the financial statements. Income tax expense calculated on the basis of the applied tax law is recognised as expense in the period in which the profit has occurred. Tax expenses other than corporate income taxes are included in “Other administrative expenses” in the Statement of profit or loss.

Deferred income tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the receivable is realised or the liability settled based on the effective or adopted official tax rates on the date of the financial statements. Temporary differences may occur from a tax and accounting depreciation of fixed assets litigation provisions impairment of fixed tangible assets and receivables other than loans provisions for unused leaves and retirement benefits etc.

UBB recognises deferred tax assets to the extent that it is probable that a sufficient taxable income will be generated against which the temporary differences could be utilised. Current and deferred taxes are recognised as income or expense in the statement of profit or loss except when the tax occurs as a result of transactions or events reported in the statement of comprehensive income for the current or a different period. Current and deferred taxes are accrued or taken directly to equity when the tax relates to items which have been accrued or taken directly to equity in the same or a different period.

Deferred tax assets and liabilities are offset by UBB only when there is a legally enforceable right to offset current tax assets against current tax liabilities and where they relate to income taxes levied by the same taxation authority

3.17. Provisions, contingent liabilities and contingent assets

Provisions are recognised on the reporting date if and only if the following criteria are met:

- there is a present obligation (legal or constructive) due to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at statement of financial position date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17. Provisions, contingent liabilities and contingent assets (continued)

When the effect of time is material the amount recognised as a provision is the net present value of the best estimate.

Due to its inherent nature a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Provisions for future operating losses are not recognised.

3.18. Retirement benefit provisions

Retirement benefit provisions represent the present value of UBB's obligation to pay benefits to its employees upon retirement. Pursuant to the provisions of the Labour Code every employee is entitled to compensation amounting to two or six gross salaries upon retirement depending of the length of service.

Provisions are recognised when there is a legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation. Provisions are accrued annually on the basis of a valuation of an independent licensed actuary using personnel statistic data.

3.19. Interest income and interest expense

Interest income and interest expenses are stated in the statement of profit or loss for all interest-bearing instruments. Loan related fees which are incremental to the loans granted are presented as interest income.

3.20. Fee and commission income

Most net fee and commission income fall under the scope of IFRS 15 (Revenue from Contracts with Customers) as it relates to the services that UBB provides to its clients. For the recognition of revenue UBB identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when UBB has satisfied the performance obligation. If the performance obligation is satisfied at a specific moment, the related revenue is recognized in the Statement of profit or loss when the service is provided and if the performance obligation is satisfied over-time, the related revenue is recognized in the Statement of profit or loss in order to reflect the progress of satisfaction of such obligation. Fee and commission income comprise mainly fees charged on transactions performed at the teller's desk and on money transfers, bank insurance, credit transactions, guarantees, assets management, FX network income and other services offered by UBB. Fees and commissions that are an integral part of the effective interest rate on a financial asset or liability are presented as interest income or expense.

Loan processing and management fees as also other loan-related one-off fees are not taken into account when calculating the effective interest rate as they represent a separate service. Such fees are recognised when occur and presented as Net fee and commission income in the period to which they relate.

3.21. Rental income

Rental income on properties leased out under operating leases is recognised in accordance with IFRS 16. Revenue is recognised to the extent that it is probable that the economic benefits will flow to UBB and the revenue can be reliably measured. The Bank recognises rental income on straight line basis.

3.22. Leases

General provisions

The recognition, measurement, presentation and disclosure of leases shall be made in accordance with the requirements of IFRS 16 Leasing, considering the terms and conditions of the contracts and all relevant facts and circumstances. Upon initial recognition, the Bank determines whether a contract is a lease or contains a lease component.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Lessee (continued)

A lease is defined as “a contract or part of a contract that confers the right to use an asset (the underlying asset) for a specified period of time in exchange for remuneration.” To apply this definition, the Bank makes three main judgments:

- Whether the contract contains an identified asset that is either explicitly stated in the contract or is specified by default at the time the asset is made available for use.
- The Bank has the right to receive essentially all economic benefits from the use of the asset during the entire period of use, within the defined scope of its right to use the asset under the contract.
- The Bank has the right to control the use of the identified asset throughout the period of use.

The Bank reassesses whether a contract is or contains a lease only if the terms and conditions of the contract are changed.

Measurement and recognition of leases – Bank as a lessee

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis taking into consideration the extension options.

The right-of-use asset is presented separately on the statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or Fund Transfer Pricing for liability in the respective currency.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Operating lease – Bank as a Lessee (continued)

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the lease term on a straight-line basis. The amortisation periods for the right-of-use assets is based on contract tenor:

- right of use for the cars 3 – 4 years
- right of use for the office building 1 - 13 years

Expenses on contracts which are out-of-scope of IFRS 16 are reported in the statement of profit or loss as rental expenses. The advanced payments under operating lease contracts for which the benefits are expected to be generated in subsequent periods are deferred and recognised in the period in which the benefits are realised.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise ATM rentals, parking plots and transformers.

Extension and termination options

Extension and termination options are included in a number of property leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. For critical judgements in determining the lease term, please refer to Note 3.5.

3.23. Bank as Lessor

Leases where UBB does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income from that asset. The rental income from operating lease' contracts is recognised on a straight-line basis over the lease term.

3.24. Share capital

The share capital of UBB is stated at the nominal value of shares issued and subscribed by UBB. Any other additional proceeds from the sale of shares over their nominal value are reported in statutory reserves.

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. NET INTEREST INCOME

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
A. Interest income				
Interest income on financial instruments calculated using the effective interest rate method				
Deposits placed with banks	722	1 504	722	1 504
Loans and advances to customers	213 478	223 009	214 134	223 759
Financial assets at fair value through other comprehensive income	17 245	19 250	17 245	19 250
Financial assets at amortized cost	27 326	25 080	27 326	25 080
Other assets	-	22	-	22
Interest income on liabilities	4 132	3 087	4 131	3 086
Interest income on other financial instruments				
Economic Hedges	8 247	-	8 247	-
Financial assets at fair value through profit or loss	864	391	864	391
	272 014	272 343	272 669	273 092
B. Interest expense on financial instruments calculated using the effective interest rate method				
Deposits from banks	(956)	(915)	(956)	(915)
Deposits from customers	(3 921)	(4 657)	(3 922)	(4 657)
Long term borrowings	(964)	(1 792)	(964)	(1 792)
Hedge and trading derivatives	(1 401)	(1 320)	(1 401)	(1 320)
Lease liabilities	(96)	(224)	(96)	(224)
Interest expense on assets	(2 543)	(6 077)	(2 542)	(6 077)
	(9 881)	(14 985)	(9 881)	(14 985)
TOTAL	262 133	257 358	262 788	258 107

The interest income on impaired assets for 2020 is 6 393 thousand (2019: 9 241 thousand).

5. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
A. Fee and commission incomes				
Service fees of customer accounts	30 875	29 412	30 875	29 412
Transfer of funds and cash transactions	30 113	38 830	30 111	38 825
Card-related services fees	25 513	28 478	25 513	28 478
Fees FX transactions*	14 118	12 537	14 114	12 537
Bank insurance fees	13 963	12 085	13 963	12 085
Loans and advances to customers	11 717	10 986	12 445	11 555
Asset management fees	3 427	350	3 665	3 024
Guarantees and letters of credit	2 853	2 965	3 066	2 965
Fiduciary/custodian activities	2 298	922	5 293	4 284
Other fees and commissions	1 530	1 504	1 525	1 500
Revenue from valuation of properties	1 141	799	1 141	799
Fees safety vault	434	415	434	415
	137 982	139 283	142 145	145 879
B. Fee and commission expenses				
Card-related services fees	(12 286)	(12 519)	(12 286)	(12 519)
Loans and advances to customers	-	(10)	-	(10)
Guarantees and letters of credit	(1 879)	(2 296)	(1 879)	(2 296)
Fiduciary/custodian activities	(1 643)	(12)	(1 643)	(12)
Transfer of funds and cash transactions	(1 324)	(1 483)	(1 324)	(1 483)
Fees from sales of SMS packages / e-mails	(1 303)	(1 261)	(1 303)	(1 261)
Insurance expenses	(1 143)	(1 072)	(1 406)	(1 177)
Expenses on valuation of collateral on loans	(1 086)	(1 280)	(1 086)	(1 280)
Other fees and commissions	(31)	(112)	(130)	(208)
	(20 695)	(20 045)	(21 057)	(20 246)
TOTAL	117 287	119 238	121 088	125 633

* In 2020, the margin from the sale of foreign currency for a branch network is treated as revenue from fees and commissions, unlike 2019, when it was reported and presented in Note 6 as net gains / (losses) from a foreign exchange transaction.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Net result from financial instruments Held for Trading				
Gains on foreign exchange*				
Net gains from FX derivatives	1 606	15 530	1 606	15 530
	1 606	15 530	1 606	15 530
(Losses)/Gains on interest rate instruments				
Government and corporate securities	(806)	456	(806)	456
Mutual funds	(206)	(227)	(206)	(227)
	(1 012)	229	(1 012)	229
TOTAL	594	15 759	594	15 759

* In 2020, the margin from the sale of foreign currency for a branch network is treated as revenue from fees and commissions, unlike 2019, when it was reported and presented in Note 6 as net gains / (losses) from a foreign exchange transaction.

7. NET OTHER INCOME

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Gains/Loss on disposal of fixed assets	2 799	2 843	2 855	2 843
Rental income	5 052	5 074	5 076	5 158
Income from operational events	234	150	234	150
Income from sale of investments in subsidiaries and associates	963	-	912	-
Other income from investment properties	18	-	697	-
Other operating income	230	593	969	1 597
Direct costs of acquired properties	(2 685)	(2 817)	(2 709)	(3 323)
Expenses for problem loans*	-	(264)	-	(264)
Expenses from operational events	(535)	(945)	(535)	(945)
Expenses related to collateral on loans	(416)	(881)	(416)	(881)
Release on provisions for legal cases	2 972	864	2 868	850
Depreciation of investment property	(2 929)	(2 734)	(3 307)	(3 115)
Other	(474)	(653)	(475)	(671)
TOTAL	5 229	1 230	6 169	1 399

*In 2020, expenses for problem loans are part of Note 9 (Impairments)/ Reversal of impairment and line Collection expenses.

8. OPERATING EXPENSES

a) Staff expenses

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Wages and Salaries	(68 038)	(68 799)	(69 931)	(70 859)
Social security costs	(12 077)	(11 681)	(12 385)	(12 033)
Bonuses and other compensation expenses	(8 220)	(8 153)	(8 322)	(8 413)
Other staff costs	(6 858)	(6 277)	(6 977)	(6 382)
Provision for staff related restructuring charge/reversal	-	520	7	512
Pension costs - defined contribution plans	(268)	(232)	(268)	(238)
TOTAL	(95 461)	(94 622)	(97 876)	(97 413)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8. OPERATING EXPENSES (CONTINUED)

b) General administrative expenses

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
IT expenses	(27 689)	(29 564)	(27 843)	(29 612)
Deposit insurance fund	(30 579)	(28 986)	(30 579)	(28 986)
Repair, maintenance and other facilities expenses	(17 848)	(19 077)	(18 108)	(18 730)
Rental expenses	(1 208)	(1 625)	(1 213)	(1 629)
Advertising, marketing and communication	(2 667)	(4 498)	(2 680)	(4 542)
Professional fees	(2 747)	(1 827)	(2 912)	(2 070)
Business trip expenses	(284)	(793)	(292)	(830)
Costs charged by other KBC Group entities	(755)	(87)	(756)	(92)
Training expenses	(222)	(504)	(222)	(508)
Other expenses	(14 664)	(13 683)	(14 830)	(13 842)
TOTAL	(98 663)	(100 644)	(99 435)	(100 841)

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Audit expenses	(539)	(523)	(572)	(614)

c) Depreciation and amortisation expenses

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Depreciation of fixed assets	(13 243)	(12 285)	(13 298)	(12 325)
Depreciation of right-of-use assets	(9 563)	(10 267)	(9 590)	(10 283)
Amortisation of intangible assets	(3 308)	(1 952)	(3 311)	(1 980)
TOTAL	(26 114)	(24 504)	(26 199)	(24 588)

9. IMPAIRMENT EXPENSES

The net charge for the impairments for year ended 31 December 2020 and 31 December 2019 as follows:

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Impairment on financial assets at AC and at FVOCI	(43 169)	(7 131)	(43 838)	(8 627)
Loans and advances to customers	(42 324)	(4 369)	(42 877)	(5 862)
Collection expenses	(1 961)	(2 964)	(2 082)	(2 964)
Due from banks	(63)	(7)	(63)	(7)
Financial assets at FVOCI	22	138	22	138
Financial Assets at AC	1 047	38	1 047	38
Other receivables	110	33	115	30
Other Impairments	(6 231)	(2 111)	(6 231)	(2 111)
Fixed and intangible assets	(369)		(369)	
Investment Property	(96)	(452)	(96)	(452)
Impairment of foreclosed assets	(1 493)	(2 771)	(1 493)	(2 771)
(Impairment)/Reversal of impairment on off-statement of financial position commitment	(4 273)	1 112	(4 273)	1 112
TOTAL	(49 400)	(9 242)	(50 069)	(10 738)

As disclosed in Note 35, during 2020 there were IFRS 9 model changes that had an impact on ECL at the amount of BGN 32 902 thousand excluding management overlay effect as disclosed in Note 3.3.

Impairments of Loans and advances to customers include income from written-off loans at the amount of BGN 7 848 thousand both on individual and consolidated base.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. INCOME TAX EXPENSE

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Current tax expense	(11 740)	(16 257)	(11 740)	(16 257)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(29)	(455)	(29)	(455)
Tax expense	(11 769)	(16 712)	(11 769)	(16 712)
Share of tax in subsidiaries and equity method investments	-	-	(157)	(297)
TOTAL	(11 769)	(16 712)	(11 926)	(17 009)

The relationship between tax expense and accounting profit is as follows:

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Profit before taxation	120 573	171 547	117 854	167 919
Prima facie tax calculated at an applicable tax rate (10% for 2020 and 2019)	(12 057)	(17 155)	(11 785)	(16 792)
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	288	443	288	443
Tax expense	(11 769)	(16 712)	(11 497)	(16 349)
Share of tax in associates subsidiaries and equity method investments	-	-	(429)	(660)
TOTAL	(11 769)	(16 712)	(11 926)	(17 009)
Effective income tax rate	9.76%	9.74%	10.12%	10.13%

Current income tax expense represents the amount of tax to be paid under Bulgarian law at statutory tax rates. Deferred tax income or expense result from the change of carrying amounts of deferred tax assets and deferred tax liabilities. Deferred tax assets and liabilities as of 31 December 2020 and as of 31 December 2019 are calculated using the tax rate of 10% enacted as of that date to be effective for 2020 and 2019.

11. CASH AND CASH BALANCES WITH THE CENTRAL BANK

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Cash in hand	244 413	214 388	244 413	214 388
Minimum reserve with the Central Bank	956 476	434 537	956 476	434 537
Current account with the Central Bank	434 887	-	434 887	-
TOTAL	1 635 776	648 925	1 635 776	648 925

Mandatory reserve is a part of required reserves in Central Bank which also includes current account with BNB and 50% from cash in hand. Required reserves use is restricted. Such reserves are regulated on a monthly basis and their insufficiency carries penalty interest. Daily fluctuations within a month period are allowed.

12. DUE FROM BANKS AND REVERSE REPOS WITH BANKS

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Nostro accounts	389 386	353 092	389 386	353 092
Interbank placements	68 849	8 192	68 849	8 192
Other loans and advances to banks	482 583	117 997	482 583	117 997
Reverse Repos with banks	586 708	2 287 637	586 708	2 287 637
TOTAL	1 527 526	2 766 918	1 527 526	2 766 918
Included in cash equivalents (note 33)	1 374 852	2 229 833	1 374 852	2 229 833

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer (by gross carrying amount)

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals (retail)				
Overdrafts	78 490	12 140	78 490	12 140
Credit cards	86 601	98 139	86 601	98 139
Mortgages	1 568 570	1 405 590	1 568 570	1 405 590
Consumer loans	1 131 637	1 068 344	1 131 637	1 068 344
Other loans**	37 233	34 024	37 233	34 024
	2 902 531	2 618 237	2 902 531	2 618 237
Corporate entities				
Financial institutions	128 111	98 676	128 111	98 676
Large corporate customers	1 124 670	1 175 282	1 124 670	1 175 282
SME corporate	2 363 304	2 092 670	2 367 414	2 097 326
Government and agencies	77 106	97 185	77 106	97 185
	3 693 191	3 463 813	3 697 301	3 468 469
Other Financial assets*	6 212	8 308	6 212	8 308
Loans and advances to customers, gross	6 601 934	6 090 358	6 606 044	6 095 014
Less: allowance for impairment	(277 902)	(348 960)	(280 947)	(351 626)
Loans and advances to customers, net of provision	6 324 032	5 741 398	6 325 097	5 743 388

* Financial assets that contains client's receivables and are posted in the internal suspense accounts for payments and card transactions have been reclassified from other assets to Loans and advances to customers.

** Other loans represents loans to freelancers that were treated as retail loans in 2020 although in 2019 they were part of SME Corporate loans.

(b) Analysis by IFRS 9 stage, net of impairments

	Year ended 31.12.2020			Year ended 31.12.2019		
	SEPARATE			SEPARATE		
	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount
Individuals (retail)						
Stage 1	2 433 146	(3 703)	2 429 443	2 150 199	(3 419)	2 146 780
Stage 2	285 200	(29 255)	255 945	233 487	(7 866)	225 621
Stage 3	184 371	(85 186)	99 185	200 527	(92 558)	107 969
	3 699 217	(159 758)	3 539 459	3 506 145	(245 117)	3 261 028
Corporate entities						
Stage 1	3 123 390	(11 586)	3 111 804	2 763 614	(18 725)	2 744 889
Stage 2	194 079	(7 171)	186 908	240 002	(8 195)	231 807
Stage 3	381 748	(141 001)	240 747	502 529	(218 197)	284 332
Loans and advances to customers net	6 601 934	(277 902)	6 324 032	6 090 358	(348 960)	5 741 398
	Year ended 31.12.2020			Year ended 31.12.2019		
	CONSOLIDATED			CONSOLIDATED		
	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount
Individuals (retail)						
Stage 1	2 433 146	(3 703)	2 429 443	2 150 199	(3 419)	2 146 780
Stage 2	285 200	(29 255)	255 945	233 487	(7 866)	225 621
Stage 3	184 371	(85 186)	99 185	200 527	(92 558)	107 969
	3 703 327	(162 803)	3 540 524	3 510 801	(247 783)	3 263 018
Corporate entities						
Stage 1	3 077 505	(11 591)	3 065 914	2 733 930	(18 774)	2 715 156
Stage 2	239 684	(8 219)	231 465	270 222	(8 960)	261 262
Stage 3	386 138	(142 993)	243 145	506 649	(220 049)	286 600
Loans and advances to customers net	6 606 044	(280 947)	6 325 097	6 095 014	(351 626)	5 743 388

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

(c) Movement of allowances for impairment for loans and advances

Credit loss allowance SEPARATE	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2020	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 200)	(49 983)	(42 554)	(218 210)	(348 960)
Increases due to origination	(299)	(1 449)	(2 899)	(12)	(2 077)	(265)	-	-	-	(7 001)
Decrease due to derecognition /full repayment/	10	584	1 209	70	808	1 412	527	2 175	5 201	11 996
Decrease in allowance account due to write-offs	-	-	-	-	-	-	5 633	14 622	94 578	114 833
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	6 393	6 393
Changes due to changes in model/methodology	602	2 687	12 540	1 407	(2 744)	6 637	5 279	4 965	3 152	34 525
Changes due to change in credit risk (net)	(149)	(2 269)	(3 699)	(2 126)	(16 713)	(6 766)	(669)	(25 181)	(32 116)	(89 688)
At 31 December 2020	(128)	(3 575)	(11 574)	(2 112)	(27 143)	(7 182)	(39 213)	(45 973)	(141 002)	(277 902)

Credit loss allowance SEPARATE	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2019	(289)	(4 398)	(17 928)	(1 789)	(6 952)	(11 896)	(57 453)	(44 289)	(275 467)	(420 461)
Increases due to origination	(130)	(954)	(7 557)	(366)	(733)	(2 066)	-	-	-	(11 806)
Decrease due to derecognition /full repayment/	61	984	3 056	68	644	4 398	723	915	3 373	14 222
Decrease in allowance account due to write-offs	-	-	-	-	-	-	7 208	16 244	65 356	88 808
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	9 219	9 219
Changes due to change in credit risk (net)	66	1 240	3 704	636	624	1 364	(461)	(15 424)	(20 691)	(28 942)
At 31 December 2019	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 200)	(49 983)	(42 554)	(218 210)	(348 960)

Credit loss allowance CONSOLIDATED	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2020	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 896)	(49 983)	(42 554)	(220 180)	(351 626)
Increases due to origination	(299)	(1 449)	(2 899)	(12)	(2 077)	(410)	-	-	-	(7 146)
Decrease due to derecognition /full repayment/	10	584	1 209	70	808	1 412	527	2 175	5 201	11 996
Decrease in allowance account due to write-offs	-	-	-	-	-	-	5 633	14 622	94 870	115 125
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	6 393	6 393
Changes due to changes in model/methodology	602	2 687	12 540	1 407	(2 744)	6 637	5 279	4 965	3 152	34 525
Changes due to change in credit risk (net)	(149)	(2 269)	(3 699)	(2 126)	(16 713)	(6 974)	(669)	(25 181)	(32 434)	(90 214)
At 31 December 2020	(128)	(3 575)	(11 574)	(2 112)	(27 143)	(8 231)	(39 213)	(45 973)	(142 998)	(280 947)

Credit loss allowance CONSOLIDATED	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2019	(289)	(4 398)	(17 928)	(1 789)	(6 952)	(12 386)	(57 453)	(44 289)	(276 150)	(421 634)
Increases due to origination	(130)	(954)	(7 557)	(366)	(733)	(2 066)	-	-	-	(11 806)
Decrease due to derecognition /full repayment/	61	984	3 056	68	644	4 398	723	915	3 373	14 222
Decrease in allowance account due to write-offs	-	-	-	-	-	-	7 208	16 244	65 356	88 808
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	9 219	9 219
Changes due to change in credit risk (net)	66	1 240	3 704	636	624	1 158	(461)	(15 424)	(21 978)	(30 435)
At 31 December 2019	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 896)	(49 983)	(42 554)	(220 180)	(351 626)

- The P&L charge not included in ECL movement relates to collection expenses at the amount of BGN 1 961 thousand and BGN 2 082 thousand, respectively on individual and consolidation level, as well as income from written-off loans at the amount of BGN 7 848 thousand both on individual and consolidated base.
- During the year the gross amount of written-off loans is BGN 114 833 thousand on individual base and BGN 115 125 on consolidate base (2019: 88 808 thousand on individual and consolidate base).

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

(c) Movement of allowances for impairment for loans and advances (continued)

3. The tables above do not include the stage transfers embedded underlying in the management overlay of the forecasted collective Covid-19 ECL, as these are determined based on a collective statistical approach and hence cannot be individually linked to specific credits.
4. Consumer loans include Credit cards and Overdrafts

(d) Sensitivity of ECL under IFRS 9 to forward looking macroeconomic assumptions

A change in the weight assigned to base forward looking macro-economic set of assumptions by 50% towards the immediate downside level assumptions would result in an increase in ECL by BGN 2 574 thousand at 31 December 2020 (2019: 458 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by BGN 1 159 thousand at 31 December 2020 (2019: 350 thousand).

The deviation comparing the previous year is related to the following elements:

- Implementation of the new models for ECL calculation for Individuals and Companies, which are more sensitive to macroeconomic variables.
- Changing in the weights of IFRS 9 scenario related to the COVID situation – from 60% Base, 20% Up, 20% Down to 55% Base, 10% Up, 35% Down.
- Worsening of the macroeconomic variables related to the COVID situation.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Bulgarian government securities <i>listed on official stock markets</i>	19 975	30 388	19 975	30 388
Mutual Funds	19 475	26 820	19 475	30 388
	2 277	4 015	2 277	4 015
TOTAL	22 252	34 403	22 252	34 403

Total financial assets at fair value through profit or loss by type of currency and by type of interest rates are as follows:

As of 31.12.2020			
SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	13 087	2 277	15 364
EUR	6 888	-	6 888
TOTAL	19 975	2 277	22 252
As of 31.12.2019			
SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	23 193	4 015	27 208
EUR	7 195	-	7 195
TOTAL	30 388	4 015	34 403
As of 31.12.2020			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	13 087	2 277	15 364
EUR	6 888	-	6 888
TOTAL	19 975	2 277	22 252
As pf 31.12.2019			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	23 193	4 015	27 208
EUR	7 195	-	7 195
TOTAL	30 388	4 015	34 403

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31.12.2020

SEPARATE AND CONSOLIDATED		
Fair value measurement	Level 1	Total
Government securities	19 975	19 975
Mutual Funds	2 277	2 277
TOTAL	22 252	22 252

As of 31.12.2019

SEPARATE AND CONSOLIDATED		
Fair value measurement	Level 1	Total
Government securities	30 388	30 388
Mutual Funds	4 015	4 015
TOTAL	34 403	34 403

Rating “Moody’s”

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
MBAA2	19 975	30 388	19 975	30 388
Unrated (Not rated)	2 277	4 015	2 277	4 015
TOTAL	22 252	34 403	22 252	34 403

15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Financial assets at fair value through OCI				
Bulgarian government securities (Stage 1)*				
Listed on official stock markets	705 570	872 443	705 570	872 263
Unlisted	33 183	-	33 183	-
(Impairments)	(139)	(180)	(139)	-
Net amount after impairments	738 614	872 263	738 614	872 263
Foreign government securities (Stage 1)				
Listed on official stock markets	42 529	44 042	42 529	44 042
Unlisted	23 372	23 618	23 372	23 618
(Impairments)	(19)	(27)	(19)	(27)
Net amount after impairments	65 882	67 633	65 882	67 633
Equity securities FVOCI				
Equity securities in local entities				
Listed on official stock markets	343	339	343	339
Unlisted	9 977	9 984	9 977	9 984
TOTAL	10 320	10 323	10 320	10 323
Equity securities in foreign entities				
Unlisted	7 557	12 155	7 557	12 156
Equity securities in foreign entities	7 557	12 155	7 557	12 156
TOTAL	822 373	962 374	822 373	962 375

*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 96 506 thousand as at 31 December 2020.

The major part of equity securities represents participations in companies providing services to the financial sector.

Total financial assets FVOCI by type of currency and interest rate are as follows:

As of 31.12.2020

SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	175 772	10 320	186 092
USD	17 108	7 334	24 442
EUR	611 616	223	611 839
TOTAL	804 496	17 877	822 373

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME (CONTINUED)

As of 31.12.2019			
SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	264 393	10 323	274 716
USD	18 646	10 617	29 263
EUR	656 857	1 538	658 395
TOTAL	939 896	22 478	962 374

As of 31.12.2020			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	175 772	10 320	186 092
USD	17 108	7 334	24 442
EUR	611 616	223	611 839
TOTAL	804 496	17 877	822 373

As of 31.12.2019			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	264 393	10 324	274 717
USD	18 646	10 617	29 263
EUR	656 857	1 538	658 395
TOTAL	939 896	22 479	962 375

Equity investments have been classified under the currency categories based on the currency of the countries which they were incorporated in.

As of 31.12.2020			
SEPARATE			
Fair value measurement	Level 1	Level 3	Total
Government securities	804 496	-	804 496
Equity securities FVOCI	1 810	16 067	17 877
TOTAL	806 306	16 067	822 373

As of 31.12.2019			
SEPARATE			
Fair value measurement	Level 1	Level 3	Total
Government securities	939 896	-	939 896
Equity securities FVOCI	344	22 134	22 478
TOTAL	940 240	22 134	962 374

As of 31.12.2020			
CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	804 496	-	804 496
Equity securities FVOCI	1 810	16 067	17 877
TOTAL	806 306	16 067	822 373

As of 31.12.2019			
CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	939 896	-	939 896
Equity securities FVOCI	345	22 134	22 479
TOTAL	940 241	22 134	962 375

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. SECURITIES AT AMORTISED COST

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Bulgarian government securities after impairments (Stage 1)*	1 684 133	1 220 555	1 684 133	1 220 555
listed on official stock markets	1 020 667	1 027 414	1 020 667	1 027 414
Unlisted (Impairments)	663 795 (329)	193 380 (239)	663 795 (329)	193 380 (239)
Foreign government securities after impairments (Stage 1)	458 128	469 357	458 128	469 357
listed on official stock markets	317 602	324 615	317 602	324 615
Unlisted (Impairments)	140 561 (35)	144 775 (33)	140 561 (35)	144 775 (33)
Debt securities of corporate entities (Stage 3)	2 387	2 720	2 387	2 720
Non-performing (Impairments)**	6 803 (4 416)	13 522 (10 802)	6 803 (4 416)	13 522 (10 802)
TOTAL	2 144 648	1 692 632	2 144 648	1 692 632

*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 128 982 thousand as at 31 December 2020 (2019: BGN 165 201 thousand).

**The decrease in the Impairments of debt securities of corporate entities is due to sale of Erato Holding corporate bond at the amount of BGN 6 387 thousand.

Total investments at amortised cost by type of currency and interest rate are as follows:

As of 31.12.2020		
SEPARATE		
Currency	Fixed interest	Total
BGN	592 639	592 639
USD	78 722	78 722
EUR	1 473 287	1 473 287
TOTAL	2 144 648	2 144 648

As of 31.12.2019		
SEPARATE		
Currency	Fixed interest	Total
BGN	307 710	307 710
USD	87 289	87 289
EUR	1 297 633	1 297 633
TOTAL	1 692 632	1 692 632

As of 31.12.2020		
CONSOLIDATED		
Currency	Fixed interest	Total
BGN	592 639	592 639
USD	78 722	78 722
EUR	1 473 287	1 473 287
TOTAL	2 144 648	2 144 648

As of 31.12.2019		
CONSOLIDATED		
Currency	Fixed interest	Total
BGN	307 710	307 710
USD	87 289	87 289
EUR	1 297 633	1 297 633
TOTAL	1 692 632	1 692 632

As of 31.12.2020			
SEPARATE AND CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	2 142 261	-	2 142 261
Debt securities of corporate entities	-	2 387	2 387
TOTAL	2 142 261	2 387	2 144 648

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. SECURITIES AT AMORTISED COST (CONTINUED)

As of 31.12.2019

SEPARATE AND CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	1 689 912	-	1 689 912
Debt securities of corporate entities	-	2 720	2 720
TOTAL	1 689 912	2 720	1 692 632

17. DERIVATIVE FINANCIAL INSTRUMENTS

The concluded contracts for derivative financial instruments include short-term currency forwards currency and interest rate swaps as follows:

	SEPARATE AND CONSOLIDATED 31.12.2020			SEPARATE AND CONSOLIDATED 31.12.2019		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading	1 728 449	5 928	39 904	2 011 736	1 191	4 599
Of which currency forwards	575 821	3 665	562	798 030	355	329
Of which currency swaps	1 152 628	2 263	39 342	1 213 706	836	4 270
Hedging derivatives	117 350	-	6 737	117 350	-	6 043
Total derivative financial instruments	1 845 799	5 928	46 641	2 129 086	1 191	10 642

	SEPARATE AND CONSOLIDATED	
	31.12.2020	31.12.2019
Net result from FV hedges		
Change in the fair value of hedging instruments (interest rate swaps) due to the hedged risk	(679)	(2 384)
Adjustments for credit risk of hedging derivatives - CVA net of DVA	(15)	65
Net change in fair value of hedging instruments	(694)	(2 319)
Net change in fair value of hedged asset's value due to hedged risk	679	2 384
Net result from FV hedges recognised in the statement of profit or loss	(15)	65

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in associated companies as of 31 December 2020, respectively 31 December 2019 are accounted for using the equity method.

As of 31.12.2020

SEPARATE						
Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
UBB Factoring EOOD	Bulgaria	100%	30 000	BGN	3 000	3 000
UBB Insurance Broker AD	Bulgaria	100%	500 000	BGN	2 610	2 610
East Golf Properties EOOD	Bulgaria	100%	10 646 365	BGN	12 146	12 146
UBB Centre Management EOOD	Bulgaria	100%	6 992	BGN	-	-
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 976	2 976
Total investments in subsidiaries and associated companies					20 732	20 732

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

As of 31.12.2019						
SEPARATE						
Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
UBB Factoring EOOD	Bulgaria	100%	30 000	BGN	3 000	3 000
UBB Asset management	Bulgaria	91%	636	BGN	636	636
UBB Insurance Broker AD	Bulgaria	100%	500 000	BGN	2 610	2 610
East Golf Properties EOOD	Bulgaria	100%	10 646 365	BGN	12 146	12 146
UBB Centre Management EOOD	Bulgaria	100%	6 992	BGN	0	0
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 976	2 976
Total investments in subsidiaries and associated companies					21 368	21 368

All investments in subsidiaries and associated companies are registered in Bulgaria.

As of 31.12.2020						
CONSOLIDATED						
Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
Drujestvo za Kasovi Uslugi AD	Associate	25	3 125	BGN	2 976	3 477
Total investments in associates					2 976	3 477

As of 31.12.2019						
CONSOLIDATED						
Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
Drujestvo za Kasovi Uslugi AD	Associate	25	3 125	BGN	2 976	3 560
Total investments in associates					2 976	3 560

Summarised financial information for the associates of UBB:

	As of 31.12.
Movement in investment in associates	
BALANCE AS OF 1 JANUARY 2019	2 776
Additions – increase of shareholding	475
Income from equity method investments	309
BALANCE AS OF 31 DECEMBER 2019	3 560
Payments of dividends	(478)
Income from equity method investments	395
BALANCE AS OF 31 DECEMBER 2020	3 477

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

	As of 31.12.2020	As of 31.12.2019
	Druzhestvo za Kasovi Uslugi	Druzhestvo za Kasovi Uslugi
Carrying amount	3 477	3 560
Revenue	8 194	7 783
Depreciation and amortization	1 216	1 221
Gross profit from continuing operation	1 514	1 479
Net profit for the year	1 363	1 331
Other comprehensive income	(35)	(24)
Total comprehensive income	(35)	(24)
Group's share of profits of associates	341	333
Dividends distributed	1 913	160
% Holding	25%	25%
Statement of financial position:	15 296	16 188
Current assets	9 475	9 694
incl. cash and cash equivalents	8 149	8 468
Non-current assets	5 821	6 494
Current liabilities	455	785
Current liabilities (excl. trade and other payables and provisions)	142	127
Non-current liabilities	336	313
Non-current liabilities (excl. trade and other payables and provisions)	38	37

19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of 31 December 2020 are as follows:

SEPARATE					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
COST					
As of 1 January 2020	128 001	140 100	268 101	54 903	323 004
Additions	1 380	20 485	21 865	10 095	31 960
Disposals	(649)	(9 083)	(9 732)	(21)	(9 753)
Transfers	-	(12 360)	(12 360)	(3 868)	(16 228)
As of 31 December 2020	128 732	139 142	267 874	61 109	328 983
DEPRECIATION/ AMORTIZATION					
As of 1 January 2020	(54 934)	(104 517)	(159 451)	(46 748)	(206 199)
Charge for 2020	(2 910)	(10 333)	(13 243)	(3 308)	(16 551)
Impairments for 2020	-	-	-	(369)	(369)
Depreciation/Amortization charged on disposals	374	9 013	9 387	21	9 408
As of 31 December 2020	(57 470)	(105 837)	(163 307)	(50 404)	(213 711)
NET BOOK VALUE	71 262	33 305	104 567	10 705	115 272

*Intangible assets include software products, other rights- licenses etc.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT (CONTINUED)

CONSOLIDATED					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
COST					
As of 1 January 2020	128 001	140 439	268 440	55 373	323 813
Additions	1 380	20 495	21 875	10 565	32 440
Disposals	(649)	(9 083)	(9 732)	(21)	(9 753)
Transfers	-	(12 360)	(12 360)	(3 868)	(16 228)
As of 31 December 2020	128 732	139 491	268 223	62 049	330 272
DEPRECIATION/ AMORTIZATION					
As of 1 January 2020	(54 934)	(104 770)	(159 704)	(47 129)	(206 833)
Charge for 2020	(2 910)	(10 388)	(13 298)	(3 311)	(16 609)
Impairments for 2020	-	-	-	(374)	(374)
Depreciation/Amortization charged on disposals	374	9 040	9 414	-	9 414
As of 31 December 2020	(57 470)	(106 118)	(163 588)	(50 814)	(214 402)
NET BOOK VALUE	71 262	33 373	104 635	11 235	115 870

Intangible assets, property and equipment as of 31 December 2019 are as follows:

SEPARATE					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
COST					
As of 1 January 2019	124 270	141 518	265 788	50 546	316 334
Additions	4 092	39 290	43 382	9 071	52 453
Disposals	(555)	(18 221)	(18 776)	(753)	(19 529)
Transfers	194	(22 487)	(22 293)	(3 961)	(26 254)
As of 1 December 2019	128 001	140 100	268 101	54 903	323 004
DEPRECIATION/ AMORTIZATION					
As of 1 January 2019	(52 630)	(112 940)	(165 570)	(45 453)	(211 023)
Charge for 2019	(2 777)	(9 508)	(12 285)	(1 952)	(14 237)
Depreciation/Amortization charged on disposals	473	17 931	18 404	657	19 061
As of 31 December 2019	(54 934)	(104 517)	(159 451)	(46 748)	(206 199)
NET BOOK VALUE	73 067	35 583	108 650	8 155	116 805

CONSOLIDATED					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
COST					
As of 1 January 2019	124 270	141 850	266 120	50 995	317 115
Additions	4 092	39 297	43 389	9 092	52 481
Disposals	(555)	(18 221)	(18 776)	(753)	(19 529)
Transfers	194	(22 487)	(22 293)	(3 961)	(26 254)
As of 31 December 2019	128 001	140 439	268 440	55 373	323 813
DEPRECIATION/ AMORTIZATION					
As of 1 January 2019	(52 630)	(113 155)	(165 785)	(45 805)	(211 590)
Charge for 2019	(2 777)	(9 548)	(12 325)	(1 980)	(14 305)
Depreciation/Amortization charged on disposals	473	17 933	18 406	656	19 062
As of 31 December 2019	(54 934)	(104 770)	(159 704)	(47 129)	(206 833)
NET BOOK VALUE	73 067	35 669	108 736	8 244	116 980

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. INVESTMENT PROPERTIES

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1 January 2020	143 850	155 405
Additions	11 746	11 746
Transfers	5 909	5 909
Disposals	(7 784)	(7 784)
As of 31 December 2020	153 721	165 276
DEPRECIATION		
As of 1 January 2020	(17 506)	(18 652)
Charge for 2020	(3 705)	(4 430)
Depreciation/Amortization charged on disposals	762	762
Transfers	(5 909)	(5 909)
Impairment for the period	(21)	(21)
As of 31 December 2020	(26 379)	(28 250)
NET BOOK VALUE	127 342	137 026
As of 31 December 2019		
	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1 January 2019	173 501	185 112
Additions	24 509	24 509
Transfers	100	100
Disposals	(54 260)	(54 316)
As of 31 December 2019	143 850	155 405
DEPRECIATION		
As of 1 January 2019	(45 360)	(46 125)
Charge for 2019	(2 777)	(3 158)
Depreciation/Amortization charged on disposals	31 083	31 083
Impairment for the period	(452)	(452)
As of 31 December 2019	(17 506)	(18 652)
NET BOOK VALUE	126 344	136 753

The fair value of the investment property held by UBB as at 31 December 2020 and as at 31 December 2019 does not differ substantially from their carrying amount. The fair value (Level 3) is determined with the assistance of independent certified appraisers performed regularly at the end of each reporting period.

Direct operating expenses related to investment properties which do not generate rental income amount to BGN 1 685 thousand as at 31 December 2020 (2019: BGN 1 857 thousand). Direct expenses and rental income are disclosed in Note 7.

Contractual obligations for construction or development of investment property amount to BGN 197 thousand as at 31 December 2020 (2019: BGN 155 thousand).

Fair value of the investment property has been categorized as fair value based on the input data used in the valuation techniques.

Type of property	2020 in BGN thousands	2019 in BGN thousands
Residential	2 924	6 640
Vacation	23 988	25 764
Industrial	22 500	24 929
Plots (land)	30 501	30 143
Commercial	43 887	40 695
Fair value of investment property	123 800	128 171

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. INVESTMENT PROPERTIES (CONTINUED)

Type of investment property	Valuation technique	Significant unobservable Inputs	Range (weighted average)	
			2019	2020
Residential	RVM	Standard construction prices per sq.m.	n/a	€ 320 - € 420
		Annual growth of standard and construction prices	-	5.0%
	MVM	Offer (deal) price per sq.m.	210€ - 670€	215€ - 745€
Vacation properties		Annual growth of market comparatives (real deals)	1.05%	1.10%
	RVM	Standard construction prices per sq.m.	n/a	n/a
	MVM	Offer (deal) price per sq.m.	300€ - 920€	300€ - 920€
Industrial properties		Annual growth of market comparatives (real deals)	-	-
	RVM	Standard construction prices per sq.m.	€ 100 - € 406	€ 100 - € 420
		Annual growth of standard and construction prices	-	5%
	MVM	Offer (deal) price per sq.m.	€ 40 - € 308	€ 40 - € 325
		Annual growth of market comparatives (real deals)	-	-
	MCFCF	Estimated monthly rent per	€ 0.5 - € 3	€ 0.5 - € 4
		Annual growth of rent rates	-	3%
Plots (land)		Long-term vacancy	5%	3%
		Rate of return	9%	6% - 8%
	MVM	Offer (deal) price per sq.m.	€ 5.3 - € 260	€ 2 - € 699
		Annual growth of market comparatives (real deals)	-	-
Commercial properties	MVM	Offer (deal) price per sq.m.	€ 230 - € 780	€ 230 - € 850
		Annual growth of market comparatives (real deals)	-	1%
	MCFCF	Estimated monthly rent per sq.m.	€ 1.9 - € 7	€ 2.5 - € 15
		Annual growth of rent rates	-	0%
		Long-term vacancy	3% - 5%	5% - 10%
	Rate of return	7% - 10%	6.5% - 7.5%	

The valuation techniques used for valuation of investment properties are recovery value method (“RVM”), market value method (“MVM”) and cash flow method (“MCFCF”).

21. RIGHT-OF-USE ASSETS, LEASE LIABILITIES (IFRS 16)

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Right-of-use assets				
Buildings	21 760	27 648	21 855	27 715
Vehicles	283	345	283	369
	22 043	27 993	22 138	28 084

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Lease liabilities				
Current	8 359	9 410	5 198	9 430
Non-current	13 704	18 600	16 962	18 658
	22 063	28 010	22 160	28 088

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Lease liabilities				
Balance at 1 January 2019	28 010	39 293	28 088	39 359
Cash flows on principal repayment	(9 772)	(10 965)	(9 753)	(10 977)
Adjustment for new/terminated contracts	3 825	(318)	3 825	(294)
Balance at 31 December 2019	22 063	28 010	22 160	28 088

All amounts are in thousand Bulgarian Levs, unless otherwise stated

21. RIGHT-OF-USE ASSETS, LEASE LIABILITIES (IFRS 16) (CONTINUED)

Right-of use asset	SEPARATE			CONSOLIDATED		
	Buildings	Vehicles	Total	Buildings	Vehicles	Total
Cost						
As at 1 January 2020	37 287	489	37 776	37 367	516	37 883
Additions – new lease contracts	5 940	92	6 032	6 035	92	6 127
Termination of lease contracts	(5 561)		(5 561)	(5 561)		(5 561)
As at 31 December 2020	37 666	581	38 247	37 841	608	38 449
Accumulated depreciation:						
As at 1 January 2020	(9 639)	(144)	(9 783)	(9 652)	(147)	(9 799)
Charge for 2020	(9 412)	(151)	(9 563)	(9 439)	(151)	(9 590)
Depreciation/Amortization charged on disposals	3 145	(3)	3 142	3 105	(27)	3 078
As at 31 December 2020	(15 906)	(298)	(16 204)	(15 986)	(325)	(16 311)
Net Book Value as at 1 January 2020	27 648	345	27 993	27 715	369	28 084
Net Book Value as at 31 December 2020	21 760	283	22 043	21 855	283	22 138

Right-of use asset	SEPARATE			CONSOLIDATED		
	Buildings	Vehicles	Total	Buildings	Vehicles	Total
Cost						
As at 1 January 2019	39 019	292	39 311	39 085	292	39 377
Additions – new lease contracts	3 135	197	3 332	3 149	224	3 373
Termination of lease contracts	(4 867)	-	(4 867)	(4 867)	-	(4 867)
As at 31 December 2019	37 287	489	37 776	37 367	516	37 883
Accumulated depreciation:						
As at 1 January 2019	-	-	-	-	-	-
As at 31 December 2019	(9 639)	(144)	(9 783)	(9 652)	(147)	(9 799)
Net book value as at 1 January 2019	39 019	292	39 311	39 085	292	39 377
Net book value as at 31 December 2019	27 648	345	27 993	27 715	369	28 084

22. DEFERRED TAX

The amounts of deferred tax assets and liabilities in the consolidated statement of financial position in respect of each type of temporary differences are as follows:

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Deferred tax assets:				
Retirement benefit obligations	617	466	617	466
Fixed assets and investment properties	2 437	2 853	2 437	2 853
Provisions for legal cases	55	352	55	352
Other employee benefits	1 258	1 202	1 258	1 202
Other temporary differences	1 325	701	1 534	820
IFRS 16	2	-	2	-
Total Deferred tax assets	5 694	5 574	5 903	5 693
Deferred tax liabilities:				
Securities – available for sale	(454)	(454)	(454)	(454)
IFRS 16	-	(1)	1	(1)
Other temporary differences	-	-	-	(15)
Total Deferred tax liabilities	(454)	(455)	(453)	(470)
Recognised in the statement of financial position as follows:				
Deferred tax assets:	5 240	5 119	5 450	5 238
Deferred tax liabilities:	-	-	1	15

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. DEFERRED TAX (CONTINUED)

MOVEMENT IN DEFERRED TAXES	SEPARATE As of 31.12.2019	SEPARATE Recognised during the period in profit or loss	SEPARATE Recognised during the period in equity	SEPARATE As of 31.12.2020
Deferred tax assets:				
Retirement benefit obligations	466	1	150	617
Fixed assets and investment properties	2 853	(416)	-	2 437
Provisions for legal cases	352	(297)	-	55
Other employee benefits	1 202	56	-	1 258
Other temporary differences	701	624	-	1 325
IFRS 16	-	2	-	2
Total Deferred tax assets	5 574	(30)	150	5 694
Deferred tax liabilities:				
Financial assets – FVOCI	(454)	-	-	(454)
IFRS 16	(1)	1	-	-
Total Deferred tax liabilities	(455)	1	-	(454)
	5 119	(29)	150	5 240

23. OTHER ASSETS

Financial other assets	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Receivables from clients*	344	1 973	344	1 973
Total financial other assets	344	1 973	344	1 973

Non-financial other assets	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Assets acquired through foreclosure proceedings	17 310	21 035	17 310	21 035
Prepaid expenses	1 899	2 707	1 944	2 737
Other	2 459	1 515	3 587	2 877
Total non-financial other assets	21 668	25 257	22 841	26 649
Total other assets	22 012	27 230	23 185	28 622

Assets acquired through foreclosure proceedings	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Buildings	11 877	15 159	11 877	15 159
Land	5 433	5 876	5 433	5 876
Total financial other assets	17 310	21 035	17 310	21 035

* Financial assets that contains client's receivables and are posted in the internal suspense accounts for payments and card transactions have been reclassified from other assets to Loans and advances to customers.

The disclosed amount of assets acquired through foreclosure proceedings is net of impairments. The related amounts for impairments as of 2020 are BGN 1 493 thousand (2019: BGN 2 771 thousand).

24. DEPOSITS FROM BANKS

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Sight deposits	4 781	2 037	4 781	2 037
Time deposits	98 920	7 583	98 920	7 583
Other due to banks	34	24	34	24
TOTAL	103 735	9 644	103 735	9 644

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. DEPOSITS FROM CUSTOMERS

	As of	As of	As of	As of
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals	6 336 901	5 625 340	6 336 902	5 625 340
Non-bank financial institutions	776 507	577 680	776 499	574 613
Corporate entities	3 402 056	2 426 405	3 397 840	2 423 136
Government entities	208 122	119 571	208 122	119 571
Other Financial liabilities*	20 538	29 136	20 538	29 136
TOTAL	10 744 124	8 778 132	10 739 901	8 771 796

*Financial liabilities that contains client's payables and are posted in the internal suspense accounts for payments and card transactions have been reclassified from Other liabilities to Deposits from customers.

26. PAYABLES UNDER REPO AGREEMENTS

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Repurchase agreements with foreign banks	282 755	1 797 115	282 755	1 797 115
Total payables on repo agreements	282 755	1 797 115	282 755	1 797 115

27. OTHER BORROWED FUNDS

	Currency	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit lines from banks	EUR	68 200	126 100	68 200	126 100
TOTAL		68 200	126 100	68 200	126 100

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2020 and 31 December 2019:

Counterparty	Description	Contract currency	Contract amount	Date of agreement	Value Date	Date of maturity	Interest rate	Used to 31.12.2020	Used to 31.12.2019
EBRD	Energy Efficiency Program	Euro	9.78 million BGN /5 million euro/	16.06.2016	16.06.2016	03.12.2022	Floating	4 959	7 460
EIB	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	14.10.2011	10.02.2012	10.02.2020	3,555%	13 501	39 116
					14.02.2012	14.02.2020	3,508%		
					01.10.2012	01.10.2020	2,584%		
	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	13.03.2014	28.04.2014	28.04.2026	2,384%	11 876	30 872
			09.12.2014	09.12.2024	6M EURIBOR + 0.223%				
	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	08.01.2016	30.06.2016	30.06.2026	0%	26 447	31 293
European Development Bank						15.09.2022	6M. EURIBOR + 0.06 %	5 705	8 557
European Development Bank	Program for small and medium enterprises	Euro	97.79 million BGN /50 million euro/	02.07.2015	15.09.2019	15.09.2022	0, 48%	5 712	8 557
Agriculture State Fund		Leva	Negotiable	26.07.2011	25.10.2013	20.03.2020	2%	-	245
TOTAL								68 200	126 100

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. PROVISIONS

a) Provisions for risks and charges

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Provisions for risks and charges				
Provisions for restructuring	-	-	-	11
Provisions for legal cases*	550	3 522	654	3 522
Provisions for off- balance sheet commitment	7 463	3 206	7 463	3 206
TOTAL PROVISIONS FOR RISK AND CHARGES	8 013	6 728	8 117	6 739

*The significant deviations in the Provisions for legal cases is due to reassessment of the risk of one of the major legal cases and reintegration of provision due to won court case. More details are presented in Note 8.

	SEPARATE AND CONSOLIDATED		
	Opening balance as of 01.01.2020	Changes due to change in credit risk (net)	Ending balance as of 31.12.2020
Provisions for Off- balance sheet position commitment movement			
Undrawn Credit commitments and Financial Guarantees (Stage 1)	2 027	4 783	6 810
Undrawn Credit commitments and Financial Guarantees (Stage 2)	1 113	(460)	653
Undrawn Credit commitments and Financial Guarantees (Stage 3)	66	(66)	-
TOTAL PROVISIONS FOR OFF-BALANCE SHEET POSITION COMMITMENT	3 206	4 257	7 463

b) Retirement benefit obligations

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Present value of unfunded obligations	6 173	6 130	6 173	6 130
	6 173	6 130	6 173	6 130

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Amount recognized in profit and loss				
Current service cost	256	217	256	217
Net interest on the net defined benefit liability	12	15	12	15
Total P&L Charge	268	232	268	232

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Reconciliation of benefit obligation				
DBO at start of period	6 130	5 980	6 130	5 980
Current service cost	256	217	256	217
Net interest on the net defined benefit liability	12	15	12	15
Benefits paid directly by the Bank/ Group	(261)	(278)	(261)	(278)
Actuarial loss	36	196	36	196
DBO at the end of period	6 173	6 130	6 173	6 130

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Cumulative amount recognized in the OCI, net of tax	(1 357)	(1 472)	(1 357)	(1 472)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. PROVISIONS (CONTINUED)

(b) Retirement benefit obligations (continued)

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Re-measurements				
Liability loss due to changes in assumptions	36	196	36	196
Total amount recognized in OCI over the period	36	196	36	196
	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Net liability in statement of financial position at the beginning of the period	6 130	5 980	6 130	5 980
Benefits paid directly	(261)	(278)	(261)	(278)
Total expense recognized in the statement of profit or loss	268	232	268	232
Total amount recognized in the OCI	36	196	36	196
Net liability in statement of financial position	6 173	6 130	6 173	6 130
	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Assumptions				
Discount rate	0.20%	0.25%	0.20%	0.25%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The defined benefit obligations above are linked only to obligation of UBB to provide one-off lump sum payment at retirement determined as a certain number of gross salaries based on criteria for the duration of the employment contract of respective employees as per local legislation.

Effect of the change in wage increases	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2020 for the retirement benefit obligation	2.2%	-2.2%
expressed in absolute values	135 799	(135 799)
Effect of change in interest rate	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2020 for the retirement benefit obligation	-2.3%	2.3%
expressed in absolute values	(141 972)	141 972
Effect of change in the stages of the dropouts	1.0%	-1.0%
Effect of the change in the provision allocated as of 31.12.2020 for the retirement benefit obligation	-10.4%	10.4%
expressed in absolute values	(641 961)	641 961
Effect of change in stages of the mortality	25.0%	-25.0%
Effect of the change in the provision allocated as of 31.12.2020 for the retirement benefit obligation	-1.9%	1.9%
expressed in absolute values	(117 281)	117 281

29. OTHER LIABILITIES

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Financial other Liabilities				
Dividend payable	92	317	92	317
TOTAL FINANCIAL OTHER LIABILITIES	92	317	92	317

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Non-financial other Liabilities				
Payroll related accruals	15 852	17 845	16 028	18 138
Creditors and suppliers	13 361	7 753	13 453	7 850
Amounts due to government agencies	64	64	64	64
Accrued expenses and deferred income	156	1 932	156	1 932
Taxes payable - other than income taxes	1 149	480	1 149	480
Other	5 995	3 020	6 428	3 276
TOTAL NON-FINANCIAL OTHER LIABILITIES	36 577	31 094	37 278	31 740
TOTAL OTHER LIABILITIES*	36 669	31 411	37 370	32 057

*Financial liabilities that contains client's payables and are posted in the internal suspense accounts for payments and card transactions have been reclassified from Other liabilities to Deposits from customers.

30. RETAINED EARNINGS

RETAINED EARNINGS	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Retained Earnings				
Accumulated prior years' earnings at beginning of period	1 012 325	1 033 378	1 013 979	1 039 117
Profit for the year	108 804	154 835	105 934	150 773
Dividends paid	-	(175 888)	59	(175 888)
Other comprehensive income for the year, net of tax	(4 910)	-	(4 910)	(23)
At 31 December	1 116 219	1 012 325	1 115 062	1 013 979

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Components of Retained Earnings				
Statutory reserves	672 689	672 689	672 803	673 436
Undistributed profit from previous years	334 726	184 801	336 325	189 770
Profit for the year	108 804	154 835	105 934	150 773
TOTAL	1 116 219	1 012 325	1 115 062	1 013 979

31. REVALUATION RESERVE

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Revaluation reserves -FVOCI				
At the beginning of the period	61 941	50 816	61 941	50 816
Fair value changes	(1 913)	11 125	(1 913)	11 125
TOTAL	60 028	61 941	60 028	61 941

32. CONTINGENT LIABILITIES AND COMMITMENTS

All amounts are in thousand Bulgarian Levs, unless otherwise stated

The following table represents the contractual amounts of UBB's off-balance financial instruments that commit it to extend credit to customers:

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit commitments				
Undrawn credit commitments	1 598 977	1 228 061	1 598 977	1 228 061
Of which corporate	1 254 915	846 468	1 254 915	846 468
Of which retail	258 616	264 222	258 616	264 222
Of which other financial institutions	85 446	117 371	85 446	117 371
Guarantees, documentary and commercial letters of credit	269 927	250 423	269 927	250 423
Of which corporate	254 201	238 552	254 201	238 552
Of which retail	315	385	315	385
Of which other financial institutions	3 504	3 379	3 504	3 379
Of which other credit institutions	11 907	8 107	11 907	8 107
Letter of credits	74 501	42 313	74 501	42 313
TOTAL	1 943 405	1 520 797	1 943 405	1 520 797

33. ADDITIONAL INFORMATION ABOUT CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

ADDITIONAL INFORMATION ABOUT CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Cash in hand	244 413	214 388	244 413	214 388
Current accounts in Central Bank	434 887	-	434 887	-
Placements with banks with original maturity of up to 3 months	934 857	353 092	934 857	353 092
Repo deals with banks up to 3 months	195 582	1 662 353	195 582	1 662 353
TOTAL	1 809 739	2 229 833	1 809 739	2 229 833

The minimum reserve with the Central Bank amounting to BGN 965 476 thousand as at 31 December 2020 (2019: BGN 434 537 thousand) are not included in cash and cash equivalents as they are not freely at the disposal of the Bank.

34. FINANCIAL RISK MANAGEMENT

Risk management principles and policies of UBB

UBB is exposed to risk arising out of its lending activity. Credit risk could arise for UBB as a result of the debtor's failure to make the necessary payments on a transaction. The credit risk management is carried out through regular analyses of the contractors' creditworthiness. In order to further mitigate the credit risk UBB accepts collateral and guarantees on its credit transactions.

UBB strictly complies with the requirements of the Regulations (EU) 575/2013. The Regulation (EU) 575/2013 provides the limit to large exposures whereby a large exposure is defined as the sum of all exposures of a bank to a single counterparty that are equal to or above 10% of its own funds (regulatory capital). The limit is set at 25% of own funds (regulatory capital).

UBB strictly complies with the requirements of the Credit Institution Act and BNB Ordinance 37 related to exposures to related parties. The Act provides the limits for the maximum amount of credit exposure to a related party as following:

- The total exposure of UBB to a person who/which is not a credit institution, or an investment intermediary shall not exceed 10% of UBB's own funds (regulatory capital) and

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management principles and policies of UBB (continued)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

- The total amount of all exposures of UBB to related parties shall not exceed 20% of UBB's own funds (regulatory capital).

The main credit risk to which UBB is exposed arises out of the loans granted to clients. The amount of credit exposure in this case is determined by the carrying amount of the assets. At the same time UBB is exposed to off-balance sheet credit risk as a result of commitments for granting loans and issuing Letter of Guarantees and Letter of Credits.

Credit risk

Credit risk management decisions are made in compliance with the approved risk management principles and risk appetite credit risk management framework and respective credit policies which are regularly reviewed.

Moreover, UBB possesses and applies numerous detailed procedures relevant to the lending activity regulating the acceptance and management of collaterals, credit analysis, credit administration etc. UBB rates the corporate obligors by using an internal rating system which provides probabilities of default according to a 12-level rating scale.

UBB uses the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. The Bank assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12.

For the decision making in the corporate lending activity there is an escalation of approving bodies depending on the size and the status of the loans under consideration.

In compliance with its risk strategy, UBB targets maintaining of low level of credit risk concentration at obligor level and by industries. UBB regularly monitors and reports the large exposures at obligor level and by industries. The largest sectors in corporate portfolio are Distribution, Building and Construction, Agriculture, Farming and Fishing, Food Producers, Finance and Insurance.

UBB makes assessment of the risk exposure evolving from the loan portfolio by internally classifying and provisioning loans in compliance with the requirements of the IFRS on a monthly basis.

UBB AD has adopted a NPL Strategy that is in line with regulatory requirements and aims at reaching low levels of NPL.

In order to manage the country and counterparty credit risk UBB has approved a conservative limits' framework. UBB has no appetite for risk exposures towards bank counterparties with rating less favorable than Ba3 (Moody's) or BB- (S&P/ Fitch). As a general rule UBB invests in securities with investment-grade issuer rating - "Baa3" or higher according to Moody's and "BBB-" or higher according to S&P or Fitch. The above restrictions for selection of counterparties ensure undertaking of acceptable credit risk arising from transactions on the interbank market.

Liquidity risk

The liquidity risk is related to possible unfavorable impact to the profit and capital of UBB arising from the institution's inability to meet its obligations when they come due without incurring unacceptable losses.

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 225% Liquidity Coverage Ratio (LCR). UBB maintains LCR and NSFR levels well above the regulatory required.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

UBB has a solid funding structure as its loan portfolio is largely funded by customers' deposits. UBB's funding strategy is to develop a diversified funding base by depositor type and have access to a variety of alternative funding sources in order to be protected against unexpected fluctuations and minimize the cost of funding.

UBB applies regular stress-tests in order to evaluate the liquidity risk for UBB under unfavorable economic and market scenarios. The stress-tests are based on assumptions with different parameters of shock and on their impact on the inflow and outflow of funds.

Market risk

The market risk is related to possible unfavorable impact to the profit and capital of UBB from adverse movements in bond equity currency and derivative prices. It includes equity risk interest rate risk and foreign exchange risk.

UBB's total exposure to market risk is relatively small and the daily total VaR as of 31.12.2020 amounted to BGN 0.033 million. The largest market risk exposure is related to interest rate risk resulting from positions in bonds.

UBB manages the market risk by using the internationally accepted historical method. This approach is used to calculate the VaR of UBB's Trading portfolio positions retained for 1-day and for 10-days.

Currency risk

This is the risk for the profit and capital of UBB arising from adverse movements in foreign currency exchange rates in the Banking and Trading books.

UBB statement of financial position structure includes assets and liabilities denominated in different currencies mostly in BGN and EUR. Taking into consideration the existence of Currency Board in Bulgaria (pegged EUR/BGN rate) the currency risk undertaken by UBB mainly evolves from changes in the EUR/USD exchange rate and to a very limited extent from the exchange rates of other currencies to the Euro.

UBB manages the risk of the other than EUR open FX positions aiming to minimize the possibility of loss in case of unfavorable exchange rates' fluctuations and thus maintains the FX risk exposure under the set FX limit.

Interest rate risk in the banking book (IRRBB)

The interest rate risk in the banking book is related to possible unfavorable impact to the profit and capital of UBB from adverse movements in interest rates affecting UBB's non-trading positions.

UBB activity is subject to interest rate fluctuations as much as interest-bearing assets and liabilities mature or undergo changes in interest rate levels in different time and degree.

Interest rate risk management policy aims to optimize the net interest income and achieve market interest rate levels in compliance with UBB's strategy.

The prevailing part of UBB's assets are with floating interest rate while the liabilities are mainly short-term which interest rate changes according to instrument term. Thus the net balance is slightly sensitive to changes in ongoing interest rate levels. Banks aim to limit the interest rate risk in acceptable levels by maintaining adequate structure of its interest sensitive assets and liabilities and minimizing their mismatch.

The techniques for managing interest rate risk in the banking book are: change in the administered interest rates on loans and deposits change in the maturity of the offered credit and deposit products change in the amount of fees and commissions interest rate derivatives etc.

UBB measures the EVE sensitivity to unfavorable changes in interest rates separately for any of the main currencies in which UBB operates and the results are used for making management decisions. The used scenarios are +/- 10 bps and +/- 200 bps parallel shift in interest rates as disclosed in Note 36.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Operational risk

This is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and compliance risk but excludes strategic and reputation risk.

In UBB the KBC Operational Risk Management Framework is implemented. The operational risk management involves application of Group Key Controls (GKCs) at process level. GKCs are implemented for all processes in KBC as every GKC includes key risks and measures for their mitigation (zero tolerances and key controls). The assessment of the GKCs at process level aims to check and document the extent of compliance with these controls as the application and assessment of the GKCs is a priority for UBB. The initial assessment of the GKCs in UBB was done in 2017 and since then it is performed on a regular basis, once per year as a minimum. The assessment of the GKCs is registered in the KBC tool B-Wise.

A building block of the framework is the registration and analysis of operational risk losses and events. In UBB the KBC Loss Data Collection Procedure is implemented regulating the process of collection and registration of operational risk losses and events. The operational risk losses and events are registered in KBC tool - GLORY. The registered losses and operational risk events with high potential impact for materialization are analysed and reported to LRMC as well as corrective measures to avoid future losses and events are proposed. Based on the developed framework and BNB's approval regarding operational risk management UBB has implemented and applies the standardized approach for determining the capital requirements for operational risk.

Business Continuity Management

Business Continuity Management (BCM) is performed in accordance with the Group standards, BCM Framework and GKC BCM.

BCM is defined as strategic and tactical ability of an entity to plan and react properly in the event of a serious disruptions, crisis or disasters. BCM focuses on availability i.e. the Recovery Time Objective (RTO) or the amount of time in which business activities need to be operational again following a serious disruption, crisis or disaster.

BCM is coordinated by local risk function as the business units are responsible for BCM framework implementation. Business Impact Analyses are prepared for all processes in UBB and for each process a recovery time objective is defined.

For each process a BC coordinator is assigned who has the task to define the critical processes, systems and people in the business unit, to preparing the Business Continuity Plan (BCP) for crisis situations as well as to coordinate the BCP testing.

Corona virus

The emergence of COVID-19 (more commonly known as the 'coronavirus') has required additional attention. During 2020, UBB was monitoring the situation on a daily basis. Business continuity plans and epidemic contingency plans have been activated and are in different phases depending on the UBB group entity concerned. Besides monitoring increased operational risk, we are keeping a very close eye on the related macroeconomic impact, including the impact of the KBC Group's home markets from decreasing GDP growth in China at a time when its economy is already in a fragile state. The financial markets also appear to be highly sensitive to the risks relating to the coronavirus, with stock markets, interest rates and oil prices all falling. A broad range of companies may be directly affected due, for instance, to their reliance on imports or exports, their exposure to vulnerable sectors and – for Central European borrowers – their link with the German economy, leading to a potential worsening of their credit profile.

35. CREDIT RISK

Credit risk is summarized as follows:

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

Maximum exposure to credit risk before collateral and other credit enhancements

CREDIT RISK	As at	As at	As at	As at
	31.12.2020	31.12.2020	31.12.2020	31.12.2020
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Exposure				
Balances with Central bank	1 635 776	1 635 776	1 635 776	1 635 776
Loans and advances to banks	940 887	940 818	940 887	940 818
Loans and advances to customers, net	6 601 934	6 324 032	6 606 044	6 325 097
Derivative financial instruments	5 928	5 928	5 928	5 928
Financial assets at fair value through P/L	22 252	22 252	22 252	22 252
Financial assets at FVOCI	822 373	822 373	822 373	822 373
Securities at AC	2 144 648	2 144 648	2 144 648	2 144 648
Other assets	344	344	344	25 168
Total balance sheet items	12 174 142	11 896 171	12 178 252	11 922 060
Commitments	1 608 977	1 608 977	1 680 490	1 680 490
Total off-balance sheet positions	1 608 977	1 608 977	1 680 490	1 680 490

CREDIT RISK	As at	As at	As at	As at
	31.12.2019	31.12.2019	31.12.2019	31.12.2019
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Exposure				
Balances with Central bank	648 925	648 925	648 925	648 925
Loans and advances to banks	479 291	479 281	479 291	479 281
Loans and advances to customers, net	6 082 049	5 733 090	6 086 706	5 735 080
Derivative financial instruments	1 191	1 191	1 191	1 191
Financial assets at fair value through P/L	34 403	34 403	34 403	34 403
Financial assets at FVOCI	962 554	962 374	962 555	962 375
Securities at AC	1 703 706	1 692 632	1 703 706	1 692 632
Other assets	10 281	10 281	10 281	36 930
Total balance sheet items	9 922 400	9 562 177	9 927 058	9 590 817
Commitments	1 228 061	1 228 061	1 228 061	1 228 061
Total off-balance sheet positions	1 228 061	1 228 061	1 228 061	1 228 061

Quality of loans and advances and collateral

SEPARATE	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 101 557	47 109	283 343	45 937	1 477 946
Loans secured with:					
Residential Real Estate	386	1 420 713	53 030	2 118	1 476 247
Commercial Real Estate	33	97 379	1 549 766	-	1 647 178
Cash	3 328	13	124 721	-	128 062
Other collaterals	228 657	3 356	1 560 432	80 056	1 872 501
Total loans at 31.12.2020	1 333 961	1 568 570	3 571 292	128 111	6 601 934

35. CREDIT RISK (CONTINUED)

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
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NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

Unsecured loans	1 101 557	47 109	287 453	45 937	1 482 056
Loans secured with:					
Residential Real Estate	386	1 420 713	53 030	2 118	1 476 247
Commercial Real Estate	33	97 379	1 549 766	-	1 647 178
Cash	3 328	13	124 721	-	128 062
Other collaterals	228 657	3 356	1 560 432	80 056	1 872 501
Total loans at 31.12.2020	1 333 961	1 568 570	3 575 402	128 111	6 606 044

SEPARATE	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	959 107	50 520	956 399	27 828	1 993 854
Loans secured with:					
Residential Real Estate	-	1 355 047	78 944	2 118	1 436 109
Commercial Real Estate	24	-	1 312 188	-	1 312 212
Cash	3 151	24	288 283	-	291 458
Other collaterals	216 341	-	763 345	68 730	1 048 416
Total loans at 31.12.2019	1 178 623	1 405 591	3 399 159	98 676	6 082 049

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	959 053	50 520	961 053	29 954	2 000 580
Loans secured with:					
Residential Real Estate	-	1 355 047	78 944	2 118	1 436 109
Commercial Real Estate	78	-	1 312 242	-	1 312 320
Cash	3 151	24	288 283	-	291 458
Other collaterals	216 341	-	763 294	66 604	1 046 239
Total loans at 31.12.2019	1 178 623	1 405 591	3 403 816	98 676	6 086 706

The table below provides information about UBB's exposure to credit risk as of 31 December 2020 except for loans and advances to customers by classifying assets according to the credit rating of counterparties of Fitch Ratings AAA is the highest possible rating.

UBB's policy is to maintain accurate and consistent risk ratings. This allows management to focus on applicable risks and exposure comparison. The rating system is supported by a number of financial analyzes combined with processed market information to provide the main inputs for the counterparty risk assessment.

Information on the respective asset ratings as at 31 December 2020 and 31 December 2019 is presented in the table below:

SEPARATE AND CONSOLIDATED				
	AAA to A-	BBB+ to B-	Not rated	Total
31 December 2020				
Government Bonds	977 702	1 164 559	-	2 142 261
Corporate Bonds	-	-	2 387	2 387
Cash with BNB and resources provided to banks	648 589	2 514 713	-	3 163 302
Total	1 626 291	3 679 272	2 387	5 307 950

SEPARATE AND CONSOLIDATED				
	AAA to A-	BBB+ to B-	Not rated	Total
31 December 2019				
Government Bonds	426 893	1 263 019	-	1 689 912
Corporate Bonds	-	-	2 720	2 720
Cash with BNB and resources provided to banks	1 232 653	2 183 190	-	3 415 843
Total	1 659 546	3 446 209	2 720	5 108 475

35. CREDIT RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

Loans that are overdue which are Stage 1 and Stage 2 /not impaired/ at the end of 2020 and 2019 respectively are presented in the table below:

SEPARATE	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	27 491	8 353	35 844
Mortgage loans	12 781	4 451	17 232
Large corporate clients	11 650	-	11 650
Small and medium sized enterprises	54 315	3 270	57 585
Total	106 237	16 074	122 311

CONSOLIDATED	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	27 491	12 804	40 295
Mortgage loans	12 781	4 451	17 232
Large corporate clients	11 650	2	11 652
Small and medium sized enterprises	54 315	3 270	57 585
Total	106 237	20 527	126 764

SEPARATE	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	62 475	31 335	93 810
Mortgage loans	55 085	52 163	107 248
Large corporate clients	26 130	8 871	35 001
Small and medium sized enterprises	91 549	87 247	178 796
Total	235 239	179 616	414 855

CONSOLIDATED	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	62 475	31 335	93 810
Mortgage loans	55 085	52 163	107 248
Large corporate clients	26 130	8 871	35 001
Small and medium sized enterprises	91 549	87 248	178 797
Total	235 239	179 617	414 856

35. CREDIT RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

Loans that are stage 1 split by PD class as of the end of 2020 and 2019 respectively are presented in the table below:

SEPARATE AND CONSOLIDATED	As of	As of	As of	As of
	31.12.2020	31.12.2020	31.12.2020	31.12.2020
PD	Mortgage	Consumer	Corporate	Total
1	942	167 570	482 652	651 164
2	599 977	19 251	45 887	665 115
3	125 475	36 231	193 380	355 086
4	91 754	488 572	213 651	793 977
5	25 883	163 781	842 590	1 032 254
6	305 192	142 940	1 060 870	1 509 002
7	109 538	117 599	660 148	887 285
8	9 329	28 928	130 991	169 248
Gross Carrying Amount/Outs. Balance Total	1 268 090	1 164 872	3 630 169	6 063 131
ECL	(194)	(3 509)	(11 659)	(15 362)
Net loans	1 267 896	1 161 363	3 618 510	6 047 769

SEPARATE AND CONSOLIDATED	As of	As of	As of	As of
	31.12.2019	31.12.2019	31.12.2019	31.12.2019
PD	Mortgage	Consumer	Corporate	Total
1	28 264	118 358	-	146 622
2	613 689	-	29 864	643 553
3	144 159	55 692	208 044	407 895
4	138 267	498 144	159 441	795 852
5	34 719	187 623	408 041	630 383
6	129 211	109 673	842 534	1 081 418
7	18 046	41 663	914 037	973 746
8	11 337	21 354	208 911	241 602
Gross Carrying Amount/Outs. Balance Total	1 117 692	1 032 507	2 770 872	4 921 071
ECL	(292)	(3 127)	(18 749)	(22 168)
Net loans	1 117 400	1 029 380	2 752 123	4 898 903

The gross carrying amount of loans that are overdue and which have been impaired as of 31 December 2020 and 2019 is presented in the tables below:

Impaired loans	As of 31.12.2020			
	Gross carrying amount			
SEPARATE	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	20 745	8 046	33 979	62 770
Mortgage loans	50 284	5 076	79 363	134 723
Large corporate clients	4 032	-	51	4 083
Small and medium sized enterprises	106 677	8 013	270 968	385 658
Total	181 738	21 135	384 361	587 234

CONSOLIDATED	As of 31.12.2020			
	Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	20 745	8 046	33 979	62 770
Mortgage loans	50 284	5 076	79 363	134 723
Large corporate clients	4 032	-	51	4 083
Small and medium sized enterprises	107 166	11 005	274 869	393 040
Total	182 227	24 127	388 262	594 616

35. CREDIT RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

SEPARATE	As of 31.12.2019 Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	19 507	12 429	71 679	103 615
Mortgage loans	39 282	4 085	232 727	276 094
Large corporate clients	7 896	14 914	208 786	231 596
Small and medium sized enterprises	81 301	10 702	658 978	750 981
Total	147 986	42 130	1 172 170	1 362 286

CONSOLIDATED	As of 31.12.2019 Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	19 507	12 429	71 679	103 615
Mortgage loans	39 282	4 085	232 727	276 094
Large corporate clients	7 896	13 469	209 117	230 482
Small and medium sized enterprises	81 302	15 233	663 510	760 045
Total	147 987	45 216	1 177 033	1 370 236

Some important introductions took place in the course of 2020 related to Credit Risk Management:

- Introduction of the new Definition of Default (DoD): following the EBA/ECB regulations UBB has introduced the new Definition of Default in the course of 2020. This introduction includes:
 - o Default status on country level
 - o Inclusion of thresholds depending on the segment
 - o Respecting waiting period for curing from NPL

The introduction of the new DoD led to a decrease of previously recognized non performing cases as before no thresholds (new thresholds for Retail segment are EUR 100 and 1% of the exposure; for Companies are EUR 500 and 1% of the exposure) were used, partly compensated with new recognized NPL's as a result of the country wide approach.

- Implementation of updated IFRS9 models both for Retail and Corporate/SME.
 - o IFRS 9 models, covering PD, LGD, EAD and PPS estimations, were developed respectively for Retail (secured and unsecured loans) and for Corporate/SME.

The development of these new models was necessitated after the creation of UBB as a result of the merger of both former Banks and were build based on the historical data of these former Banks. As a result, the outcome of both set of IFRS 9 models should reflect more accurately the Banks need for collective IFRS 9 impairments.

- Implementation of new Basel PD model for Corp/SME based on the combined data of both former banks forming UBB of today.

After the merger the need for a Basel PD model, used in the underwriting process for Corporate and SME loans, based on the combined Banks data was initiated and completed by end 2019 including to the maximum extent possible financial, qualitative and behavioral characteristics. This new model was implemented in the course of 2020, first in the SME lending process followed with the introduction in the Corporate underwriting process.

Result of this implementation is an improved distribution of the clients over the different risk categories representing a more correct and balanced view on the risk profile of the respective portfolio's.

Forborne loans

Forbearance measures occur in situation in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties UBB decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract either totally or partially. Forborne loans are separately managed and monitored by Management of UBB. For the purpose of impairment calculation not cured forborne loans are assessed as a separate group within each portfolio. The allowance for impairment on forborne loans is calculated based on present values of expected future cash flows methodology considering all available evidence at the time of assessment.

35. CREDIT RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

Forborne Loans net of allowance for impairment by product line:

	As at 31.12.2020	As at 31.12.2019	As at 31.12.2020	As at 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Forborne Loans				
Consumer	130 531	20 683	130 531	20 683
Mortgage	51 433	46 479	51 433	46 479
SME Loans	255 370	164 855	255 370	164 855
Corporate Loans	39 682	78 137	39 682	78 137
Total	477 016	310 154	477 016	310 154

Industry Concentration risk

Analysis by industries net of impairments	Year ended 31.12.2020	Year ended 31.12.2019	Year ended 31.12.2020	Year ended 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals and households	2 784 573	2 480 370	2 784 573	2 480 370
Industry	1 226 016	1 049 279	1 226 016	1 049 279
Trade and services	902 996	844 103	902 996	844 103
Agriculture	305 277	308 814	305 277	308 814
Other	167 936	161 154	214 886	193 001
Construction	152 590	154 796	152 590	154 796
Electricity and heat	142 874	142 627	142 874	142 627
Financial and Insurance companies	141 817	132 802	95 932	102 944
Transportation	140 380	115 163	140 380	115 163
Real estate	123 250	85 299	123 250	85 300
Public sector	77 055	97 111	77 055	97 111
IT and communications	69 135	75 562	69 135	75 562
Hotel management	57 499	58 883	57 499	58 883
Water supply	25 388	26 554	25 388	26 554
Mining	7 246	8 881	7 246	8 881
Total	6 324 032	5 741 398	6 325 097	5 743 388

Counterparty concentration risk

The next table presents the information of the large exposure of UBB as for 31 December 2020 and 2019:

SEPARATE	As of 31.12.2020		As of 31.12.2019	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	105 636	7.14%	117 386	8.53%
Total amount of five largest exposures	371 858	25.15%	329 395	23.93%
CONSOLIDATED	As of 31.12.2020		As of 31.12.2019	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	105 636	7.15%	117 386	8.51%
Total amount of five largest exposures	371 858	25.17%	329 395	23.89%

COVID-19 reporting disclosures

In response to the need to address negative economic consequences of COVID-19 pandemic, the Bank have introduced a wide range of relief measures to support the real economy impacted by coronavirus, including loan deferrals and public guarantee schemes to be applied to new lending as disclosed in Note 3.3.

- a) Information for loans and advances subject to EBA-compliant moratoria (legislative and non-legislative) as at 31 December 2020 is presented in the table below:

35. CREDIT RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Of which:	Non-performing	Of which:	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Performing	Of which:	Non-performing	Of which:
			grace period of capital and interest		grace period of capital and interest			grace period of capital and interest		
Loans and advances subject to EBA-compliant moratoria	449 929	442 598	154 723	7 331	6 467	(8 404)	(7 500)	(4 898)	(904)	(856)
of which: Households	119 604	117 149	98 368	2 455	2 447	(5 283)	(4 433)	(3 980)	(850)	(846)
of which: Collateralised by residential immovable property	74 564	73 602	62 583	962	962	(703)	(576)	(502)	(127)	(127)
of which: Non-financial corporations	328 490	323 614	54 522	4 876	4 020	(3 120)	(3 066)	(892)	(54)	(9)
of which: Small and medium-sized enterprises	270 217	269 334	54 522	883	27	(2 954)	(2 900)	(892)	(54)	(9)
of which: Collateralised by commercial immovable property	179 741	179 741	34 923	-	-	(1 853)	(1 853)	(542)	-	-

b) Information for other loans and advances subject to COVID-19-related forbearance measures and of newly originated loans as at 31 December 2020 is presented in the table below:

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Of which:	Non-performing	Accumulated	Performing	Of which:	Non-performing	Of which:
			grace period of capital and interest		impairment, accumulated negative changes in fair value due to credit risk		grace period of capital and interest		grace period of capital and interest
Other loans and advances subject to COVID-19-related forbearance measures	32 582	21 515	18 105	11 066	(4 571)	(1 920)	(1 438)	(2 650)	(2 399)
of which: Households	25 361	14 417	11 024	10 944	(3 951)	(1 343)	(860)	(2 609)	(2 379)
of which: Non-financial corporations	7 221	7 098	7 081	123	(619)	(577)	(577)	(42)	(20)

CREDIT RISK (CONTINUED)
COVID-19 reporting disclosures (continued)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

- c) Information for advances subject to public guarantee schemes in the context of the COVID-19 crisis as at 31 December 2020 is presented in the table below:

SEPARATE AND CONSOLIDATED	Gross carrying amount	Non-performing		Of which: exposures with forbearance measures	Non-performing	Maximum amount of the guarantee that can be considered
		Performing	Non-performing			
Newly originated loans and advances subject to public guarantee schemes	64 937	64 874	64	(135)	(135)	55 914
of which: Households	19 820	19 792	29	(13)	-	-
of which: Collateralized by residential immovable property	-	-	-	-	-	-
of which: Non-financial corporations	45 117	45 082	36	(122)	(122)	36 094
of which: Small and medium-sized enterprises	41 325	41 290	36	(111)	-	-
of which: Collateralised by commercial immovable property	3 786	3 786	-	(19)	-	-

36. MARKET RISK

Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31 2020 and 2019. Included in the table are UBB's assets and liabilities at carrying amounts in thousands BGN categorized by currency.

SEPARATE					
Currency analysis	EUR	USD	BGN	Other	Total
31 December 2020					
ASSETS					
Cash and balances with central banks	24 549	5 819	1 594 662	10 746	1 635 776
Due from banks	1 405 179	66 985	28 243	27 119	1 527 526
Loans and advances to customers, net	1 907 885	36 945	4 379 201	1	6 324 032
Financial Assets through PL	6 888	-	15 364	-	22 252
Derivative financial instruments	-	-	5 928	-	5 928
Financial Assets at FVOCI	574 258	23 218	224 897	-	822 373
Securities at AC	1 473 287	78 722	592 639	-	2 144 648
Investments in associates	-	-	20 732	-	20 732
Intangible assets	-	-	10 705	-	10 705
Fixed assets and Right-of-use Assets	-	-	126 610	-	126 610
Investment property	-	-	127 342	-	127 342
Deferred income tax assets	-	-	5 240	-	5 240
Other assets	5 433	22	18 540	-	23 995
TOTAL ASSETS	5 397 479	211 711	7 150 103	37 866	12 797 159
LIABILITIES					
Due to banks	98 190	142	4 033	1 370	103 735
Due to customers	3 204 069	699 846	6 712 636	127 573	10 744 124
Payables under repo agreements	282 755	-	-	-	282 755
Derivative financial instruments	6 715	-	39 926	-	46 641
Long term borrowings	68 200	-	-	-	68 200
Provisions	3 314	199	10 673	-	14 186
Lease liabilities	-	-	22 063	-	22 063
Other liabilities	7 286	115	29 263	5	36 669
TOTAL LIABILITIES	3 670 529	700 302	6 818 594	128 948	11 318 373
TOTAL EQUITY	-	-	1 478 786	-	1 478 786
NET BALANCE SHEET POSITION	1 726 950	(488 591)	331 509	(91 082)	1 478 786
NET OFF-BALANCE SHEET POSITION	(1 655 286)	492 269	1 039 497	91 074	(32 446)

36. MARKET RISK (CONTINUED)

Foreign currency risk (Continued)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

CONSOLIDATED					
Currency analysis					
31 December 2020					
	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	24 549	5 819	1 594 662	10 746	1 635 776
Due from banks	1 405 179	66 985	28 243	27 119	1 527 526
Loans and advances to customers, net	1 907 885	36 945	4 380 266	1	6 325 097
Financial Assets through PL	6 888	-	15 364	-	22 252
Derivative financial instruments	-	-	5 928	-	5 928
Financial Assets at FVOCI	574 258	23 218	224 897	-	822 373
Securities at AC	1 473 287	78 722	592 639	-	2 144 648
Investments in associates	-	-	3 477	-	3 477
Intangible assets	-	-	11 235	-	11 235
Fixed assets and Right-of-use Assets	-	-	126 773	-	126 773
Investment property	-	-	137 026	-	137 026
Deferred income tax assets	-	-	5 450	-	5 450
Other assets	5 433	22	19 712	-	25 167
TOTAL ASSETS	5 397 479	211 711	7 145 672	37 866	12 792 728
LIABILITIES					
Due to banks	98 190	142	4 033	1 370	103 735
Due to customers	3 204 069	699 846	6 708 413	127 573	10 739 901
Payables under repo agreements	282 755	-	-	-	282 755
Derivative financial instruments	6 715	-	39 926	-	46 641
Long term borrowings	68 200	-	-	-	68 200
Current income tax liabilities	-	-	47	-	47
Provisions	3 314	199	10 777	-	14 290
Lease liabilities	-	-	22 160	-	22 160
Deferred tax liabilities	-	-	1	-	1
Other liabilities	7 286	115	29 964	5	37 370
TOTAL LIABILITIES	3 670 529	700 302	6 815 321	128 948	11 315 100
TOTAL EQUITY	-	-	1 477 629	-	1 477 629
NET BALANCE SHEET POSITION	1 726 950	(488 591)	330 351	(91 082)	1 477 628
NET OFF-BALANCE SHEET POSITION	(1 655 286)	492 269	1 039 497	91 074	(32 446)

SEPARATE					
Currency analysis					
31 December 2019					
	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	20 738	7 162	611 573	9 452	648 925
Due from banks	2 595 676	120 251	24 633	26 358	2 766 918
Loans and advances to customers, net	1 864 265	8 621	3 860 204	-	5 733 090
Financial Assets through PL	7 195	-	27 208	-	34 403
Derivative financial instruments	-	-	1 191	-	1 191
Financial Assets at FVOCI	626 604	22 907	312 863	-	962 374
Securities at AC	1 297 634	87 289	307 709	-	1 692 632
Investments in associates	-	-	21 368	-	21 368
Intangible assets	-	-	8 155	-	8 155
Fixed assets and Right-of-use Assets	-	-	136 643	-	136 643
Investment property	-	-	126 344	-	126 344
Deferred income tax assets	-	-	5 119	-	5 119
Other assets	10 244	1 170	24 123	1	35 538
TOTAL ASSETS	6 422 356	247 400	5 467 133	35 811	12 172 700
LIABILITIES					
Due to banks	306	7 124	1 576	638	9 644
Due to customers	2 291 176	698 910	5 664 086	94 824	8 748 996
Payables under repo agreements	1 797 115	-	-	-	1 797 115
Derivative financial instruments	6 216	-	4 426	-	10 642
Long term borrowings	126 100	-	-	-	126 100
Current income tax liabilities	-	-	2 098	-	2 098
Provisions	-	-	12 858	-	12 858
Lease liabilities	-	-	28 010	-	28 010
Deferred tax liabilities	-	-	-	-	-
Other liabilities	14 017	551	45 944	35	60 547
TOTAL LIABILITIES	4 234 930	706 585	5 758 998	95 497	10 796 010
TOTAL EQUITY	-	-	1 376 690	-	1 376 690
NET BALANCE SHEET POSITION	2 187 426	(459 185)	(291 865)	(59 686)	1 376 690
NET OFF-BALANCE SHEET POSITION	(1 928 432)	458 829	1 409 644	59 723	(236)

36. MARKET RISK (CONTINUED)
Foreign currency risk (Continued)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

CONSOLIDATED					
Currency analysis					
31 December 2019					
	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	20 738	7 162	611 573	9 452	648 925
Due from banks	2 595 676	120 251	24 633	26 358	2 766 918
Loans and advances to customers, net	1 864 265	8 621	3 862 194	-	5 735 080
Financial Assets through PL	7 195	-	27 208	-	34 403
Derivative financial instruments	-	-	1 191	-	1 191
Financial Assets at FVOCI	626 604	22 907	312 864	-	962 375
Securities at AC	1 297 634	87 289	307 709	-	1 692 632
Investments in associates	-	-	3 560	-	3 560
Intangible assets	-	-	8 244	-	8 244
Fixed assets and Right-of-use Assets	-	-	136 820	-	136 820
Investment property	-	-	136 753	-	136 753
Deferred income tax assets	-	-	5 238	-	5 238
Other assets	10 244	1 170	25 515	1	36 930
TOTAL ASSETS	6 422 356	247 400	5 463 502	35 811	12 169 069
LIABILITIES					
Due to banks	306	7 124	1 576	638	9 644
Due to customers	2 291 176	698 910	5 657 750	94 824	8 742 660
Payables under repo agreements	1 797 115	-	-	-	1 797 115
Derivative financial instruments	6 216	-	4 426	-	10 642
Long term borrowings	126 100	-	-	-	126 100
Current income tax liabilities	-	-	2 098	29	2 127
Provisions	-	-	12 869	-	12 869
Lease liabilities	-	-	28 088	-	28 088
Deferred tax liabilities	-	-	15	-	15
Other liabilities	14 017	551	46 590	35	61 193
TOTAL LIABILITIES	4 234 930	706 585	5 753 412	95 526	10 790 453
TOTAL EQUITY	-	-	1 378 616	-	1 378 616
NET BALANCE SHEET POSITION	2 187 426	(459 185)	(289 910)	(59 715)	1 378 616
NET OFF-BALANCE SHEET POSITION	(1 928 432)	458 829	1 409 644	59 723	(236)

UBB measures the economic value of equity (EVE) vulnerability to unfavorable changes in interest rates separately for any of the main currencies in which UBB operates and the results are used for making management decisions.

The negative sign of the mismatch means that the interest rate sensitive liabilities are larger than the interest rate sensitive assets in the concrete time band.

The techniques for managing interest rate risk generated by the positions in the banking book are: change in the administered interest rates on loans and deposits change in the maturity of the offered credit and deposit products change in the amount of fees and commissions interest rate derivatives etc.

36. MARKET RISK (CONTINUED)

Interest rate risk

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

UBB interest rate risk relating to financial instruments based on next re-pricing date is summarized as follows:

SEPARATE				
	With fixed interest rate	With floating interest rate	Interest free	Total
31 December 2020				
Assets				
Account in Central Bank	434 886	-	1 200 890	1 635 776
Deposits placed with banks	-	1 527 526	-	1 527 526
Financial assets at FVOCI	822 373	-	-	822 373
Securities at AC	2 144 648	-	-	2 144 648
Loans and advances to clients	267 798	6 056 234	-	6 324 032
Total assets	3 669 705	7 583 760	1 200 890	12 454 355
Liabilities				
Deposits from banks	45 646	126 289	-	171 935
Deposits from clients	10 744 124	-	-	10 744 124
Payables on repo agreements	-	282 755	-	282 755
Total liabilities	10 789 770	409 044	-	11 198 814
Difference in interest rates	(7 120 065)	7 174 716	1 200 890	1 255 541
CONSOLIDATED				
	With fixed interest rate	With floating interest rate	Interest free	Total
31 December 2020				
Assets				
Account in Central Bank	434 886	-	1 200 890	1 635 776
Deposits placed with banks	-	1 527 526	-	1 527 526
Financial assets at FVOCI	822 373	-	-	822 373
Securities at AC	2 144 648	-	-	2 144 648
Loans and advances to clients	267 798	6 057 299	-	6 325 097
Total assets	3 669 705	7 584 825	1 200 890	12 455 420
Liabilities				
Deposits from banks	49 870	122 065	-	171 935
Deposits from clients	10 739 901	-	-	10 739 901
Payables on repo agreements	-	282 755	-	282 755
Total liabilities	10 789 771	404 820	-	11 194 591
Difference in interest rates	(7 120 066)	7 180 005	1 200 890	1 260 829

In the table above, the securities available for sale which are hedged against interest rate risk are excluded. Further, the securities in Trading book are out of scope.

36. MARKET RISK (CONTINUED)
Interest rate risk (continued)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

In the table below, the amount of interest and non-interest bearing assets and liabilities as at 31.12.2019 are presented:

SEPARATE				
31 December 2019	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	648 925	648 925
Deposits placed with banks	2 413 826	-	353 092	2 766 918
Financial assets at FVOCI	804 200	-	22 478	826 678
Securities at AC	1 692 632	-	-	1 692 632
Loans and advances to clients	303 132	5 429 958	-	5 733 090
Total assets	5 213 790	5 429 958	1 024 495	11 668 243
Liabilities				
Deposits from banks	104 883	30 861	-	135 744
Deposits from clients	8 748 996	-	-	8 748 996
Payables on repo agreements	1 797 115	-	-	1 797 115
Total liabilities	10 650 994	30 861	-	10 681 855
Difference in interest rates	(5 437 204)	5 399 097	1 024 495	986 388

CONSOLIDATED				
31 December 2019	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	648 925	648 925
Deposits placed with banks	2 413 826	-	353 092	2 766 918
Financial assets at FVOCI	804 200	-	22 478	826 678
Securities at AC	1 692 632	-	-	1 692 632
Loans and advances to clients	303 132	5 431 948	-	5 735 080
Total assets	5 213 790	5 431 948	1 024 495	11 670 233
Liabilities				
Deposits from banks	104 883	30 861	-	135 744
Deposits from clients	8 742 660	-	-	8 742 660
Payables on repo agreements	1 797 115	-	-	1 797 115
Total liabilities	10 644 658	30 861	-	10 675 519
Difference in interest rates	(5 430 868)	5 401 087	1 024 495	994 714

The table below provides information of net interest income sensitivity and the sensitivity of equity as at 31.12.2020 and 31.12.2019 assuming reasonably change in interest rates, ceteris paribus:

31 December 2020	in `000 BGN	in `000 BGN
Increase in basis point	Sensitivity of net interest income	Sensitivity of equity
100/(-100)	19 271/ (-32 142)	(-38 989)/ 24 582
200/(-200)	38 953/ (-21 822)	(-25 993)/ 16 388
31 December 2019	in `000 BGN	in `000 BGN
Increase in basis point	Sensitivity of net interest income	Sensitivity of equity
100/(-100)	6 934/(-10 839)	(-14 592)/9 480
200/(-200)	15 071/ (-20 954)	(-29 184)/18 961
300/(-300)	23 207/ (-31 068)	(-43 777)/28 441

The Net Interest Income Sensitivity for December 2020 is calculated with compliance to the reporting criteria of EBA Guidelines “Interest Rate Risk in the Banking Book” and the stress test scenarios do not include the -300/+300 bps scenarios.

37. LIQUIDITY RISK

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 225% liquidity coverage (LCR) for 2020 (2019: 222%) and net stable funding ratio (NSFR) an average of 172% for 2020 (2019: 173%). Moreover, UBB maintains LCR and NSFR levels well above the regulatory requirements.

UBB have a solid funding structure as its loan portfolio is largely funded by customers' deposits. UBB's funding strategy is to develop a diversified funding base by depositor type and have access to a variety of alternative funding sources in order to be protected against unexpected fluctuations and minimize the cost of funding.

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
Maturity Analysis 31 December 2020						
ASSETS	2 600 923	446 302	1 370 494	4 505 025	3 874 415	12 797 159
TOTAL ASSETS	2 600 923	446 302	1 370 494	4 505 025	3 874 415	12 797 159
LIABILITIES						
Due to banks	103 730	282 760	-	-	-	386 490
Due to customers	9 463 084	309 180	955 480	16 380	-	10 744 124
Derivative financial instruments	46 641	-	-	-	-	46 641
Other borrowed funds	-	195	-	28 080	39 925	68 200
Lease liabilities (IFRS 16)	766	2 204	5 389	13 656	48	22 063
Other liabilities	50 855	-	-	-	-	50 855
TOTAL LIABILITIES	9 665 076	594 339	960 869	58 116	39 973	11 318 373
Contingent liabilities	1 953 404	-	-	-	-	1 953 404
CONSOLIDATED	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
Maturity Analysis 31 December 2020						
ASSETS	2 606 851	446 302	1 370 494	4 505 025	3 864 057	12 792 729
TOTAL ASSETS	2 606 851	446 302	1 370 494	4 505 025	3 864 057	12 792 729
LIABILITIES						
Due to banks	103 730	282 760	-	-	-	386 490
Due to customers	9 458 861	309 180	955 480	16 380	-	10 739 901
Derivative financial instruments	46 641	-	-	-	-	46 641
Other borrowed funds	-	195	-	28 080	39 925	68 200
Lease liabilities (IFRS 16)	766	2 204	5 486	13 656	48	22 160
Other liabilities	51 708	-	-	-	-	51 708
TOTAL LIABILITIES	9 661 706	594 339	960 966	58 116	39 973	11 315 100
Contingent liabilities	2 024 916	-	-	-	-	2 024 916

Typical for the banking operations, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and a positive net liquidity gap in the longer-term buckets. This creates liquidity risk if UBB would be unable to renew maturing short-term funding. UBB's liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the KBC Group's risk appetite.

37. LIQUIDITY RISK (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2019						
ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 514 529	12 172 700
TOTAL ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 514 529	12 172 700
LIABILITIES						
Due to banks	1 476 489	-	242 850	87 420	-	1 806 759
Due to customers	7 453 876	300 140	972 520	22 460	-	8 748 996
Derivative financial instruments	10 642	-	-	-	-	10 642
Other borrowed funds	381	19 558	19 558	39 418	47 185	126 100
Lease liabilities (IFRS 16)	874	2 460	6 076	17 958	642	28 010
Other liabilities	75 503	-	-	-	-	75 503
TOTAL LIABILITIES	9 017 765	322 158	1 241 004	167 256	47 826	10 796 010
Contingent liabilities	1 520 797	-	-	-	-	1 520 797

CONSOLIDATED	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2019						
ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 510 898	12 169 069
TOTAL ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 510 898	12 169 069
LIABILITIES						
Due to banks	1 476 489	-	242 850	87 420	-	1 806 759
Due to customers	7 447 540	300 140	972 520	22 460	-	8 742 660
Derivative financial instruments	10 642	-	-	-	-	10 642
Other borrowed funds	381	19 558	19 558	39 418	47 185	126 100
Lease liabilities (IFRS 16)	874	2 460	6 154	17 958	642	28 088
Other liabilities	76 204	-	-	-	-	76 204
TOTAL LIABILITIES	9 012 130	322 158	1 241 082	167 256	47 827	10 790 453
Contingent liabilities	1 520 797	-	-	-	-	1 520 797

38. FAIR VALUE MEASUREMENT

Financial instruments not measured at fair value

The table below summaries the carrying amounts and fair value of those financial assets and liabilities not presented on UBB's statement of financial position at fair value.

SEPARATE	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	1 635 776	1 635 776	648 925	648 925
Due from banks	1 527 526	1 527 526	2 766 918	2 766 918
Investments at amortized cost	2 144 648	2 277 720	1 692 632	1 813 521
Loans and advances to customers, net	6 324 032	6 400 063	5 733 090	5 802 078
TOTAL ASSETS	11 631 982	11 841 085	10 841 565	11 031 442
LIABILITIES				
Due to customers	10 744 124	10 743 948	8 748 996	8 748 148
Other borrowed funds	68 200	68 200	126 100	126 100
TOTAL LIABILITIES	10 812 324	10 812 148	8 875 096	8 874 248

38. FAIR VALUE MEASUREMENT (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

CONSOLIDATED	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	1 635 776	1 635 776	648 925	648 925
Due from banks	1 527 526	1 527 526	2 766 918	2 766 918
Investments at amortized cost	2 144 648	2 277 720	1 692 632	1 813 521
Loans and advances to customers, net	6 325 097	6 401 128	5 735 080	5 804 068
TOTAL ASSETS	11 633 047	11 842 150	10 843 555	11 033 432
LIABILITIES				
Due to customers	10 739 901	10 739 725	8 742 660	8 741 812
Other borrowed funds	68 200	68 200	126 100	126 100
TOTAL LIABILITIES	10 808 101	10 807 925	8 868 760	8 867 912

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2020 and 2019:

- The carrying amount of cash and balances with the Central Bank, due from and due to banks as well as accrued interest equals their fair value. The fair values are categorized as Level 1 for cash in hand (Note 33) and Level 2 for balances with the Central bank. The fair values of the amounts due from banks, due to customers and other borrowed funds are categorized in Level 2.
- The fair value of loans and advances to customers is estimated using discounted cash flow models (the expected loan related cash flows discounted by the market interest rates) and it is categorized in Level 3.
- Investments at amortized cost are represented by Government Bonds with quoted prices and categorized in Level 1.

Due to customers: The fair value for demand deposits and deposits with no defined maturity is determined to be the amount payable on demand at the reporting date. The fair value for fixed-maturity deposits is estimated using discounted cash flow models based on rates currently offered for the relevant product types with similar remaining maturities.

Fair value of bank borrowings and subordinated liabilities are estimated based on discounted cash flow analysis using current interest rates for similar types of borrowings arrangements.

No transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2020 and 2019.

Level 3 financial instruments at December 31, 2020 include:

Financial assets FVOCI and at amortized cost which are price-based and the price is subject to liquidity adjustments or credit value adjustments which are valued by independent valuers based on inputs such as earnings forecasts comparable multiples of Economic Value to EBITDA and other parameters which are not market observable.

UBB conducts a review of the fair value hierarchy classifications on an annually basis.

No transfers into or out of Level 3 occurred for the year ended December 31, 2020 and 2019.

Valuation Process and Control Framework

UBB has various processes in place to ensure that the fair values of its assets and liabilities are reasonably estimated and has established a control framework which is designed to ensure that fair values are validated by functions independent of the risk-taker. To that end UBB utilizes various sources for determining the fair values of its financial instruments and uses its own independent functions to validate these results where possible.

Fair values of debt securities are determined either by reference to prices for traded instruments in active markets to external quotations or widely accepted financial models which are based on market observable or unobservable information where the former is not available as well as relevant market-based parameters such as interest rates option fluctuations currency rates etc. and may also include a liquidity risk adjustment where UBB considers it appropriate.

38. FAIR VALUE MEASUREMENT (CONTINUED)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

UBB may sometimes also utilize third-party pricing information and perform validating procedures on this information or base its fair value on the latest transaction prices available given the absence of an active market or similar transactions. All such instruments are categorized within the lowest level of fair value hierarchy (i.e. Level 3).

Generally fair values of debt securities including significant inputs on the valuation models are independently checked and validated by Risk Management Directorate on a regular basis.

Fair value of derivatives is determined using valuation models which include discounted cash-flow models or other appropriate models. Adequate control procedures are in place for the validation of these models including the valuation inputs on systematic basis. Risk Management Directorate provides the control valuation framework necessary to ensure that the fair values are reasonably determined reflecting current market and economic conditions.

Market Valuation Adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted where appropriate to reflect close-out costs credit exposure model driven valuation uncertainty trading restrictions and other factors when such factors would be considered by market participants in measuring fair value.

Sensitivity of Fair Value measurements to changes in unobservable inputs

Due to UBB's limited exposure to investment securities measured at fair value for which the market valuation adjustments are significant to their fair value a reasonable change in the unobservable inputs would not be significant to UBB.

39. CAPITAL AND CAPITAL BASE

UBB determines its risk-bearing capacity on the basis of the capital resources available for covering losses generated by UBB's risk profile. During the management of its capital-at-risk UBB observes the regulatory instructions as well as its own objectives.

The minimum requirements in 2020 applicable to UBB AD following the implementation of the requirements of Directive 2013/36/EU and Regulation (EU) No 575/2013 include maintaining of total capital adequacy of not less than 16% on individual basis (15% on consolidated basis) and tier-one capital adequacy of not less than 14% on individual basis (13% on consolidated basis). These levels include for Pillar I respectively: 8% total capital adequacy and 6% tier-one capital adequacy as well as 2.5% Capital Conservation Buffer, 3% Systemic Risk Buffer, 1% Buffer for O-SIIs and 0.5% countercyclical buffer. On individual basis 1% Pillar II is required additionally.

UBB has complied with the regulatory requirements of minimum capital adequacy for 2020 and for 2019.

In accordance with the regulatory framework UBB allocates capital for covering the capital requirements for credit risk market risk and operational risk applying the Standardized Approach.

Regulatory Capital (Own Funds)

The capital base (own funds) includes tier-one and tier-two capital in accordance with the applicable regulatory requirements.

39. CAPITAL AND CAPITAL BASE (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

CAPITAL AND CAPITAL BASE	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Paid up Capital Instruments	93 838	93 838	93 838	93 838
Reserves incl. retained earnings	1 217 472	1 067 550	1 219 186	1 073 536
Other comprehensive income	58 671	60 469	58 671	60 469
Common Equity Tier I deductions	(21 425)	(10 146)	(22 111)	(10 531)
Common Equity Tier I Capital (CET1)	1 348 556	1 211 711	1 349 584	1 217 312
Total Tier I Capital	1 348 556	1 211 711	1 349 584	1 217 312
Additional deductions from Tier I and Tier II Equity				
Total Regulatory Capital (own funds)	1 348 556	1 211 711	1 349 584	1 217 312
Common Equity Tier I Capital ratio	22.09%	19.04%	22.06%	19.15%
Tier 1 Capital ratio	22.09%	19.04%	22.06%	19.15%
Total capital ratio	22.09%	19.04%	22.06%	19.15%
Surplus(+)/Deficit(-) of total capital	860 088	702 520	860 053	708 858

Risk Weighted Assets

The changes in the RWA structure and amounts are related to the respective changes in UBB's assets structure.

Capital requirements

As of 31 December 2020 and 31 December 31 2019, the capital requirements for credit market and operational risks are as follows:

Risk Weighted Assets	As of 31.12.2020	As of 31.12.2019	As of 31.12.2020	As of 31.12.2019
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit Risk including exposures to:	5 301 091	5 435 645	5 309 726	5 426 313
Central governments or central banks	23 082	454 354	23 082	454 354
Regional governments or local authorities	17 666	16 085	17 666	16 085
Public sector entities	1 437	1 354	1 437	1 354
Institutions	399 855	198 046	399 855	198 046
Corporates	2 039 672	2 019 095	2 046 058	2 005 577
Retail	1 290 198	1 233 489	1 299 170	1 240 373
Secured by mortgages on immovable property	825 878	734 661	825 878	734 661
Exposures in default	359 115	418 431	361 854	421 127
Collective investments undertakings (CIU)	2 277	4 015	2 277	4 015
Equity	47 573	43 846	26 570	26 048
Other items	294 338	312 269	305 879	324 673
Operational Risk	713 538	763 713	718 188	763 838
Market Risk	91 226	165 525	91 226	165 525
TOTAL RISK EXPOSURE AMOUNT	6 105 855	6 364 883	6 119 140	6 355 676

Separate and consolidated basis of preparation:

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31, 2020 as per CRD IV regulatory framework amounts to 22.09% (based on total Regulatory Capital on individual basis at BGN 1 349 million) and Tier 1 capital adequacy amounts to 22.09%.

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31st 2020 as per CRD IV regulatory framework amounts to 22.06% (based on total Regulatory Capital on consolidated basis at BGN 1 350 million) and Tier 1 capital adequacy amounts to 22.06%.

40. RELATED PARTY TRANSACTIONS

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

The ultimate parent bank is KBC Group NV Belgium. UBB is controlled by KBC Bank N.V. which owns 99.92% of the ordinary shares of UBB

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. A number of banking transactions are performed with related parties in the normal course of business. These include mostly loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

Business transactions with related parties are carried out in the normal course of business. These transactions were made at market prices and commercial terms as would be done between independent trading partners.

The total amount of annual remuneration of the members of the management and supervisory bodies of UBB for the financial year 2020 is BGN 3 237 thousand (2019: BGN 3 228 thousand).

Amounts owed to and from companies of the KBC Bank Group and the related income and expense are as follows:

As of 31 December 2020, UBB has performed transactions with the following related parties:

As of 31 December 2020 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed int. rate from -0.29% to 0.36%, weighted average int. rate 0.08%)*	544 533	-	-	-
Receivables on repo agreements (agreed int. rate -0.55%, weighted average int. rate -0.55%)*	586 708	-	-	-
Other demand deposits due to banks	248 130	-	45 884	-
Derivatives held for trading- assets	2 495	-	-	-
Other assets	1	1 450	30	-
Right of use assets	-	304	-	-
Total Assets	1 381 867	1 754	45 914	-
Payables on repo agreements (agreed int. rate from -0.4% to -0.5%, weighted average int. rate -0.43%)*	282 755	-	-	-
Funds attracted from clients (agreed int. rate from -0.5% to 2.8%, weighted average int. rate -0.013%)*	102 718	54 756	-	2 556
Derivatives held for trading – liability	38 274	-	-	-
Derivatives held for hedging – liability	6 737	-	-	-
Subordinated term debt	-	-	-	-
Other liabilities	658	394	-	-
Leasing liabilities	-	305	-	-
Total Liabilities	431 142	55 455	-	2 556
Interest income	2 241	11	56	-
Fee and commission income	39	17 918	620	1
Other income	-	622	132	-
Rental income	-	118	172	-
Total income	2 280	18 669	980	1
Interest (expenses)	(2 473)	(1)	-	-
Fee and commission expenses	(308)	(1 244)	-	-
Administrative expenses	(8 886)	(7 658)	(739)	(1 893)
Interest expenses on lease liabilities	-	1	-	-
Total Expenses	(11 667)	(8 902)	(739)	(1 893)
Net expenses from hedge transactions	(15)	-	-	-

40. RELATED PARTY TRANSACTIONS (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2020 – Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed int. rate from - 0.29% to 0.36%, weighted average int. rate 0.08%)*	544 533	-	-
Receivables on repo agreements (agreed int. rate - 0.55%, weighted average int. rate -0.55%)*	586 708	-	-
Other demand deposits due to banks	248 130	-	-
Derivatives held for trading- assets	2 495	-	-
Other assets	1	1 450	-
Right of use assets	-	304	-
Total Assets	1 381 867	1 754	-
Payables on repo agreements (agreed int. rate from - 0.4% to -0.5%, weighted average int. rate -0.43%)*	282 755	-	-
Funds attracted from clients (agreed int. rate from -0.5% to 2.8%, weighted average int. rate -0.013%)*	102 718	54 756	2 556
Derivatives held for trading – liability	38 274	-	-
Subordinated term debt	6 737	-	-
Other liabilities	658	394	-
Leasing liabilities	-	305	-
Total Liabilities	431 142	55 455	2 556
Interest income	2 241	11	-
Fee and commission income	39	17 918	1
Other income	-	622	-
Rental income	-	118	-
Total income	2 280	18 669	1
Interest (expenses)	(2 473)	(1)	-
Fee and commission expenses	(308)	(1 244)	-
Administrative expenses	(8 886)	(7 658)	(1 893)
Interest expenses on lease liabilities	-	1	-
Total Expenses	(11 667)	(8 902)	(1 893)
Net expenses from hedge transactions	(15)	-	-

As of 31 December 2019 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	-	30 544	-
Receivables on repo agreements *	2 287 637	-	-	-
Other demand deposits due to banks	412 949	-	-	-
Derivatives held for trading- assets	1 093	-	-	-
Other assets	-	994	-	-
Total Assets	2 701 679	994	30 544	-
Deposits received	-	-	6 335	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)*	1 797 115	-	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	1 931	61 702	-	679
Derivatives held for trading – liability	4 334	-	-	-
Derivatives held for hedging – liability	6 043	-	-	-
Other liabilities	-	113	49	1 540
Total Liabilities	1 809 423	61 815	6 384	2 219
Interest income	2 751	233	4	-
Fee and commission income	10	14 360	378	1 827
Other income	284	617	22	-
Total income	3 045	15 210	404	1 827
Interest (expenses)	5 633	7	-	-
Fee and commission expenses	551	903	24	-
Administrative expenses	8 902	10 936	-	-
Other expenses	-	-	722	-
Total Expenses	15 086	11 846	746	-

40. RELATED PARTY TRANSACTIONS (CONTINUED)

NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2020



All amounts are in thousand Bulgarian Levs, unless otherwise stated

As of 31 December 2019 – Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	-	-
Receivables on repo agreements*	2 287 637	-	-
Other demand deposits due to banks	412 949	-	-
Derivatives held for trading- assets	1 093	-	-
Other assets	-	994	-
Total Assets	2 701 679	994	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)*	1 797 115	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	1 931	61 702	679
Derivatives held for trading – liability	4 334	-	-
Derivatives held for hedging – liability	6 043	-	-
Other liabilities	-	113	1 540
Total Liabilities	1 809 423	61 815	2 219
Interest income	2 751	233	-
Fee and commission income	10	14 360	-
Other income	284	617	-
Total income	3 045	15 210	-
Interest (expenses)	5 633	7	-
Fee and commission expenses	551	903	1 827
Administrative expenses	8 902	10 936	-
Total Expenses	15 086	11 846	1 827

*UBB has a netting agreement regarding repos and reverse repos with the same end date, same currency and same legal entity. Currently the Bank do not used this option in preparation on its Financial Statements. The net exposure of Reverse Repo would be BGN 87 064 thousand and for Repo BGN 391 020 thousand.

Subsidiary and associated companies included in the separate financial statements.

Transactions between UBB its subsidiaries (UBB Factoring EOOD, UBB Insurance Broker AD, East Golf Properties EAD and UBB Centre Management EOOD) associated company (Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management AD (UBB Balanced Fund UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

In March 2020, UBB Asset Management AD was sold to KBC Asset Management, hence as at 31 December 2020 it is no longer a subsidiary of UBB.

Associated companies included in the consolidated financial statements.

Transactions between UBB its associated company (Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by KBC Asset Management AD (UBB Balanced Fund UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

UBB participates in Mutual funds managed by KBC Asset Management AD which is a subsidiary of KBC Group, as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management AD	Separate	Separate	Consolidated	Consolidated
UBB Balanced Fund	1 188	2 162	1 188	2 162
UBB Premium Shares Fund	1 090	1 853	1 090	1 853
Total	2 278	4 015	2 278	4 015

All amounts are in thousand Bulgarian Levs, unless otherwise stated

41. INFORMATION BASED ON REQUIREMENT OF ART. 70 § 6 FROM LAW FOR CREDIT INSTITUTIONS

The Bank holds a bank license granted by the Bulgarian National Bank to take deposits in local and foreign currency trade with foreign currencies trade with and invest in treasury bonds and other securities and perform other banking operations. The Bank does not have subsidiaries and branches located outside Bulgaria. The subsidiaries are operating in insurance brokerage assets management and factoring line of business. UBB has not received any government grants as of 31 December 2020. The separate and consolidated performance is presented below:

As at 31 December 2020	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	420 202	2 665	120 573	(11 769)	0.85%
Group	Bulgaria	421 407	2 722	117 854	(11 926)	0.83%

As at 31 December 2019	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	435 589	2 801	171 547	(16 712)	1.27%
Group	Bulgaria	436 414	2 861	167 919	(17 009)	1.24%

42. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the date of preparation of financial statements which might have impact on the presentation of financial information for the year ended 31 December 2020.