UNITED BULGARIAN BANK AD

SEPARATE AND CONSOLIDATED ANNUAL ACTIVITY REPORTS
CORPORATE GOVERNANCE STATEMENT
ANNUAL NON-FINANCIAL DECLARATION
INDEPENDENT AUDITORS' REPORT
SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

TABLE OF CONTENTS

ANNUAL ACTIVITY REPORT OF UNITED BULGARIAN BANK AD (UBB) ON SEPARATE AND CONSOLIDATED BASIS AS OF DECEMBER 31 2018

(In accordance with the Accountancy Act)

1. REVIEW AND DESCRIPTION OF THE ACTIVITY

1.1. Development and operating results of the entity

In 2018 the registered capital of UBB AD is increased as a result of the merger of the former CIBANK EAD into UBB AD on February 5th 2018. The share capital of United Bulgarian Bank AD is increased by BGN 17 874 239 divided into 17 874 239 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. After the increase of the capital of United Bulgarian Bank AD 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 registered capital of UBB AD becomes BGN 93 838 321 divided into 93 838 321ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. 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 194 branches, 14 business centers and 77 remote work places across the country all serviced by 2 921 employees (2017: 2 157employees) 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 par. 2 and par. 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).

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

At 31 December 2018 the Bank was a sole owner of UBB Factoring EOOD UBB Asset Management AD UBB Insurance Broker AD UBB Centre Management EOOD and East Golf Properties EAD. UBB also has its one 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.

During the last year United Bulgarian Bank AD (UBB) managed to achieve significant increase in its assets and net profit strengthening its positions as one of the most dynamically growing bank groups in the Bulgarian market. In 2018 the Group's total assets grew by 53% compared to the end of 2017 reaching BGN 11, 263 milion (2017: BGN 7, 365 milion). The net book value of loans and advances to clients grew by 57.21% (or BGN 1, 885 milions) due to the merge with Cibank and considerable volume of new business.
There are an increase in financial assets which are mainly debt securities at fair value through other comprehensive income and at amortized costs with 137.6% (or BGN 1, 185 milions). The main reason for the increase is coming from the fact that UBB and Cibank have been merged in the beginning of 2018 and a new Bulgarian Government bonds have been purchased.

At 31 December 2018 the Bank/UBB total liabilities amounted to BGN on individual base 9 879 and on consolidation base 9 871 million (2017: on individual base BGN 6 382 and BGN 6 376 million). If compared to the previous year the growth was by 54.80% % both for the Bank and the Group with the highest growth being reported by borrowings from other banks and clients.

The 2018 net profit of the Bank/UBB amounted on individual base BGN 175,9 millions and on consolidation base BGN 172,1 million on consolidation base. Bottom line growth compared to the result from 2017 is driven by the merger of Cibank and UBB and the reported loss in 2017 caused by bookng of one-off impairment of 170 million done after the acquisition of KBC. There is an increase in the net fee and commissions income of 20.92% (or BGN 18, 5 milions) for the Bank and 22.62% (or BGN 21 244 milions) for UBB. Against the backdrop of the decline in interest rates observed on the market throughout the year the The Bank/UBB also grew in net interest income of 23.82% (or BGN 53 274 milions) on individual base and 23.95% (or BGN 53 687 milions) on consolidation base.
The operating expenses show an increase of BGN 59 millions (34.3%) for the Bank and 59 millions (33.8%) for UBB compared to 2017 the main part of the increase being due to the legal merge of UBB and Cibank.

1.REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.2.Liquidity

According to the currently effective liquidity measurement and management policy of UBB the liquid asset to total liabilities ratio (LAR) is used as a key indicator which as at the end of 2018 was 37.14%. The ratio of liquid assets is an indicator of stability of the Group's cash flow and significantly exceeds the minimum percentage of 20% set by the regulator (BNB). UBB did not allow any deviation from these ratios in any of the periods of 2018. During the year the UBB exceeded the required values of LCR and NSFR .

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 262% Liquidity Coverage Ratio (LCR). Also during the year UBB maintained values of the NSFR above 100% well above the minimum levels recommended by the European regulators.

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 Group for 2019

In 2019 the main trends for the financial market will continue to be the adoption of measures by the institutions to respond to all changes in the regulatory environment that have taken place and to come and especially the new day-to-day liquidity monitoring requirements that aim to unify the requirements of the liquidity position and ensure a stable liquidity position for banks in the EU Member States. In this respect the expectations are for preserving the stability of the financial parameters improving the quality of the loan portfolio and achieving adequate profit from the activity preserving sustainable liquid and capital buffers. It is expected that the high liquidity of the banking system which was typical for the previous year will continue to exist in the new financial year despite the ECB's declared intentions to normalize interest rates in the second half of 2019.

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. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3 Capital resources

The Bank has sufficient equity to ensure adequate equity coverage for its risk assets.
The UBB equity at 31 December 2018 as per accounting data amounts to BGN 1 386 814 thousand (2017: BGN 976 063 thousand) and as per the requirements of Basel 3 it amounts to BGN 1 206 861 thousand (2017: BGN 916 775 thousand).
The Group has sufficient equity to ensure adequate equity coverage for its risk assets.
The Group's equity at 31 December 2018 as per accounting data amounts to BGN 1 392 807 thousand (2017: BGN 988 680 thousand) and as per the requirements of Basel 3 it amounts to BGN 1 210 358 thousand (2017: BGN 925 937 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	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
General capital adequacy ratio (%)	21.52%	24.14%	21.51%	24.26%
Tier-I capital adequacy ratio (%)	21.52%	24.14%	21.51%	24.26%

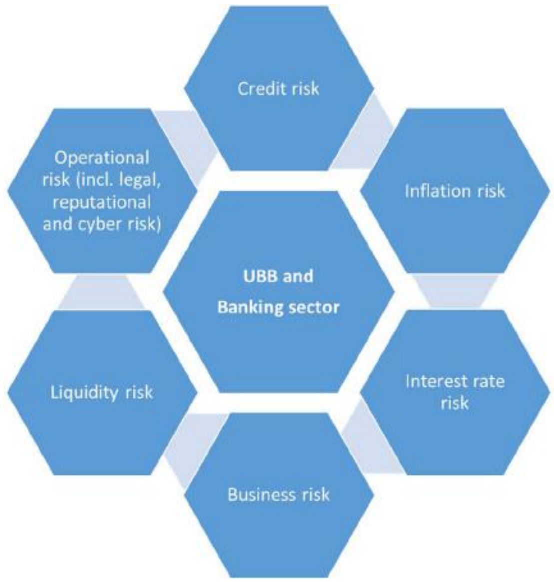
Trends, events or risks which are likely to have a material effect on the operations of UBB
The effects of weaker-than-expected economic growth in the euro area expectations of a long period of low interest rates in the euro area and Bulgaria as well as the ever-increasing competition in the banking 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 achieving 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.

1.REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3 Capital resources (continued)

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



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 as well as by setting aside allowance for impairment in accordance with the IFRS 9.

1.4.Strategic development of UBB

The strategy of UBB is to develop as the most preferred bank for its clients within its target market segments by offering suitable bank and insurance products available 24/7. The goal of the Group is to develop products that are available through its various sales channels.

The ambition of UBB is to develop long-lasting relationships and to become a preferred partner for its clients from the following sub-segments – Retail (mass affluent clients and affluent clients freelancers and premium clients) Small and medium-sized enterprises and mid-sized corporate clients (including UBB's clients) – with the aim of balancing the growth in these sub-segments with the estimated profit. We aspire to help our clients realize their dreams and projects while rendering at the same time high quality services. Our ambition is UBB to be the reference on the market.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.4 Strategic development of UBB (continued)

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 separate plan but it is interwoven in our corporate strategy hence it is embedded in its four pillars 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 responsibly 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 behaviour among employees

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

P **Performance**
we aspire at top performance and we sign up to that

E **Empowerment**
we give a chance to every employee to be creative and to develop his/her talent

A **Accountability**
we preempt and readily respond to the questions, proposals, contributions and efforts of our clients, colleagues and managers

R **Responsiveness**
we are personally responsible towards our clients, colleagues, stakeholders and the society

L **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 behave in a responsive responsible and results-driven manner. 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.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)
1.5. Expected financial results

UBB's income is formed mainly of interest fees and commissions. A moderate growth of the bank's/group's lending and provision of attractive deposit services may be expected during the financial year of 2019 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 programs. The non-performing loans will remain under control and it is expected that impairment expenses will remain below the levels achieved after the financial crisis. The bank system's over-liquidity and weak demand for loans 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.

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

At the end of 2018 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 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
KBC Securities NV Belgium	Chairman and non-executive member of the Board of Directors
KBC Asset Management NV Belgium	Member of the Board of Directors and Executive Director
K&H Biztosító Zrt. Hungary	Chairman of the Board of Directors and Executive Director
Československá Obchodná Banka a.s.	Chairman of the Supervisory Board
ČSOB Poist'ovňa a.s.	Member of the Supervisory Board
K&H Bank Zrt.	Chairman and non-executive member of the Board of Directors
KBC Bank Ireland PLC	Chairman and non-executive member of the Board of Directors

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)

KBC Bank NV Dublin Branch	Chairman of The Supervisory Board
KBC Credit Investments NV	Member of The Supervisory Board with non-executive functions
KBC Private Equity	Member of the Board of Directors with non-executive functions
KBC Financial Holding Inc.	Member of The Supervisory Board with non-executive functions
Mezzafinance NV	Member of the Board of Directors with non-executive functions
Old Broad Street Invest NV	Member of the Board of Directors with non-executive functions
KBC Global Services NV	Member of the Board of Directors and Executive Director
KBC Securities USA LLC	Member of the Board of Directors with non-executive functions
KBC Financial Products UK Limited	Member of the Board of Directors with non-executive functions
KBC Start it Fund NV	Chairman of the Board of Directors
DZI – Life Insurance EAD	Chairman of the Supervisory Board
DZI – General Insurance EAD	Chairman of the Supervisory Board

- **Willem Hueting – Member 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 Belgium	Senior General Manager
Československá Obchodní Banka a.s. (Chez Republic)	Member of The Supervisory Board with non-executive functions
K&H Bank Zrt. Hungary	Non-executive member of the Board of Directors
KBC Bank Ireland PLC	Non-executive member of the Board of Directors
KBC Group NV - Branch Bulgaria	Branch manager

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)

- **Christine Van Rijsseghem – 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. (Chez Republic)	Member of The Supervisory Board
KBC Bank NV Dublin Branch	Member of the Supervisory Board

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

b) 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 :

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 Groep NV	Non-executive member of the Board of Directors

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)

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

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.

- **Frank Jansen - 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 :

East Golf Properties EAD - Chairman of The Board of Directors
UBB Interlease EAD - Chairman of The Board of Directors
UBB Insurance Broker EAD - Chairman of The Board of Directors

- **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 he has control;
c) Legal entities besides UBB AD in whose management or control bodies she participates: N/A

- **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 :
UBB Asset Management AD Member of the Board of Directors

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7.Management Board of UBB AD (continued)

- **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	Member of the Management Board
UBB Asset Management AD	Member of the Management Board
UBB Insurance Broker EAD	Member of the Management Board

- **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 :

The Cash Service Company AD	Member of the Board of Directors

- **Jan Swinnen – 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 Asset Management AD - Chairman of the Board of Directors

- **Hristina Filipova – Procurator**

a) She 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 :
East Golf Properties EAD - Vice Chairman and Member of the Board of Directors

1.8.Contracts under Article 240b of Commercial Act concluded in 2018

In 2018 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 2018 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. 15 of 11.09.2019 Mr. Jan Swinnen was elected as a new member of the Management Board. The change was officially registered in the Commercial Register on 22.10.2018. The number of members of the Management Board has increased from six to seven.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

In 2018 there were made the following changes in the composition of the Supervisory Board of the Bank: With a decision of the General Meeting of Shareholders from 04.12.2018 Mr. Franky Depickere was elected as a member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register on 27.12.2018. The number of members of the Supervisory Board has increased from three to four.

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 2018 is BGN 3 258 thousand (2017: BGN 2 057 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 2018 the members neither acquired nor held or transferred shares and bonds of UBB.

TABLE OF CONTENTS

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 in 2018 the Management Board and the Supervisory Board of UBB AD approved the new *Corporate Governance Code of United Bulgarian Bank AD.* 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 in UBB's official web page *About the Bank* Division *About Us* Section (https://www.ubb.bg/about/general-information/about-ubb).

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 of the Bulgarian National Bank.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

In 2018 the following personal changes were made in the Supervisory Board of UBB AD: With a decision of the General Meeting of Shareholders from 04.12.2018 Mr. Franky Depickere was elected as a member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register on 27.12.2018. The number of members of the Supervisory Board has increased from three to four.

Committees to the Supervisory Board

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

- The Audit Committee is a specialized body of UBB with functions pursuant to the Independent Financial Audit Act. The Audit Committee supports the Supervisory Board during the exertion of 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 no 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.

With a decision of the General Meeting of Shareholders as of 04.12.2018 a change has been adopted in the composition and the place of the Audit Committee within the structure of the bank. Two of the Audit Committee members who are at the same time Supervisory Board members have been released and one new member external to and independent from the bank is appointed. As a result 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. With the same decision of the General Meeting of Shareholders 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. The change has been adopted in compliance with the requirements in the new Independent Financial Audit Act.

- 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 non-executive members of the Supervisory Board or the Management 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.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Supervisory Board

- The Remuneration Committee is a sub-committee to the Supervisory Board established in accordance with Ordinance № 4 of the BNB dated 21.12.2010 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.
- The Nomination Committee is a sub-committee to the Supervisory Board responsible for the election of candidate-members for the Management Board in compliance with Ordinance № 20 of the BNB dated 28.04.2009 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 at least two members of the Supervisory Board who are being appointed by the latter. The Committee defines and recommends 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 board 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.

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.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

In 2018 the following personnel changes were made in the composition of the Management Board of UBB: By decision of the Supervisory Board of UBB AD under Minutes No. 15 of 11.09.2018 Mr. Jan Swinnen was elected as a new member of the Management Board. The change was officially registered in the Commercial Register on 22.10.2018. The number of members of the Management Board has increased from six to seven.

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 as regards 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).
- 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 approve acquisitions of and investments in real estates in line with Legacy loans of value either lower or equal to EUR 1 milion.
- Investment Committee empowered to approve acquisitions of and investments in real estates in line with Legacy loans of value above EUR 1 milion.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

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'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 31.12.2018 the share capital was allocated into 93 838 321ordinary 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'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.

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 the UBB's capital equaling 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	2020
Christine Van Rijsseghem **SB Member**	1962	Master's Degree in Law and Business Administration (MBA) – Financial sciences	2017	2020
Willem Hueting **SB Member**	1962	Master's Degree in Organization & Marketing licensed insurance broker SER A and B	2017	2020
Franky Depickere **SB Member**	1959	Master's degree in commercial and financial sciences	2018	2022

2. SUPERVISORY BOARD (SB) (CONTINUED)

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 4 (four) persons 3 (three) 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 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.

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. 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;

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.2.Election and mandate (CONTINUED)

- ✓ 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 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
KBC Securities NV Belgium	Chairman and non-executive member of the Board of Directors
KBC Asset Management NV Belgium	Member of the Board of Directors and Executive Director
K&H Biztosító Zrt. Hungary	Chairman of the Board of Directors and Executive Director
Československá Obchodná Banka a.s.	Chairman of the Supervisory Board
ČSOB Poist'ovňa a.s.	Member of the Supervisory Board
K&H Bank Zrt.	Chairman and non-executive member of the Board of Directors
KBC Bank Ireland PLC	Chairman and non-executive member of the Board of Directors
KBC Bank NV Dublin Branch	Chairman of the Supervisory Board
KBC Credit Investments NV	Member of the Supervisory Board with non-executive functions
KBC Private Equity	Member of the Board of Directors with non-executive functions
KBC Financial Holding Inc.	Member of the Supervisory Board with non-executive functions
Mezzafinance NV	Member of the Board of Directors with non-executive functions
Old Broad Street Invest NV	Member of the Board of Directors with non-executive functions
KBC Global Services NV	Member of the Board of Directors and Executive Director
KBC Securities USA LLC	Member of the Board of Directors with non-executive functions
KBC Financial Products UK Limited	Member of the Board of Directors with non-executive functions
KBC Start it Fund NV	Chairman of the Board of Directors
DZI – Life Insurance EAD	Chairman of the Supervisory Board
DZI – General Insurance EAD	Chairman of the Supervisory Board

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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.

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 Ms. Van Rijsseghem 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. (Chez Republic)	Member of the Supervisory Board
KBC Bank NV Dublin Branch	Member of the Supervisory Board

Mr. Willem Hueting
Supervisory Board Member
Senior General Manager Group Communities at KBC Group N.V.
Year of Birth: 1962

Mr. Hueting holds a Master's Degree in Organization & Marketing from Open University Zwolle the Netherlands. Moreover Mr. Hueting is a licensed insurance broker SER A and B. He started his career as an underwriter at AMEV-ARDANTA (Fortis/ABN AMRO) in 1983 and continued to work there until 1988. In October 1988 – May 1990 period Mr. Hueting worked for Concordia Life and Pension (Vivat Group) as Sales Manager. After that he joined ABN AMRO Netherlands - Life Insurance as Sales Manager (June 1990) and later he took over the following positions in that same company - Product Manager - Investment Funds /Private Banking (March 1995) and Project Manager (1998). In January 1999 Mr. Hueting was elected Executive Director Marketing and Product Management at ABN AMRO Hungary while later on – in August 2001 Member of the Executive Board of Raiffeisen International Bank Czech Republic. In May 2007 Mr. Hueting joined KBC Group as Chief Executive Officer of KBC Consumer Finance IFN SA and Member of the Management Board of KBC Consumer Finance International. From October 2009 until December 2012 he held the position of Chief Executive Officer of KBC (CSOB) Insurance Slovakia and Deputy Country Manager CSOB (KBC) Financial Group while in January 2013 he took over the position of Chief Executive Officer Consumer Finance International KBC Group. In May 2016 Mr. Hueting took over the position Senior General Manager International Markets at KBC Group and Senior General Manager Group Communities which he currently holds.

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. Hueting participates:

KBC Group NV Belgium	Senior General Manager
Československá Obchodní Banka a.s. (Chez Republic)	Member of the Supervisory Board with non-executive functions
K&H Bank Zrt. Hungary	Non-executive member of the Board of Directors
KBC Bank Ireland PLC	Non-executive member of the Board of Directors
KBC Group NV - Branch Bulgaria	Branch manager

Mr. Franky Depikere
Supervisory Board Member
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 Lanchot Bankers in the Netherlands. Since 2005 onwards Mr. Depickere is also a member of the Strategic Committee of F. van Lanchot 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 'lnternational Raiffeisen Union' (l.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 Groep 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

2.4.Internal organizational structure

Allocation of responsibilities among the Supervisory Board members

SB Member	Supervisory Board	Audit Committee	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Luc Popelier	(Chairman)	•	•	(Chairman)	(Chairman)
Christine Van Rijsseghem	•	•/up to 04.12.2018/	(Chairperson)		
Willem Hueting	•	• (Chairman) /up to 04.12.2018/	•	•	•
Frankie Depickere	•				

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.5.Annual Report of the Supervisory Board

In 2018 the Supervisory Board of United Bulgarian Bank held 27 meetings of which 4 *in praesentia* and 23 *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 2018 regular *in praesentia* meetings were held every quarter – March June September and November 2018. 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 2018 may be summarized as follows:

1. The first group of topics reviewed by the Supervisory Board during 2018 are related to the composition of the Management Board (appointment of new members) and 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.

2. The second group of issues reviewed by the SB in 2018 are such 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 - essential internal organizational changes; establishment and closing of directorates and standalone units 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. All these decisions were linked to optimization of the organizational structure and UBB's processes as a result of the merger of former CIBANK EAD into UBB AD or changes in legislation.

3. The agenda of the *in praesentia* meetings of the SB during 2018 involved 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 the process of CIBANK-UBB integration was monitored 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.

4. 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.

5. 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).

6. Other SB decisions adopted in 2018 – approval of the selection of first and second auditing companies for verification and certification of UBB's annual financial statements for 2018 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; final decision for the acquisition of the building of the Head Office of the bank.

The activity of the Supervisory Board over 2018 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
Frank Jansen Member	1960	Executive Director SME & Corporate Segment	Master's Degree in Notary Law and Business Administration
Teodor Marinov Member	1971	Executive Director Legacy	Master's Degree in Systems & Management and Business Administration
Ivaylo Mateev Member	1967	Executive Director Operations	Master's Degree in Economics & Management of Commerce
Jan Swinnen Member	1963	Executive Director Marketing and Retail Distribution	Master's degree in Financial Management & Marketing

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

3.2.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 7 (seven) persons who have been elected MB members by virtue of decisions of the Supervisory Board dated 14.06.2017 20.07.2017 and 11.09.2018 for a period of 4 (four) years in accordance with the requirement of Art. 41 Para. 1 of the UBB's Articles of Association.

3. MANAGEMENT BOARD (CONTINUED)

3.2. Election and mandate (continued)

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;
- ✓ 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. MANAGEMENT BOARD (CONTINUED)

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.
Legal entities other than UBB AD in which management and controlling bodies Mr. De Mil participates:
UBB Asset Management ADMember of the Board of Directors

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.

3. MANAGEMENT BOARD (CONTINUED)
3.3. Professional experience and other activities and functions (continued)

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.

Mr. Frank Jansen
Management Board Member and Executive Director SME & Corporate Segment
Year of Birth: 1960

Mr. Jansen holds a Master’s Degree in Notary Law from the Catholic University in Leuven Belgium and in Business Administration from the University of Antwerp Belgium. From 1986 until 1999 Mr. Jansen was Branch Manager of various retail and corporate branches at KBC Belgium of which during the last four years the corporate branch of Antwerp was the second largest corporate branch of KBC Belgium. In 1999 he was elected Executive Director of CSOB Bank Prague with responsibilities in the area of business organization and program management while in 2001 – Executive Director of Credit Bank Poland with responsibilities for management of credit risk and consumer finance where he worked until 2008. Since 2008 until February 2018 Mr. Jansen has been Executive Director of CIBANK EAD initially responsible for risk and finance and after that for lending to the Corporate Clients and Small and Medium-sized Enterprises segments. In June 2017 he became member of the MB of UBB AD and Executive Director SME & Corporate Segment.

Legal entities other than UBB AD in which management and controlling bodies Mr. Jansen participates:
East Golf Properties EAD Chairman of the Board of Directors
UBB Interlease EAD Chairman of the Board of Directors
UBB Insurance Broker EAD Chairman of the Board of Directors

Mr. Teodor Marinov
Member of the MB and Executive Director Legacy
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 Member 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.

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. Marinov participates:
UBB Interlease EADMember of the Board of Directors
UBB Asset Management AD Member of the Board of Directors
UBB Insurance Broker EAD Member 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:
Cash Services Company AD Member of the Board of Directors

Mr. Jan Swinnen
Member of the Management Board and Executive Officer Marketing and Retail Distribution
Year of Birth: 1963

Mr. Jan Swinnen graduated his higher education and acquired his Bachelor's Degree in Finance & Banking from HORAMA Diest – Belgium was involved in post-graduate studies and obtained qualification with major in Human Resources Management from EHSAL Brussels Belgium as well as he has Master's degree in Financial Management & Marketing. Mr. Swinnen has held positions with managerial functions as from 1990 until 2002 at KBC Belgium he was Manager of a branch and offices at 4 /four/ different locations. In 2003 he started working for K&H Hungary (KBC Group) as Senior Director in charge of retail products sales and strategies. In 2005 Mr. Swinnen held the Senior Director position at Retail Banking Directorate banking channels for sale and support at K&H Hungary (KBC Group) while in May 2009 he started working for CSOB Slovakia (KBC Group) as Manager of Retail Branch Network Management Unit. From August 2012 until March 2017 he held the position director of Branch Network and Distribution Channels Directorate at CIBANK EAD Bulgaria (KBC Group) after which he was empowered as the bank's Commercial Representative. In June 2017 Mr. Swinnen was also empowered as a Commercial Representative of UBB AD. Since October 2018 Jan Swinnen is Member of the MB and Executive Officer Marketing and Retail Distribution in UBB AD.

Legal entities other than UBB AD in which management and controlling bodies Mr. Swinnen participates:
UBB Asset Management AD Member of the Board of Directors

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

3. MANAGEMENT BOARD (CONTINUED)
3.3.Professional experience and other activities and functions (continued)

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 town. 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.

Legal entities other than UBB AD in which management and controlling bodies Ms. Filipova participates:
East Golf Properties EAD Deputy Chairperson and Member of the Board of Directors

In 2018 the Management Board of United Bulgarian Bank held 64 meetings of which 56 *in praesentia* and 8 *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 2018 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 details in Item 1 of the present Statement.
2. Issues related to the integration processes between UBB AD and CIBANK EAD in line with the completed merger of former CIBANK into UBB.
3. 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 2018 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.

3. MANAGEMENT BOARD (CONTINUED)
3.4.Annual report of the Management Board

In 2018 the Management Board of United Bulgarian Bank held 64 meetings, of which 56 *in praesentia* and 8 *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 the Bank'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 2018 may be summarized, as follows:

1. Issues within the competence of the Management Board, pursuant to Art. 48 of the Bank's Articles of Association and Art. 21 of the Operational Rules of UBB AD's Management Board, which have been described in details in Item 1 of the present Statement.
2. Issues, related to the integration processes between UBB AD and CIBANK EAD, in line with the completed merger of former CIBANK into UBB.
3. 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 the Bank's internal rules and regulations, but which had to be discussed by the Bank'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 2018 aimed at ensuring flexible, however sustainable development and budget fulfillment, defining the long-term strategy thus strengthening the Bank'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 the Bank's Management Board is accountable.

4. COMMITTEES TO THE SUPERVISORY BOARD

4.1. Audit Committee

4.1.1. Audit Committee Members and professional experience

Until 04.12.2018 the Audit Committee of UBB AD exercises its functions as an advisory body to the Supervisory Board with the following composition:

Mr. Willem Hueting
Audit Committee Chairman
Senior General Manager Group Communities at KBC Group N.V.
Year of Birth: 1962

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

Ms. Christine Van Rijsseghem
Audit Committee Member
Chief Risk Officer at KBC Group NV.
Year of Birth: 1962

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

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.

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.

4.COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.1.Audit Committee (CONTINUED)

4.1.1. 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 USA 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.

In compliance with the requirements in the new Independent Financial Audit Act in December 2018 changes are 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. Two of the Audit Committee members who are at the same time Supervisory Board members - Mr. Willem Hueting and Ms. Christine Van Rijsseghem have been released and one new member – Prof. Statty Stattev external to and independent from the bank is appointed. 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. The new member of the Audit Committee is elected also as Chairperson of the Committee pursuant to the requirements of the Independent Financial Audit Act (Art. 107 para. 6). With the same decision of the General Meeting of Shareholders 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 is currently Rector of the University of National and World Economy (UNWE) in Sofia Bulgaria. He has been holding the position since December 2012. Prof. Stattev is also Deputy Chairman of the Rectors Council in the Republic of Bulgaria.
For 38 years Prof. Stattev has been holding different academic and other positions in the UNWE such as Head of the Economics Department Professor of Macroeconomics in Economics Department etc. He also has international academic experience in Boston University Massachusetts USA and Moscow State University Russia. In 1990 he was consultant in Country Economics Division of the World Bank Washington D.C. USA.
In the period June 2004 – June 2016 Prof. Stattev was member of the Governing Council of the Bulgarian National Bank. He has also been a local coordinator for many international research projects connected with 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.

4.COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.1.Audit Committee (CONTINUED)

4.1.2. Audit Committee Report

The main topics discussed during the 2018 meetings of the UBB AD Audit Committee are related to the reporting in the area of Finance and Risk monitoring on the Internal Audit activity and the implementation of the Audit Plan changes in the Audit Committee Charter (Statutes) 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.

4.2. Risk Management Committee

4.2.1. Risk Management Committee Members

Ms. Christine Van Rijsseghem
UBB Risk and Compliance Committee Chairperson
UBB Supervisory Board Member

Mr. Luc Popelier
UBB Risk and Compliance Committee Member
UBB Supervisory Board Chairman

Mr. Willem Hueting
UBB Risk and Compliance Committee Member
UBB Supervisory Board Member

4.2.2. Risk Management 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 2018 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 Committee has reviewed the following documents and offered them for approval to the Supervisory Board: UBB's Risk Appetite Statement over the period 2018-2020; updated versions of Risk and Compliance Committee Charter Compliance Activity Charter and Integrity Policy; Priorities of the Risk Management Directorate and Compliance Directorate Plan for 2019.

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.3. Remuneration Committee

4.3.1. Remuneration Committee Members

Mr. Luc Popelier – Chairman of the Committee and Chairman of the Supervisory Board
Mr. Willem Hueting – Member of the Supervisory Board and member of the Committee

4.3.2. 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 two 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 2018 the Committee held one meeting and all of its members were present. The main topics on the agenda and the decisions were related to Ratification of the new KBC Group Remuneration Policy approval of a new UBB Remuneration Policy approval of variable remuneration for the previous year changes in fixed remuneration approval of the KPIs for the Board members. All proposals were approved by the Supervisory Board.

4.4. Nomination Committee

4.4.1. Nomination Committee Members

Mr. Luc Popelier – Chairman of the Committee and Chairman of the Supervisory Board
Mr. Willem Hueting – Member of the Supervisory Board and member of the Committee

4.4.2. Nomination Committee Report

The Nomination Committee identifies and recommends for selection by the Supervisory Board candidate members of the Management Board by 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. It 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.
The Committee determines a target level in relation to the participation of the under-represented sex in the composition of the Management Board and develops a policy to increase the number of representatives of the under-represented sex in the Board composition to achieve this level.
The Nomination Committee performs analyses 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 provides recommendations for possible changes. Reviews periodically the Management Board policy for selection and appointment of members of the senior management staff and provides recommendation to it.
In 2018 the Committee held one meeting and all of its members were present. The main topics on the agenda and the decisions were related to the acknowledgement the results from the conducted self-evaluation of the activity of the Supervisory Board and the selection of Secretary of the Committee.

5. COMMITTEES TO THE MANAGEMENT BOARD

5.1. 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.
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 – VI – for approval of credit deals and for problem loans of various levels of competence.
4. In 2018 credit committees for Retail Segment are established 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 for Micro business and standard requests for credits of individuals as well as requests for applying exceptions to individuals at an amount lower or equal to BGN 500 000.

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.

5. COMMITTEES TO THE MANAGEMENT BOARD

5.2. Local Risk Management Committee

The Local Risk Management Committee is a collective body of UBB supporting the Management Board in making decisions on:
- The strategy for management of risk risk appetite and the overall risk framework;
- Determining the present and target Risk profile and capital adequacy as compared to the risk appetite and the allocation of capital;
- the capital allocation to individual business units in line with their business plans and within the limits set by the group;
- Review of the results from the activity relating to an assumed risk observance of the compliance with the limitations of the risk framework;
- Specific roles and responsibilities related to asset and liabilities' management;
- All issues relating to changes in UBB's risk profile.

The Committee comprises 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 and the Director of Finance 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.

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

NAPPC was established by the MB of UBB AD and performs responsibilities explicitly assigned by the latter. It aims at ensuring correspondence of the products and processes at UBB to the approved strategy and its risk appetite as well as providing the prerequisites for their successful implementation and distribution through all available channels (digital mobile traditional ones). NAPPC simultaneously performs the functions of a committee responsible for the approval of products offered by the bank on the market as well as a channel for communication with UBB's branch network.
In its capacity as a committee approving the products and a channel for communication with UBB's branch network NAPPC area of responsibility encompasses deposit payment credit investment bank-insurance as well as all other products for corporate clients small and medium-sized enterprises individual clients international clients.
NAPPC holds at least one regular meeting each month. Prior to creating/buying/changing/reviewing/selling a product a NAPPC decision should be made while observing the appropriate format for the particular case (Regular meeting Fast Track NAPP Minor changes).
The Committee comprises members of the following functions – Chairperson Product Owner Sponsor and Coordinator. Minutes are prepared of the NAPPC meetings containing the made decisions by the Committee and these are subject to subsequent approval by the MB.

5.4. 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 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.

5.5. Local Investment Committee and Investment Committee of UBB AD

The Local Investment Committee (LIC)
Was established with a MB decision by virtue of Art. 43 Para. 3 of UBB AD Articles of Association confirmed with a decision of the Supervisory Board. This Committee is empowered to approve acquisitions of and investments in real estates in line with Legacy loans of value either lower or equal to 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. As an interim level cases of assets of value exceeding EUR 500 000 and below EUR 1 000 000 are being submitted to KBC's Head Office in view of their being monitored over a period of 6 months or until the number of those cases reaches 5 (five). Upon expiry of the indicated period the monitoring is being discontinued unless a decision of UBB's Supervisory Board has been made for its continuation by proposal of the Senior General Manager Group Communities.
The proposals to the Local Investment Committee are being provided for approval in principle and 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 shall be made by UBB's Management Board.

5.1. UBB AD Investment Committee

Was established with a MB decision by virtue of Art. 43 Para. 3 of UBB AD's Articles of Association confirmed with a decision of the Supervisory Board. This Committee is empowered to approve acquisitions of and investments in real estates in line with Legacy loans of value exceeding EUR 1 milion.
The proposals to UBB AD Investment Committee are being provided for approval in principle and 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 are being made by UBB's Management Board.

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

Remuneration of the members of the supervisory and management boards for 2018
The total amount of annual remuneration of Executive Directors and members of the Management Board is BGN 3 258 thousands.

7. 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.

7.1. 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.

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

7.2. Convening 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.

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.

7.3. 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 6.1 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 the Recorder and the Tellers.

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

7.4. General Meeting of the Shareholders in 2018

The Regular General Meeting of Shareholders of UBB AD (GMS) in 2018 took place on 22.06.2018. At the GMS are taken decisions in relation to the approval of the report on the activity of the bank in 2017 with corporate governance statement and non-financial declaration for 2017 the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of UBB AD for 2017 approval of the certified by the auditors annual financial report of UBB AD for 2017 and the proposal of the Management Board confirmed also by the Supervisory Board of the bank the total result of UBB AD and CIBANK EAD /terminated without liquidation after its merger into UBB AD on 05.02.2018/ for 2017 which after taxation represents loss to be covered by the consolidated Retained earnings from previous years of UBB AD and CIBANK EAD was approved.
On 22.06.2018 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 2017 and accepting the report of the Audit Committee of the bank for 2017.
At the General Meeting of Shareholders of UBB AD on 22.06.2018 decisions are also made in the capacity of UBB AD as a general successor of CIBANK EAD terminated without liquidation after a completed merger procedure pursuant to Art. 262 of the Commerce Act namely: approval of the report on the activity of CIBANK EAD in 2017 with corporate governance statement and non-financial declaration for 2017 the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of CIBANK EAD for 2017 approval of the certified by the auditors annual financial report of CIBANK EAD for 2017 regarding relief of liability of the members of the Supervisory Board and of the Management Board of UBB AD concerning their activity during 2017 and accepting the report of the Audit Committee of CIBANK EAD for 2017.
At the General Meeting of Shareholders are adopted also amendments in the Articles of Association of the bank as follows:

1. Amendment in connection with amendment in Art. 45 para. 1 and 3 of the Credit Institutions Act enforced as of 05.12.2017 according to which for forming of exposures to the parties listed in Art. 45 para. 1 of the Credit Institutions Act in addition to the decision of the MB a preliminary decision of the SB is necessary as this procedure does not apply when the amount of the exposure is within limits preliminary approved by the SB.
2. Another amendment in the Articles of Association of the bank is with respect to a decision of the Supervisory Board of UBB AD under Minutes №1/15.02.2018 according to which it is approved UBB AD to continue exercising its activity through organizational structural units ("self-contained parts") within the meaning of §1a of the Supplementary provisions of the Commerce Act without registration in the Trade Register.

In 2018 one extraordinary meeting of the General Meeting of Shareholders of the bank was held on 04.12.2018. At the meeting are taken decisions regarding appointment of a new member of the Supervisory Board of UBB – Mr. Franky Depickere as well as defining his mandate his remuneration and the management guarantee of the new member of the Supervisory Board of UBB.

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

6.4.General Meeting of the Shareholders in 2018 (CONTINUED)

At the GMS on 04.12.2018 a decision was also taken for appointment of auditing companies for examination and certification of the annual financial report of UBB for 2018 preliminary coordinated with BNB in accordance with art. 76 para. 4 of the Credit Institutions Act. The rest of the decisions of the GMS of UBB AD in the Minutes as of 04.12.2018 are related to changes in the composition of the Audit Committee of UBB and in the Charter of the Audit Committee of UBB as well as in the Articles of Association of UBB AD establishing the Audit Committee as a body independent of the other managing and controlling bodies within the bank reporting its activity directly to the General Meeting of Shareholders.

Christof De Mil
Executive Director

Date: 25.04.2019

UNITED BULGARIAN BANK AD
UBB
SOFIA

Svetla Georgieva
Executive Director

ANNUAL NON-FINANCIAL DECLARATION

OF UNITED BULGARIAN BANK AD (UBB)

ON SEPARATE AND CONSOLIDATED BASIS

AS OF DECEMBER 31 2018
(In accordance with Law of Accountancy)

1. OUR AREA OF OPERATION

United Bulgarian Bank AD (UBB) was established in 1992 through the merger of 22 Bulgarian regional commercial banks United Bulgarian Bank is the first and most comprehensive consolidation project in the Bulgarian banking sector.

In 2017 the Belgian banking and insurance group KBC acquired UBB from the National Bank of Greece. After the merger of CIBANK and UBB the new united UBB bank is ranked as the third largest bank in Bulgaria in terms of assets equaling approximately BGN 11.2 billion with a market share of nearly 11%. Jointly UBB, and DZI 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 lease market as well as on the asset management and factoring markets in Bulgaria by offering to its clients the full range of financial services.

In the beginning of 2018 CIBANK was legally merged with UBB creating a banking group offering products and services to retail and business customers – micro SME Mid-caps large corporate and institutional with focus on digital penetration and offering of core banking services as well as investment banking.

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 UBB to be the 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 incorporates in our corporate strategyand 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 responsibly 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 behaviour among employees

1. OUR AREA OF OPERATION (CONTINUED)

1.1.OUR GOAL AMBITION AND STRATEGY (CONTINUED)

We know our strengths and will strive to reap the benefits of what comes ahead. We know and respond to our customers' needs and we treat them with special care. We apply an Omni-channel model combined with constant simplification and innovation efforts to further enhance our customer centric approach and improve our clients' experience. We provide the best personal service which matches and even exceeds the clients' expectations.

Our ambition is to be the reference for quality and innovative servicing on the Bulgarian market.

The four principles of our strategy are:

We place our clients at the centre of everything we do with holistic client approach servicing all company and private needs

We look to offer our clients unique bank experience proposing personalized quick and fully transparent approach

We focus on sustainable and profitable growth developing strategic partnerships and ecosystems supporting sustainable practices and improvement in performance

We meet our responsibility to society and local economy though our efficient risk management and with the active participation and even leadership role in European projects

We put our strategy into practice within a stringent risk capital and liquidity management framework.

We perceive our role in society in terms of sustainability in four main areas: Financial literacy Entrepreneurship Health and Environment.

We are supporting and inspiring actions that lead to increased well-being and health improvement thus facilitating the better life of our employees our clients and the society in general.

We are building communities of idea-driven people who strive for starting new businesses and enhancing the entrepreneurial attempts of our partners and their business growth. We are supporting local business ecosystems as they are forming the backbone of our economy.

We are constantly decreasing our negative impact on the environment with systematic and consecutive steps. We are educating our employees on environmental topics and encouraging them to contribute themselves by creating their own green ideas for a better future.

We are transferring financial knowledge to stakeholder groups amongst our clients as well as to vulnerable groups that have scarce access to even basic financial education. This is how we impact on the society with the very core of business and the essence of existence as an organization.

1.OUR AREA OF OPERATION (CONTINUED)

1.2.HOW DO WE CREATE VALUE

In our capacity as a Bank we ensure that our clients can save and invest in a well-informed manner. In this way every client can grow their assets in keeping with their personal risk profile and call on the expertise of our staff to assist them.

We use the money from the deposits our clients entrust to us to provide loans to individuals businesses and public authorities thereby putting that money to productive use in society. As a lender we enable people to build a house or buy a car for instance and businesses to be created or to grow.

We also hold a portfolio of investments which means we invest in the economy indirectly too. Besides loans to individuals and businesses we fund specific sectors and target groups such as the social profit sector infrastructure projects that have a major impact on the domestic economy and green energy projects. The role we play as a deposit-taker and a lender ultimately means that we assume our clients' risks for them. Our highly developed risk and capital management know-how allows us
to manage those risks.
We also offer our clients a variety of other services that are important to them in their everyday lives including payments cash management trade finance corporate finance asset management insurance brokerage factoring and money and capital market products. In this way too we contribute to the economic system.

Our clients staff and network

Clients (estimate)	
Retail	*954 886*
Business	*75 400*
Other	
Staff (The Bank)	2 921
Staff (The Group)	3 036
Bank branches and offices	194

Our long-term credit ratings

Fitch (June 2018)	BCRA (September 2018)
A-	BBB

Our core shareholders

KBC Group	99.9%
Other shareholders	0.01%

Income generation

We lend money to clients taking account of our own risk appetite and relevant legislation. We build up the funds for our lending activity mainly through clients' savings. We offer our clients a broad range of investment products and advise them on managing their assets. We support our clients by offering services in the area of payments securities access to the financial markets and derivative products asset management insurance brokerage factoring leasing etc. We invest a proportion of our funds in securities.

1. OUR AREA OF OPERATION (CONTINUED)

1.2. HOW DO WE CREATE VALUE (CONTINUED)

Risk hedging and cost payment

We set aside Impairment allowances to cover loan losses. We invest in our employees to guarantee seamless service provision to our clients and to further develop our business strategy. We invest in our infrastructure and technologies to improve our efficiency and to serve our clients even more effectively. We contribute to society by paying income tax and special bank taxes.

1.3.WHAT MAKES US WHO WE ARE

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

P **Performance**

we aspire at top performance and we sign up to that

E **Empowerment**

we give a chance to every employee to be creative and to develop his/her talent

A **Accountability**

we preempt and readily respond to the questions, proposals, contributions and efforts of our clients, colleagues and managers

R **Responsiveness**

we are personally responsible towards our clients, colleagues, stakeholders and the society

L **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 behave in a responsive responsible and results-driven manner. 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.

1. OUR AREA OF OPERATION (CONTINUED)

1.3.WHAT MAKES US WHO WE ARE (CONTINUED)

We also encourage all our employees to behave in a way that is responsive respectful and results-driven. It goes without saying that we monitor how embedded this culture is among our staff. Besides our culture and our values we distinguish ourselves from our competitors through several specific features.

We want to build sustainable relationships with private individuals SMEs and large corporate clients in Bulgaria. Responsiveness is very important to us. It means we know and understand our clients better that we pick up signals effectively and respond to them proactively and that we offer products and services tailored to these needs. It also means that we focus on the sustainable development of the different communities in which we operate.

Our strengths

A well-developed strategy *which enables us to respond immediately to our clients' needs*
Successful track record *of underlying business results*
Solid capital position *and strong liquidity*
Firmly embedded *in the economy*

Our challenges

Macroeconomic environment *characterised by low interest rates demographic ageing increased nervousness and uncertainty*
Stricter regulation *in areas like client protection and solvency*
Competition *new players in the market new technologies and changing client behaviour*
Cyber crime *Public image of the financial sector*

The Supervisory Board on the basis of a proposal from the Board of Directors of the Bank is responsible for defining UBB strategy general policy and risk appetite. It is assisted by several specialized committees namely the Audit Committee the Risk and Compliance Committee the Selection Committee and the Remuneration Committee. These committees are addressed in the document "Corporate Governance Statement". Pursuant to the requirements of the Independent Financial Audit Act by decision of the General Meeting of Shareholders of 04.12.2018 the Audit Committee was established as an independent body by the Supervisory Board and by the other bodies in the Bank. Our Management Board ensures the operational management of UBB / the Group within the approved common strategy. In addition to the Chief Executive Officer the board also includes the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO) of the Group as well as the other Executive Directors.

Composition of the Supervisory Board of UBB AD

	UBB
Board of Directors Memebers / Executive directors	4
Men/Women	3/1
Principal qualifications	Finance Law Economics Insurance Marketing Organization Project and Process management etc.
Nationality	Belgians (3) Netherlands (1)

1. OUR AREA OF OPERATION (CONTINUED)

1.3.WHAT MAKES US WHO WE ARE (CONTINUED)

Composition of the Board of Directors of UBB AD (year end 2018)

	UBB
Board of Directors Memebers / Executive directors	7
Men/Women	6/1
Principal qualifications	Finance Management ot International Business Business administration Law Economics Financial Management and Marketing Accounting and Banking Electronics and Automation etc.
Nationality	Bulgarians (4) Belgians (3)

2. THE ENVIRONMENT WE OPERATE

The main challenges facing us are of course the economic situation intensifying competition and technological change regulation and cyber and IT risks.

2.1.THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES

The global economy financial markets and demographic development will continue to be among the major factors with a strong impact on our performance. This concerns issues such as growth interest rates and volatility inflation employment population structure bankruptcies household incomes financial market liquidity exchange rate movements accessibility of funding investor and consumer confidence and credit margins.

For Bulgaria's economy and banking sector 2019 will run with the expectation of a change in the interest cycle and more likely a slowdown in economic growth given the signals from the surrounding external economic environment and the monetary policy rate of the leading central banks.

In the banking system in Bulgaria 2019 is running a procedure for assessing the quality of assets and a stress test to be carried out by the ECB in the process of joining ERM II and the banking union. Bank inspection results should be announced in July.

This year will pose challenges for banks related to the general economic environment including through new legislation which will increase the instruments for controlling overly risky lending. These include the power to limit the ratio between credit and collateral or between credit and income of the borrower.

Against the backdrop of increased lending we are constantly striving for a high quality credit portfolio keeping strict credit standards and avoiding unreasonable financing for businesses.

The risk of a downturn in the economy and the associated substantial pressure on banks' interest rates and revenues will also be relevant in 2019. We monitor our long-term and strategic planning our capital and liquidity positions are capable of withstanding the negative scenarios.

We calculate the potential impact of changes in key parameters and evaluate the impact of significant events as effectively as possible.

2.2.COMPETTITION AND TECHNOLOGICAL CHANGE

We do our business in a highly competitive environment. Our competitors are also affected by technological changes and changing customer behavior.
In 2019 the entry of large technology companies into the banking sphere will be a challenge for banks after fintech companies demonstrate their drive to take advantage of traditional creditors in a number of financial services on the mass market. For example banks tried to cope with the entry of Tech companies by creating innovative products themselves taking part in start-ups and starting to partner with technology groups.
Traditional financial institutions are still criticized for slowing response to market changes. In order for traditional banks to compete with new players they will have to change their business models and create innovative payment solutions that are desired by consumers.
The EU Payment Systems Directive which entered into force in January 2018 enables financial and technology companies to access customers' bank accounts with their explicit consent. This "free banking" providing technology companies access to customer data can lead to the deletion of key elements of the banks' businesses. This will allow customers to give access to their bank account to fintech companies that carry out cross-border transfers at times cheaper than banks. In practice fintech company will have direct access to the bank account and the ordered operation will go through its interface.
Enhancing competition affects customer expectations puts potential pressure on cross selling opportunities increases the importance of digitization and creates a need for an organization that is responsive and sustainable. That is why we are obliged to maintain and constantly defend our business model with the technological development and new needs of the changing society.
The creative contribution of our employees is very important when it comes to dealing with competition and technological change. We do our best to attract and motivate talented staff.
As a financial institution we can use a huge amount of data that allows us to understand the customers' desire more clearly. Our integrated model allows us to offer our customers more comprehensive solutions. We have a specific process to ensure that businesses receive approval quickly and efficiently for the release of new products. The process also includes a thorough study of potential risks. We regularly review all existing products so that they can be adapted to account for changing customer needs or changing market conditions.

2.3.REGULATION

Increasing regulation requirements is an issue for the financial sector as a whole. One of the most difficult and extensive regulatory frameworks which entered into force on 3 January 2018 includes the Markets in Financial Instruments Directive the Markets in Financial Instruments Regulation and the related to them regulations with direct effect which aim to protect the investors from unfair or inappropriate practices. In addition the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) entered into force in 2018.

There is also the new European market abuse regime which fine-tunes existing rules and introduces new rules on ‘market soundings’. The Audit Regulation introduces special rules including ones on the appointment and mandatory rotation of the auditor restrictions on the non-audit services that the auditor may provide and the role of the audit committee in this respect. Various initiatives are currently underway in the area of solvency mainly in relation to the banking business. The main initiatives relate to the method for calculating risk-weighted assets and the further streamlining of legislation to ensure that shareholders and creditors absorb losses at banks rather than the government.

Another factor is the new IFRS that have yet to become effective. We are making thorough preparations for the new regulations. Specialised teams on Group level (Legal Capital management Risk and Finance and Compliance) keep close track of the rules and propose the necessary responses interms for instance of the group’s capital planning. In the case of regulations that have a major impact on us internal programmes and working groups have also been set up in which staff from all the relevant areas can work together.

2.3.REGULATION (CONTINUED)

A special team focuses on contacts with government and regulators. We participate in working groups at sector organisations where we analyse draft texts. We produce guidelines and provide training courses for the business side.
In 2018 special attention was payed to the new regulation related to personal data protection. Following its entry into force on 25.05.2018 Regulation (EU) 2016/679 of the European Parliament of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) imposed urgent changes to the activity related to personal data processed performed by UBB for the needs of its business activity. Those changes have led to reconstructing and aligning of crucial clients servicing processes in compliance with the new regulation – an ongoing process with a long-term effect for the Bank. Internal rules have been adopted in order to ensure the secure and lawful processing of personal data. The Bank has designated a dedicated Data Protection Officer stating once again the Bank's will to ensure compliance of its activity with the requirements of the General Data Protection Regulation.

In 2018 started the process for alignment of financial institutions in compliance with the new regulatory requirements imposed with Directive (EU) 2015/849 also known as 4 AML/ Terrorism Financing Directive. The Directive has been transposed into the new Bulgarian Anti-money Laundering Measures Act adopted in March 2018 and the Rules on its practical application adopted on 31.12.2018. The obliged entities dispose with a 4-month term as of the approval of the Rules to introduce the necessary changes in established processes systems and internal regulations. In 2018 UBB started a project for introduction of the new requirement on stages. As a first step UBB performed its internal money laundering risk assessment and prepared a detailed plan for implementation of the new legislation.

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 the 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 defence 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 the face of the company in contact with the clients and are ambassadors of the corporate culture.

We build our HR policy based on our business culture – PEARL. The behavior of the employees should be fully consistent with these values: Respectful, Responsive and Result driven. And we expect that this behaviour will not only help us to improve the company's trust but also to be the reference in banking and insurance.

There is a wide range of interesting jobs and plenty of opportunities are offered to change jobs internally and for employees to grow in their current position. We realise that good managers are key when it comes to enabling employees to bring out the best in themselves. That is why we have intensive leadership tracks in place at different levels.

UBB prohibits all forms of discrimination and unequal treatment. Whether it is direct or indirect; related to staff or customers and irrespective of whether the discrimination is based on race sex sexual orientation age family status disability religion or in relation to insurance access to employment conditions of employment training promotion or classification of positions.

We want to give a clear sign to the society that as an employer we treat our employees in a fair and responsible way and that our relationships are based on mutual trust and respect.

Number of staff 31.12.2018

Full-time	99.8%
Part-time	0.2%

The average salary in UBB is comparable to average salary in the financial sector in the country.

Remunerations in UBB are determined based on work on an 8-hour business day for a 5-day working week. Apart from this any employee who has a high performance is rewarded for the efforts through various incentives.
We care for our employees and so UBB provides them with additional health insurance life insurance supplementary pension insurance and additional payments for personal events (marriage childbirth etc.).
In its efforts to constantly improve the effectiveness UBB assesses the performance and competencies of the staff incl. recruitment training and development.
In 2018 the average hours of training per capita on annual base is 24.5.
The Trade Union of the bank employees at UBB is registered at the Court as a non - profit organization formed in order to settle the working and social relations between the employees of UBB and their Employer.

The activity of the Trade Union is stipulated in its Statutes and Rules of the activity. In accordance with the Statues the Management bodies are General assembly Management board and Control board. The Management board and the Employer sign a Collective labour contract.

3. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE

3.1.CORNERSTONES OF OUR STRATEGY

*Putting the **client's interests** at the heart of everything we do*
*Offering **e bank experience** and profitable growth in society*
*Within a **stringent risk capital and liquidity management** framework particular attention therefore to training and awareness*

We have developed an internal programme to explore issues such as professional integrity advising clients appropriately and dealing with dilemmas

We prepare thoroughly for the future. Changes in client behaviour and technological developments are influencing the route we are taking. Our clients decide for themselves when and how they want to be served. That's why UBB has opted for an omnichannel strategy. We want to ensure that all channels and applications are connected with each other interactively and in real time. As a result we are there for clients whenever and wherever they need their banker.

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. What our clients want today is actually the same as they wanted in the past: a bank they can trust and who offers them the right solutions. The difference today is that they want it through a variety of channels and at the moment that suits them best: mobile payments in the restaurant online banking from home advice from an investment expert in an office or remotely. It goes without saying that clients only accept us analyzing their data once they already trust us. We achieve that through an excellent privacy policy for which the client sets the limits. Because privacy is not only an objective concept defined by law it is a highly subjective one too. For that reason we want to let clients themselves choose what we can do with their data. In the process we want to communicate in a transparent way and offer our clients a clear privacy overview in which they can adjust their choices at any moment.

We view smart data analysis allied with effective privacy protection as the ideal opportunity to enhance our clients' trust. Since putting the interests of our clients at the heart of everything we do is the cornerstone of our strategy we keep a close eye on their situation. We collect their experiences and use that information to improve our services and products.

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

3.1. CORNESTONES OF OUR STRATEGY (CONTINUED)

Our corporate strategy is based on four pillars:

- We place our clients at the core of everything we do
- We aim at offering unique banking and insurance services
- We focus on the long-term development of the group for achieving sustainable and profitable growth
- We take quite seriously our responsibility towards the society and the local economies

*Putting the **client's interests** at the heart of everything we do*
*Offering a **unique bank experience** and profitable growth in society*
*Within a **stringent risk capital and liquidity management** framework particular attention therefore to training and awareness*

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We also closely monitor our reputation which can be influenced by a range of factors. Not only do we calculate our overall score for reputation we do so for the underlying elements as well and communicate this analysis to all the departments and individuals concerned so they can take appropriate action. By setting targets for client experience and reputation we aim to increase the general level of client satisfaction. Each client makes their own choices while we ensure a pleasant client experience and optimum convenience by enabling our branches advisory centres and digital channels to communicate with each other as seamlessly as possible.

3.THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
3.1. CORNESTONES OF OUR STRATEGY (CONTINUED)

The aim is to ensure that we recognise clients regardless of the channel they use and don't have to keep asking them for the same details. What's more with a wide range of distribution channels we know our clients very well. It means we can improve our understanding of their needs and expectations and that we can surprise them with rapid and inventive proposals tailored to their personal requirements.

3.2.WE OFFER OUR CLIENTS A UNIQUE BANK

We react comprehensively to the banking needs of our clients and also position ourselves as a part of an integrated financial group. This integrated model offers to clients the benefit of a comprehensive single-point service allowing them to select out of a wider supplemented and optimized range of products and services. This model offers group benefits in an environment of income and risk diversification potential for additional sales through intense cooperation between banking distribution channels and considerable cost saving. Being the largest financial group in Bulgaria we ensure to our clients the opportunity to benefit from comprehensive financial solutions while saving on funds and time.
We respond in an integrated way to all of our clients' banking needs and we also position ourselves as part of an integrated financial group. This integrated model offers the client the benefit of a comprehensive one-stop service that allows them to choose from a wider complementary and optimised range of products and services. It offers the group benefits in terms of income and risk diversification additional sales potential through intensive co-operation between the bank distribution channels and significant cost-savings and synergies.

As an integrated financial group we can put our clients' interests at the heart of what we do by offering them an product range and advising them based on needs that transcend pure and include family the home and mobility. As stated earlier we do everything we can to integrate our channels contact centres self-service terminals the website our home banking application and mobile apps).

3.3.WE FOCUS ON SUSTAINABLE AND PROFITABLE GROWTH

To secure our long-term future we build long-term relationships with our clients. We do not pursue high shortterm 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.

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

3.4.OUR ROLE IN SOCIETY: TO BE REPONSIVE TO SOCIETY'S EXPECATITIONS

We can only be truly sustainable if we also retain the trust of society and live up – as a company – to our responsibilities towards it. This is achieved by recognising the impact our operations have on society and by meeting society's needs and expectations in a balanced meaningful and transparent way.

Our socially responsible activities are being performed by:

Mitigating our negative imprint on the society

Generating sustainable and profitable growth goes hand in hand with the contribution to a more sustainable society. This means that being a bank-assurance group we also aim at containing our negative imprint on the society. We wish to materialize this ambition of ours by:

- Applying stringent sustainability policies towards our commercial activities relating to the respect of human rights environment business ethics and sensitive issues of public interest
- We mitigate our imprint on the environment

Environmental responsibility is one of the selected areas on which KBC has dedicatedly focused. Since climate change is one of the biggest challenges of the XXI century our main goal is to contribute to the transition towards low carbon economy and society.

We are aware that our operations and business do impact. In order to contain our direct and indirect impact on global warming we have launched at Group level a programme for reducing our imprint on the environment.

We catalyze our positive influence in the society

Sustainability not only means philanthropy and support for the local initiatives through sponsorship despite that those aspects persist of being largely important to the Group. UBB contributes positively to the society through its core activity. We want however to go further beyond that hence we have defined four main domains on which to focus our attention for developing important projects. Key to our refreshed sustainability approach is the fact that we wish to offer core solutions to businesses relating to loans investments insurance and consultations which project a positive image of coping with those challenges on the society.

For a fifth consecutive year already we focus our efforts along four main lines:

- Financial literacy
- Encouragement of entrepreneurship
- Health
- Environment

The Bank undertakes series of initiatives along those lines by following a pre-designed and pre-approved annual plan. In 2018 we traditionally awarded scholarships under *Ready for Success* programme of Bcause Foundation. This programme supports the education of children and youths without parents raised by relatives or in social care establishments. Their ranking is according to their grades – for exceptional achievements motivation and drive for learning.

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

3.4.OUR ROLE IN SOCIETY: TO BE REPONSIVE TO SOCIETY'S EXPECATITIONS (CONTINUED)

In 2018 the Bank was involved for a second consecutive year in the *European Money Week* - a joint initiative of the European Banking Federation and national banking associations organized in Europe for a third consecutive year. Within the European Money Week we organized open classes and a visit of pupils and students to the Head Office of the bank.

Additionally along the financial literacy line we also prepared a series of 5 educational videos on various financial topics argeting mainly start-ups and small companies.

Being a member of the UN Global Compact for another year in succession we were also involved in the *I Am Proud of My Parents' Work* initiative. The project's idea is through especially designed programmes and games to show children why their parents' work is so important and how a single day in a work environment feels like.

Being a financial institution UBB treats in a responsible manner environment-related problems and contributes to the reduction of the harmful impact of human activity on this planet's climate by employing efforts for combating risks and for the maximum use of prevention opportunities. For the purpose the Bank has adopted a Climatic Change Policy and realizes various activities aimed at mitigating our negative imprint on the environment.

3.5.FOCUS ON RESPONSIBLE AND ETHICAL BEHAVIOR

If we want to retain and grow our stakeholders' trust it is extremely important that we behave responsibly in everything we do. It is therefore not enough for the employees of UBB/The Group simply to comply with regulations: our ambition in this area goes further than that. The basis of responsible behaviour is integrity which requires honesty fairness transparency and confidentiality as well as a healthy awareness of risk.

Responsible behaviour is especially relevant for a banker when it comes to appropriate advice and sales. We pay particular attention therefore to training and awareness. We have developed an internal programme to explore issues such as professional integrity advising clients appropriately and dealing with dilemmas. As a first step in the cultivation of corporate culture of ethical behavior a special section in the initial training for new-comers has been dedicated to the topic. In additions the Bank plans to perform surveys among employees aiming to assess the level of awareness about the seriousness of the topic and the incorporation of the principles of responsible and ethical behavior in the day-to-day activity.
Within 2018 along the responsible behaviour line we organized trainings for the branch network employees of the bank aimed at focusing the staff's attention (especially those directly servicing clients) on the KBC principles for responsible behaviour towards clients and the ways to apply those in practice.

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

3.6.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 signals from clients related to personal data are registered and directed to the Personal Data Protection Unit of the Retail Banking and Digital Sales Department. 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 2018 at UBB is 5 131. Of these 1920 were related with unpaid ATMs and 1545 were the result of disputed card transactions. Criteria used to assess the risk of corruption are provided for in anti-corruption policy 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 Regulation 19 (Anti-Corruption Program) of the KBC Group.

Risk assessment
When assessing the risk 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 of corruption bad legislation low transparency). For example: The countries with less than 5 points in accordance with the index of the :Transparensy without borders” (http://www.transparency.bg/bg/) are considered very risk.

Industry risk:
- Risk linked to concrete transactions (charities, licencences, permits and government procurment)
- Risk linked to business opportunities (complex projects, many intermidiaries, lack of clear purpose)
- Risk out of business partnership (transaction with foreign officials, joint ventures, relations with politicians use of agents and intermediaries)
- Risk due to lack of diligent control (lack of diligent research of persons acting on behalf of the organisations)

Key internal risks
- Human resources (training of the employees maintenance and development of the knowledge and skills bonus culture culture of risk assessment)
- Monitoring and control
- Other

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

3.6. MEASURES (CONTINUED)

The anticorruption program is coordinated by Compliance directorate and implementation and realization is responsibility of all the participating units.

The Bank/The Group organises trainings to newcomers and refreshing trainings and tests to the personnel. The number of employee trained in 2018 is 114. None was dismissed or was at suit for corruption in 2018. The Bank/The Group has developed mechanism for sending signals for violations and corruption. The following regulations in force in UBB and are directly or indirectly linked to corruption prevention:

- Ethical code
- Policy for gifts entertainment charity and sponsorship
- Rules for defence of employees that have submitted vicious practices signals
- Rules for prevention of money laundering/financing of terrorism
- Internal rules for review and inventory of management mandates defined by KBC and carried out in other companies in relation to not received remuneration for these mandates.

3.7.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.

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 fur the palm oil production, mining deforestation, land acquisition and involuntarily resettlement of indigenous populations and prostitution.

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

3.8.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 centre 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/Group.

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.

3.9.OUR ‘THREE LINES OF DEFENCE’ MODEL

The business operations side is responsible for managing its risks. As independent control functions the UBB/Group risk function Compliance and – for certain matters – Finance, Legal, Tax 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.

3.10. 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.

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

3.10.SECTOR – SPECIFIC RISKS (CONTINUED)

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 duration 'greeks' for products with options stress tests 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) nominal amounts limit tracking for crucial indicators etc.

Liquidity risk
The risk that UBB/The Group 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 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).

3.11. AIMING TO ENHANCE OUR POSITIVE IMPACT ON SOCIETY

We want our sustainability policy to go beyond philanthropy and sponsorship. Although these aspects will remain important we want to focus on a number of social needs in fields where a Bank/the Group can make a genuine difference. Bearing in mind the context in our different core markets we have defined the following focus areas for sustainability: 'financial literacy' 'environmental responsibility' 'entrepreneurship' and 'demographic ageing and health'.

4. ENVIRONMENT RESPONSIBILITY

- Reducing our ecological footprint through a diverse range of initiatives and objectives.
- Developing products and services that can make a positive contribution to the environment.
- UBB Renovation Loan for Owners' Associations to provide flexible financing solutions for energy saving investments in apartment blocks.
- Placing the emphasis on digitisation to reduce paper consumption.
- Contributing to economic growth by supporting innovative ideas and projects.
- Realising various European programmes to support small and micro businesses and SMEs.

4. ENVIRONMENT RESPONSIBILITY (CONTINUED)

Limiting our negative impact on society

We also want to limit as much as possible any unfavourable impact our operations might have on society. We want to contribute for instance to the transition to a low-carbon economy and have launched a group-wide programme to reduce our own ecological footprint. We have tightened up our policy on lending to the energy sector and have taken initiatives to promote energy efficiency renewable energy sustainable mobility and the circular economy. We apply strict sustainability rules to our business activities in respect of human rights the environment business ethics and sensitive or controversial social themes. The Bank/The Group uses specialies companies for controlled destroying of scraped fixed assets. The Bank/The Group also uses a system for separate disposal of waste.

Christof De Mil
Executive Director

Date: 25.04.2019

UNITED BULGARIAN BANK AD
UBB
SOFIA

Svetla Georgieva
Executive Director

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 (the "Group") which comprise the separate and consolidated statement of financial position as at 31 December 2018, 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 flow for the year then ended, and the notes to the separate and consolidated financial statements, which include significant accounting policies.

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank/Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the 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/Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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.

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg
Registered with the Sofia City Court under company file number 13424/1997.

Grant Thornton Ltd. 26, Cherni Vrah Blvd, 1421 Sofia 4, Paraskeva Nikolau Str., 9000 Varna
T (+3592) 987 28 79, (+35952) 69 55 44 F (+3592) 980 48 24, (+35952) 69 55 33 E office@bg.gt.com
W www.grantthornton.bg

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Our audit approach

Overview

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. 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.

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

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 materiality for the separate and consolidated financial statements	BGN 9,587 thousand
How we determined it	Approximately 5% of the profit before tax for the year
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/Group is commonly measured by the users of the separate and consolidated financial statements and it is a generally accepted benchmark.

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 and consolidated opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Estimation uncertainty with respect to the impairment allowance for loans and advances to customers *Refer to Note 6 "Loans and advances to customers")* 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. The identification of significant increase in credit risk and default and the measurement of 12-minth or life time expected credit loss are part of the Bank's/Group's estimation process and are, amongst others, based on credit risk models, triggers indicating significant increase in credit risk and default, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances to customers. As this position represents a substantial part of Bank's/Groups' total assets and given the related estimation uncertainty, we consider this as a key audit matter.	Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank/Group, including 12-month and lifetime expected loss modelling processes. We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes. For individually impaired loans, we have performed, for a sample of credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. For the 12-month and lifetime expected credit losses, we challenged the significant increase in credit risk triggers and tested the underlying models, including the Bank's/Group's model approval and validation process. We also assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting standards 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 performed the audit of 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 Activity Report, the Corporate Governance Statement and the Non-financial Declaration* prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the separate and consolidated financial statements and our auditors' report thereon.

Our opinion on the separate and consolidated financial statements does 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, Public Offering of Securities Act, where applicable, Ordinance 38/2007 and Ordinance 58/2018 issued by the Financial Supervisory Commission

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, the Corporate Governance Statement and the 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 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 Activity Report referring to the financial year for which the separate and consolidated financial statements have been prepared is consistent with those separate and consolidated financial statements.
b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The Corporate Governance Statement for the financial year, for which the separate and consolidated financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.
d) The Non-financial Declaration or the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act.

Statement in relation to Art. 33 of Ordinance 38/2007 issued by the Financial Supervisory Commission (FSC) in relation to the requirements on the activity of investment intermediaries and 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 monitory 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 separate financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts complies with the requirements of Art. 28-31 of Ordinance 38 and Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

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 International Financial Reporting Standards (IFRS) as adopted by the European Union (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/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/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/Group's 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/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/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/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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 Accounting 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 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/Group for the year ended 31 December 2018 by the General meeting of shareholders held on 22 June 2018 for a period of one year.
- Grant Thornton OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Bank/Group for the year ended 31 December 2018 by the general meeting of shareholders held on 22 June 2018 for a period of one year.
- The audit of the separate and consolidated financial statements of the Bank/Group for the year ended 31 December 2018 represents the second uninterrupted statutory audit engagement for that Bank/Group 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/Group's audit committee 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/Group.
- For the period to which our statutory audit refers, we have not provided to the Bank and its controlled undertakings, in addition to the audit, any other services which have not been disclosed in the separate and consolidated financial statements of the Bank/Group.

For PricewaterhouseCoopers Audit OOD:	For Grant Thornton OOD:
Jock Nunan	Mariy Apostolov Managing partner
Rositsa Boteva Registered Auditor responsible for the audit	Gergana Mihaylova Registered Auditor responsible for the audit
9-11, Maria Louisa Blvd. 1000 Sofia, Bulgaria	26, Cherni Vrah Blvd. 1421 Sofia, Bulgaria
2 May 2019	2 May 2019

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
ASSETS		Separate	Separate	Consolidated	Consolidated
		IFRS 9	IAS39	IFRS 9	IAS39
Cash and balances with the Central Bank	4	1 762 399	847 722	1 762 400	847 723
Due from banks	5,25	587 628	968 983	587 628	968 983
Reverse Repos with banks	5	1 345 350	585 705	1 345 350	585 705
Loans and advances to customers net	6	5 178 055	3 293 042	5 179 518	3 294 565
Financial assets					
Held for Trading	7	-	600 121	-	600 121
Financial Assets AFS*	9	-	680 605	-	680 606
Financial Assets Held to Maturity	10	-	181 326	-	181 326
Financial assets at fair value through profit or loss, incl:	7	32 685	-	32 685	-
Held for Trading		26 264	-	26 264	-
Financial assets at fair value through other comprehensive income*	9	1 020 637	-	1 020 638	-
Financial assets at amortized cost	10	1 027 278	-	1 027 278	-
Derivatives held for trading	8	9 379	1 837	9 379	1 837
Investments in subsidiaries and equity method investments	11	18 893	27 173	2 776	29 707
Goodwill		-	-	-	1 606
Intangible assets	12	5 093	5 329	5 190	5 488
Property and equipment	12	100 218	44 256	100 335	44 394
Investment property	13	128 141	5 315	138 987	5 315
Deferred tax assets	14	5 575	3 275	5 572	3 266
Other assets	15	29 419	113 452	30 469	113 881
Non-current assets held for sale	42	15 277	-	15 276	-
TOTAL ASSETS		**11 266 027**	**7 358 141**	**11 263 481**	**7 364 523**
LIABILITIES					
Due to banks	16	1 178 490	443 453	1 178 490	443 453
Due to customers	17	8 172 485	5 893 632	8 163 315	5 886 962
Payables under repo agreements	21	331 619	-	331 619	-
Derivatives held for trading	8	1 713	4 845	1 713	4 845
Hedging Derivatives	8	3 724		3 724	
Other borrowed funds	18	133 641	1 874	133 641	1 874
Current income tax liabilities		-	609	214	659
Retirement benefit obligations	19	5 980	4 444	5 980	4 444
Provisions for risks and charges	20	9 904	3 932	9 949	3 932
Other liabilities	20	41 657	29 289	42 029	29 673
TOTAL LIABILITIES		**9 879 213**	**6 382 078**	**9 870 674**	**6 375 842**
SHAREHOLDERS' EQUITY					
Share capital		93 838	75 964	93 838	75 964
Share premium		210 058	-	210 058	-
Retained earnings	22	1 033 378	828 178	1 039 117	839 496
Revaluation reserve	23	50 816	72 945	50 816	73 836
Defined benefit obligations	19	(1 276)	(1 024)	(1 276)	(1 024)
TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS		**1 386 814**	**976 063**	**1 392 553**	**988 272**
Non-controlling interest		-	-	254	409
TOTAL EQUITY		**1 386 814**	**976 063**	**1 392 807**	**988 681**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**11 266 027**	**7 358 141**	**11 263 481**	**7 364 523**

* FVOCI (2018) /Available for sale (2017) financial instruments includes pledged under repo deals and for securing state budget funds government bonds amounting to 483 877 (2017: 90 054)

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 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

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 02-05-2019

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 02-05-2019

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
		Separate IFRS 9	Separate IAS39	Consolidated IFRS 9	Consolidated IAS39
Interest income		292 875	237 570	293 793	238 057
Interest expenses		(15 967)	(13 936)	(15 962)	(13 913)
Net interest income	26	**276 908**	**223 634**	**277 831**	**224 144**
Dividend income		2 960	1 851	107	1 659
Fee and commission income		128 223	94 033	136 233	99 786
Fee and commission expenses		(21 071)	(5 417)	(21 095)	(5 891)
Net fee and commission income	27	**107 152**	**88 616**	**115 138**	**93 895**
Net result from financial instruments Held for Trading	28	-	25 156	-	25 012
Net result from financial instruments AFS	28	-	(4 818)	-	(4 818)
Net result from financial instruments through profit and loss	28	9 230	-	9 230	-
Net result from financial instruments FVOCI	28	129	-	129	-
Net result from Derrivatives Held for Trading	28	15 211	14 827	15 211	14 827
Net result from Hedging Derrivatives	28, 8	85	-	85	-
Net other income /(expense)	29	9 660	(12 324)	1 870	(12 252)
Total income		**421 335**	**336 942**	**419 601**	**342 467**
General administrative expenses	31	(230 565)	(171 622)	(233 473)	(174 515)
Reversal of impairment/(Imairment charges) on loans and advances	30	21 048	(209 636)	20 241	(209 641)
Impairments on Off-balance sheet commitment	30	(556)	472	(556)	472
Impairment non-financial assets	30	(15 821)	(12 652)	(15 821)	(12 899)
Share in result of associate companies		-	-	1 746	1 883
PROFIT/(LOSS) BEFORE TAX		**195 441**	**(56 496)**	**191 738**	**(52 233)**
Income tax (expense)/ income	32	(19 552)	5 467	(19 488)	4 989
PROFIT/ (LOSS)FOR THE YEAR ATTRIBUTABLE TO:		**175 889**	**(51 029)**	**172 250**	**(47 244)**
UBB equity shareholders		175 889	(51 029)	172 131	(47 367)
Non-controlling interest		-	-	119	123

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 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

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 02-05-2019

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 02-05-2019

UNITED BULGARIAN BANK AD UBB

ОДИТОРСКО ДРУЖЕСТВО ГРАНТ ТОРНТОН ООД София Рег. № 032

ОДИТОРСКО ДРУЖЕСТВО ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД София Рег. № 085

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	Separate	**Separate**	**Consolidated**	**Consolidated**
	IFRS 9	**IAS39**	**IFRS 9**	**IAS39**
Net result for the year	**175 889**	**(51 029)**	**172 250**	**(47 244)**
Other comprehensive income that may be reclassified subsequently to profit or loss				
Net change in revaluation reserve (FVOCI debt instruments) net of tax	(20 174)	-	(16 688)	-
Net change in fair value net of tax		40 534		40 003
Other comprehensive income that may be reclassified subsequently to profit or loss	**(20 174)**	**40 534**	**(16 688)**	**40 003**
Other comprehensive income that will not be reclassified subsequently to profit or loss				
Net change in revaluation reserve (FVOCI equity instruments) net of tax	725	-	725	-
Gains/ (losses) on defined benefit plans	(206)	2 093	(206)	2 093
Other comprehensive income that will not be reclassified subsequently to profit or loss	**519**	**2 093**	**519**	**2 093**
Other comprehensive income net of taxes	**(19 655)**	**42 627**	**(16 169)**	**42 096**
Total comprehensive income for the year	**156 234**	**(8 402)**	**156 051**	**(5 148)**
UBB equity shareholders	-	-	**155 932**	**(5 271)**
Non -controlling interest	-	-	**119**	**123**

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 and signed by:

Christof De Mil
Executive Director

Svetla Georgieva
Executive Director

In reference to the auditor reports:

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date:
02-05-2019

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 02-05-2019

UNITED BULGARIAN BANK AD SOFIA UBB

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

Separate	Share Capital	Share Premium	Retained Earnings	Defined benefit obligations	Revaluation reserve	Total
Balance as of January 1, 2017	75 964	-	977 085	(3 117)	32 411	1 082 343
Net result for the year	-	-	(51 029)	-	-	(51 029)
Other comprehensive income for the year net of tax	-	-	-	2 093	40 534	42 627
Total comprehensive income	-	-	(51 029)	2 093	40 534	(8 402)
Paid dividends	-	-	(97 878)	-	-	(97 878)
Total transactions with owners	-	-	(97 878)	-	-	(97 878)
Balance as of December 31, 2017	75 964	-	828 178	(1 024)	72 945	976 063
Impact transition to IFRS9	-	-	(63 908)	-	(43 556)	(107 464)
Restated Total Equity as of January 1, 2018	75 964	-	764 270	(1 024)	29 389	868 599
Impact of business combination	17 874	210 058	93 219	(46)	40 876	361 981
Net result for the year	-	-	175 889	-	-	175 889
Other comprehensive income for the year net of tax	-	-	-	(206)	(19 449)	(19 655)
Total comprehensive income	-	-	175 889	(206)	(19 449)	156 234
Balance as of December 31, 2018	93 838	210 058	1 033 378	(1 276)	50 816	1 386 814

Consolidated	Share Capital	Share Premium	Retained Earnings	Defined benefit obligations	Revaluation reserve	Total UBB shareholders	Non-controlling interest	Total
Balance as of January 1, 2017	75 964	-	984 557	(3 117)	33 833	1 091 237	572	1 091 809
Net result for the year	-	-	(47 367)	-	-	(47 367)	123	(47 244)
Other comprehensive income for the year , net of tax	-	-	-	2 093	40 003	42 096	-	42 096
Total comprehensive income	-		(47 367)	2 093	40 003	(5 271)	123	(5 148)
Changes in minority interest	-	-	189	-	-	189	(286)	(97)
Paid dividends	-	-	(97 883)	-	-	(97 883)	-	(97 883)
Total transactions with owners	-	-	(97 694)	-	-	(97 694)	(286)	(97 980)
Balance as of December 31 ,2017	75 964		839 496	(1 024)	73 836	988 272	409	988 681
Impact transition to IFRS9	-	-	(78 760)	-	(47 933)	(126 693)	-	(126 693)
Restated Total Equity as of January 1, 2018	75 964	-	760 736	(1 024)	25 903	861 579	409	861 988
Impact of business combination	17 874	210 058	107 737	(46)	40 876	376 499	-	376 499
Net result for the year	-	-	172 250	-	-	172 250	119	172 369
Other comprehensive income for the year net of tax	-	-	-	(206)	(15 963)	(16 169)	-	(16 169)
Total comprehensive income	-	-	172 250	(206)	(15 963)	156 081	119	156 200
Reverse of Goodwill	-		(1 606)	-	-	(1 606)	-	(1 606)
Changes in minority interest	-		-	-	-	-	(274)	(274)
Total transactions	-	-	(1 606)	-	-	(1 606)	(274)	(1 880)
As of December 31, 2018	93 838	210 058	1 039 117	(1 276)	50 816	1 392 553	254	1 392 807

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 and signed by:

Christof De Mil ExecutiveDirector	Svetla Georgieva ExecutiveDirector

In reference to the auditors' report:

Gergana Mihaylova Registered Auditor responsible for the audit	Mariy Apostolov Grant Thornton OOD
Rositsa Boteva Registered Auditor responsible for the audit Date: 02-05-2019	Jock Nunan PricewaterhouseCoopers Audit OOD Date: 02-05-2019

UNITED BULGARIAN BANK AD UBB SOFIA

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2018 Separate	Year ended 31.12.2017 Separate	Year ended 31.12.2018 Consolidated	Year ended 31.12.2017 Consolidated
CASH FLOWS FROM OPERATING ACTIVITY:					
Net profit/(loss)		175 889	(51 029)	172 250	(47 367)
Adjustments for non- cash items:					
Impairment of loans and advances to customers		(21 048)	205 832	(20 241)	205 837
Provisions for off-balance sheet commitments		556	(472)	556	(472)
Provisions for legal cases		805	3 804	825	3 804
Impairment of investment property and fixed assets		15 830	(722)	15 830	(727)
Depreciation related to fixed assets		12 598	8 580	12 598	8 617
Amortization to intangible assets		3 431	2 570	3 472	2 630
Retirement benefit obligations		1 238	(4 447)	1 238	(4 447)
Net (gains)/loss from investments FVOCI		(129)	(6 085)	(1 481)	(5 723)
Corporate Income tax expence /(income)		19 552	(5 472)	19 552	(4 343)
Changes in non-controling interest		-	-	(155)	(163)
Imairments on Goodwill		-	-	-	247
Income from associates companies and subsidiaries		(2 853)	1 467	-	(36)
Cashflow for operating profit before tax and before changes in operating assets and liabilities		**205 869**	**154 026**	**204 444**	**157 857**
Movements in operating assets and liabilities					
Increase/(decrease) in deposits placed with banks		(1 376 032)	(193 237)	(1 376 032)	(193 237)
Increase/(decrease) in loans and advances to clients		(91 634)	351 935	(107 233)	340 128
(Increase) / decrease in trading securities		567 436	501 524	567 436	501 522
(Increase) / decrease in derivative financial instruments		(7 542)	(1 481)	(7 542)	(1 481)
Increase/(decrease) in other assets		2 356	1 650	2 455	10 300
Increase/(decrease) in deposits from banks		(160 931)	356 389	(160 931)	356 389
(Increase) / decrease in derivatives held for trading		(3 132)	3 666	(3 132)	3 666
(Increase) / decrease in Hedge derivatives		(127)	-	(127)	-
Increase/(decrease) in deposits from customers		450 408	323 040	447 908	320 674
Increase/(Decrease) in other liabilities		(20 923)	9 447	(20 935)	9 503
Income tax paid		(5 749)	(10 335)	(5 585)	(10 944)
Net cash flow from operating activities		**(440 001)**	**1 496 624**	**(459 274)**	**1 494 377**

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 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

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 02-05-2019

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 02-05-2019

UNITED BULGARIAN BANK AD UBB

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2018 Separate	Year ended 31.12.2017 Separate	Year ended 31.12.2018 Consolidated	Year ended 31.12.2017 Consolidated
CASH FLOWS FROM INVESTING ACTIVITY:					
Impact of business combination	41	1 070 520	-	1 070 068	-
Purchases of fixed assets		(53 384)	(19 127)	(53 406)	(19 135)
Purchase of intangible assets		(3 539)	(1 883)	(3 547)	(1 891)
Income from sale of fixed assets		(571)	1 814	2 671	1 781
Acquisition of associates		-	(20 536)	-	(20 536)
Income from sale of investments in associates		20 426	-	40 683	189
Purchase of FVOCI debt securities		(518 027)	-	(518 918)	-
Purchase of AFS debt securities		-	(14 933)	-	(14 933)
Purchase of AC debt securities		(140 755)	-	(140 754)	-
Purchase from Held to Maturity debt securities		-	(181 326)	-	(181 326)
Net cash (outflow)/inflow from investment securities		(15 647)	22 550	(15 647)	22 550
Dividend received from subsidiaries and income equity method investments		2 853	192		2 305
Net cash flow from/(used in) investing activity		**361 876**	**(213 249)**	**381 150**	**(210 996)**
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repaid external funding		-	(97 878)	-	(97 883)
Repaid of subordinated term debt		(4 941)	(2 881)	(4 941)	(2 881)
Net cash flows from financing activities		-	(50 945)	-	(50 945)
CHANGE IN CASH AND CASH EQUIVALENT		**(4 941)**	**(151 704)**	**(4 941)**	**(151 709)**
Net increase/ (decrease) in cash and cash equivalents		(83 065)	1 131 671	(83 065)	1 131 672
Cash and cash equivalents on 1 January		**2 118 815**	**988 763**	**2 118 816**	**988 763**
Effect of the change in exchange rate of cash flows and cash equivalents		**193**	**(1 619)**	**193**	**(1 619)**
Cash and cash equivalents on 31 December	25	**2 035 943**	**2 118 815**	**2 035 944**	**2 118 816**
Operating cash flows related to interests fees and dividends:		**Separate**	**Separate**	**Consolidated**	**Consolidated**
Paid interests		(18 705)	(5 417)	(18 705)	(5 891)
Received interests		315 271	237 570	315 271	238 057
Paid commissions		(21 071)	(5 417)	(21 095)	(5 891)
Received commissions		128 223	94 033	136 282	99 786

These separate and consolidated financial statements have been approved for issue by the Management Board on 25.04.2019 and signed by:

Christof De Mil
Executive Director

SvetlaGeorgieva
ExecutiveDirector

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 02-05-2019

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 02-05-2019

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 99.91 % of the Bank's capital. 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").

The Bank is a joint-stock company with a two-tier management system (Supervisory Board and Management Board). Until June 2017 the bank had a one-tier management system (Board of Directors and an Executive Steering Committee within it). Following the acquisition of the majority share of the Bank's capital by KBC Bank N.V. the management system of UBB was changed to two-tier with a decision of the General Meeting of Shareholders of 14.06.2017.

UBB is managed by a Supervisory Board and a Management Board which as at 31 December 2018 are in the following configurations:
Supervisory Board:
1) Luc Popelier - Chairman of the Supervisory Board
2) Christine Van Rijsseghem - Member of the Supervisory Board
3) Willem Hueting - Member of the Supervisory Board
4) Franky Depickere - 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) Frank Jansen - Member of the Management Board and Executive Officer SME and Corporate Segment
5) Teodor Marinov - Member of the Management Board and Executive Officer Legacy
6) Ivaylo Mateev - Member of the Management Board and Chief Operations Officer
7) Jan Swinnen - Member of the Management Board and Executive Officer Marketing and Retail Distribution
8) Hristina Filipova - Procurator

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

General information about the merger of the former CIBANK EAD into United Bulgarian Bank AD
The Transforming bank was a solely owned joint-stock company with company name CIBANK EAD (fully owned by KBC Bank N.V.) duly established and existing under the Bulgarian law registered with the Commercial Registry under UIC 831686320 having its seat and registered address at 89B Vitosha Blvd. Triaditsa region Sofia 1463. The registered capital of the Transforming bank was BGN 227 932 510 divided into 22 793 251 ordinary registered dematerialized voting shares with a nominal value of BGN 10 each. The sole shareholder of the company was KBC Bank N.V.

1.GENERAL INFORMATION (CONTINUED)

The Acquiring bank is a joint-stock company with a company name United Bulgarian Bank AD duly established and existing under the Bulgarian law registered with the Commercial Registry under UIC 000694959 having its seat and registered address at 5 Sveta Sofia Str. Vuzrazhdane region Sofia 1040. The registered capital of the Acquiring bank was BGN 75 964 082 divided into 75 964 082 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. KBC Bank N.V. holds 99.91% of the shares of the Acquiring bank.

The merger of CIBANK EAD into United Bulgarian Bank AD was registered in the Commercial Registry on 5th February 2018. The Acquiring bank keeps the name United Bulgarian Bank AD UIC 000694959 and the seat and registered address is changed to 89B Vitosha Blvd. Triaditsa region Sofia 1463.

As result of the merger the share capital of United Bulgarian Bank AD is increased by BGN 17 874 239 divided into 17 874 239 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. All new shares are subscribed by KBC Bank N.V. being the sole shareholder of the Transforming bank - CIBANK EAD. After the increase of the capital of United Bulgarian Bank AD 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).

According to art. 8 of the Merger agreement considering the share exchange ratio there is no need for additional payments to be made.

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 with foreign currencies trade with 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 2018 the Bank’s operations were conducted through a Headquarters Office in Sofia and 194 branches, 14 business centers and 77 remote work places throughout Bulgaria.

1. GENERAL INFORMATION (CONTINUED)

The number of full-time employees of the bank as of December 31 2018 was 2 921 (2017: 2 157).

The number of full-time employees of UBB as of December 31 2018 was 3 036 (2017: 2 210).

These separate and consolidated financial statements have been approved for issue by the management Board on 25.04.2019.

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 the following:
- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) certain classes of property, plant and equipment and investment property - measured at amortized cost. assets held for sale - measured at fair value less cost of disposal, and
- defined benefit pension plans - plan assets measured at fair value.

The following changes in presentation and accounting policies were applied in 2018:

- IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments became effective on 1 January 2018 replacing IAS 39 (Financial Instruments: Recognition and Measurement).

Classification and measurement: classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cashflow characteristics.

Impairment of financial instruments: financial instruments that are subject to impairment are classified into three stages namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired. UBB has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and therefore whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio a multi-tier approach has been adopted to staging based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio (debt securities used in Assets liabilities management) except for the low-credit-risk exemption for bonds with investment grade of PD1 to PD3 which are considered to be in 'Stage 1' unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – UBB recorded incurred-but-not-reported (IBNR) impairment losses which are influenced by emergence periods. Under IFRS 9 impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and UBB applies three scenarios to evaluate a range of possible outcomes.

2. BASIS OF PREPARATION (CONTINUED)

Write off: a write-off is the direct reduction of the gross carrying amount (GCA) of a financial assets and its corresponding loss allowance, when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Two type of write off - full and partial write off. A write-off can only take place if the amount of write-off from the gross carrying amount of an asset is already fully provided for. Write –offs constitute a derecognition event and therefore once the financial asset is derecognised, then it cannot be recognised back. Future recuperations are recognised in the period that they occur as as an impairment gain in the profit or loss.

Hedge accounting: UBB uses the option to continue with hedge accounting under IAS 39 and awaits further developments at the IASB regarding macro hedging.
As a result of the application of IFRS 9, the income statement, balance sheet, statement of comprehensive income and statement of changes in equity have all changed significantly as have the accompanying notes. UBB has opted to make use of transition relief for disclosing comparative information. The accounting policies in Note 1.2 have been updated and now include information on IFRS 9. Transition disclosures are included in Note 6 and additional explanations provided in the notes where relevant.
UBB does not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital as it wants to provide full transparency. Consequently own funds capital and the leverage ratio reflect the full impact of IFRS 9.

The fact that UBB uses transition relief for disclosing comparative figures for 2017 and therefore does not or is unable to provide comparative figures for a number of items means that the structure of several tables is also impacted. Although we try where possible to present the figures for 2017 and 2018 in the same table we have not been able to do so for a number of tables (primarily in Note 6) and have had to provide two separate tables instead. For 2018 a new table structure has been provided to reflect the IFRS 9 requirements whereas the structure of the table for 2017 is the same as the one published in the annual report for 2017.

• IFRS 15 (Revenue from Contracts with Customers) provides guidance on the recognition of revenue. UBB has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The main focus related to the (i) identification of the performance obligations and (ii) variable consideration in certain asset management contracts. The new requirements had no material impact on the revenue recognition of UBB.

The following IFRS standards were issued but not yet effective in 2018. UBB will apply these standards when they become mandatory.
• In January 2016 the IASB issued IFRS 16 (Leases) which will become effective on 1 January 2019. As of the date of the preparation of the Annual report the impact of IFRS 16 is estimated to 38 million BGN(Right of use and Finacial liability) due to UBB acting as lessee. The first time application of this standard is not expected to have any impact on equity and any future impact on the income statement is estimated to be not material.

• IFRS 17: in May 2017 the IASB issued IFRS 17 (Insurance Contracts) a comprehensive new accounting standard for insurance contracts covering recognition and measurement presentation and disclosure. Once effective IFRS 17 will replace IFRS 4 (Insurance Contracts) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life non-life direct insurance and re-insurance) regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION (CONTINUED)

In contrast to the requirements in IFRS 4 which are largely based on grandfathering previous local accounting policies IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. The core of IFRS 17 is the general model supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. IFRS 17 will become effective for reporting periods beginning on or after 1 January 2021 (subject to EU endorsement) with comparative figures being required. The new standard will not impact UBB financials.

- Other: the IASB has published several limited amendments to existing IFRSs and IFRICs. They will be applied when they become mandatory but their impact is currently estimated to be negligible.

The consolidated entities in the UBB Group consolidated financial statements are as follows:
As of 31.12.2018:

Entity name	**Ownership (%)**	**Method of consolidation**
UBB Factoring EOOD	100 %	Fully consolidated
UBB Asset Management AD	91%	Fully consolidated
UBB Insurance Broker AD	100%	Fully consolidated
East Golf Properties EAD	100%	Fully consolidated
UBB Centre Management EOOD	100%	Fully consolidated
Druzhestvo za Kasovi Uslugi AD	20%	Equity method of consolidation

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 UBB assesses whether there is any indication that an investment in a subsidiary or equity method investments may be impaired. If any such indication exists UBB 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.

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.

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. Significant accounting judgements estimates and assumptions

The IFRS application requires management to make judgments estimates and assumptions preparing the financial statements in order determine the amount of certain assets liabilities incomes and expenses. They are based on the best judgment of the Management using historical experience and taking into consideration all factors relevant at the date of preparation of the financial statements. The actual results may differ from the estimates.

Judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Classification of properties acquired from collateral foreclosure

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

Useful lives of property plant and equipment and intangible assets

Financial reporting of property plant and equipment and intangible assets involves the use of estimates for their expected useful life and residual values which are based on judgments of UBB management.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3.Significant accounting judgements estimates and assumptions (CONTINUED)

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

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:

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.

Impairments 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 (triggers are days past due other information indicating non performing status). In the assessment UBB takes into account the provided collateral and the received Gulatantees. All receivables with days past due above 90 are Impaired with 50% and those with DPD >180 are 100% impaired. The Expected credit losses (ECL) are reported as Impairement charge on Other receivables and the latter are reported net of the ECL on the face of the BS.

Valuation of Investment properties
Investment property acquired in the process of NPL management (respossessed collateral) is measured initially at acquisition cost representing their fair value at the acquisition date or in casse 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).

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.

3.4.Accounting policies

3.4.1. Functional and presentation currency

UBB's 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 income statement. 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 rate that exsisted 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.

3.4.2. Financial instruments

- **Recognition**

Financial assets and liabilities are recognised in the balance sheet 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 – 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*

3.4. Accounting policies (CONTINUED)

3.4.2. Financial instruments (CONTINUED)

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.

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 local finance team on which local 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 an 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 Reverse repos 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 has 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;*
- *Loans given to employees containing preferential off the market interest rate;*
- *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 intruments failing the SPPI test (Investments in Mutual Funds).

3.4.2.Financial instruments (CONTINUED)

- **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:

- *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 abowe 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 Bnak 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.

3.4.2.Financial instruments (CONTINUED)

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

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.

3.4.2.Financial instruments (CONTINUED)

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

- *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 other 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 balance sheet because they are not related to costs and their net fair value is 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 is 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. 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3.4.2.Financial instruments (CONTINUED)

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.

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 income statement 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 income statement. 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 (FVO)**

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.

3.4.2.Financial instruments (CONTINUED)

- **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:

- *Deposits from credit institutions and investment firms*
- *Deposits from customers*
- *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.

Long-term borrowings

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 income statement using the effective interest rate method.

- **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 effected before the reclassification date.

3.4.2.Financial instruments (CONTINUED)

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

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

- **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 IAS 17); 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 forborne 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.

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 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 basecase 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.

3.5. DERECOGNITION

3.5.1. 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;
- 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.

3.5. DERECOGNITION (CONTINUED)

3.5.1. Financial assets (CONTINUED)

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.

3.5.2. Financial liabilities

Financual liability is derecognised from the balance sheet 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 income statement.

- **FINANCIAL LIABILITIES - FINANCIAL GUARANTEES AND LC**

Financial guarantee contract is one that 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.
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 protections related to speciafied payments that the holder may be required to settle.
Financial guarantees and letters of credit are recognised initially in the financial statements at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with the impairment provisions of IFRS 9 and (b) the amount initially recognised less when appropriate cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

3.6. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet 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.

3.7. 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 discoses 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:

3.7.FAIR VALUE MEASUREMENT (CONTINUED)

- They are independent of each other (ie 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.

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 returnA 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. The notion “observable valuation inputs” is further defined in 1.2.1.

3.7.FAIR VALUE MEASUREMENT (CONTINUED)

- **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

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.

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 available-for-sale 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3.8. 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:

	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)
Machines equipment servers ATMs and POS	20% (5 years)
GSMs	50% (2 years)
Other	15% (6.7 years)

3.9. INTANGIBLE ASSETS

Intangible assets including computer software are items which din’t have physical substance and UBB exect 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 licences trademarks and trade rights	20% (5 years)
License - Core banking system	12% (8 years)

3.10. INVESTMENT PROPERTY

Investment property is recognized when UBB helds 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 (or in case of cost not being the FV for repossessed collateral the initial recognition is done at FV) 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 Income Statement.

3.10. INVESTMENT PROPERTY (CONTINUED)

Impairment loss recognised in the previous years is recovered through the Income Statement 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 the their useful life which for buildings is set at 33.3 years, for the equipment at 5 years and land is not depreciated.

3.10.1 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 balance sheet 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.

3.11. REPOSSESSED COLLATERAL

Repossessed collateral represents non-financial assets acquired by UBB in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment investment properties or inventories within other assets 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.

3.12. 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 exists 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.

3.13. TAX

Taxes reported in the financial statements are in line with Bulgarian law. Income tax benefits or expenses in the income statement 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".

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 income statement 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

3.14. 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 balance sheet date.
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.

3.15. 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.

3.16. INTEREST INCOME AND INTEREST EXPENSE

Interest income and interest expenses are stated in the income statement for all interest-bearing instruments. Loan related fees which are incremental to the loans granting are presented as interest income.

3.17. FEE AND COMMISSION INCOME

Most net fee and commission income falls under the scope of IFRS 15 (Revenue from Contracts with Customers) as it relates to the services that UBB provides to its clients and is outside the scope of other IFRS standards. 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.They comprise mainly fees charged on transactions performed at the teller's desk and on money transfers, bank insurance, credit transactions, guarantees 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.

3.18. RENTAL INCOME

Rental income on properties leased out under operating leases is recognised in accordance with IAS 17. 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.

3.19. OPERATING LEASE – BANK AS A LESSEE

Real estate necessary for UBB's branches activities are rented under long-term operating lease contracts. Expenses relating to such contracts are reported in the income statement 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.

Under the new IFRS 16 which will replace IAS 17 as of 1 January 2019 the lessee accounting will change and the bank where it is a lessee will recognise right of use (ROU) and Financial liability on the BS and in the PnL – interest expense on the FL and amortisation cost of the ROU.

3.20. 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.

3.21. 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
	IFRS 9	IAS39	IFRS 9	IAS39
Cash in hand	182 329	148 378	182 330	148 379
Minimum reserve with the Central Bank	958 357	283 595	958 357	283 595
Current account with the Central Bank	621 713	415 749	621 713	415 749
TOTAL	**1 762 399**	**847 722**	**1 762 400**	**847 723**

The current account with the Central Bank in BGN is used for direct participation in the money and treasury bills markets and for settlement purposes.

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.

5. DUE FROM BANKS AND REVERSE REPOS

	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Nostro accounts	578 682	708 914	578 682	708 914
Interbank placements	6 559	255 634	6 559	255 634
Other loans and advances to banks	2 387	4 435	2 387	4 435
Reverse Repos with banks	1 345 350	585 705	1 345 350	585 705
TOTAL	**1 932 978**	**1 554 688**	**1 932 978**	**1 554 688**
Included in cash equivalents (note 25)	2 035 943	1 533 110	2 035 944	1 533 111

6. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals (retail)				
Overdrafts	13 827	12 294	13 827	12 294
Credit cards	105 907	112 925	105 907	112 925
Mortgages	1 262 986	868 485	1 262 986	868 485
Consumer loans	1 069 283	689 689	1 069 283	689 689
	2 452 003	1 683 393	2 452 003	1 683 393
Corporate entities				
Financial institutions	118 610	80 000	99 207	80 000
Large corporate customers	870 196	1 222 090	889 818	1 222 090
SME corporate	2 092 716	905 913	2 095 133	907 847
Governement and agencies	64 991	20 156	64 991	20 156
	3 146 513	2 228 159	3 149 149	2 230 093
Loans and advances to customers, gross	**5 598 516**	**3 911 552**	**5 601 152**	**3 913 486**
Less: allowance for impairment	(420 461)	(618 510)	(421 634)	(618 921)
Loans and advances to customers net	**5 178 055**	**3 293 042**	**5 179 518**	**3 294 565**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6.LOANS AND ADVANCES TO BANKS AND CUSTOMERS (CONTINUED)

(b) Analysis by IFRS 9 Stage net of impairments

	As of 31.12.2018 SEPARATE	As of 31.12.2018 CONSOLIDATED
Individuals (retail)	2 336 833	2 336 833
Impaired		
Stage 1	1 981 895	1 981 893
Stage 2	245 060	245 060
Stage 3	109 878	109 880
Corporate entities	2 841 222	2 842 685
Impaired		
Stage 1	2 212 698	2 193 516
Stage 2	256 334	276 960
Stage 3	372 190	372 209
Loans and advances to customers net	5 178 055	5 179 518

	As of 31.12.2017 SEPARATE IAS39	As of 31.12.2017 CONSOLIDATED IAS39
Loans to clients		
Neither overdue nor impaired	2 656 264	2 657 787
Overdue but not impaired	331 691	331 691
Impaired	923 597	924 008
Gross amount	**3 911 552**	**3 913 486**
Provisions	(618 510)	(618 921)
Net amount	**3 293 042**	**3 294 565**

Note on post balance sheet event - at the end of January 2019 UBB have signed a contract for sale:

- as of written-off loans with net carrying amount of BGN 17,6 millions
- Investment properties with carrying amount BGN 15,3 millions reclassified as Non-current assets held for sale .
- There are no material impact in Profit/(Loss) of UBB from the deal.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6.LOANS AND ADVANCES TO BANKS AND CUSTOMERS (CONTINUED)

(c) Movement of allowances for impairment for loans and advances

Credit loss allowance	Stage 1			Stage 2			Stage 3			
SEPARATE	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit im-paired)			Total
IFRS 9	Mortgage	Consumer	Companies	Mortgage	Consumer	Companies	Mortgage	Consumer	Companies	
At 1 January 2018	(121)	(2 895)	(10 454)	(1 776)	(3 397)	(26 448)	(65 227)	(52 893)	(511 999)	**(675 210)**
Impact of Bussiness combination	(161)	(1 563)	(4 671)	(284)	(3 185)	(636)	(10 558)	(8 088)	(92 523)	**(121 669)**
Increases due to origination	(112)	(2 472)	(6 240)	(97)	(1 355)	(3 816)	-	-	-	**(14 092)**
Decrease due to derecognition /full repayment/	24	1 006	3 104	127	896	4 992	1 119	8 867	3 271	**23 406**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	18 202	25 756	345 489	**389 447**
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	11 749	11 749
Changes due to change in credit risk (net)	81	1 526	333	241	89	14 012	(989)	(17 931)	(31 454)	**(34 092)**
At 31 December 2018	**(289)**	**(4 398)**	**(17 928)**	**(1 789)**	**(6 952)**	**(11 896)**	**(57 453)**	**(44 289)**	**(275 467)**	**(420 461)**

Credit loss allowance	Stage 1			Stage 2			Stage 3			
CONSOLIDATED	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit im-paired)			Total
IFRS 9	Mortgage	Consumer	Companies	Mortgage	Consumer	Companies	Mortgage	Consumer	Companies	
At 1 January 2018	(121)	(2 895)	(10 454)	(1 776)	(3 397)	(26 448)	(65 227)	(52 893)	(512 410)	**(675 621)**
Impact of Bussiness combination	(161)	(1 563)	(4 671)	(284)	(3 185)	(636)	(10 558)	(8 088)	(92 523)	**(121 669)**
Increases due to origination	(112)	(2 472)	(6 240)	(97)	(1 588)	(3 816)	-	-	-	**(14 325)**
Decrease due to derecognition /full repayment/	24	1 006	3 104	127	896	4 992	1 119	8 867	3 271	**23 406**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	15 037	28 921	345 489	**389 447**
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	11 749	**11 749**
Changes due to change in credit risk (net)	81	1 526	333	241	322	13 522	2 176	(21 096)	(31 726)	**(34 621)**
At 31 December 2018	(289)	(4 398)	(17 928)	(1 789)	(6 952)	(12 386)	(57 453)	(44 289)	(276 150)	(421 634)

- During the year the Gross amount of Written-off loans is 389 447 thousand BGN.

SEPARATE	Total	Corporate	Mortgage	Consumer
IAS39				
BALANCE AS OF JANUARY 1 2017	**(683 799)**	**(494 932)**	**(80 845)**	**(108 022)**
Allowances for impairment charges	(204 202)	(160 836)	(9 281)	(34 085)
Loans and advances written off as irrecoverable	272 582	131 438	33 334	107 810
Recoveries	(7 143)	(1 622)	-	(5 521)
Legal fees	4 052	1 049	66	2 937
BALANCE AS OF DECEMBER 31 2017	**(618 510)**	**(524 903)**	**(56 726)**	**(36 881)**

CONSOLIDATED	Total	Corporate	Mortgage	Consumer
IAS39				
BALANCE AS OF JANUARY 1 2017	**(684 254)**	**(495 387)**	**(80 845)**	**(108 022)**
Allowances for impairment	(204 208)	(160 842)	(9 281)	(34 085)
Loans and advances written off as unrecoverable	272 632	131 488	33 334	107 810
Recoveries	(7 143)	(1 622)	-	(5 521)
Legal fees	4 052	1 049	66	2 937
BALANCE AS OF DECEMBER 31 2017	**(618 921)**	**(525 314)**	**(56 726)**	**(36 881)**

6.LOANS AND ADVANCES TO BANKS AND CUSTOMERS (CONTINUED)

(d) First time appilication of IFRS 9

Provisions BGN thousands			Before adoption of IFRS 9	Corporate	Impact of IFRS 9 on retained earnings (01-01-2018)	
	Loan commitments	Financial guarantees	Other commitments	Total	Before tax	After tax
Provisions: total carrying value before adoption of IFRS 9 (IFRS 7 42(a))	-	128	-	128		
Remeasurement	55	2 123	18	2 196	(2 196)	(1 976)
Reversal of specific impairment	-	(128)	-	(128)	-	-
Transfer to lifetime ECL	-	432	8	440	-	-
Transfer to 12-month ECL	55	1 818	10	1 883	-	-
IFRS 9 measurement on 01-01-2018	55	2 251	18	2 324	-	-

Financial assets BGN thousands	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt instruments					Equity instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for sale	Designated at fair value	Held for trading		Before tax	After tax	Before tax	After tax
FINANCIAL ASSETS 31-12-2017	4 128 026	181 326	665 813	-	600 117	14 794		4	5 590 080	(85 314)	(76 783)	(53 105)	(47 795)
(TOTAL CARRYING VALUE BEFORE ADOPTION OF IFRS 9)	-	-	-	-	-	-	-	-	-	-	-	-	-
AC	-	-	-	-	-	-	-	-	4 829 667	(62 128)	(55 916)	(76 291)	(68 662)
Amount before adoption of IFRS 9	4 128 026	181 326	658 735	-	-	-	-	-	4 968 087	-	-	-	-
Remeasurement	(61 750)	(61)	(76 609)	-	-	-	-	-	(138 420)	-	-	-	-
Due to reclassification: reversal of revaluation reserve (IAS 39)	-	-	(76 291)	-	-		-	-	(76 291)	-	-	(76 291)	(68 662)
Due to reclassification: portfolio of FV hedges (transfers to non-financial assets)	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment impact	(61 750)	(61)	(318)	-	-	-	-	-	(62 129)	(62 128)	(55 916)	-	-
Reserved interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of specific impairment	615 480	-	15 261	-	-	-	-	-	630 741	-	-	-	-
Reversal of IBNR provision	11 906	-	-	-	-	-	-	-	11 906	-	-	-	-
Transfer to ECL – Stage 3	(642 066)	-	(15 261)	-	-	-	-	-	(657 327)	-	-	-	-
Transfer to ECL – Stage 2	(33 443)	-	-	-	-	-	-	-	(33 443)	-	-	-	-
Transfer to ECL – Stage 1	(13 627)	(61)	(318)	-	-	-	-	-	(14 006)	-	-	-	-
IFRS 9 measurement on 01-01-2018	4 066 276	181 265	582 126	-	-	-	-	-	4 829 667	-	-	-	-

6.LOANS AND ADVANCES TO BANKS AND CUSTOMERS (CONTINUED)

d) First time appilication of IFRS 9 (CONTINUED)

Financial assets BGN thousands	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt instruments					Equity instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for sale	Designated at fair value	Held for trading		Before tax	After tax	Before tax	After tax
FVOCI									569 576	(25 973)	(23 376)	(25 973)	(23 376)
Amount before adoption of IFRS 9	-	-	-	-	554 782	14 794	-	-	569 576	-	-	-	-
Remeasurement	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to reclassification: reversal of revaluation reserve (IAS 39)	-	-	(992)	-	-	(1 971)	-	-	(2 963)	-	-	(2 963)	(2 667)
Due to reclassification: impact of revaluation reserve (IAS 39) on OCI reserve (IFRS 9)	-	-	992	-	-	1 971	-	-	2 963	-	-	2 963	2 667
Due to reclassification: other than reversal of revaluation reserve	-	-	-	-	154	(9 347)	-	-	(9 193)	(35 165)	(31 649)	25 973	23 376
Impairment impact	-	-	-	-	(154)	9 347	-	-	9 193	9 192	8 273	-	-
Reversal of specific impairment	-	-	-	-	-	9 347	-	-	9 347	-	-	-	-
Transfer to ECL – Stage 1	-	-	-	-	(154)	-	-	-	(154)	-	-	-	-
IFRS 9 measurement on 01-01-2018	-	-	-	-	554 782	14 794	-	-	569 576	-	-	-	-

Financial assets BGN thousands	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt instruments					Equity instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for sale	Designated at fair value	Held for trading		Before tax	After tax	Before tax	After tax
HFT	-	-	-	-	-	-	-	-	45 338	-	-	-	-
Amount before adoption of IFRS 9	-	-	-	-	45 334	-	-	4	45 338	-	-	-	-
Remeasurement	-	-	-	-	-	-	-	-	-	-	-	-	-
IFRS 9 measurement on 01-01-2018					45 334			4	45 338	-	-	-	-

6.LOANS AND ADVANCES TO BANKS AND CUSTOMERS (CONTINUED)

d) First time appilication of IFRS 9 (CONTINUED)

Financial assets BGN thousands	Classification before IFRS 9									Impact of IFRS 9 (1 January 2018)			
	Debt instruments					Equity instruments			Total	Retained earnings		OCI reserve	
	Loans and receivables	Held to maturity	Available for sale	Designated at fair value	Held for trading	Available for sale	Designated at fair value	Held for trading		Before tax	After tax	Before tax	After tax
MFVPL (excluding HFT)	-	-	-	-	-	-	-	-	7 078	2 787	2 509	(2 787)	(2 509)
Amount before adoption of IFRS 9	-	-	7 078	-	-	-	-	-	7 078	-	-	-	-
Remeasurement	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to reclassification: reversal of revaluation reserve (IAS 39)	-	-	(2 787)	-	-		-	-	(2 787)	-	-	(2 787)	(2 509)
Due to reclassification: impact of revaluation reserve (IAS 39) on retained earnings (IFRS 9)	-	-	2 787	-	-	-	-	-	2 787	2 787	2 509	-	-
Due to reclassification: other than reversal of revaluation reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment impact	-	-	-	-	-	-	-	-	-	-	-	-	-
IFRS 9 measurement on 01-01-2018	-	-	7 078	-	-	-	-	-	7 078	-	-	-	-
FINANCIAL ASSETS 01-01-2018 TOTAL CARRYING VALUE UNDER IFRS 9	**4 066 276**	**181 265**	**589 204**	**-**	**600 116**	**14 794**	**-**	**4**	**5 451 659**	-	-	-	-
Impact on retained earnings – excluding equity method 01-01-2018 (IFRS 9)	-	-	-	-	-	-	-	-	(76 783)	(85 314)	(76 783)	-	-
Impact on OCI reserve – excluding equity method 01-01-2018 (IFRS 9)	-	-	-	-	-	-	-	-	(47 795)	-	-	(53 105)	(47 795)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (IFRS 9) / FINANCIAL ASSETS HELD FOR TRADING (IAS 39)

	As of 31.12.2018 IFRS 9 SEPARATE	As of 31.12.2017 IAS39 SEPARATE	As of 31.12.2018 IFRS 9 CONSOLIDATED	As of 31.12.2017 IAS39 CONSOLIDATED
Bulgarian government securities	26 259	507 795	26 259	507 795
listed on official stock markets	26 259	371 501	26 259	371 501
Foreign government securities	-	92 322	-	92 322
listed on official stock markets	-	68 275	-	68 275
Debt securities of corporate entities	5	4	5	4
Mutual Funds	6 421	-	6 421	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**32 685**	**600 121**	**32 685**	**600 121**

Part of the owned Bulgarian government securities are pledged for budget.

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 31.12.2018

SEPARATE

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	20 110	-	6 425	**26 535**
EUR	6 150	-	-	**6 150**
TOTAL	**26 260**	**-**	**6 425**	**32 685**

As of 31.12.2017

SEPARATE

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	336 001	5	4	**336 010**
USD	34 627	7 850	-	**42 477**
EUR	219 781	1 853	-	**221 634**
TOTAL	**590 409**	**9 708**	**4**	**600 121**

As of 31.12.2018

CONSOLIDATED

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	20 110	-	6 425	**26 535**
EUR	6 150	-	-	**6 150**
TOTAL	**26 260**	**-**	**6 425**	**32 685**

As of 31.12.2017

CONSOLIDATED

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	336 001	5	4	**336 010**
USD	34 627	7 850	-	**42 477**
EUR	219 781	1 853	-	**221 634**
TOTAL	**590 409**	**9 708**	**4**	**600 121**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (IFRS 9)/ FINANCIAL ASSETS HELD FOR TRADING (IAS 39) (CONTINUED)

Rating Moodys

	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Aa1 to A3	-	16 443	-	16 443
MBAA2	26 259	-	26 259	-
Baa1 to Ba3	-	583 674	-	583 674
Unrated (Not rated)	6 426	4	6 426	4
TOTAL	**32 685**	**600 121**	**32 685**	**600 121**

8. DERIVATIVE FINANCIAL INSTRUMENTS

a) DERIVATIVES HELD FOR TRADING

Derivatives held for trading	SEPARATE 31.12.2018			CONSOLIDATED 31.12.2018		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading	2 155 439	9 379	1 713	2 155 439	9 379	1 713

	SEPARATE 31.12.2018			CONSOLIDATED 31.12.2018		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives incl.:						
Currency forward agreements	33 061	111	55	33 061	111	55
Currency swaps	2 122 378	9 268	1 658	2 122 378	9 268	1 658
Total derivatives held for trading	**2 155 439**	**9 379**	**1 713**	**2 155 439**	**9 379**	**1 713**

	SEPARATE 31.12.2017			CONSOLIDATED 31.12.2017		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange OTC derivatives incl:						
Currency forward agreements	112 849	328	254	112 849	328	254
Currency swaps	407 366	156	3 801	407 366	156	3 801
Interest rate derivatives - OTC	146 687	1 353	790	146 687	1 353	790
Total derivatives held for trading	**666 902**	**1 837**	**4 845**	**666 902**	**1 837**	**4 845**

The concluded contracts for derivative financial instruments include short-term currency forwards currency and interest rate swaps.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8.DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b) HEDGING DERIVATIVES

	SEPARATE			CONSOLIDATED		
	31.12.2018			31.12.2018		
Hedging Derivatives	Contract/ notional amount	Fair value		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
OTC interest rate swaps	117 350	-	3 724	117 350	-	3 724
Total hedge derivatives	**117 350**	**-**	**3 724**	**117 350**	**-**	**3 724**

	SEPARATE		CONSOLIDATED	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Net result from FV hedges				
Change in the fair value of hedging instruments (interest rate swaps) due to the hedged risk	(1 128)	-	(1 128)	-
Adjustments for credit risk of hedging derivatives - CVA net of DVA	85	-	85	-
Net change in fair value of hedging instruments	(1 043)	-	(1 043)	-
Net change in fair value of hedged asset's value due to hedged risk	1 128	-	1 128	-
Net result from FV hedges recognised in the income statement	**85**	**-**	**85**	**-**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / FINANCIAL ASSTES AVAILABLE FOR SALE

	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
	IFRS 9	IAS39	IFRS 9	IAS39
Bulgarian government securities				
Listed on official stock markets	911 264	626 597	911 264	626 597
Unlisted	927	11 258	927	11 258
	912 191	637 855	912 191	637 855
Foreign government securities				
Listed on official stock markets	65 778	-	65 778	-
Unlisted	23 798	-	23 799	-
	89 576	-	89 577	-
Corporate bonds				
Listed on official stock markets	-	19 260	-	19 260
Unlisted	10	1 621	10	1 621
	10	20 881	10	20 881
Debt securities in mutual funds	-	-	-	-
Unlisted	-	7 078	-	7 078
	-	7 078	-	7 078
Equity securities FVOCI				
Equity securities in local entities				
Listed on official stock markets	380	214	380	214
Unlisted	9 780	5 447	9 780	5 447
	10 160	5 661	10 160	5 661
Equity securities in foreign entities				
Listed on official stock markets	-	2	-	2
Unlisted	8 700	9 128	8 700	9 129
Equity securities in foreign entities	8 700	9 130	8 700	9 131
TOTAL FINANCIAL ASSETS AVAILABLE-FOR-SALE	**1 020 637**	**680 605**	**1 020 638**	**680 606**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

9.FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / FINANCIAL ASSTES AVAILABLE FOR SALE (CONTINUED)

Total financial assets FVOCI / AFS by type of currency and interest rate are as follows:

As of 31.12.2018

SEPARATE

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	307 300	-	10 166	**317 466**
USD	37 587	-	7 164	**44 751**
EUR	656 890	-	1 530	**658 420**
TOTAL	**1 001 777**	**-**	**18 860**	**1 020 637**

As of 31.12.2017

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	26 870	-	12 739	**39 609**
USD	-	-	6 265	**6 265**
EUR	630 084	1 781	2 866	**634 731**
TOTAL	**656 954**	**1 781**	**21 870**	**680 605**

As of 31.12.2018

CONSOLIDATED

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	307 300	-	10 166	**317 466**
USD	37 587	-	7 164	**44 751**
EUR	656 891	-	1 530	**658 421**
TOTAL	**1 001 778**	**-**	**18 860**	**1 020 638**

As of 31.12.2017

Currency	Fixed interest	Floating interest	Non-Interest bearing	Total
BGN	26 870	-	12 739	**39 609**
USD	-	-	6 265	**6 265**
EUR	630 084	1 781	2 867	**634 732**
TOTAL	**656 954**	**1 781**	**21 871**	**680 606**

10. FINANCIAL ASSETS AT AMORTIZED COST / HELD-TO-MATURITY

	As of 31.12.2018 SEPARATE IFRS 9	As of 31.12.2018 CONSOLIDATED IFRS 9
Bulgarian government securities	855 943	855 943
listed on official stock markets	855 943	855 943
Foreign government securities	168 235	168 235
listed on official stock markets	168 235	168 235
Debt securities of corporate entities	3 100	3 100
TOTAL FINANCIAL ASSETS AT AMORTISED COST	**1 027 278**	**1 027 278**

	As of 31.12.2017 SEPARATE IAS39	As of 31.12.2017 CONSOLIDATED IAS39
Bulgarian government securities	181 326	181 326
listed on official stock markets	181 326	181 326
TOTAL FINANCIAL ASSETS HELD TO MATURITY	**181 326**	**181 326**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10.FINANCIAL ASSETS AT AMORTIZED COST / HELD-TO-MATURITY(CONTINUED)

Total financial assets at amortised cost / Held to maturity by type of currency and interest rate are as follows:

As of 31.12.2018

SEPARATE

Currency	Fixed interest	Non-Interest bearing	Total
BGN	98 226	-	**98 226**
USD	61 704		**61 704**
EUR	864 248	3 100	**867 348**
TOTAL	**1 024 178**	**3 100**	**1 027 278**

As of 31.12.2017

SEPARATE

Currency	Fixed interest	Non-Interest bearing	Total
BGN	24 723	-	**24 723**
USD	-	-	**-**
EUR	156 603	-	**156 603**
TOTAL	**181 326**	**-**	**181 326**

As of 31.12.2018

CONSOLIDATED

Currency	Fixed interest	Non-Interest bearing	Total
BGN	98 226	-	**98 226**
USD	61 704		**61 704**
EUR	864 248	3 100	**867 348**
TOTAL	**1 024 178**	**3 100**	**1 027 278**

As of 31.12.2017

CONSOLIDATED

Currency	Fixed interest	Non-Interest bearing	Total
BGN	24 723	-	**24 723**
USD	-	-	**-**
EUR	156 603	-	**156 603**
TOTAL	**181 326**	**-**	**181 326**

11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at December 31 2018

SEPARATE

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost
UBB Factoring EOOD	Bulgaria	100%	10 000	BGN	1 000
UBB Asset Management AD	Bulgaria	91%	636	BGN	636
UBB Insurance Broker AD	Bulgaria	100%	500 000	BGN	2 610
East Golf Properties EAD*	Bulgaria	100%	12 146 365	BGN	12 146
UBB Centre Management EOOD*	Bulgaria	100%	2	BGN	
Drujestvo za Kasovi Uslugi AD	Bulgaria	20%	2 500	BGN	2 501
Total investments in subsidiaries associates and joint ventures					**18 893**

* In result of legal merge of UBB and Cibank in 05th of February 2018, UBB acquired also the subsidiaries of Cibank, East Golf Properties EAD and UBB Centre Management EOOD.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11.INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

As at December 31 2018

CONSOLIDATED

Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
Drujestvo za Kasovi Uslugi AD	Associate	20%	2 500	BGN	2 501	2 776
Total investments in associates					**2 501**	**2 776**

As at December 31 2017

SEPARATE

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost
UBB Factoring EOOD	Bulgaria	100%	10 000	BGN	1 000
UBB Asset Management AD	Bulgaria	91%	636	BGN	636
UBB Insurance Broker AD	Bulgaria	100%	500 000	BGN	2 610
UBB Life Insurance EAD	Bulgaria	60%	7 440	BGN	20 426
Druzhestvo za Kasovi Uslugi AD	Bulgaria	20%	2 500	BGN	2 501
Total investments in subsidiaries associates and joint ventures					**27 173**

31.12.2017

CONSOLIDATED

Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
UBB Life Insurance EAD	Associate	60%	7 440	BGN	20 426	26 985
Druzhestvo za Kasovi Uslugi AD	Associate	20%	2 500	BGN	2 501	2 722
Total investments in associates					**22 927**	**29 707**

Movement in investment in associates	Investments in associates
BALANCE AS OF JANUARY 1 2017	**10 142**
Additions	18 591
Payment of dividends	(191)
Income from associates	1 695
Other	(530)
BALANCE AS OF DECEMBER 31 2017	**29 707**
Addition	
Income from equity method investments	562
Sold investments	(27 493)
BALANCE AS OF DECEMBER 31 2018	**2 776**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

11.INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarised financial information for the associates of UBB:

	31.12.2018	31.12.2017	31.12.2017
		Source signed DKU 2017 FS	
	Druzhestvo za Kasovi Uslugi	Drujestvo za Kasovi Uslugi AD	UBB Life Insurance
Carrying amount	2 776	2 722	26 985
Revenue	6 973	6 774	43 609
Depreciationa and amortisation	1 057	1 122	94
Interest income	4	23	1 311
Gross profit from continuing operation	953	802	4 545
Net profit for the year	-	723	4 086
Post-tax profit or loss from continuing operations	-	723	4 086
Other comprehensive income	(23)	(12)	1 798
Total comprehensive income	(23)	(12)	5 884
Group's share of profits of associates	191	144	2 452
Group's share of profits of OCI of associates	-	-	829
Dividends distributed	128	191	-
%Holding	20%	20%	60%
Balance Sheet Data	14 462	14 256	103 067
Current assets	7 843	7 609	6 081
incl. cash and cash equivalents	6 654	6 559	5 450
Non-current assets	6 619	6 647	96 986
Current liabilities	445	450	2 755
Current liabilities (excl. trade and other payables and provisions)	125	25	175
Non-current liabilities	234	220	83 109
Non-current liabilities (excl. trade and other payables and provisions)	70	71	-

All subsidiaries and associates are registered in Bulgaria.

12. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets property and equipment as of December 31, 2018 are as follows:

SEPARATE

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
As of January 1 2018	54 338	129 935	**184 273**	39 360	**223 633**
Impact of business combination	15 421	27 208	**42 629**	7 666	**50 295**
Additions	54 393	113 313	**167 706**	3 077	**170 783**
Disposals	(56)	(14 442)	**(14 498)**	(19)	**(14 517)**
Transfers	174	(114 496)	**(114 322)**	462	**(113 860)**
As of December 31 2018	124 270	141 518	**265 788**	50 546	**316 334**
DEPRECIATION/ AMORTIZATION					
As of January 1 2018	(43 401)	(96 616)	**(140 017)**	(34 031)	(174 048)
Impact of business combination	(7 408)	(22 003)	**(29 411)**	(7 990)	(37 401)
Charge for 2018	(1 844)	(8 399)	**(10 243)**	(3 432)	(13 675)
Depreciation/Amortization charged on disposals	23	14 078	**14 101**	-	14 101
As of December 31 2018	(52 630)	(112 940)	**(165 570)**	(45 453)	(211 024)
NET BOOK VALUE	**71 640**	**28 578**	**100 218**	**5 093**	**105 311**

*Intangible assets includes software products other rights – marketing researches, patents, licenses etc.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

12. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT (CONTINUED)

Intangible assets, property and equipment as of December 31, 2018 are as follows:

CONSOLIDATED

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets	**Total**
As of January 1 2018	54 338	129 935	**184 273**	39 867	**224 140**
Impact of business combination	15 421	27 208	**42 629**	7 666	**50 295**
Additions	54 393	113 335	**167 728**	3 085	**170 812**
Disposals	(56)	(14 133)	**(14 189)**	(85)	**(14 274)**
Transfers	174	(114 496)	**(114 321)**	462	**(113 859)**
As of December 31 2018	124 270	141 849	**266 119**	50 995	**317 114**
DEPRECIATION					
As of January 1 2018	(43 401)	(96 799)	**(140 200)**	(34 378)	**(174 578)**
Impact of business combination	(7 408)	(22 003)	**(29 411)**	(8 038)	**(37 448)**
Charge for 2018	(1 844)	(8 439)	**(10 283)**	(3 390)	**(13 673)**
Depreciation/Amortization charged on disposals	23	14 086	**14 109**		**14 109**
As of December 31 2018	(52 630)	(113 154)	**(165 784)**	(45 806)	**(211 590)**
NET BOOK VALUE	**71 640**	**28 695**	**100 335**	**5 190**	**105 525**

Intangible assets property and equipment as of December 31, 2017 are as follows:

SEPARATE

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets	**Total**
As of January 1 2017	54 368	141 816	**196 184**	37 888	**234 072**
Additions		19 127	**19 127**	1 883	**21 010**
Disposals		(31 038)	**(31 038)**	(411)	**(31 449)**
Transfers	(30)	30			
As of December 31 2017	54 338	129 935	**184 273**	39 360	**223 633**
Including assets with low cost		1 920	**1 920**		**1 920**
DEPRECIATION/ AMORTIZATION					
As of January 1 2017	(41 190)	(120 974)	**(162 164)**	(31 203)	**(193 367)**
Charge for 2017	(2 237)	(6 231)	**(8 468)**	(2 570)	**(11 038)**
Depreciation/Amortization charged on disposals	26	30 589	**30 615**	275	**30 890**
Impairment for the period				(533)	**(533)**
As of December 31 2017	(43 401)	(96 616)	**(140 017)**	(34 031)	**(174 048)**
NET BOOK VALUE	**10 937**	**33 319**	**44 256**	**5 329**	**49 585**

CONSOLIDATED

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets	**Total**
As of January 1 2017	54 368	142 149	**196 517**	38 387	**234 904**
Additions	-	19 135	**19 135**	1 891	**21 026**
Disposals	-	(31 057)	**(31 057)**	(411)	**(31 468)**
Transfers	(30)	30	**-**	-	**-**
As of December 31 2017	54 338	130 257	**184 595**	39 867	**224 462**
Including assets with low cost	-	1 920	**1 920**	-	**1 920**
DEPRECIATION/ AMORTIZATION					
As of January 1 2017	(41 190)	(121 172)	**(162 362)**	(31 397)	(193 759)
Charge for 2017	(2 237)	(6 233)	**(8 470)**	(2 723)	(11 193)
Depreciation/Amortization charged on disposals	26	30 606	**30 631**	274	30 907
Impairment for the period	-	-	**-**	(533)	(533)
As of December 31 2017	(43 401)	(96 799)	**(140 201)**	(34 379)	(174 578)
NET BOOK VALUE	**10 937**	**33 458**	**44 394**	**5 488**	**49 884**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. INVESTMENT PROPERTY

Movement in investment property

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of January 1 2018	7 443	7 443
Impact of business combination	82 364	94 330
Additions	48 855	48 855
Transfers	76 206	76 206
Disposals	(21 513)	(21 868)
Reclass to Held for sale	(19 854)	(19 854)
As of December 31 2018	173 501	185 112
DEPRECIATION		
As of January 1 2018	(2 128)	(2 128)
Transfers	(17 611)	(17 611)
Impact of business combination	(13 885)	(14 280)
Charge for 2018	(8 287)	(8 679)
Depreciation/Amortization charged on disposals	3 382	3 404
Reclass to Held for sale	4 577	4 577
Impairment for the period	(11 408)	(11 408)
As of December 31 2018	(45 360)	**(46 125)**
NET BOOK VALUE	**128 141**	**138 987**

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of January 1 2017	3 011	3 011
Transfers	4 655	4 655
Disposals	(223)	(223)
As of December 31 2017	7 443	7 443
DEPRECIATION		
As of January 1 2017	(80)	(80)
Charge for 2017	(113)	(113)
Depreciation/Amortization charged on disposals	114	114
Impairment for the period	(2 049)	(2 049)
As of December 31 2017	(2 128)	(2 128)
NET BOOK VALUE	**5 315**	**5 315**

The fair value of the investment property held by UBB as at December 31, 2018 and as at December 31, 2017 does not differ substantially from their carrying amount. The fair value is determined with the assistance of independent certified appraisers performed regularly at the end of each reporting period.
Direct operating expenses related to investment property which does not generate rental income amount to BGN 9 thousand.
Contractual obligations to purchase construct or develop investment property for repairs maintenance amount to BGN 762 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 investment property	2018	2017
Residential	**4 584 912 €**	**2 526 601 €**
Vacation	**13 254 917 €**	**12 622 206 €**
Industrial	**6 244 494 €**	**3 318 447 €**
Plots (land)	**19 593 699 €**	**11 438 801 €**
Commercial	**21 839 498 €**	**10 699 651 €**
Fair value of investment property	**65 517 519 €**	**40 605 705 €**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13.INVESTMENT PROPERTY (CONTINUED)

Type of investment property	Valuation technique	Significant unobservable Inputs	Range (weighted average) 2017	2018
Residential	RVM	Standard construction prices per sq.m.	310€ - 330€	320€ - 340€
		Annual growth of standard and construction prices	0.5%	1.0%
	MVM	Offer (deal) price per sq.m.	180€ - 640€	200€ - 650€
		Annual growth of market comparatives (real deals)	0%	1.1%
Vacation properties	RVM	Standard construction prices per sq.m.	102€ - 300€	100€ - 300€
		Annual growth of standard and construction prices	0%	0%
	MVM	Offer (deal) price per sq.m.	300€ - 1200€	300€ - 1200€
		Annual growth of market comparatives (real deals)	0%	0%
Industrial properties	RVM	Standard construction prices per sq.m.	140€ - 290€	120€ - 280€
		Annual growth of standard and construction prices	0%	0%
	MVM	Offer (deal) price per sq.m.	30€ - 250€	40€ - 250€
		Annual growth of market comparatives (real deals)	0%	0%
	MCFCF	Estimated monthly rent per	1€ - 4.5€	1€ - 4.5€
		Annual growth of rent rates	0%	0%
		Long-term vacancy	5%	5%
		Rate of return	9%	9%
Plots (land)	MVM	Offer (deal) price per sq.m.	8€ - 200€	10€ - 180€
		Annual growth of market comparatives (real deals)	0%	0%
Commercial properties	MVM	Offer (deal) price per sq.m.	310€ - 524€	300€ - 500€
		Annual growth of market comparatives (real deals)	0%	0%
	MCFCF	Estimated monthly rent per sq.m.	2.6€ - 4.5€	2.6€ - 5€
		Annual growth of rent rates	0%	0%
		Long-term vacancy	3% - 5%	3% - 5%
		Rate of return	6% - 7%	7% - 8%

14. DEFERRED TAX ASSETS NET

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 31.12.2018 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 SEPARATE	As of 31.12.2017 CONSOLIDATED
Deferred tax assets:				
Retirement benefit obligations	470	470	342	342
Impairment of properties held as stocks and investment properties	4 065	4 065	1 731	1 731
Provisions for legal cases	442	442	-	-
Other employee benefits	1 165	1 165	342	342
Restructuring provision	120	120	363	363
Other temporary differences	41	42	1038	1038
Provisions for contingent liabilities	-	-	13	13
Total Deferred tax assets	**6 303**	**6 304**	**3 829**	**3 829**
Deferred tax liabilities:				
Securities – available for sale	(454)	(454)	(454)	(454)
Fixed assets depreciation	(274)	(274)	(100)	(100)
Other temporary differences	-	(4)	-	(9)
Total Deferred tax liabilities	(728)	(732)	(554)	(563)
DEFERRED TAX ASSETS, NET	**5 575**	**5 572**	**3 275**	**3 266**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. OTHER ASSETS

Financial other assets	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE
Suspense account assets deliveries	-	14 069
Receivables from clients	1 822	3 489
Suspense accounts with cards (receivable from financial institutions)	5 217	10 142
Suspense accounts with merchants	1 708	2 829
Total financial other assets	**8 747**	**30 529**

Non-financial other assets	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE
Assets acquired through foreclosure proceedings	17 479	64 069
Income tax advances and income taxes withheld	411	10 944
Reimbursement tax	-	2 577
Prepaid expenses	2 782	1 632
Other		3 701
Total non-financial other assets	**20 672**	**82 923**
Total other assets	**29 419**	**113 452**

The disclosed amount of Assets acquired through foreclosure proceedings is net of impairments. The related amounts for impairments as of 2018 are 4 422 BGN (2017: 12 591 BGN).

Financial other assets	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Receivables on assets trasnfered to KBC	-	14 069
Receivables from clients	2 791	3 867
Suspense accounts with cards (receivable from financial institutions)	5 217	10 142
Suspense accounts with merchants	1 708	2 829
Total financial other assets	**9 716**	**30 907**

Non-financial other assets	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Assets acquired through foreclosure proceedings	17 479	64 069
Income tax advances and income taxes withheld	411	10 944
Reimbursement tax	-	2 577
Prepaid expenses	2 802	1 662
Other	61	3 722
Total non-financial other assets	**20 753**	**82 974**
Total other assets	**30 469**	**113 881**

Assets acquired through foreclosure proceedings	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Buildings	6 921	44 569	6 921	44 569
Land	5 911	12 709	5 911	12 709
Machinary and equipment	4 647	6 634	4 647	6 634
Other		157		157
Total financial other assets	**17 479**	**64 069**	**17 479**	**64 069**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. DEPOSITS FROM BANKS

SEPARATE	As of 31.12.2018	As of 31.12.2017	CONSOLIDATED	As of 31.12.2018	As of 31.12.2017
Sight deposits	2 824	6 724	Sight deposits	2 824	6 724
Time deposits	1 175 060	433 534	Time deposits	1 175 060	433 534
Other due to banks	606	3 195	Other due to banks	606	3 195
TOTAL	**1 178 490**	**443 453**	**TOTAL**	**1 178 490**	**443 453**

17. DUE TO CUSTOMERS

	As of 31.12.2018 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 SEPARATE	As of 31.12.2017 CONSOLIDATED
Individuals	5 250 027	5 250 027	3 990 466	3 990 466
Non-bank financial institutions	587 706	587 706	264 902	264 902
Corporate entities	2 210 786	2 201 616	1 578 552	1 571 882
Governement entities	123 966	123 966	59 712	59 712
TOTAL	**8 172 485**	**8 163 315**	**5 893 632**	**5 886 962**

18. OTHER BORROWED FUNDS

The Group has signed two loan agreements with the European Bank for Reconstruction and Development (“EBRD”) under the Residential Energy Efficiency Credit Line Facility (“REECL”). The purpose of the program is to promote eligible residential energy efficiency and small renewable energy projects. The loan bears a floating interest rate and is repayable in eight equal quarterly instalments starting in February 2016 and ending in November 2017. As at December 31 2017 the loan is fully repaid (2016: fully utilized). The second loan agreement has been signed on June 13 2016 for BGN 10 million (original currency: EUR 5 million). The loan bears a floating interest rate and is repayable in seven equal semi-annual instalments with final maturity date of June 2022. As of December 31 2018 UBB used BGN 4 million or EUR 2 million in original currency (2017: not utilised). The obligation is secured with a pledge of government securities.

On 14 October 2011, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a contract with European Investment Bank for a credit line amounting to EUR 30,000 thousand. The funds are designated for small, medium-sized and Mid-Cap enterprises. The entire line is drawn in four separate tranches. First tranche of EUR 5,000 thousand at a fixed rate 3.555% (maturity 10/02/2020), second tranche of 5,000 thousand at a fixed rate 3.508% (maturity 14/02/2020), third tranche of 10,000 thousand. at a fixed rate 2.584% (maturity 01/10/2020) and fourth and last tranche of EUR 10,000 thousand with floating rate 6M EURIBOR + 0.871%, prepaid on 26/03/2015.

The main purpose of the loans are investment and working capital needs.
On 13 March 2014, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a fourth contract with European Investment Bank for a credit line amounting to EUR 50,000 thousand. The funds are designated for small, medium-sized and Mid- Cap enterprises and were utilised in tranches, as follows: first tranche amounting to EUR 10,000thousand at a fixed interest rate of 2.384% (maturity date: 28 April 2026), second tranche amounting to EUR 15,000 thousand at a floating interest rate equal to 6 EURIBOR + 0.791% (maturity date: 2026) and third tranche amounting to EUR 10,000 thousand at a floating interest rate equal to 6M EURIBOR + 0.223 % (maturity date: 19 December 2024). The remaining balance of EUR 15,000 thousand was cancelled. The second tranche was early repaid on 28 October 2014. Presently active are the first (fixed) and fourth (floating) tranche. On 09.12.2016 was made early repayment of part of the active tranche with a floating rate, ie Repaid EUR 892 thousands, the amount of the tranche was reduced from EUR 10,000 thousand to EUR 9,108 thousands.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. OTHER BORROWED FUNDS (CONTINUED)

At 08.01.2016 UBB (as universal legal successor of all rights and obligations of CIBANK) has concluded fifth contract with the European Investment Bank for a credit line of EUR 50,000 thousand. The resource is designed for small, medium and Mid-Cap enterprises and was utilized in tranches as follows - first tranche under the "Youth Employment", amounting to EUR 16,000 thousand at a fixed interest rate 0%, with the option to renegotiate the interest rate after the sixth year (maturity 30.06.2026). The remaining EUR 34,000 thousand will not be utilized. The utilization period has expired on 08.01.2018. The undrawn amount under the latest agreement is EUR 34,000 thousand, which will not be utilized

At 31 December 2018 the total amount of the liability under the five contracts of CIBANK with EIB was EUR 54 482 888.
On 02 July 2015, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a contract with the Council of Europe Development Bank amounting to EUR 35,000 thousand. The funds are designated for small and medium-sized enterprises.
Out of it, on 15 September 2015 the amount of EUR 17,500 thousand was utilized, as follows: EUR 8,750 thousand at a floating interest rate of 6M. EURIBOR + 0.06 %, but not less than 0% and EUR 8,750 thousand at a fixed interest rate – 0.48% (maturity date of both tranches: 15 September 2022). The second tranche of BGN 17,500 thousands was cancelled in July 2017.
At 31 December 2018 under the disburced tranche interest payments , amounting to EUR 35 thousand have been done (EUR 119 thousand interest paid from 2016 to 2018) . On 15 September 2018 the second princlipal payment of the utilized tranche was made, amounting to EUR 2,916 thousands (BGN 5,704 thousand) and thus the liability under the contract with CEB at the end of 2018 was EUR 11 666 666.

UBB (as universal legal successor of all rights and obligations of CIBANK) has signed two loan agreements with the European Bank for Reconstruction and Development ("EBRD") under the Residential Energy Efficiency Credit Line Facility ("REECL"). The purpose of the program is to promote eligible residential energy efficiency and small renewable energy projects. The loan bears a floating interest rate and is repayable in eight equal quarterly instalments starting in February 2016 and ending in November 2017. As at December 31, 2017 the loan is fully repaid (2016: fully utilized).
The second loan agreement has been signed on June 13, 2016 for BGN 10 million (original currency: EUR 5 million). The loan bears a floating interest rate and is repayable in seven equal semi-annual instalments with final maturity date of June 2022. As of December 31, 2018 UBB has disbursed BGN 4 million or EUR 2 million in original currency. The obligation is secured with a pledge of government securities.

On 29 July 2013, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded two contracts with the European Bank for Reconstruction and Development ("EBRD"). The first contract was a Non-committed Trade Finance Guarantee Facility Agreement under the Trade Facilitation Programme ("TFP") for EUR 15,000 thousand. Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by EBRD, by providing banks partial or full guarantees covering the bank's payment risk.

The second contract was a Non-committed Loan Facility on a Revolving basis under the TFP. Under the facility UBB can obtain short-term loans to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing necessary for the performance of foreign trade contracts.

On 4 August 2014, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a contract with the International Finance Corporation amounting to USD 10,000 thousand. The contract was a Non-committed Trade Finance Guarantee Facility Agreement under the Global Trade Finance Programme ("GTFP"). Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by IFC, by providing banks partial or full guarantees covering the bank's payment risk

	Currency	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit lines from banks	EUR	133 641	1 874	133 641	1 874
TOTAL		**133 641**	**1 874**	**133 641**	**1 874**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. RETIREMENT BENEFIT OBLIGATIONS

	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Amount recognized in statement of financial position				
Present value of unfunded obligations	5 980	4 444	5 980	4 444
Net liability in BS	5 980	4 444	5 980	4 444

Amount recognized in Profit and Loss	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Current service cost	495	(4 270)	495	(4 270)
Impact of bussiness combination	1 227	-	1 227	-
Net interest on the net defined benefit liability	41	108	41	108
Total P&L Charge	**1 763**	**(4 162)**	**1 763**	**(4 162)**

Reconciliation of benefit obligation	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
DBO at start of period	4 444	10 984	4 444	10 984
Current service cost	495	(4 270)	495	(4 270)
Impact of bussiness combination	1 227	-	1 227	-
Net interest on the net defined benefit liability	41	108	41	108
Benefits paid directly by the Bank	(433)	(285)	(433)	(285)
Actuarial loss/(gain)	206	(2 093)	206	(2 093)
DBO at the end of period	**5 980**	**4 444**	**5 980**	**4 444**

	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Cumulative amount recognized in the OCI	(1 276)	(1 024)	(1 276)	(1 024)

Re-measurements	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Liability loss/(gain) due to changes in assumptions	206	(2 093)	206	(2 093)
Total amount recognized in OCI over the period	**206**	**(2 093)**	**206**	**(2 093)**

Movements in Liability in statement of financial position	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Net Liability in statement of financial position at the beginning of the period	4 444	10 984	4 444	10 984
Benefits paid directly	(433)	(285)	(433)	(285)
Total expense recognized in the income statement	1 763	(4 162)	1 763	(4 162)
Total amount recognized in the OCI	**206**	**(2 093)**	**206**	**(2 093)**
Net Liability in statement of financial position	5 980	4 444	5 980	4 444

Assumptions	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Discount rate	0.78%	1.39%	0.78%	1.39%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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% (-0.25 bp)	+0.25% (+25 bp)
Effect of the change in the provision allocated as of 31.12.2018 for the retirement benefit obligation	+2 5%	-2 5%
expressed in absolute terms in	149 509	(149 509)

	Effect of change in interest rate	
	-0.25% (-0.25 bp)	+0.25% (+25 bp)
Effect of the change in the provision allocated as of 31.12.2018 for the retirement benefit obligation	-2 6%	+2 6%
expressed in absolute terms	(155 489)	155 489

	Effect of change in the stages of the dropouts	
	-1%	1%
Effec tof the change in the provision allocated as of 31.12.2018 for the retirement benefit obligation	-2 6%	+2 6%
expressed in absolute terms	(155 489)	155 489

20. OTHER LIABILITIES AND PROVISIONS FOR RISK AND CHARGES

a) Other liabilities

Financial other Liabilities	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Dividend payable	225	226	225	226
TOTAL FINANCIAL OTHER LIABILITIES	**225**	**226**	**225**	**226**

Non-financial other Liabilities	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Payroll related accruals	14 746	15 877	14 917	15 989
Creditors and suppliers	11 793	10 151	11 916	10 318
Amounts due to government agencies	126	142	126	142
Accrued expenses and deferred income	10 353	32	10 353	94
Amounts due to third parties under collection agreements	-	-	-	18
Taxes payable - other than income taxes	241	-	241	-
Estimates related to migration and payments	370	-	370	-
Other	3 803	2 861	3 881	2 886
TOTAL NON-FINANCIAL OTHER LIABILITIES	**41 432**	**29 063**	**41 804**	**29 447**
TOTAL OTHER LIABILITIES	**41 657**	**29 289**	**42 029**	**29 673**

b) Provisions for risks and charges

Provisions for risks and charges	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Provisions for restructuring	1 200	-	1 200	-
Provisions for Legal cases	4 386	3 804	4 431	3 804
Provisions for Off- balance sheet commitment	4 318	128	4 318	128
TOTAL PROVISIONS FOR RISK AND CHARGES	**9 904**	**3 932**	**9 949**	**3 932**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

21. PAYABLES UNDER REPO AGREEMENTS

Payables under repo agreements	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Repurchase agreements with foreign banks	331 619	-	331 619	-
Total payables on repo agreements	**331 619**	**-**	**331 619**	**-**

22. RETAINED EARNINGS

Retained Earnings	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Accumulated prior years' earnings at beginning of period	828 178	977 085	839 496	984 557
Impact and reclassification of IFRS 9	(63 908)	-	(78 760)	-
Impact of business combination	93 219	-	107 736	-
Net profit for the period	175 889	(51 024)	172 131	(47 367)
Dividends paid	-	(97 883)	-	(97 883)
Other comprehensive income for the year, net of tax	-		(1 486)	189
At 31 December	1 033 378	828 178	1 039 117	839 496

Components of Retained Earnings	As of 31.12.2018 SEPARATE	As of 31.12.2017 SEPARATE	As of 31.12.2018 CONSOLIDATED	As of 31.12.2017 CONSOLIDATED
Statutory reserves	672 922	783 667	675 167	791 327
Undistributed profit from previous years	184 567	91 389	191 819	91 389
Net profit for the period	175 889	(51 025)	172 131	(47 367)
Undistributed earnings	-	4 147	-	4 147
TOTAL	**1 033 378**	**828 178**	**1 039 117**	**839 496**

23. REVALUATION RESERVE

Revaluation reserves -FVOCI	As of 31.12.2018 SEPARATE IFRS 9	As of 31.12.2017 SEPARATE IAS39	As of 31.12.2018 CONSOLIDATED IFRS 9	As of 31.12.2017 CONSOLIDATED IAS39
At the beginning of the period	72 945	32 411	73 836	33 833
Impact and reclassification of IFRS 9	(43 556)	-	(43 556)	-
Impact of business combination	40 876	-	40 876	-
Net gains from disposals transferred to income statement	-	143	-	142
Changes in fair value of AFS investmets	-	39 934	-	39 404
Defferred tax	(867)	(4 504)	(867)	(4 504)
Reversal of impairment losses on AFS investments	(18 582)	4 961	(18 582)	4961
Sale of associate company	-	-	(891)	-
TOTAL	**50 816**	**72 945**	**50 816**	**73 836**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments.

The following table represents the contractual amounts of UBB's off-balance financial instruments that commit it to extend credit to customers:

Credit commitments	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Undrawn Credit commitments	867 121	592 666	888 290	615 045
Of which corporate	527 359	509 297	548 528	531 676
Of which retail	274 653	73 778	274 653	73 778
Of which other financial institutions	65 109	9 591	65 109	9 591
Guarantees, documentary and commercial letters of credit	269 847	222 581	269 847	222 581
Of which corporate	259 723	222 528	259 723	222 528
Of which retail	315	3	315	3
Of which other financial institutions	1 837	50	1 837	50
Of which other credit institutions	7 972	-	7 972	-
TOTAL	**1 136 968**	**815 247**	**1 158 137**	**837 626**

25. ADDITIONAL INFORMATION ABOUT CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT

	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Cash in hand	182 329	148 379	182 330	148 380
Due to banks as Nostro accounts, funds and advances to banks with an original maturity of up to 3 months	1 466 621	1 082 621	1 466 621	1 082 621
Repo deals with banks	1 345 350	585 705	1 345 350	585 705
Mandatory reserve with the Central Bank	(958 357)	(283 595)	(958 357)	(283 595)
TOTAL	2 035 943	1 533 110	2 035 944	1 533 111

The amount of the Mandatory reserve with Central Bank are not available for use by the group.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

26. NET INTEREST INCOME

	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
A. Interest and similar income	IFRS 9	IAS39	IFRS 9	IAS39
Deposits placed with banks	1 572	(46)	1 572	(46)
Loans and advances to customers	248 535	207 436	249 457	207 923
Financial assets held for trading	-	14 062	-	14 062
Financial assets available for sale	-	16 118	-	16 118
Financial assets held to maturity	-	-	-	-
Financial assets at fair value through profit and loss	281	-	281	-
Financial assets at fair value through other comprehensive income	20 427	-	20 427	-
Financial assets at amortized cost	19 956	-	19 956	-
Interest income from repo transactions by MFIs and other clients	80	-	80	-
Interest income on liabilities	2 024	-	2 020	-
	292 875	237 570	293 793	238 057
B. Interest expenses and similar charges				
Deposits from banks	(1 970)	(2 605)	(2 454)	(2 605)
Deposits from customers	(5 810)	(10 154)	(5 321)	(10 131)
Long term borrowings	(1 561)	(59)	(1 561)	(59)
Hedge and trading derivatives	(1 300)	(1 055)	(1 300)	(1 055)
External borrowings/Subordinated liabilities	-	(63)	-	(63)
Interestexpense on assets	(5 326)	-	(5 326)	-
	(15 967)	(13 936)	(15 962)	(13 913)
NET INTEREST MARGIN	**276 908**	**223 634**	**277 831**	**224 144**

The interest income on impaired assets for 2018 is11 749 (2017: 58)

27. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
A. Fee and commission incomes				
Transfer of funds and cash transactions	34 056	18 009	34 049	18 009
Service fees of customer accounts	29 012	30 221	29 011	30 221
Card-related services fees	29 043	22 694	29 043	22 694
Loans and advances to customers	11 387	9 212	11 762	9 212
Guarantees and letters of credit	3 009	1 781	3 009	1 781
Fee from servicing budget organizations	7 161	-	7 161	-
Fiduciary/custodian activities	872	711	931	711
Bank insurance fees	10 696	9 860	10 696	9 860
Revenue from valuation of properties	832		832	
Fees safety vault	460	234	460	234
Other fees and commissions	1 695	1 311	9 279	7 064
	128 223	94 033	136 233	99 786
B. Fee and commission expenses				
Card-related services fees	(12 931)	(3 839)	(12 931)	(3 839)
Loans and advances to customers	(22)	-	(22)	-
Guarantees and letters of credit	(1 962)	-	(1 962)	-
Transfer of funds and cash transactions	(1 674)	(624)	(1 674)	(624)
Service fees of customer accounts	(203)	-	(203)	-
Expenses on valuation of collateral on loans	(948)	-	(948)	-
Insurance expenses	(1 538)	-	(1 538)	-
Other fees and commissions	(1 793)	(954)	(1 817)	(1 428)
	(21 071)	(5 417)	(21 095)	(5 891)
FEE AND COMMISSION INCOME, NET	**107 152**	**88 616**	**115 138**	**93 895**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. NET TRADING INCOME, NET RESULT FROM FINANCIAL INSTRUMENTS

Net result from financial instruments Held for Trading	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
Gains / (losses) on Foreign exchange				
-FX contracts	26 689	13 408	26 689	13 408
-Position in foreign assets / liabilities	(1 710)	(741)	(1 710)	(741)
	24 979	12 667	24 979	12 667
Gains / (losses) on Interest rate instruments				
-Government and Corporate securities	89	21 078	89	21 078
-Swap contracts	159	1 420	159	1 420
-Mutual Funds	(657)	-	(657)	-
Gains / (losses) from hedge accounting	85	-	85	-
-Other	-	-	-	-
	(324)	22 498	(324)	22 498
NET TRADING INCOME	**24 655**	**35 165**	**24 655**	**35 165**

29. OTHER OPERATING INCOME, NET

Net other income /(expense)	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
Gains/Loss on disposal of fixed assets	3 230	722	3221	727
Other operating income				
Rental income	3 389	1 260	3 486	1 208
Reimbursed legal expenses on loans proceedings	-	-	-	-
Cash surplus	164	-	164	-
Income from sale of associates	8 937	-	1 085	-
Other operating income	1 621	-	2 312	-
Other operating expenses				
Accrued compensation	-	(9 760)	-	(9 760)
Direct costs of acquired properties	(2 389)	-	(2 693)	-
Expenses for problem loans	(117)	-	(117)	-
Cash failures and misuse of client accounts	(517)	-	(517)	-
Expenses related to collateral on loans	(436)	-	(436)	-
Provisions for legal cases	(805)	(3 804)	(825)	(3 804)
Depreciation of investment property	(2 319)	(113)	(2 711)	(113)
Other	(1 098)	(629)	(1 099)	(510)
	9 660	**(12 324)**	**1 870**	**(12 252)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

30. NET ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

The net charge for impairment for the year ended December 31 2018 and 2017 is as follows:

NET ALLOWANCES FOR IMPAIRMENT AND PROVISIONS	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	IFRS 9	IAS39	IFRS 9	IAS39
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Impairment on financial assets at AC and at FVOCI	**21 482**	**(209 636)**	**20 722**	**(209 169)**
-Loans and advances to customers	28 141	(200 623)	27 380	(200 157)
-Collection expenses	(6 479)	(4 052)	(6 478)	(4 052)
-Due from banks	4	-	4	-
-Investment securities available for sale		(4 961)		(4 960)
-Financial assets at FVOCI	(193)	-	(193)	-
-Financial Assets at AC	9	-	9	-
Oher Provisions	(16 811)	(12 180)	(16 858)	(12 899)
Fixed and intangible assets		(533)		(533)
Investment Property	(11 408)	-	(11 408)	-
Impairment of foreclosed assets	(4 422)	(12 119)	(4 422)	(12 591)
Goodwill	-	-	-	(247)
Impairments on Off- balance sheet commitment	(556)	472	(556)	472
Other advance different that Loans	(425)	-	(472)	-
TOTAL	**4 671**	**(221 816)**	**3 864**	**(222 068)**

31. GENERAL ADMINISTRATIVE EXPENSES

GENERAL ADMINISTRATIVE EXPENSES	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Personnel costs	(97 199)	(75 477)	(99 648)	(77 725)
ICT expenses	(29 946)	(18 734)	(29 999)	(18 741)
Deposit insurance fund & bank resulution fund	(28 082)	(18 153)	(28 082)	(18 153)
Repair, maintenance and other facilities expenses	(19 589)	(16 736)	(19 507)	(16 864)
Rental expenses	(16 352)	(11 974)	(16 384)	(12 046)
General depreciation and amortization	(13 712)	(11 038)	(13 798)	(11 140)
Advertising, marketing and communication	(5 005)	(4 589)	(5 031)	(4 646)
Professional fees	(3 666)	(3 823)	(3 812)	(3 925)
Business trip expenses	(865)	(594)	(903)	(640)
Costs charged by other KBC Group entities	(609)	(239)	(609)	(239)
Training expenses	(609)	(242)	(611)	(242)
Other expenses	(14 931)	(10 023)	(15 089)	(10 154)
Total general administrative expenses	**(230 565)**	**(171 622)**	**(233 473)**	**(174 515)**

Personnel costs consists of:	Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Wages and Salaries	(70 931)	(52 898)	(72 812)	(54 616)
Social security costs	(11 713)	(9 281)	(12 005)	(9 529)
Bonuses and other compensation expenses	(11 728)	(6 119)	(11 882)	(6 364)
Other staff costs	(6 637)	(2 535)	(6 759)	(2 572)
Provision for staff related restructuring charge/reversal	4 354	(4 644)	4 354	(4 644)
Pension costs - defined contribution plans	(544)	-	(544)	-
TOTAL	**(97 199)**	**(75 477)**	**(99 648)**	**(77 725)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31. GENERAL ADMINISTRATIVE EXPENSES (CONTINUED)

	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
Audit expenses	(861)	(593)	(899)	(637)
Other non-audit expenses	(62)	(88)	(62)	(88)
TOTAL	(923)	(681)	(961)	(725)

32. INCOME TAXES

	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
Current tax expense	(4 288)	(615)	(4 288)	(615)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	120	1 783	120	1 783
Tax loss utilization by PL elements as follow:				
Tax loss generated by capital elements in the current year	(1 765)	-	(1 765)	-
Tax loss generated from change in accounting policy from implementation of new acc.standard IFRS 9	(13 857)	-	(13 857)	-
Current tax income related to capital elements	-	4 504	-	4 504
Current tax paid abroad	-	(233)	-	(233)
Tax expense/(income)	(19 790)	5 439	(19 790)	5 439
Tax effects from previous periods	238	28	238	28
Share of tax in subsidiaries and equity method investments	-	-	64	(478)
TOTAL	**(19 552)**	**5 467**	**(19 488)**	**4 989**

The relationship between tax expense and accounting profit is as follows:

	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2017 SEPARATE	Year ended 31.12.2018 CONSOLIDATED	Year ended 31.12.2017 CONSOLIDATED
Profit before taxation	195 441	(56 496)	191 738	(52 233)
Prima facie tax calculated at an applicable tax rate (10% for 2018 and 2017)	19 544	5 650	19 174	5 223
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	246	22	246	22
Taxes related to previous years-permanent differences		-		
Current tax paid abroad		(233)		-233
Tax expense	19 790	5 439	19 420	5 012
Tax effects from previous periods	(238)	28	(238)	28
Share of tax in associates subsidiaries and equity method investments		-	306	(51)
TOTAL	**19 552**	**5 467**	19 488	4 989
Effective income tax rate	10.00%	9.68%	10.16%	9.55%

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 December 31 2018 and as of December 31 2017 are calculated using the tax rate of 10% enacted as of that date to be effective for 2018 and 2017.

33. FINANCIAL RISK MANAGEMENT

a) 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 related to exposures to related parties. The Act provides the limits for the maximum amount of credit exposure to a related parties 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 finds (regulatory capital) and
- 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.

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 the 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 wholesale and retail trade real estate crop and animal production food production manufacture of refined petroleum products and electricity supply.

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.

Asset quality continuously improves as the UBB focus on maximizing the recoveries from the legacy NPL portfolio (mainly loans granted in the booming years of 2007-2008) and on the maintenance at very low levels of the new defaults thanks to a robust and prudent credit risk management framework.

BGN 129 million corporate and BGN 138 million retail loans were written-off in 2017 with a positive effect on the NPL ratios. UBB continues to put emphasis on generating new and healthy lending business in order to further improve the profitability and credit quality.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 262% Liquidity Coverage Ratio (LCR). UBB maintains LCR and NSFR levels well above the regulatory required

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.

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 31.12.2018 amounted to BGN 259 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 10-days.

UBB decreased its trading securities portfolio at the beginning of 2018Y by transferring BGN 493 mln (nominal value) in Banking Book during the re-classification related to IFRS 9.

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 balance sheet 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 extent from the exchange rates of other currencies to the Euro.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2% of the regulatory capital.

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 securities available for sale which are hedged against interest rate risk are excluded. The amount of these bonds as at 31.12.2018 is BGN 132 million. Further the securities in Trading book are out of scope.

UBB recognizes the importance of IRRBB management in effectively managing its balance-sheet its capital and its earnings stream.

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 +/- 100 bps +/- 200 bps and +/- 300 bps parallel shift in interest rates.

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 is implemented the KBC Operational Risk Management Framework. The operational risk management involves application of Group Key Controls (GKCs) at process level. The assessment of the GKCs at process level aim to check the extent of compliance with these controls as the application and assessment of the GKCs is a priority for UBB. The start of GKCs assessment for UBB was set in 2017 and during 2018 all applicable GKCs for UBB have been self-assessed. The assessment of the GKCs is performed in the KBC tool B-Wise.
A building block of the framework is the registration and analysis of operational risk losses. In UBB is implemented KBC Loss Data Collection Procedure that regulate the process of collection and registration of operational risk losses. The operational risk losses are registered in KBC tool - Loss Event Reporter (LER). The registrated losses are analysed and reported to LRMC as well as corrective measures to avoid future losses 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.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Business Continuity Management

Business Continuity Management (BCM) is performed in accordance with the Group standards BCM Framework and GKC BCM.BCM ensures the continuity of delivering vital services or products to customers in the event of a serious disruption crisis or disaster. 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 were prepared for all processes in UBB as for each process recovery time objective was defined.
For each process BC coordinators are assigned for business continuity management who has the task of defining the critical processes systems and people in the business unit preparing Business Continuity Plan (BCP) for crisis situations as well as co-ordination of the BCP testing.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK

Credit risk is summarized as follows:

Maximum exposure to credit risk before collateral and other credit enhancements

	As at 31.12.2018 Gross maximum exposure	As at 31.12.2018 Net maximum exposure	As at 31.12.2018 Gross maximum exposure	As at 31.12.2018 Net maximum exposure
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Exposure				
Balances with Central bank	1 762 399	1 762 399	1 762 400	1 762 400
Loans and advances to banks	587 631	587 628	587 631	587 628
Loans and advances to customers net	5 598 516	5 178 055	5 601 152	5 179 518
Derivative financial instruments	9 379	9 379	9 379	9 379
Financial assets at fair value through P/L	32 685	32 685	32 685	32 685
Financial assets FVOCI	1 020 956	1 020 637	1 020 957	1 020 638
Financial assets AC	1 038 390	1 027 278	1 038 390	1 027 278
Other assets	8 747	8 747	9 716	9 716
Total balance sheet items	**10 058 703**	**9 626 808**	**10 062 309**	**9 629 242**
Commitments	1 136 968	1 136 968	1 158 137	1 158 137
Total off-balance sheet positions	**1 136 968**	**1 136 968**	**1 158 137**	**1 158 137**

	As at 31.12.2017 Gross maximum exposure	As at 31.12.2017 Net maximum exposure	As at 31.12.2017 Gross maximum exposure	As at 31.12.2017 Net maximum exposure
Exposure	**SEPARATE**	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Balances with Central bank	847 722	847 722	847 723	847 723
Loans and advances to banks	1 554 688	1 554 688	1 554 688	1 554 688
Loans and advances to customers net	3 911 552	3 293 042	3 913 486	3 294 565
Available-for-sale financial assets	658 736	658 736	658 736	658 736
Derivative financial instruments	1 837	1 837	1 837	1 837
Financial assets - held to maturity	181 326	181 326	181 326	181 326
Financial assets at fair value through P/L	600 117	600 117	600 117	600 117
Financial assets FVOCI	-	-	-	-
Financial assets AC	-	-	-	-
Other assets	30 529	30 529	30 907	30 907
Total balance sheet items	**7 786 507**	**7 167 997**	**7 788 820**	**7 169 899**
Commitments	815 247	815 247	837 626	837 626
Total off-balance sheet positions	**815 247**	**815 247**	**837 626**	**837 626**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

Quality of loans and advances and collateral

SEPARATE

	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	954 033	60	915 243	49 815	**1 919 151**
Loans secured with:					
- Residential Real Estate	-	1 262 891	-		**1 262 891**
- Comercial Real Estate	-	-	1 208 998	10 779	**1 219 777**
- Cash	3 285	35	14 133	-	**17 453**
- Other colaterals	231 699	-	889 529	58 016	**1 179 244**
Total consumer loans at 31.12.2018	**1 189 017**	**1 262 986**	**3 027 903**	**118 610**	**5 598 516**

CONSOLIDATED

	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	954 033	60	937 252	30 412	**1 921 757**
Loans secured with:					
- Residential Real Estate	-	1 262 891	-	-	**1 262 891**
- Comercial Real Estate	-	-	1 208 998	10 779	**1 219 777**
- Cash	3 285	35	14 163	-	**17 483**
- Other assets	231 699	-	889 529	58 016	**1 179 244**
Total consumer loans at 31.12.2018	**1 189 017**	**1 262 986**	**3 049 942**	**99 207**	**5 601 152**

SEPARATE

	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	807 858	56 726	593 453	2	**1 458 039**
Loans secured with:					**-**
- Residential Real Estate	-	811 759	-	-	**811 759**
- Comercial Real Estate	-	-	1 014 681	59	**1 014 740**
- Cash	-	-	32 021	-	**32 021**
- Other assets	7 050	-	508 004	79 939	**594 993**
Total consumer loans at 31.12.2017	**814 908**	**868 485**	**2 148 159**	**80 000**	**3 911 552**

CONSOLIDATED

	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	807 858	56 726	595 387	2	**1 459 973**
Loans secured with:					**-**
- Residential Real Estate		811 759			**811 759**
- Comercial Real Estate			1 014 681	59	**1 014 740**
- Cash			32 021		**32 021**
- Other assets	7 050		508 004	79 939	**594 993**
Total consumer loans at 31.12.2017	**814 908**	**868 485**	**2 150 093**	**80 000**	**3 913 486**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

The table below provides information about UBB's exposure to credit risk as of December 31 2017 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 2018 and 31 December 2017 is presented in the table below:

SEPARATE AND CONSOLIDATED				
31 December 2018	AAA to A-	BBB+ to B-	Not rated	**Total**
Bonds	129 362	1 781 100	52 695	**1 963 157**
Cash with BNB and resources provided to banks	562 161	4 075	158	**566 394**
Total	**691 523**	**1 785 175**	**52 853**	**2 529 551**

SEPARATE AND CONSOLIDATED				
31 December 2017	AAA to A-	BBB+ to B-	Not rated	**Total**
Bonds	30 030	1 405 460	4 688	**1 440 178**
Cash with BNB and resources provided to banks	1 275 343	683 561	1	**1 958 905**
Total	**1 305 373**	**2 089 021**	**4 689**	**3 399 083**

Loans that are overdue but not impaired at the end of 2018 and 2017 respectively are presented in the table below:

SEPARATE		**IFRS 9 31 December 2018**			**Gross carrying amount**
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	-	15 907	-	-	**15 907**
Mortgage loans	-	21 355	-	-	**21 355**
Large corporate clients	-	1 496	-	-	**1 496**
Small and mediumsized enterprises	-	5 470	-	-	**5 470**
Total	**-**	**44 228**	**-**	**-**	**44 228**

CONSOLIDATED		**IFRS 9 31 December 2018**			**Gross carrying amount**
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	-	15 907	-	-	**15 907**
Mortgage loans	-	21 355	-	-	**21 355**
Large corporate clients	-	725	-	-	**725**
Small and mediumsized enterprises	-	9 383	-	-	**9 383**
Total	**-**	**47 370**	**-**	**-**	**47 370**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

SEPARATE		IAS 39 31 December 2017	Gross carrying amount
	Up to 30 days	31 to 90 days	**Total**
Consumer loans	774 160	24 326	**798 486**
Mortgage loans	727 099	34 409	**761 508**
Large corporate clients	433 194	8 248	**441 442**
Small and mediumsized enterprises	954 235	12 128	**966 363**
Government loans	20 156		**20 156**
Total	**2 908 844**	**79 111**	**2 967 799**

CONSOLIDATED		IAS 39 31 December 2017	Gross carrying amount
	Up to 30 days	31 to 90 days	**Total**
Consumer loans	774 160	24 326	**798 486**
Mortgage loans	727 099	34 409	**761 508**
Large corporate clients	434 717	8 248	**442 965**
Small and mediumsized enterprises	954 235	12 128	**966 363**
Government loans	20 140		**20 140**
Total	**2 910 351**	**79 111**	**2 989 462**

Loans that are stage 1 splited by PD class as of the end of 2018 respectively are presented in the table below:

PD Stage 1	As of	As of	As of	As of
SEPARATE AND CONSOLIDATED	31.12.2018	31.12.2018	31.12.2018	31.12.2018
PD	Mortgage	Consumer	Corporate	**Total**
0			196	196
1	25 955	14 622		40 577
2	502 083	26	78 575	580 685
3	187 646	165 842	49 476	402 964
4	131 121	388 340	128 046	647 507
5	39 514	194 969	417 346	651 829
6	88 769	106 150	596 186	791 106
7	19 222	66 338	767 803	853 363
8	11 360	41 322	196 295	248 976
Gross Carrying Amount/Outs. Balance Total	**1 005 670**	**977 610**	**2 233 924**	**4 217 203**
ECL	**(289)**	**(4 467)**	**(17 854)**	**(22 610)**
Net loans	**1 005 381**	**973 143**	**2 216 070**	**4 194 593**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

The gross carrying amount of loans that are overdue and which have been impaired as of 31 December 2018 and 2017 is presented in the tables below:

SEPARATE		IFRS 9 31 December 2018			Gross carrying amount
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	-	19 150	10 160	27 761	**57 071**
Mortgage loans	-	43 525	15 505	95 541	**154 571**
Large corporate clients	-	27 238	3 937	125 027	**156 202**
Small and mediumsized enterprises	-	95 745	15 664	380 045	**491 454**
Total	**-**	**185 658**	**45 266**	**628 374**	**859 298**

CONSOLIDATED		IFRS 9 31 December 2018			Gross carrying amount
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	-	19 150	10 160	27 761	57 071
Mortgage loans	-	43 525	15 505	95 541	154 571
Large corporate clients	-	27 515	3 938	125 458	156 911
Small and mediumsized enterprises	-	95 745	15 664	380 045	491 454
Total	**-**	**185 935**	**45 267**	**628 805**	**860 007**

SEPARATE		IAS 39 31 December 2017			Gross carrying amount
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	-	-	6 351	28 376	**34 727**
Mortgage loans	-	887	8 078	98 010	**106 975**
Large corporate clients	-	-	683	4 750	**5 433**
Small and mediumsized enterprises	51 602	4 979	19 745	700 136	**776 462**
Total	**51 602**	**5 866**	**34 857**	**831 272**	**923 597**

CONSOLIDATED		IAS 39 31 December 2017			Gross carrying amount
	Up to 30 days	31 to 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	-	-	6 351	28 376	**34 727**
Mortgage loans	-	887	8 078	98 010	**106 975**
Large corporate clients	-	-	683	5 161	**5 844**
Small and mediumsized enterprises	51 602	4 979	19 745	700 136	**776 462**
Total	**51 602**	**5 866**	**34 857**	**831 683**	**924 008**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

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.

Forborne Loans net of allowance for impairment by product line:

Forborne Loans	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Consumer	15 782	39 473	15 782	39 473
Mortgage	56 596	125 845	56 596	125 845
SME Loans	126 899	232 181	126 899	232 181
Corporate Loans	63 999	4 750	63 999	4 750
Total	**263 276**	**402 249**	**263 276**	**402 249**

Industry Concentration risk

Industry Concentration risk - Loans and advances to customers

	As of 31.12.2018	As of 31.12.2017	As of 31.12.2018	As of 31.12.2017
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Agriculture	264 095	120 469	264 095	120 469
Mining	11 837	307 480	11 837	307 480
Industry	897 949	263 379	897 949	263 379
Electricity and heat	161 871	-	161 871	-
Water suplly	44 548	-	44 548	-
Construction	133 271	129 238	133 271	129 238
Trade and services	716 289	447 090	716 289	447 090
Transportation	92 950	35 488	92 950	35 488
Hotel management	71 735	67 898	71 735	67 898
IT and comunucations	26 830	3 647	26 830	3 647
Financial and Insuarance companies	119 166	90 933	99 764	90 933
Real estate	114 107	102 644	114 106	102 644
Public sector	65 154	20 140	65 154	20 140
Individuals and households	2 336 833	1 608 685	2 336 833	1 608 685
Other	121 420	95 951	142 286	97 474
Total	**5 178 055**	**3 293 042**	**5 179 518**	**3 294 565**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34.CREDIT RISK (CONTINUED)

Counterparty concentration risk

The next table presents the information of the large exposure of UBB as for 31 December 2018 and 2017:

	As for December 31 2018		As for December 31 2017	
Separate	Amount	% of Equity	Amount	% of Equity
The largest total exposure	69 663	5.02%	62 577	6.41%
Total amount of five largest exposures	310 293	22.37%	229 820	23.55%

	As for December 31 2018		As for December 31 2017	
Consolidated	Amount	% of Equity	Amount	% of Equity
The largest total exposure	69 663	5.00%	62 577	6.41%
Total amount of five largest exposures	310 293	22.27%	229 820	23.55%

35. MARKET RISK

Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31 2018 and 2017. Included in the table are UBB's assets and liabilities at carrying amounts in thousands BGN categorized by currency.

Separate					
Currency analisys					
31 December 2018	**EUR**	**USD**	**BGN**	**Other**	**Total**
ASSETS					
Cash and balances with central banks	978 841	9 053	766 681	7 824	**1 762 399**
Due from banks	1 860 525	21 631	22 589	28 234	**1 932 978**
Loans and advances to customers net	2 608 368	12 695	2 551 262	5 730	**5 178 055**
Financial Assets through PL	6 150	-	26 535	-	**32 685**
Derivative financial instruments	-	-	9 379	-	**9 379**
Financial Assets FVOCI	636 491	42 804	341 342	-	**1 020 637**
Financial Assets AC	878 421	61 711	87 146	-	**1 027 278**
Investments in associates	-	-	18 893	-	**18 893**
Intangible assets	-	-	5 093	-	**5 093**
Fixed assets	996	51	99 171	-	**100 218**
Ivestment property	-	-	128 141	-	**128 141**
Deferred income tax assets	-	-	5 575	-	**5 575**
Other assets	10 037	1 119	18 222	42	**29 420**
Non-current assets held for sale	-	-	15 277	-	**15 277**
TOTAL ASSETS	**6 979 829**	**149 064**	**4 095 305**	**41 830**	**11 266 028**
	EUR	**USD**	**BGN**	**Other**	**Total**
LIABILITIES					
Due to banks	1 154 828	20 860	2 055	747	**1 178 490**
Due to customers	2 269 313	555 539	5 246 363	101 271	**8 172 485**
Payables under repo agreements	331 619	-	-	-	**331 619**
Derivative financial instruments	3 724	-	1 713	-	**5 437**
Long term borrowings	133 712	-	- 71	-	**133 641**
Retirement benefit obligations	-	-	5 980	-	**5 980**
Other liabilities	5 262	233	45 870	196	**51 561**
TOTAL LIABILITIES	**3 898 458**	**576 632**	**5 301 910**	**102 213**	**9 879 215**
TOTAL EQUITY			**1 386 814**		**1 386 814**
NET BALANCE SHEET POSITION	**3 081 370**	**(427 568)**	**(1 206 605)**	**(60 383)**	**1 386 810**
NET OFF-BALANCE SHEET POSITION	**(2 092 021)**	**425 848**	**1 617 505**	**60 969**	**12 301**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35.MARKET RISK (CONTINUED)

CONSOLIDATED

Currency analisys 31 December 2018	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	978 841	9 053	766 682	7 824	**1 762 400**
Due from other banks	1 860 525	21 631	22 589	28 234	**1 932 978**
Loans and advances to customers, net	2 608 368	12 695	2 552 725	5 730	**5 179 518**
Trading assets	6 150	-	26 535	-	**32 685**
Derivative financial instruments	-	-	9 379	-	**9 379**
Investment assets available for sale	636 491	42 804	341 343	-	**1 020 638**
Investment assets held to maturity	878 421	61 711	87 146	-	**1 027 278**
Investments in associates	-	-	2 776	-	**2 776**
Intangible assets	-	-	5 190	-	**5 190**
Fixed assets	996	51	99 288	-	**100 335**
Ivestment property	-	-	138 987	-	**138 987**
Deferred income tax assets	-	-	5 572	-	**5 572**
Other assets	10 038	1 119	19 271	41	**30 469**
Non-current assets held for sale	-	-	15 276	-	**15 276**
TOTAL ASSETS	**6 979 829**	**149 064**	**4 092 758**	**41 830**	**11 263 481**
LIABILITIES					
Due to banks	1 154 828	20 860	2 055	747	**1 178 490**
Due to customers	2 269 313	555 539	5 237 193	101 271	**8 163 315**
Payables under repo agreements	331 619	-	(0)	-	**331 619**
Derivative financial instruments	3 724	-	1 713	-	**5 438**
Long term borrowings	133 712	-	(71)	-	**133 641**
Debt securities in issue	-	-	-	-	**-**
Current income tax liabilities	-	-	214	-	**214**
Deferred income tax liabilities	-	-	-	-	**-**
Retirement benefit obligations	-	-	5 980	-	**5 980**
Other liabilities	5 262	233	46 287	196	**51 978**
TOTAL LIABILITIES	**3 898 458**	**576 632**	**5 293 372**	**102 213**	**9 870 675**
TOTAL EQUITY	**-**	**-**	**1 392 807**		**1 392 807**
NET BALANCE SHEET POSITION	**3 081 370**	**(427 568)**	**(1 200 613)**	**(60 383)**	**1 392 806**
NET OFF-BALANCE SHEET POSITION	**(2 092 021)**	**425 848**	**1 617 507**	**60 969**	**12 303**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35.MARKET RISK (CONTINUED)

SEPARATE Currency analisys 31 December 2017	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	371 885	4 931	462 945	7 961	**847 722**
Due from other banks	1 411 380	71 393	50 532	21 383	**1 554 688**
Loans and advances to customers, net	1 556 938	7 924	1 725 563	2 617	**3 293 042**
Trading assets	221 634	42 477	336 009	1	**600 121**
Derivative financial instruments	1 353		484	-	**1 837**
Investment assets available for sale	634 729	6 265	39 611	-	**680 605**
Investment assets held to maturity	156 603	-	24 723	-	**181 326**
Investments in associates	-	-	27 173	-	**27 173**
Intangible assets	-	-	5 329	-	**5 329**
Fixed assets	-	-	44 256	-	**44 256**
Ivestment property	-	-	5 315	-	**5 315**
Deferred income tax assets	-	-	3 275	-	**3 275**
Other assets	9 944	770	102 737	1	**113 452**
TOTAL ASSETS	**4 364 466**	**133 760**	**2 827 952**	**31 963**	**7 358 141**
LIABILITIES					
Due to banks	434 649	8 292	375	137	**443 453**
Due to customers	1 715 147	466 238	3 621 798	90 449	**5 893 632**
Derivative financial instruments	790	-	4 055	-	**4 845**
Long term borrowings	1 874	-	-	-	**1 874**
Current income tax liabilities	-	-	609	-	**609**
Retirement benefit obligations	-	-	4 444	-	**4 444**
Other liabilities	(58 107)	144	91 183	1	**33 221**
TOTAL LIABILITIES	**2 094 353**	**474 674**	**3 722 464**	**90 587**	**6 382 078**
TOTAL EQUITY	**-**	**-**	**976 063**	**-**	**976 063**
NET BALANCE SHEET POSITION	**2 270 113**	**(340 914)**	**(894 512)**	**(58 624)**	**976 063**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35.MARKET RISK (CONTINUED)

CONSOLIDATED

Currency analisys **31 December 2017**	**EUR**	**USD**	**BGN**	**Other**	**Total**
ASSETS					
Cash and balances with central banks	371 885	4 931	462 946	7 961	**847 723**
Due from other banks	1 411 380	71 393	50 532	21 383	**1 554 688**
Loans and advances to customers, net	1 556 938	7 924	1 727 086	2 617	**3 294 565**
Trading assets	221 634	42 477	336 009	1	**600 121**
Derivative financial instruments	1 353	0	484	-	**1 837**
Investment assets available for sale	634 730	6 265	39 611	-	**680 606**
Investment assets held to maturity	156 603	-	24 723	-	**181 326**
Investments in associates	-	-	29 707	-	**29 707**
Goodwill	-	-	1 606	-	**1 606**
Intangible assets	-	-	5 488	-	**5 488**
Fixed assets	-	-	44 394	-	**44 394**
Ivestment property	-	-	5 315	-	**5 315**
Deferred income tax assets	-	-	3 266	-	**3 266**
Other assets	9 944	770	103 166	1	**113 881**
TOTAL ASSETS	**4 364 467**	**133 760**	**2 834 333**	**31 963**	**7 364 523**
LIABILITIES					
Due to banks	434 649	8 292	375	137	**443 453**
Due to customers	1 715 147	466 238	3 615 127	90 450	**5 886 962**
Derivative financial instruments	790	-	4 055	-	**4 845**
Long term borrowings	1 874	-	-	-	**1 874**
Current income tax liabilities	-	-	659	-	**659**
Retirement benefit obligations	-	-	4 444	-	**4 444**
Other liabilities	(58 107)	144	91 567	1	**33 605**
TOTAL LIABILITIES	**2 094 353**	**474 674**	**3 716 227**	**90 588**	**6 375 842**
TOTAL EQUITY	**-**	**-**	**988 681**	**-**	**988 681**
NET BALANCE SHEET POSITION	**2 270 114**	**(340 914)**	**(881 894)**	**(58 625)**	**988 681**

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35.MARKET RISK (CONTINUED)

Interest rate risk

UBB interest rate risk relating to financial instruments based on next re-pricing date is summarized as follows:

SEPARATE

31 December 2018	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	1 762 399	**1 762 399**
Deposits placed with banks	1 384 348	-	548 630	**1 932 978**
FVOCI	862 243	5 060	928	**868 231**
Financial assets AC	1 024 488	-	-	**1 024 488**
Loans and advances to clients	476 271	3 273 751	-	**3 750 022**
Total assets	**3 747 350**	**3 278 811**	**2 311 957**	**9 338 118**

	With fixed interest rate	With floating interest rate	Interest free	Total
Liabilities				
Deposits from banks	-	32 075	31 293	**63 368**
Deposits from clients	8 169 913	-	-	**8 169 913**
Payables on repo agreements	331 619	-	-	**331 619**
Total liabilities	**8 501 532**	**32 075**	**31 293**	**8 564 900**
Difference in interest rates	**(4 754 182)**	**3 246 736**	**2 280 664**	**773 218**

In the table above, the securities available for sale which are hedged against interest rate risk are excluded. The amount of these bonds as at 31.12.2018 is BGN 132 million. Further, the securities in Trading book are out of scope.

In the table below, the amount of interest and non-interest bearing assets and liabilities as at 31.12.2017 are presented:

SEPARATE

31 December 2017	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	847 722	**847 722**
Deposits placed with banks	853 488	-	712 136	**1 565 624**
Available-for-sale financial assets	836 451	1 781	1 829	**840 061**
Loans and advances to clients	303 432	2 972 835	-	**3 276 267**
Total assets	**1 993 371**	**2 974 616**	**1 561 687**	**6 529 674**

	With fixed interest rate	With floating interest rate	Interest free	Total
Liabilities				
Deposits from banks	445 328	-	-	**445 328**
Deposits from clients	5 893 632	-	-	**5 893 632**
Total liabilities	**6 338 960**	-	-	**6 338 960**
Difference in interest rates	**(4 345 589)**	**2 974 616**	**1 561 686**	**190 713**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35.MARKET RISK (CONTINUED)

In the table above, the securities available for sale which are hedged against interest rate risk are excluded. The amount of these bonds as at 31.12.2017 is BGN 134 million. Further, the securities in Trading book are out of scope.

CONSOLIDATED

31 December 2018	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	1 762 925	**1 762 925**
Deposits placed with banks	1 384 371	-	-	**1 384 371**
FVOCI	862 243	5 060	-	**867 303**
Financial assets AC	1 024 488	-	-	**1 024 488**
Loans and advances to clients	1 939 368	3 273 751	-	**5 213 119**
Total assets	**5 210 470**	**3 278 811**	**1 762 925**	**10 252 206**

	With fixed interest rate	With floating interest rate	Interest free	Total
Liabilities				
Deposits from banks	-	32 075	-	**32 075**
Deposits from clients	(1 000 127)	-	-	**(1 000 127)**
Payables on repo agreements	331 619	-	-	**331 619**
Total liabilities	(668 508)	32 075	-	**(636 433)**
Difference in interest rates	**5 878 978**	**3 246 736**	**1 762 925**	**10 888 639**

CONSOLIDATED

31 December 2017	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	847 722	**847 722**
Deposits placed with banks	733 063	-	-	**733 063**
Available-for-sale financial assets	836 451	1 781	-	**838 232**
Loans and advances to clients	4 979 230	2 972 835	-	**7 952 065**
Total assets	**6 548 744**	**2 974 616**	**-**	**9 523 360**

	With fixed interest rate	With floating interest rate	Interest free	Total
Liabilities				
Deposits from banks	445 328	-	-	445 328
Deposits from clients	(20 811 892)	-	-	(20 811 892)
Payables on repo agreements	-	-	-	-
Total liabilities	(20 366 564)	-	-	(20 366 564)
Difference in interest rates	26 915 308	2 974 616	-	29 889 924

35.MARKET RISK (CONTINUED)

The table below provides information of net interest income sensitivity and the sensitivity of equity as at 31.12.2018 and 31.12.2017 assuming reasonably change in interest rates, ceteris paribus:

31 December 2018	in `000 BGN	in `000 BGN
Increase in basis point	***Sensitivity of net interest income***	***Sensitivity of equity***
100/(-100)	3 878/ (- 12 038)	(- 34 950)/ 41 642
200/(-200)	10 248/ (- 22 572)	(- 64 925)/ 49 931
300/(-300)	16 624/ (-33 106)	(- 90 565)/ 52 250

31 December 2017	in `000 BGN	in `000 BGN
Increase in basis point	***Sensitivity of net interest income***	***Sensitivity of equity***
100/(-100)	35 706/ (-43 526)	119 364/ (-42 571)
200/(-200)	18 091/ (-29 566)	235 142/ (-47 896)
300/(-300)	476/ (-15 605)	347 223/ (-51 345)

36. 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 46% ratio of liquid assets to total liabilities. Moreover UBB maintains LCR and NSFR levels well above the regulatory required

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.

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.

Separate

MATURITY ANALYSIS 31 December 2018	**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**
ASSETS						
TOTAL ASSETS	2 973 825	395 827	1 981 880	2 736 500	3 177 995	**11 266 027**
LIABILITIES						
Due to banks	1 178 489	-	-	331 620	-	**1 510 109**
Due to customers	6 879 525	349 000	915 680	28 280	-	**8 172 485**
Derivative financial instruments	5 437	-	-	-	-	**5 437**
Other borrowed funds	351	-	-	65 846	67 444	**133 641**
Other liabilities	57 541	-	-	-	-	**57 541**
TOTAL LIABILITIES	**8 121 343**	**349 000**	**915 680**	**425 746**	**67 444**	**9 879 213**
Contingent liabilities	**1 136 968**	**-**	**-**	**-**	**-**	**1 136 968**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. LIQUIDITY RISK (CONTINUED)

Separate

MATURITY ANALYSIS 31 December 2017	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
ASSETS						
TOTAL ASSETS	4 479 587	588 983	73 754	374 667	1 841 150	**7 358 141**
LIABILITIES						
Due to banks	443 453	-	-	-	-	**443 453**
Due to customers	4 769 757	297 648	742 813	83 414	-	**5 893 632**
Derivative financial instruments	4 845	-	-	-	-	**4 845**
Other borrowed funds	-	-	1	1 873	-	**1 874**
Other liabilities	38 274	-	-	-	-	**38 274**
TOTAL LIABILITIES	**5 256 329**	**297 648**	**742 814**	**85 287**	**-**	**6 382 078**
Contingent liabilities	**815 247**	**-**	**-**	**-**	**-**	**815 247**

Consolidated

MATURITY ANALYSIS 31 December 2018	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
ASSETS						
TOTAL ASSETS	2 973 825	395 827	1 981 880	2 736 500	3 175 449	**11 263 481**
LIABILITIES						
Due to banks	1 178 489	-	-	331 620	-	**1 510 109**
Due to customers	6 870 355	349 000	915 680	28 280	-	**8 163 315**
Derivative financial instruments	5 437	-	-	-	-	**5 437**
Long term borrowings	351	-	-	65 846	67 444	**133 641**
Other liabilities	58 172	-	-	-	-	**58 172**
TOTAL LIABILITIES	**8 112 804**	**349 000**	**915 680**	**425 746**	**67 444**	**9 870 674**
Contingent liabilities	**1 158 137**	**-**	**-**	**-**	**-**	**1 158 137**

Consolidated

MATURITY ANALYSIS 31 December 2017	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
ASSETS						
TOTAL ASSETS	1 680 061	588 496	650 462	916 650	3 528 854	**7 364 523**
LIABILITIES						
Due to banks	443 453	-	-	-	-	**443 453**
Due to customers	4 763 087	297 648	742 813	83 414	-	**5 886 962**
Derivative financial instruments	4 845	-	-	-	-	**4 845**
Long term borrowings	-	-	1	1 873	-	**1 874**
Other liabilities	38 708	-	-	-	-	**38 708**
TOTAL LIABILITIES	**5 250 093**	**297 648**	**742 814**	**85 287**	**-**	**6 375 842**
Contingent liabilities	**837 626**	**-**	**-**	**-**	**-**	**837 626**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE

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.

Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities recorded on UBB's statement of financial position measured at fair value as of 31 December 2018 and 2017.

		2018		2017
Separate	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	1 762 399	1 762 399	847 722	847 722
Due from other banks	1 932 978	1 932 978	1 554 688	1 554 688
Loans and advances to customers net	5 178 055	5 208 289	3 293 042	3 322 212
TOTAL ASSETS	**8 873 432**	**8 903 666**	**5 695 452**	**5 724 622**
LIABILITIES				
Due to customers	8 172 485	8 172 924	5 893 632	5 894 883
Other borrowed funds	133 641	133 641	1 874	1 870
Subordinated liabilities	-	-	-	-
TOTAL LIABILITIES	**8 306 126**	**8 306 565**	**5 895 506**	**5 896 753**

		2018		2017
Consolidated	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	1 762 400	1 762 400	847 723	847 723
Due form other banks	1 932 978	1 932 978	1 554 688	1 554 688
Loans and advances to customers net	5 179 518	5 209 752	3 294 565	3 322 212
TOTAL ASSETS	**8 874 896**	**8 905 130**	**5 696 976**	**5 724 623**
LIABILITIES				
Due to customers	8 163 315	8 163 754	5 886 962	5 888 213
Other borrowed funds	133 641	133 641	1 874	1 870
Subordinated liabilities	-	-	-	-
TOTAL LIABILITIES	**8 296 956**	**8 297 395**	**5 888 836**	**5 890 083**

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31 2018 and 2017:

The carrying amount of cash and balances with central banks due from and due to banks as well as accrued interest equals their fair value.

The fair value of loans and advances to customers is estimated using discounted cash flow models.

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

37.FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

No transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2018.

Level 3 financial instruments at December 31, 2018 include:
Financail 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 a quarterly basis.

No transfers into or out of Level 3 occurred for the year ended December 31 2018.

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.

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37.FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

Financial Instrument	Fair Value thousand BGN	Valuation Technique	Significant Unobservable Input	Range of Inputs Low	High
Investment Securities - Available-for-Sale - BONDS	3 099	Valuation based on the collateral	- Collateral valuation	4 340	7 052
			- Collateral value	10 849	10 849
			- Adjustment factor	40%	65%
Investment Securities - Available-for-Sale SHARES	1 327	Liquidation value of UBB's participation of expected income from future sale of the shares of InterV Investment SARL	-	-	

Sensitivity of Fair Value Measurements to Changes in Unobservable inputs

Due to UBB's limited exposure to investment securities in available-for-sale portfolio for which the market valuation adjustments is significant to their fair value a reasonable change in the unobservable inputs would not be significant to UBB.

38. 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 2018 applicable to Bulgaria and more specifically 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 13.75% and tier-one capital adequacy of not less than 11.75% . These levels include respectively 8% total capital adequacy and 6% tier-one capital adequacy as well as 2.5% Capital Conservation Buffer 3% Systemic Risk Buffer and 0.25% Buffer for O-SIIs.

UBB has complied with the regulatory requirements of minimum capital adequacy for 2018 and for 2017.
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.

	As of 31.12.2018 Separate	As of 31.12.2017 Separate	As of 31.12.2018 Consolidated	As of 31.12.2017 Consolidated
Paid up Capital Instruments	93 838	75 964	93 838	75 964
Reserves incl. retained earnings	1 067 546	828 178	1 077 296	865 824
Other comprehensive income	56 025	71 921	49 540	29 294
Common Equity Tier I deductions	(10 548)	(59 288)	(10 316)	(21 882)
Common Equity Tier I Capital (CET1)	1 206 861	916 775	1 210 358	949 200
Total Tier I Capital	1 206 861	916 775	1 210 358	949 200
Additional deductions from Tier I and Tier II Equity				
Total Regulatory Capital (own funds)	1 206 861	916 775	1 210 358	925 938
Common Equity Tier 1 Capital ratio	21.52%	24.14%	21.51%	24.26%
Tier 1 Capital ratio	21.52%	24.14%	21.51%	24.26%
Total capital ratio	**21.52%**	**24.14%**	**21.51%**	**24.26%**
Surplus(+)/Deficit(-) of total capital	758 294	612 989	760 148	620 586

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38.CAPITAL AND CAPITAL BASE (CONTINUED)

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 December 31 2018 and December 31 2017 the capital requirements for credit market and operational risks are as follows:

Risk Weighted Assets	As of 31.12.2018 Separate	As of 31.12.2017 Separate	As of 31.12.2018 Consolidated	As of 31.12.2017 Consolidated
Credit Risk including exposures to:	4 776 922	3 070 587	4 790 791	3 085 598
Central governments or central banks	274 160	-	274 160	-
Regional governments or local authorities	9 835	117	9 835	117
Institutions	166 025	198 550	166 025	198 550
Corporates	1 588 226	889 532	1 589 838	890 933
Retail	1 236 866	849 846	1 245 662	856 718
Secured by mortgages on immovable property	610 169	393 611	610 169	393 611
Exposures in default	546 446	481 668	550 684	481 856
Collective investments undertakings (CIU)	6 654	7 078	6 420	7 078
Equity	37 519	78 974	24 727	84 979
Other items	301 022	171 211	313 271	171 756
Operational Risk	779 913	572 019	786 588	576 567
Market Risk	50 250	152 425	50 250	152 425
Credit Valuation Adjustment (CVA)	-	2 300	-	2 300
TOTAL RISK EXPOSURE AMOUNT	**5 607 085**	**3 797 331**	**5 627 629**	**3 816 890**

Separate and consolidated basis of preparation

UBB's capital position stands strong. The total capital adequacy as of December 31st 2018 as per CRD IV regulatory framework amounts to 21.52% (based on total Regulatory Capital on solo basis at BGN 1 206 million) and Tier 1 capital adequacy amounts to 21.52%.

UBB's capital position stands strong. . The total capital adequacy as of December 31st 2018 as per CRD IV regulatory framework amounts to 21.51% (based on total Regulatory Capital on consolidated basis at BGN 1 210 million) and Tier 1 capital adequacy amounts to 21.51%.

39. RELATED PARTY TRANSACTIONS

The ultimate parent bank is KBC Group NV Belgium. UBB is controlled by KBC Bank H.B. which owns 99.91% of the ordinary shares of UBB

On 5th February 2018 a merger between United Bulgarian Bank AD (UBB) and CIBANK EAD was registered in the Commercial Registry and this is the date of the transaction.
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 Executive Directors and members of the Management Board is BGN 3 258 thousands.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39.RELATED PARTY TRANSACTIONS (CONTINUED)

Amounts owed to and from companies of the KBC Bank Group and the related income and expense are as follows:

As of December 31 2018 UBB has performed transactions with the following related parties:

As of 31 December 2018 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	59 123	19 403	-
Receivables on repo agreements	1 345 350	-	-	-
Other demand deposits due to banks	519 579	1 626		
Derivatives held for trading- assets	9 285	-	-	-
Other assets	-	686	11	-
Total Assets	**1 874 214**	**61 435**	**19 414**	**-**
Deposits received	1 171 640	-	-	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)	331 619	-	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	746	112 819	9 170	427
Derivatives held for trading – liability	1 638	-	-	-
Derivatives held for hedging – liability	3 724	-	-	-
Subordinated term debt	-	-	-	-
Other liabilities	-	12	5	138
Total Liabilities	**1 509 367**	**112 831**	**9 175**	**565**
Interest income	1 695	710	181	-
Fee and commission income	178	10 911	103	1
Other income	-	147	146	-
Total income	1 873	11 768	430	1
Interest (expenses)	(6 450)	(119)	(5)	(1)
Fee and commission expenses	(1 069)	(1 928)	-	-
Administrative expenses	(11 060)	(2 631)	-	-
Other expenses	-	-	(545)	-
Total Expenses	**(18 579)**	**(4 678)**	**(550)**	**(1)**
Net income from hedge transactions	17	-	-	-
Credit commitments and bank guarantees (fees range: 0.0% - 0.4%)	3 612	1 433	-	-
Receive bank guaranties (fees range: 0.1% - 0.3%)	1 099	1 433	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39.RELATED PARTY TRANSACTIONS (CONTINUED)

As of 31 December 2018 - Consolidated

	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	59 123	-
Receivables on repo agreements	1 345 350	-	-
Other demand deposits due to banks	519 579	1 626	-
Derivatives held for trading- assets	9 285	-	-
Other assets	-	686	-
Total Assets	**1 874 214**	**61 435**	-
Deposits received	1 171 640	-	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)	331 619	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	746	112 819	427
Derivatives held for trading – liability	1 638	-	-
Derivatives held for hedging – liability	3 724	-	-
Other liabilities	-	12	138
Total Liabilities	**1 509 367**	**112 831**	**565**
Interest income	1 695	710	-
Fee and commission income	178	10 911	1
Other income	-	147	
Total income	1 873	11 768	1
Interest (expenses)	(6 450)	(119)	(1)
Fee and commission expenses	(1 069)	(1 928)	-
Administrative expenses	(11 060)	(2 631)	-
Other expenses	-	-	-
Total Expenses	**(18 579)**	**(4 678)**	**(1)**
Net income from hedge transactions	17	-	-
Credit commitments and bank guarantees (fees range: 0.0% - 0.4%)	3 612	1 433	-
Receive bank guaranties (fees range: 0.1% - 0.3%)	1 099	1 433	-

As of 31 December 2017 - Separate

	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	1	60 161	14 953	-
Receivables on repo agreements	528 067	57 869	-	-
Other demand deposits due to banks	673 181	186 459	-	-
Derivatives held for trading- assets	576	-	-	-
Other assets	-	1 771	33	199
Total Assets	**1 201 825**	**306 260**	**14 986**	**199**
Deposits received	58 675	371 608	6 678	3 047
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	-	13 779	-	-
Derivatives held for trading – liability	4 182	-	-	-
Derivatives held for hedging – liability	-	-	-	-
Subordinated term debt	220	-	-	-
Other liabilities	1	31	9	-
Total Liabilities	**63 078**	**385 418**	**6 687**	**3 047**
Interest income	(231 547)	1 329	290	-
Fee and commission income	-	405	102	1 195
Other income	12	6	78	-
Total Income	(231 535)	1 740	470	1 195
Interest (expenses)	1 711	11	23	5
Fee and commission expenses	-	-	88	-
Other expenses	-	6	-	241
Total Expense	**1 711**	**17**	**111**	**246**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39.RELATED PARTY TRANSACTIONS (CONTINUED)

As of 31 December 2017 - Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	1	60 161	-
Receivables on repo agreements	528 067	57 869	-
Other demand deposits due to banks	673 181	186 459	-
Derivatives held for trading- assets	576	-	-
Other assets	-	1 771	199
Total Assets	**1 201 825**	**306 260**	**199**
Deposits received	58 675	371 608	3 047
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	-	13 779	-
Derivatives held for trading – liability	4 182	-	-
Subordinated term debt	220	-	-
Other liabilities	1	31	-
Total Liabilities	**63 078**	**385 418**	**3 047**
Interest income	(231 547)	1 329	-
Fee and commission income	-	405	1 195
Other income	12	6	-
Total Income	**(231 535)**	**1 740**	**1 195**
Interest (expenses)	1 711	-	5
Other expenses	-	-	241
Total Expense	1 711	-	5

Subsidiary and associated companies included in the separate financial statements.
Transactions between UBB its subsidiaries (UBB Factoring EOOD UBB Asset Management AD and UBB Insurance Broker AD) associated companies (UBB Life Insurance EAD and 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.

Associated companies included in the consolidated financial statements.
Transactions between UBB its associated companies (UBB Life Insurance EAD and 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.

UBB participates in Mutual funds managed by UBB Asset Management AD as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management AD	As of 31.12.2018 Separate	As of 31.12.2017 Separate	As of 31.12.2018 Consolidated	As of 31.12.2017 Consolidated
UBB Balanced Fund	2 587	2 830	2 587	2 830
UBB Premium Shares Fund	2 267	2 676	2 267	2 676
UBB Platinum Bonds Fund	1 567	1 572	1 567	1 572
Total	**6 421**	**7 078**	**6 421**	**7 078**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. 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 December 31 2018. The separate and consolidated performance is presented below:

As at December 31 2018	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	408 714	2 921	195 441	(19 317)	1.56%
Group	Bulgaria	417 623	3 036	191 738	(19 253)	1.53%

As at December 31 2017	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	340 859	2 758	(56 496)	5 472	-0.69%
Group	Bulgaria	348 267	2 815	(52 233)	4 989	-0.64%

Sale of UBB Life Insurance EAD

As of 15 March 2018 the deal on the acquisition of UBB Life Insurance EAD from DZI Life Insurance EAD (so far 40% share of Metlife and 60% share of UBB AD) has ended with which DZI Life Insurance EAD becomes the sole owner of the capital of the company.

41. BUSINESS COMBINATIONS

On 13 June 2017 KBC finalized the acquisition of UBB (or “acquiree”). Thereafter KBC took a decision to operate its business in Bulgaria by combined/ merged Bank transferring Assets/Liabilities of Cibank (transferring bank) into UBB (receiving bank).
The legal merger date was on 05th of February and this is the date when the merger has been registered in the Trade registry.
IFRS interpretation for the transfer date are as follows:

- Pooling of interest approach

As both banks are under common control IFRS 3 is not applicable (reference to IFRS 3 paragraphs is included below). The merger between UBB and CIBANK can be processed based on ‘predecessor accounting’ (or also referred to as ‘pooling of interest’): this method is based on accounting continuity for both companies so no purchase price accounting involved and no goodwill will be calculated and booked.
In case of no relevant IFRS for a merger of entities under common control from accounting point of view the carrying amounts of Assets and Liabilities of the Transforming bank as of the Merger date become the carrying amount of A/L in the Acquiring bank.
The alignment of accounting policies is going to be done before the merger date so that the United bank (merged bank) applies one and the same accounting policies.

- Transfer date for accounting purposes

Due to the fact that IFRS 3 does not deal with a business combination of entities under common control we cannot make a reference to IFRS 3 for defining an accounting date.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

41.BUSINESS COMBINATIONS (CONTINUED)

A reference can be made to the Commercial Act which outlines the procedure for a merger (art. 262). Under this Act the date of the merger for accounting purposes can be earlier than the merger Registration date (in the Trade registry). The accounting date for transfer the net assetscould be determined with reference to the Trade act art.262 para “j” point 7 as the starting date from which the actions of the transferring entity are considered as taken by the receiving entity for accounting purposes.

- TRADE ACT definition for the transfer date:

Art. 263 para “j” of Trade act allows two options for the merger date for accounting purposes:
(a) the date of announcement in the Trade register for both transferring and receiving entities (happens simultaneously) hereafter referred to as “legal merger date”
(b) the merger contract could agree on earlier date from which the actions undertaken by the transferring entity are considered as undertaken by the receiving entity for accounting purposes hereafter referred to as “earlier date” . This earlier date couldn’t be more than 6 months before the date of merger agreement/plan.

- Tax purposes:

Corporate Income Tax Act (CITA) refers to the Trade act for application of earlier date but specifies that for tax purposes only legal merger date is applicable i.e. taxation will be calculated at legal merger date in such manner if an earlier date is not applied.
VAT Act deals only with legal merger date for mandatory VAT termination. The deadline for submission the form for deregistration is 14 days from the date of dissolution (article 109 para 1). The date of deregistration is the company dissolution date (Art. 109 para 6) i.e. legal date..

- Early date adoption as 01 Jan 2018 which is the beginning of the financial year. The benefit is the preparation of a joint IFRS Financial statement: In accounting terms application of merger date 1 Jan 2018 means that at 1 Jan 2018 UBB and Cibank become one reporting entity with obligation to prepare and file to the Trade register of one annual IFRS FS for 2018 FY (instead of two separate reports). The benefits of having a single FS is that the financial information for the whole year will be presented together for the period 01.01-31.12.2018. The quality of information in this report will be improved because the financial data will be more understandable and comparable (full FY will be presented for both 2018 and 2017).
- Optimization of resources – The Bank is going to prepare one single Financial Statements instead of two.
- Tax and IT neutral –Tax authority require separate reporting until legal merger date.
- BNB reporting – neutral as the regulator keeps the legal merger date for regulatory reporting purposes

As a result of the merge the property of CIBANK constituting rights obligations and factual relations was transferred over to UBB. As of the date of the merger the financial data of CIBANK were as follows:

Business Combinations	Note	Attributed fair value
Cash and cash equivalents	4	1 070 520
Loans and advances to customers	6	1 836 041
Other financial assets	7 8 9	609 575
Other assets		103 668
Due to banks		1 364 295
Customer accounts		1 828 445
Financial liabilities		3 851
Contingent tax exposures		440
Other liabilities		37 901
Fair value of identifiable net assets of subsidiary		**384 872**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

42. EVENTS AFTER THE REPORTING PERIOD

At the end of January 2019 UBB have signed a contract for sale:

- as of written-off loans with net carrying amount of BGN 17,6 millions
- Investment properties with carrying amount BGN 15,3 millions reclassified as Non-current assets held for sale .

The above mentioned items represented non-adjusting post balance sheet events.
No other events occurred after the date of preparation of financial statements which might have impact on the presentation of financial information for the year ended 31 December 2018.