**UNITED BULGARIAN BANK AD**

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

December 31, 2017

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# ANNUAL ACTIVITY REPORT

# OF UNITED BULGARIAN BANK AD (UBB) ON INDIVIDUAL AND CONSOLIDATED BASIS AS OF DECEMBER 31, 2017 (In accordance with the Accountancy Act)

## 1. REVIEW OF 2017 UBB's ACTIVITIES

### 1.1. FINANCIAL PERFORMANCE

In 2017 the banking system in Bulgaria was stable and reported a 6.2 % growth of assets yoy, a 3 % growth of loans yoy and a 5.8 % increase of client deposits yoy. The sector reports high and stable financial, capital and liquidity indicators. For a one-year period the relative share of non-operative loans from clients for the entire banking system decreased with 2.7 percentage points up to 8.4 %. During 2017 the banking sector was defined by the global trend of low interest rate levels, the consolidation and the sale of banks and bad loans. These factors had a key impact both on the performance of UBB during 2017 and on the development perspectives of the Bank for 2018 and the years to come.

Undoubtedly the most important event in 2017 was the decision of the Belgian group KBC Group to acquire UBB through a transaction representing a record for the local market for EUR 610 million. From mid 2017 UBB became 99.9 % owned by KBC Group and it reported high level of managerial and operational integration in an extremely short period. In 2017 the preparation for the the meger with the other Bulgarian subsidiary of KBC – CIBANK started.

In 2017 UBB became one of the first Bulgarian institutions with credit rating within the A zone. The rating agency Fitch increased the long-term rating of United Bulgarian Bank (UBB) and gave an "A-" score by increasing the long-term rating from "BBB+" and now it is the highest for the Bulgarian banking system. The increased long-term rating of UBB practically means that it now exceeds with one level the one of the state. The UBB credit rating increase happens for the second time for 2017 after its acquisition by the Belgian group KBC. Within several months the UBB rating was increased with seven levels – from "B+", through "BBB+" up to the current highest level in the 25-year history of the credit institution and of the Bulgarian banking system – "A-".

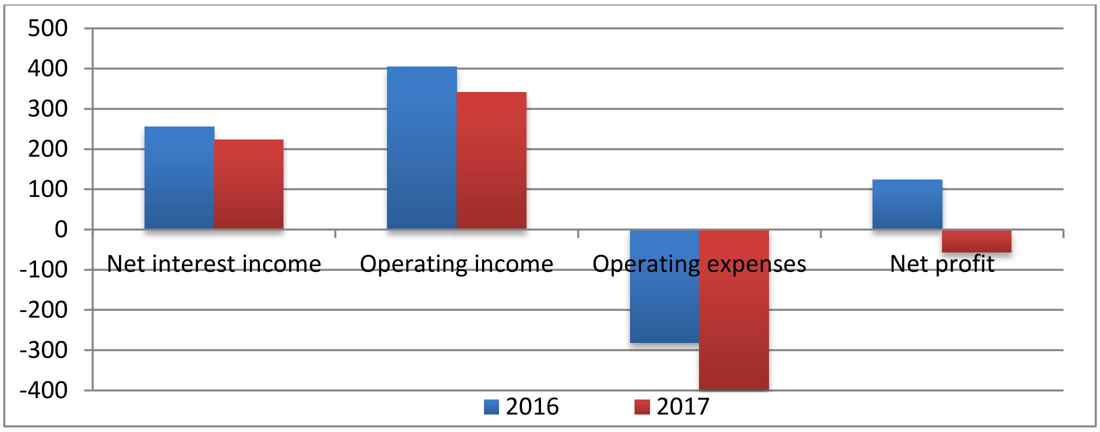
The sale of a BGN 460 million bad loans portfolio of UBB is in an advanced stage and this will be the largest one placed on the Bulgarian market of exposures. The driving force for this transaction is the merger of UBB and Cibank which stimulated the group to relieve the general balance of the inherited bad loans. The offered portfolio is comprised of consumer loans, overdrafts, unsecured borrowings as well as from loans secured with mortgages, cases at judicial stage.

The UBB loan portfolio clearing policy led to a negative financial result. Following conservative levels of provisioning the loans for the year (BGN 209.2 million) and based on the effective costs UBB reached a net loss of BGN 56.5 million on separate basis and BGN 52.2 million on a consolidated basis with the return of equity ratio (ROE) standing at -4.5 %. The financial result of the UBB operations decreases with 145.7 % yoy based also on a decrease of the net interest income with 12.3 % yoy, the decrease of the net income from fees and commissions (0.5 % yoy) and the significant net losses from financial instruments available for sale which amount to BGN 0.1 million (99.5 % decrease compared to 2016). In the meantime UBB maintains optimal liquidity levels and high values of total capital adecuacy from 20.1 % and 24.3 %, on separate and consolidated basis respectively.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.1. FINANCIAL PERFORMANCE (CONTINUED)

**Net Operating Income and Net Profit (BGN million) on individual base**




***Net interest income***

For 2017 the Bank reports net interest income amounting to BGN 224 million (BGN 255 million for 2016) or a drop of 12.3 % yoy. The decline of net interest income is mostly driven from the lowering loan interest rates and to a lesser effect from the reduction in the loan basis, since UBB's lending activity was influenced by weak credit demand in the country. On the other hand, the Bank, in line with the market also lowered the interest rates of its deposit products, mitigating the hit in the income side by reducing its interest expenses for the year.

| | 2017 BGN '000 | 2016 BGN '000 | Change (%, y/y) |
|---|---|---|---|
| Interest income | 237 570 | 283 437 | (16.2) |
| Interest expense | (13 936) | (28 485) | (51.1) |
| **Net interest income** | ***223 634*** | ***254 952*** | ***(12.3)*** |

At the end of 2017 the total amount of *interest income* from clients declined by 16.2 % yoy and reached BGN 237.6 million. Interest income from loans to individuals decreased with 13.1 % yoy amounting to BGN 132.9 million. Interest income from loans to companies amounted to BGN 70.8 million and decreased with 26.1 % for a one-year period. Interest income from financial institutions declined by 35.8 % yoy up to BGN 3.7 million while the interest income from loans and advances to banks decreased by 116.9 % and at the end of 2017 it amounted to BGN (46) thousand. Interest income arising from financial assets at fair value through profit or loss amounted to BGN 14.1 million and increased with 10.9 % yoy while interest income from available for sale securities reported growth of 0.7 % and amounted to BGN 16.0 million.

***Interest expenses*** decreased significantly by 51.1% yoy amounting in total to BGN 13.9 million at the end of 2017 driven by the policy of reducing the costs of borrowings from individual and corporate customers. Interest expense on borrowings from other banks amounted to BGN 2.6 million. Interest expenses on deposits from individual customers amounted to BGN 8.6 million and decreased with 59.2 % yoy. For the same period, the interest rates on deposits from non-banking financial institutions decreased by 64.5 % and amounted to BGN 0.5 million while interest expenses on corporate deposits amounted to BGN 1 million and decreased with 68.9 % yoy. Interest expenses on credit lines amounted to BGN 0.01 million and decreased with 93.3 % yoy. At the end of 2017 the costs of borrowed subordinated debt amounted to BGN 0.06 million and decreased with 82 % yoy.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.1. FINANCIAL PERFORMANCE (CONTINUED)

***Net fee and commission income***

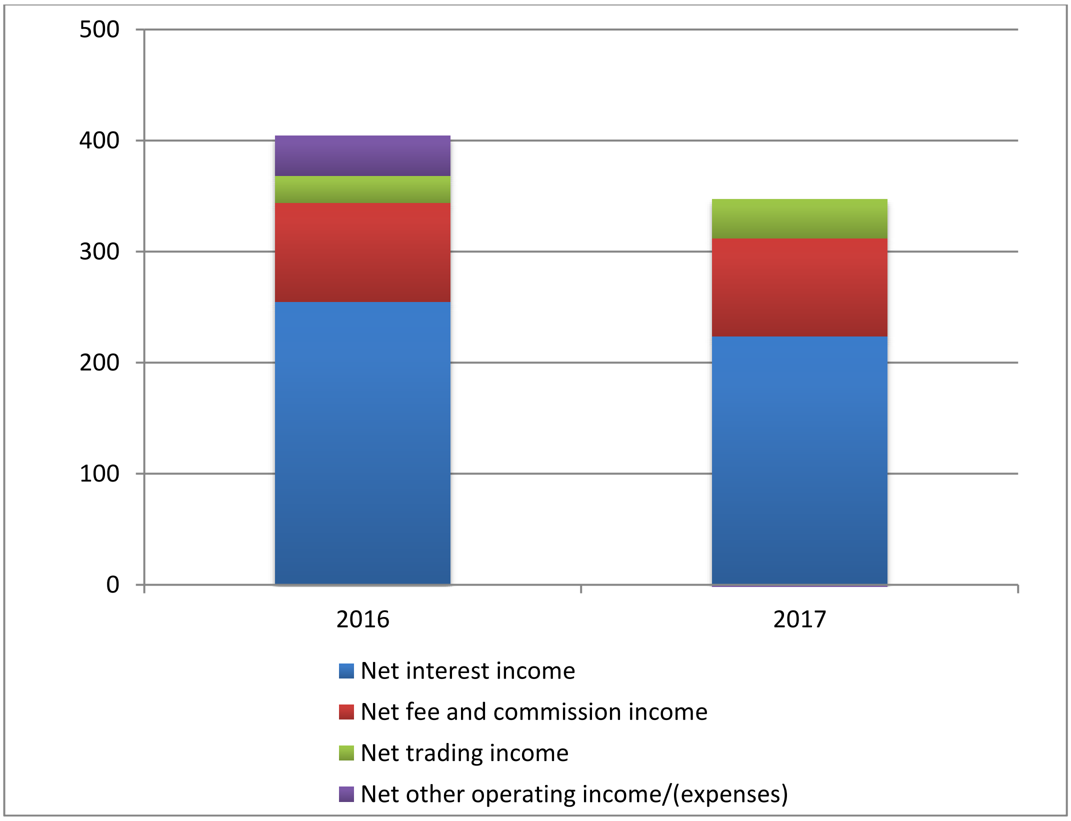
At the end of 2017 UBB net income from fees and commissions totaled BGN 88.6 million at BGN 89.0 million at the end of 2016 and reported a 0.5 % growth yoy. For the same period the net income from fees and commissions on a consolidated basis amounted to BGN 93.9 million compared to BGN 93.5 million at the end of 2016 and increased with 0.4 % yoy. In 2017 income from fees for operating transfers and cash transactions amounted to BGN 18 million and increased with 0.9 % yoy. Income from fees for servicing current accounts amounted to BGN 30.2 million and decreased with 4.36 % yoy. Income from fees on debit and credit cards amounted to BGN 22.7 million and increased with 0.6 % yoy. At the end of 2017 income from fees and commissions on loans and advances to customers increased by 0.08 % yoy and reached BGN 9.2 million Revenues from commissions on guarantees and letters of credit increased by 4.096 % yoy and amounted to BGN 1.8 million. The decrease in revenues from other fees and commissions is 0.4 % yoy which at the end of 2017 amounted to BGN 12.1 million. At the same time the decrease of UBB's fees and commissions expenses was by 10.5 % yoy amounting to BGN 5.4 million.

On a consolidated basis at the end of 2017 the total income from *other fees and commissions* increased with 4.6 % yoy and reached an amount of BGN 17.9 million. The total amount of the income from fees and commissions on a consolidated basis amounted to BGN 99.8 million and decreased by 0.2% yoy. On a consolidated basis the costs for fees and commissions decreased with 9.4 % yoy and amounted to BGN 5.9 million.

***Net trading income***

At the end of 2017 net trading income amounted to BGN 35 million and reported a significant growth of 44 % yoy. The largest contribution to this position is formed by the interest rate instruments trade profit, which, at the end of the year, amounted to BGN 22.4 million and increased by 22.5% yoy. Net income from FX trading amounted to BGN 12.7 million and increased by 108.8 % yoy.

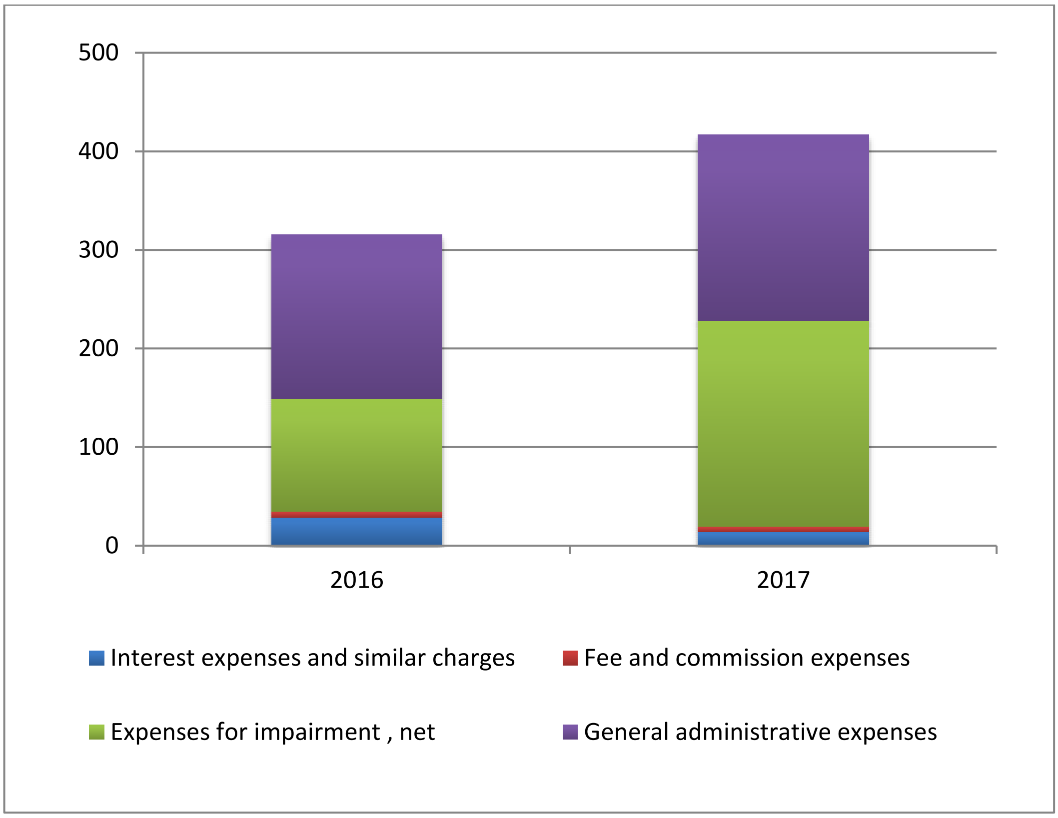
**Operating Income (BGN million) on individual base**



## 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

### 1.1. FINANCIAL PERFORMANCE (CONTINUED)

**Operating Expenses (BGN million) on individual base**




***General administrative expenses***
In 2017, UBB's general administrative expenses increased by 5.9% yoy continuing its cost efficient model and reached BGN 175.2 million, providing normal conditions for business development.
On a consolidated basis, general administrative expenses for 2017 increased by 5.9% and reached BGN 178.4 million.

***Net charge for impairment***
At the end of 2017, UBB's net impairment expenses increased by 92.75% yoy to BGN 221.8 million compared to BGN 115 million in 2016. Out of the total costs for impairment the one related to investment securities available for sale increased by 31.9 % yoy to BGN 5 million.

On a consolidated basis, net charge for impairment increased by 92.76% yoy to BGN 221 million compared to BGN 115.6 million in 2016.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.1. FINANCIAL PERFORMANCE (CONTINUED)

### ASSETS AND LIABILITIES

At the end of 2017 the total amount of UBB's assets increased by 7.7% yoy, reaching BGN 7,358 million compared to BGN 6,832 million as to 31.12.2016. At the end of 2017, assets on a consolidated basis reached BGN 7,364 million and increased by 7.7% yoy (2016: BGN 6,837 million). The main balance sheet items of the Bank are analyzed as follows:

***Cash and cash equivalents***
At the end of 2017, UBB's consolidated cash and balances in the BNB amounted to BGN 847, 7 million, including minimum statutory reserves. Maintaining the required minimum statutory reserves in the BNB in percentage terms was at an optimum level during the year, as follows:

| BGN million | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---|---|---|---|---|
| Minimum Required Reserve | 303 | 315 | 328 | 298 |
| Fulfillment (monthly average) % | 140.46 | 212.68 | 337.44 | 105.02 |

***Due from banks***
At the end of 2017, UBB's net amounts due from banks on separate and consolidated basis amounted to BGN 1, 554, 7 million and increased by 375.4 % yoy, 45.6 % represent nostro accounts, 16.4 % are interbank placements, 37.7 % are securities purchased under agreements to resell, 0.3 % are other loans and advances to banks.

***Loans and advances to customers***
In 2017, due to the continuing volatile macroeconomic environment, UBB continued to apply a conservative approach in lending. Thus, at the end of the year, the Bank's gross loan portfolio declined by 13.9 % yoy. Restrictions were relayed on the loans related to economic sectors with high risk. At the end of 2017 the gross value of loans amounted to BGN 3, 912 million (compared to BGN 4,543 million for 2016). The total volume of loans to individual clients amounted to BGN 1,683 million as their share in the total loan portfolio of the Bank was 43 %. 0.3 % is overdrafts, 2.9 % credit cards, 22.2 % mortgage loans and 17.6 % consumer loans. At the end of 2017 the total volume of corporate loans decreased by 17.6 % yoy to BGN 2,228 million, while their share in the loan portfolio is 57 %. Of these, 2.0 % are loans for non-financial institutions, 54.4 % are loans for corporate clients and 0.5 % is loans for budget organizations and institutions. At the end of 2017 the net amount of UBB loans amounted to BGN 3,293 million. In 2017, the loan portfolio was diversified across all industries with emphasis on retail banking, small and medium-sized businesses, small scale industry, as well as the dynamically developing sectors of the economy – industry, trade, construction, transportation and communication, etc.

On a consolidated basis, in 2017, the gross value of loans amounted to BGN 3, 9134 million and decreased by 13.9 % yoy. For the same period, the net amount of loans on a consolidated basis valued BGN 3,295 million.

***Financial assets designated at fair value through profit or loss***
At the end of 2017 UBB's consolidated financial assets designated at fair value through profit and loss amounted to BGN 600 million and decreased by 45.5 % yoy. They are allocated as follows: 84.6 % in Bulgarian government securities, 15.4 % debt securities from foreign issuers, 74 % of which are debt securities from foreign issuers listed on the official stock market.

***Financial assets available for sale***
At the end of 2017 the Bank's consolidated financial assets available for sale amounted to BGN 680.6 million and registered a 5 % yoy increase. In structural aspect 93.7 % of them are Bulgarian government securities, 3.1 % corporate securities, 1.3 % equity securities from foreign entities and 1% debt securities in mutual funds and 0.8 % equity securities of local issuers.

***Attracted resources and equity***
At the end of 2017 UBB's amount of liabilities reached BGN 6,382 million, compared to BGN 5,749 million at the end of 2016, registering a nominal increase of 12 % for one-year period. For the same period the liabilities on a consolidated base increased by 11% yoy and reached BGN 6,376 million.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.1. FINANCIAL PERFORMANCE (CONTINUED)

### ASSETS AND LIABILITIES (CONTINUED)

***Deposits from banks***
Funds deposited by banks of UBB on consolidate base increased by 409.3 % yoy. At the end of 2017 the deposits from banks amounted to BGN 443, 5 million, compared to BGN 87, 1 million at the end of 2016. Their relative share of total liabilities presented 7.0 %.

***Deposits from customers***
At the end of 2017 customer deposits reached BGN 5,894 million, compared to BGN 5,571 million at the end of 2016 and registered 5.8 % increase yoy. In terms of structure for a one-year period the deposits of individuals increased by 4.0 %. Deposits from non-banking financial institutions decreased by 34.6 % yoy. For the same period corporate deposits increased by 22.9 % yoy. Deposits from government institutions accelerated by 31.6 % yoy.

***Deposits' Structure***

| **Deposits from clients, BGN (000)** | **31.12.2017** | **31.12.2016** | **Change y/y (%)** |
|---|---|---|---|
| Deposits of individuals | 3 990 466 | 3 835 612 | 4.0 |
| Deposits of non-bank institutions | 264 902 | 405 030 | (34.6) |
| Corporates deposits | 1 578 552 | 1 284 566 | 22.9 |
| Deposits from government institutions | 59 712 | 45 384 | 31.6 |
| ***TOTAL*** | **5 893 632** | **5 570 592** | **5.8** |

The deposits of individuals continued to dominate the structure of deposits, representing 67.7 % of the deposits' portfolio. The dynamics of corporate deposits followed the continuing pace of deflation in prices as well as the stagnation in business and their relative share in the deposits' structure was 26.8 %. The relative share of deposits from non-banking financial institutions decreased to 4.5 % and the share of deposits from government institutions and agencies maintained their level at 1 %.

As to December 31, 2017 UBB has key market positions by holding 8.1 % of retail deposits and 6.5 % of the corporate deposits on the local market.

***Bank Borrowings***
At the end of the 2017 the Bank reports on separate basis BGN 1.9 million credit lines from banks. These are essentially credit lines under the *Energy Efficiency* programme in retail banking segment.

***Shareholders Equity and capital adequacy***
At the end of 2017 UBB's shareholders equity amounted to BGN 976 million (2016: BGN 1, 082 million) and decreased with 9.8 % yoy as a result of the dividends paid to shareholders amounting to BGN 98 million. On a consolidated basis the total amount of the shareholders equity amounted to BGN 988 million at the end of 2017 compared to BGN 1, 092 million at the end of 2016 and reported a decrease of 9.4 % yoy.

***Off balance sheet items***
As of December 31, 2017, the off-balance sheet assets of UBB AD amounted to BGN 815,247 thousand on an individual basis and BGN 837,626 thousand on a consolidated basis. Included are undrawn loan commitments and guarantees, documentary and commercial letters of credit.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.1. FINANCIAL PERFORMANCE (CONTINUED)

### ASSETS AND LIABILITIES (CONTINUED)

**Credit related commitments.** The following table represents the contractual amounts of the Bank's/Group's off-balance financial instruments that commit it to extend credit to customers:

| Contingent liabilities and commitments | 31.12.2017 Separate | 31.12.2016 Separate | 31.12.2017 Consolidated | 31.12.2016 Consolidated |
|---|---|---|---|---|
| Undrawn credit commitments | 592,666 | 625,249 | 615,045 | 641,846 |
| Guarantees, documentary and commercial letters of credit | 222,581 | 183,500 | 222,581 | 183,500 |
| **TOTAL** | **815,247** | **808,749** | **837,626** | **825,346** |

**Agreements related to trade finance operations.**
The Bank has entered in agreements to support its trade finance activity. As of December 31, 2017 the Bank has the active contracts.

## 1.2. BUSINESS DEVELOPMENT

In 2017, UBB sustained its strong market position in the banking sector for retail loans and deposits. With regard to retail deposits, it was a year focused on adjusting the deposit rates while keeping the non-interest related income at sustainable level. The Bank's retail deposits portfolio further enhancing the liquidity and reaching above BGN 4 billion at the end of 2017. The bank continues to focus on the growth of consumer and mortgage lending and also attracting new clients. The new volumes of mortgage loans in 2017 compared with 2016 are with 27 % growth and for consumer loans with 6% growth.

The wide distribution of contactless cards and terminals on the market paved the way to purchase volume growth and customers that are more active. UBB continues to be one of the top issuers of international credit and debit cards under the brands of Mastercard and VISA. Part for the card product portfolio of UBB are following premium products for debit cards - World Debit Mastercard and Visa Gold Debit. Following the market trends UBB has only contactless cards in its card product portfolio. In 2017 UBB retained its position of one of the main market leaders on the Bulgarian market in the field of acquiring business.

In 2017, UBB's Retail banking continued the sustainable development of innovative products and promotional campaigns in all retail product categories in a highly competitive market environment characterized by aggressive pricing, personalized discretional offers and massive ATL presence. Digital sales channels were opened to complement the existing sales network, in line with the recent market developments. As a leader on the Bulgarian retail market, UBB has always been dedicated to implementing competitive products and providing high quality service to its customers. In order to keep pace with the developing fin-tech environment, UBB started offering to its customer's on-line opening of deposit products via E-banking – current, saving and time deposits. As a part of the Bank's strategy to strengthen the segmented approach to its retail customers, the Bank continue to develop new package programs which include basic products and services, addressing the different needs of the segments – Mass, Payroll, Pensioners and Affluent. The Bank continues to provide professional and inclusive banking services to its affluent customers. The access to premium banking products and services increased the number of customers altogether with growth in the deposit base of the segment.

In mortgage lending, the Bank further improved the promotional parameters for the most demanded products remaining highly focused on the area by enhancing the service model moreover, expanding the capacity of its Direct Sales force.

In consumer lending the Bank introduced the new "Energy Efficiency" consumer loan under the European Bank for Reconstruction and Development REECL 3 credit line of EUR 5 million with EUR 0.8 million grants paid to the customers. The new initiative targets mainly the mass segment for energy saving home improvements. To enrich the proposal for the mass segment the Bank extended the fixed interest rate consumer loan with attractive pricing especially for the walk-in customers.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.2. BUSINESS DEVELOPMENT (CONTINUED)

Throughout the year, the initiatives of the Bank were supported by constant promotional activities for both existing and new customers. In 2017 following the KBC Group strategy UBB put on focus the growth of the bancassurance business. UBB starts cooperation with DZI, which company is also part of the family of KBC Group in Bulgaria. With the new partnership UBB start the sales for property insurances, CASCO insurances and MTPL insurances.

The life insurance company of the Bank, UBB Life Insurance generated almost 14 % profit growth and is permanently ranked among the Top 5 largest life insurance companies in Bulgaria with a market share of 10%.

**PAYMENT PRODUCTS AND SERVICES**

The past 2017 was a successful year for the development of electronic banking channels at UBB. The Bank has provided its clients with an updated internet banking site that responds to the latest trends in web design by offering an intuitive interface and improving customer experience. UBB was the first bank on the Bulgarian market to offer its customers the convenience to sign transactions and use for electronic identification a mobile token and biometric data.

The Internet Banking Channel has added new functionalities and banking services to its rich palette of capabilities continuing to meet the highest customer expectation for convenience and security of digital channels. UBB clients are now able to monitor online the movements of international currency markets and make FX deals via e-banking.

Thanks to regular marketing campaigns and a successful pricing policy, UPAY payment portal has a 92% growth in transactions since the end of 2016.

The Bank has traditionally maintained leadership in the field of card payments by meeting modern technological requirements for security and convenience of payments. Towards the end of 2017, 90% of POS terminals have contactless functionality, and all Bank's card products have been successfully migrated to the new technology. In 2017 UBB has optimized its terminal network, which significantly increased its efficiency. With its 60 ATMs with a deposit function, the Bank continues to be at the forefront of this benchmark.

**CORPORATE BANKING**

In 2017 UBB's Corporate banking activities were focused on attracting new businesses and preserving the existing client portfolio. In both cases the focus is on clients with whom can be (or already are) established long-term partner relations.
During the second half of 2017 an important task of Corporate banking activities was forming an integrated team and getting used to the policies, practice and standards of KBC. The banking and insurance work model which represents the foundations of the KBC Group strategy was also introduced.
The risk appetite was clearly defined which created the prerequisite for a clearer focus and better efficiency of operations.
The quality of the loan portfolio was maintained at a good level.

**TREASURY ACTIVITIES**

In 2017, after the Bank was acquired by KBC, the operations and responsabilities within the Directorate were restructured according to the KBC model. The transactions with clients were referred into the Markets and Investment Banking Directorate. The functions of the new Treasury Directorate were focused into two directions:

**Liquidity management**
According to the valid and actual Bank policy on liquidity measuring and management the liquid assets to the total liabilities ratio (LAR) is considered as a key indicator and at the end of 2017 it was 52.13 %. The liquid assets ratio shows the stability of the Bank's cash flow and is significantly above the recommended minimal percentage of 20 % as set by the Regulator (Bulgarian National Bank). The Bank has not allowed any deviation from these levels for any 2017 period. Throughout the year the Bank stands above the required values of liquidity ratios LCR and NSFR enforced by the European Regulator.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.2. BUSINESS DEVELOPMENT (CONTINUED)

### TREASURY ACTIVITIES (CONTINUED)

**Trends or risks that may impact the Bank's liquidity for 2017**
In 2017 the main direction for the financial market is undertaking measures by the institutions to meet the requirements of Basel 3 established in Directive 36/2013 and Regulation 575/2013 as a result of prudential measures aimed at increasing the transparency, improving the accountability, liquidity and capital adecuacy of banks. The introduced new measures for daily liquidity monitoring will strengthen the control by the Regulator, will provide stable liquidity position and will unify the requirements to the EU Member-states in terms of liquidity of banks. As a result of the measures announced by the ECB and aiming to increase the inflation up to the long-term threshold of 2 %, overliquidity is expected.

**Lack or presence of significant shortage of liquid funds**
During the accounting year the Bank did not experience shortage of cash or other liquidity issues and such are not expected to occur in the next financial year.

**Management of assets and liabiliites**
The Bank strives to maintain an optimal structure of assets and liabilities providing net interest income which is stable in the longer term. During the reporting period shrinkage of commercial margins of loans and deposits was observed but in the last months this pace slowed down. With regards to this the expectations are for preserving the stability of financial parameters, increasing the collection rate of the provided loans, improving the quality of the loan portfolio and achieving adecuate profit from operations while maintaining sustainable liquidity and capital buffers.

### INFORMATION TECHNOLOGIES

**Main Banking System (MBS)**
The most important choice for the IT architecture of a bank is selecting its MBS. KBC Group has determined the Temenos T24 MBS to be introduced in all Group companies working in Bulgaria, Hungary, Slovakia and Ireland. UBB has been working with that system since 2001 and in 2007 the servers of the T24 system were transferred to Athens where are located the main data centers of the National Bank of Greece, the former owner of UBB. After the acquisition of UBB by KBC in July 2017 the T24 servers were moved to Sofia into UBB data centers. The current version of the T24 MBS as of now is R13 (since 2013). Due to this a decision was made to upgrade the main IT system of UBB, Temenos T24, before the integration of UBB and CIBANK. The project was started and on 15.1.2018 was performed major upgrade of the T24 system covering 4 areas:

a) Upgrading the T24 MBS version from R13 to R17 (version from 2017);
b) Transition of the user interface from desktop to browser one (web-based);
c) Migrating the T24 system servers to the general data center of KBC Group in Hungary;
d) Transferring the database from JBASE to Oracle.

Transferring the information from ABANK (CIBANK MBS) to T24 will be conducted through procedures for phased migration of clients, accounts, deposits, loans, collaterals and all other elements of the banking system. The data migration is planned to be conducted in phases and to be completed until November 2018. Strict control procedures for consistency and reconciliation of data shall be applied to all data migrations.

**ERP – system for internal accountancy and management of the Bank as a company**
The ERP system chosen for the future united UBB bank is the SAP system. SAP has been used in UBB since 2008 and at that moment the KBC group took the decision to install the IT system SAP in a data center in Hungary. The maintenance of the application is also performed from there. The transfer of the data and the SAP application from Athens to the data center of KBC in Hungary completed in March 2018.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.2. BUSINESS DEVELOPMENT (CONTINUED)

### INFORMATION TECHNOLOGIES (CONTINUED)

**Other peripheral applications**

In order to select the peripheral IT systems for the new UBB between the relevant IT systems of the former banks UBB and CIBANK EAD, a choice has been made on which of both systems will service the future United bank. The choice is based mainly on the issue which business process will service the future bank and on reducing the integration efforts. Considering the choice of Temenos T24 as MBS with a view to reduce the integration risk and burden, this also suggests to a great extent the choice of the other peripheral systems and in 85 % of the cases peripheral systems of UBB have been chosen. The selected systems from CIBANK EAD are from the areas of systems to improve loans for individuals and medium-sized and major companies, systems for data storage and reporting, distraints, partially card systems. The data and reporting systems of the future bank UBB will be based on new modern technologies which have proven their efficiency at CIBANK EAD, by using the data accumulated at UBB for more than 15 years working with T24. Only for a separate number of systems it is decided to use a third system representing a KBC solution applied in another company of the Group. As to the moment such systems are solely a new mobile banking developed in Slovakia and the authentification system for online clients used in Ireland. In the field of CRM both existing systems are not suitable and a strategic solution will be sought.
The selected systems of UBB and CIBANK EAD or the KBC Group will be linked to the main banking system T24 and to the other selected systems during the bank integration process in 2018.
Some of these peripheral systems operated till July 2017 at the NBG data centers in Athens but afterwards they were transferred to Sofia, at the UBB data centers and at the moment there are no short-term plans for moving them into the KBC data centers in Hungary.

**Roadmap for integration of information systems**
On a high level the plan (roadmap) for integration of information systems envisages:

1) Separating from NBG – July 2017 for T24 and the peripheral systems that have operated in Athens – completed. In March 2018 the SAP system was completed.
2) Upgrading the version of the main banking system T24 from R13 to R17 – completed in January 2018.
3) Legal merger of both banks – February 2018, and the new united bank shall provide consolidated reporting to BNB. Soon afterwards the renumbering of accounts of CIBANK clients will be initiated.
4) Merging the functions at the Central Management.
5) Integrating the peripheral systems selected from the portfolio of CIBANK to T24 – June 2018.

### HUMAN RESOURCES MANAGEMENT

In 2017 the main highlights of human resources related activities were focused on the integration processeses between UBB and CIBANK after the acquisition of UBB by KBC.

The nominations for managers at all levels of the united bank were assigned. A new structure of all Central management and Branch network units was created for the new bank and it was introducted to a great extent, the Human Resources Management Department entirely supporting and consulting the direct managers in this task. Thirty branches of the Branch network were collocated in order to service in a single branch both clients of CIBANK and UBB.
The Human Resources Management Department was facing the challenge to start integrating and forming the HR processeses including the elaboration of a new unified system for remunerations, benefits and an insurance package as well as for general labor conditions. This package is ready to be implemented from 2018 for all employees of the new bank. A new collective agreement was also negotiated.

Cooperating with the business units the "Training and Development" unit organized internal trainings for more than 1,370 participants in relation to integration processeses, acknowledging banking systems, products etc.
Since the start of the integration more than 150 new employees have been appointed and many other have been re-appointed to vacant positions at the Bank.
A large-scale project for unification of rules and procedures was initiated at the Human Resources Management Department complying with the best practices and aiming at smooth implementation of procedures.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.2. BUSINESS DEVELOPMENT (CONTINUED)

### HUMAN RESOURCES MANAGEMENT (CONTINUED)

In March 2018 the integration of HR IT systems has been finished and currently just one system has been used after the legal merger.

### COMPLIANCE

*Compliance Department*'s 2017 activity has demonstrated effective management of non-compliance risk at UBB. With the existing strong regulation in the banking sector and the persisting statutory and regulatory intervention in its work, the compliance mechanism, established within the Bank has manifested its resilience and efficiency.
As a result of the controlling environment enhancement measures, initiated in 2017, the negative consequences for UBB are negligible – the imposed sanctions are minimal and refer only to isolated cases of non-compliance.

Also in 2017, the new product – Payment Account with Basic Features – was successfully launched, in line with which main documents were amended, regulating the offering of payment services.
Compliance Department was also at the basis of the preparation for the successful delivery of data to the National Revenue Agency, required by virtue of the specialized legislation for exchange of taxation-related information.

In 2017, the process of imposing new standards on personal data protection evolved further, in conformity with the trends in legislation and good practices and in line with the preparation for the introduction of the new regulation for personal data protection in May 2018.

In accordance with the Department's approved plan, 20 audits in the branch network were performed, whose subject was the observance of the requirements on prevention of money laundering and financing of terrorism, consumer and personal data protection, client complaints' administration and observance of UBB's Code of Conduct.
The Department continued its proactive involvement in the approval of new products and advertising materials, thus contributing to the preventive protection of the Bank from the risk of legal non-compliance with regards to the protection of consumers and competition.

While following international trends and driven by the understanding that the effective management of each and every bank is of key importance for the well-functioning not only of the institution itself, but also of the overall banking system, in 2017 as a result of the acquisition of UBB by the Belgian KBC Group a preparation was initiated for adapting fundamental documents of the Bank introducing the most significant internationally recognized principles and standards – like a new Code of Ethics, Rules for Submitting signals by Employees, Anti-Bribery Rules.

Over 2017 UBB also employed considerable efforts and resources, to ensure the effective management of each potential or real conflict of interest. The circumstances, deemed by the Bank a conflict generator, the means for their management and their prevention methods, were stipulated in the *Code of Ethics* and in the policies for conflicts of interests' disclosure and prevention. The circumstances declared throughout the year are recorded into a Register.

Priority was also given to the activity on prevention of money laundering and financing of terrorism. The monitoring of suspicious operations and clients is an ongoing process, allowing for timely reaction on the part of the Bank upon occurrence of suspicious transactions and individuals.

### SUPPORTING DIGITAL SERVICES AND CARD CENTER

The past 2017 was a successful year for the development of electronic banking channels at UBB. The Bank has provided its clients with an updated internet banking site that responds to the latest trends in web design by offering an intuitive interface and improving customer experience. UBB was the first bank on the Bulgarian market to offer its customers the convenience to sign transactions and use for electronic identification a mobile token and biometric data.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

## 1.2. BUSINESS DEVELOPMENT (CONTINUED)

### SUPPORTING DIGITAL SERVICES AND CARD CENTER (CONTINUED)

The Internet Banking Channel has added new functionalities and banking services to its rich palette of capabilities continuing to meet the highest customer expectation for convenience and security of digital channels. UBB clients are now able to monitor online the movements of international currency markets and make FX deals via e-banking.

Thanks to regular marketing campaigns and a successful pricing policy, UPAY payment portal has a 92% growth in transactions since the end of 2016.

The Bank has traditionally maintained leadership in the field of card payments by meeting modern technological requirements for security and convenience of payments. Towards the end of 2017, 90% of POS terminals have contactless functionality, and all Bank's card products have been successfully migrated to the new technology. In 2017 UBB has optimized its terminal network, which significantly increased its efficiency. With its 60 ATMs with a deposit function, the Bank continues to be at the forefront of this benchmark.

### SPONSORSHIP AND CORPORATE SOCIAL RESPONSIBILITY

In 2017, UBB persistently developed further its policy in the sphere of sponsorship and corporate social responsibility in accordance with its overall strategy focusing on the encouragement and support of culture and arts, science and sports, as well as on aiding vulnerable social groups. With a view to the acquisition of the Bank by KBC the focus was aimed also at initiatives in the four priority directions for the group: financial literacy, entrepreneurship, environment and health.

The total costs of UBB for sponsorship and CSR for 2017 amount to BGN 410 thousand. The main CSR activities throughout the year were carried out along the following lines:

- **Cultural projects**

- March Music Days International Festival, Ruse town– UBB marked 15 years as a partner to one of the oldest festivals in Bulgaria, held annually since 1961. The event was once again welcomed with great anticipation and significant interest by connoisseurs of classical and modern music. Traditionally the Festival has been a focal point for artists from all over the world.
- Partnership with Sofia Opera and Ballet via Opera in the Park and and the second Opera of the Peaks festival in the Magura cave and at the Belogradchik Rocks.This festival is innovative for opera and ballet arts. The highlight was the visit to the Magura cave for the extraordinary performance spectacle "Vagner Magura: gods, giants, dwarfs and Valkyries".
- Varna Summer International Theater Festival – in 2017 UBB gave a helping hand to the festival for 11th consecutive year. The Festival promoted classical productions, as well as modern artistic interpretations, staged by Bulgarian and foreign theater companies. With its versatile programme Varna Summer transformed Bulgaria's seaside capital once again into a festivity town for the event's duration.
- Apollonia Festival – UBB was again a general partner of the Festival of Arts in Sozopol town through a special highlight in the festival's programme - Apollonia/ UBB Stage Club – a favorite venue for the fans of young Bulgarian musicians every summer.
- NATFA – the young actors from the National Academy for Theater and Film Arts once more received the support of UBB as in 2017 the Bank sponsored for a third time the realization of the *First Steps in Cinema Arts* educational workshop, organized exclusively for the newly-enrolled students of the Academy.

# 1. REVIEW OF 2017 UBB's ACTIVITIES (CONTINUED)

### 1.2. BUSINESS DEVELOPMENT (CONTINUED)

**SPONSORSHIP AND CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)**

- NIGHT/ Plovdiv - in 2017, UBB supported for the second time a symbolic event not only for Plovdiv, but for the Bulgarian art as a whole –Night of Museums and Galleries in Plovdiv (*NIGHT/ Plovdiv*). The *Night of Museums and Galleries* in Plovdiv was firstly organized in 2005 and soon became one of the most recognizable cultural events, anticipated and visited by spectators from all-around the country. This year's thirteenth *NIGHT* in Plovdiv and second for UBB as its partner welcomed over 40,000 people during the two festival nights (September 15 - 17) under the town's hills.

The *NIGHT's* highlight was the first public display of the **UN/KNOWN exhibition - part of UBB's Gold Fund collection - in the Historical Museum of Plovdiv**.

- **Sports**

- Stoychev – Kaziyski Children's Volleyball Academy – as a dependable member of the society, promoting children's' healthy growth and the need of practicing active sports, it was for the second time that UBB supported a children's team sport – volleyball - by providing equipment for more than 300 kids, some of which autists, entrusted to the academy's professional coaches.

- **Entrepreneurship**

In 2017 within the national campaign *European Funds for a More Competitive Processing Sector* were held five round tables in Plovdiv, Stara Zagora, Sliven, Veliko Tarnovo and Pleven in relation to the last submission of projects for processing plants under the Rural Areas Development Programme (RADP), measure 4.2 *Investments in processing/marketing of agricultural product*s till 2020 supported by the UBB. The UBB representatives aimed at explaining to the entrepreneurs the work principle of banking financial instruments offered to the processing industry as well as the opportunities to fund the business under EU programmes.

- **Financial literacy**

- As a member of the UN Global Compact UBB participated for another year in the *I Am Proud with the Labor of My Parent*s initiative. The project idea is to demonstrate to the children through specially designed programs and games why the labor of their parents is important and what a working environment day looks like.

- **Regional sponsorships**

- In 2017, UBB supported financially 44 regional signature events of high prominence for the local community and culture. Among them there were anniversary celebrations in a number of towns, cultural events such as dance competitions, folklore and musical festivals, exhibitions, sports competitions, etc.

# 2. IMPORTANT EVENTS DURING THE PERIOD BETWEEN THE DATES OF THE FINAL BALANCE SHEET AND THE ANNUAL REPORT APROVAL

The bank in process of transformation is a sole proprietorship joint stock company together with the company CIBANK JSC established and operating under the Bulgarian legislation, entered into the Commercial Register under Company ID (EIK) 831686320, having its headquarters and managing address at 89B Vitosha blvd., Triaditsa administrative region, 1463 Sofia.

The registered capital of the bank in process of transformation is BGN 227,932,510 divided into 22,793,251 regular, registered, uncertificated shares with right to vote and with par value of BGN 10 each. The sole proprietor of the capital is KBC.

## 2. IMPORTANT EVENTS DURING THE PERIOD BETWEEN THE DATES OF THE FINAL BALANCE SHEET AND THE ANNUAL REPORT APROVAL (CONTINUED)

The accepting bank is a joint stock company together with the company United Bulgarian Bank AD, established and operating under the Bulgarian legislation, entered into the Commercial Register under Company ID (EIK) 000694959, having its headquarters and managing address at 5 Sveta Sofia str., Vazrazhdane administrative region, 1040 Sofia. The registered capital of the accepting bank is BGN 75,964,082 divided into 75,964,082 regular, registered, uncertificated shares with right to vote and with par value of BGN 1 each. KBC owns 99.91 % of the accepting bank shares.

The incorporation of CIBANK EAD into United Bulgarian Bank AD was entered into the Commercial Register on 05.02.2018. The accepting bank shall keep the name United Bulgarian Bank AD, Company ID (EIK) 000694959 by changing the headquarters and managing address at 89B Vitosha blvd., Triaditsa administrative region, 1463 Sofia.

The replacement ratio of the KBC shares in CIBANK EAD shall be fixed at 1 share in CIBANK EAD equal to 0.78419 shares in United Bulgarian Bank AD.

The registered capital of United Bulgarian Bank AD is increased with BGN 17,874,239, divided into 17,874,239 regular, registered, uncertificated shares with right to vote and with nominal value of BGN 1 each.

Pursuant to art. 8 of the Incorporation Agreement considering the replacement ratio it shall not be necessary to make any additional payments.

## 3. PLAN FOR 2018

**Macroeconomic assumptions**

The main macroeconomic conditions for the business development in Bulgaria in 2018 will be determined by the impact of the following parameters:

- 4.1% GDP growth, enhancing the growth rate in the EU's major trading partners.
- Expectation for an annual average inflation rate of 1.5 %, influenced by the long deflationary period over the past two years.
- Growth in credit activity on an annual basis - from 6.8 % for loans to households and 4.7 % for corporate loans.
- Increase in deposits for households by 6 % and for corporate deposits by 5 % on an annual basis.
- Annual yield of the household interest rates (consumer and mortgage loans) at 6 % and for corporate loans at 4 %.
- Annual yield of the interest rates on households deposits at 0.07 % and 0.03 % for companies.
- Currency board with fixed exchange rate BGN / EUR: 1.95583.

## 3. PLAN FOR 2018 (CONTINUED)

**Key Business Objectives:**

- Finalize the integration process of UBB and CIBANK in line with the schedule by the end of 2018.
- Maximizing the magnitude of scale of economies from the merger of both institutions through:
  - ✓ Cost optimization. An uninterrupted process of limiting unproductive costs and making new, deliberately productive ones, including with a longer-term effect.
  - ✓ Asset quality. Further improve credit quality by applying strict credit criteria when granting loans and increasing the collection of claims from degraded portfolios.
  - ✓ Optimal liquidity and strong capital position. Maintaining levels above those set by the BNB – 20 % liquidity and 13.5 % capital adequacy.
- Business activity. Reinforcing the position of one of the leading and structurally identifying institutions for the banking sector in Bulgaria through:
  - ✓ Maintaining the profitability in accordance with the budget by preserving and further developing the market share of the Bank in all major activities.
  - ✓ Improving the quality of the services offered and the level of service. Permanent increase in the overall attractiveness and reputation of the Bank.
  - ✓ Focus on the increase of non-credit-related products and services - bank insurances, payments, asset management.

## 4. INFORMATION REQUIRED PURSUANT TO ART. 187”d” and ART. 247 of THE CODE ON COMMERCE

**Information under Art. 187 “d”**

**Number and nominal value of the acquired and transferred during the year own shares, part of the equity they represent, as well as the price at which the acquisition or transfer was made:**

*As of 31.12.2017, no ordinary registered voting shares had been transferred according to the Central Depository.*

**Grounds for the acquisitions made during the year:** there is no buy out of *shares from minority shareholders.*

**Number and nominal value of the possessed own shares and part of the equity that they represent.**

*As of 31.12.2017, the shareholders capital is allocated into 75,964,082 ordinary registered voting shares, with nominal value of BGN 1 each.*

| ***Main shareholders:*** | ***Shares*** |
|---|---:|
| KBC Bank N.V., (99.9%) | 75,893,450 |
| Other shareholders (0.1%) | 70,632 |
| Total | 75,964,082 |

**Information under Art. 247**

**Total remunerations received by Board of directors members during the year:**
The remuneration of the executives - members of the Board of Directors during the year consists of short-term labor remuneration such as salaries and payments, related to social and health insurance contributions, paid annual leave, paid sick-leave. The total amount of remuneration for 2017 was BGN 1 891 537.66.

**The acquired, possessed and transferred by the members of the Board of Directors shares and bonds of the company:**
*Owned by the members of the Managment Board (Board of Directors till June 2017 – acquisition of UBB by KBC) shares BGN 1 (one) each (nominal value)*

| Names of the Directors | 31.12.2017 | 31.12.2016 |
|---|---:|---:|
| Stilian Petkov Vatev * | 290 shares | 290 shares |
| ***Total:*** | ***290 shares*** | ***290 shares*** |

* a former member of the Board of Directors till the acquisition of UBB by KBC.

*No shares were acquired or transferred by the members of the Board of Directors during the year.*

## 4. INFORMATION REQUIRED PURSUANT TO ART. 187”d” and ART. 247 of THE CODE ON COMMERCE (CONTINUED)

**<u>Information under Art. 247</u>**

**The rights of the Board members to acquire shares and bonds of the Bank;**
*Board members have no rights related to acquisition of shares and bonds of the Bank.*

**The Board members participation in companies as unlimited liability partners, the possession of more than 25 per cent of another company’ capital, as well as their participation in the management of other companies or co-operations as procurators, managers or board members;**

**<u>For period January 1 –June 14, 2017</u>**

**Stilian Petkov Vatev**
Borica Bankservice AD Board of Directors’ member
Interlease EAD Board of Directors’ Chairman
Interlease Auto EAD Board of Directors’ Chairman
UBB Life Insurance Company EAD, Chairman of the Board of Directors
Insurance Broker AD Board of Directors’ member
Representative of the Association of Banks in Bulgaria in European Payment Council

**Radka Ivanova Toncheva**
Druzhestvo za Kasovi Uslugi AD Board member
Member of the Board of Atanas Burov Foundation
Chairman of Board of Directors of United for Charity Association

**<u>For period June 14-December 31, 2017</u>**

**Peter Andronov – Chief Executive Officer of CIBANK, Chief Executive Officer of UBB**
Chairman of KBC Country Team for Bulgaria
Country Manager of KBC Group for Bulgaria
Chairman of the Board of Directors of CIBANK
Chairman of UBB’s Board of Directors
Chairman of the Association of Banks in Bulgaria

**Frank Jansen - Executive Director, “Corporate Banking and SME”, UBB**
Member of KBC Country Team for Bulgaria
Member of Board of Directors of UBB
Member of Board of Directors of CIBANK
Chairman of Interlease Board of Directors
Chairman of the Board of Insurance Broker
Chairman of the Board of Directors of East Golf Properties EAD

**Svetla Georgieva - Country Director of Risk, Executive Director Risk of UBB and CIBANK**
Member of KBC Country Team for Bulgaria
Member of Board of Directors of UBB
Member of Board of Directors of CIBANK

**Christof de Mil - KBC Country Financial Director, Executive Director Finance of UBB and CIBANK**
Member of KBC Country Team for Bulgaria
Member of the Board of Directors of CIBANK
Member of Board of Directors of UBB
Member of the Board of Directors of UBB Asset Management

**Jan Swinnen - Commercial Representative of UBB and CIBANK**
Member of KBC Country Team for Bulgaria
Member of the Board of Directors of CIBANK
Member of Board of Directors of UBB
Chairman of Board of Directors of Asset Management

## 4. INFORMATION REQUIRED PURSUANT TO ART. 187”d” and ART. 247 of THE CODE ON COMMERCE (CONTINUED)

**For period June 14-December 31, 2017**

**Teodor Marinov - Executive Director Legacy of UBB and CIBANK**
Member of KBC Country Team for Bulgaria
Member of Board of Directors of CIBANK
Member of Board of Directors of UBB
Member of Board of Directors of UBB Asset Management

**Ivaylo Mateev - Executive Director Operations of UBB and CIBANK**
Member of KBC Country Team for Bulgaria
Member of the Board of Directors of CIBANK
Member of Board of Directors of UBB
Member of the Board of Directors of “Borika-Bankservice” AD
Member of the Management Board of “Drujestvo za Kasovi uslugi” AD

**Hristina Filipova - Procurator of UBB and CIBANK**
Member of the Board of Directors of CIBANK
Member of the Management Board of UBB
Vice chairman of the Board of Directors of “East Golf Properties” EAD

**Agreements under Art. 240 “b”, signed during the year:**

The members of the Board of Directors and related to them parties have not signed agreements with the Bank that go beyond the usual activity or significantly deviate from market conditions.

**Payment of dividends and interest**

For the reporting financial year 2017, UBB will not pay dividends. The annual financial result will be covered in accordance with a decision of the General Meeting of Shareholders.

## 5. BRANCH NETWORK

In 2016 the total number of UBB structural units is 190, including:

- 120 units type 1, focused on servicing retail customers and micro business enterprises
- 27 structural units type 2, specialized in establishing relations with retail, micro and small business clients
- 17 structures type 3, servicing retail, micro customers and SME business
- 8 Business centers, specialized structural units, profiled in servicing SME business customers
- 18 representative offices

Customers of all UBB units are treated with individual care, professionalism and competence , and are offred a wide range and variety of products and services, matching their needs.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

***a) Risk management principles and policies of the Bank***

UBB actively manages the risks, inherent to its activity, aiming to achieve optimal profitability from operations, while keeping all risks under control. The Bank applies t Risk Management Framework and Risk Appetite, developed in accordance with the KBC Group one’s, the requirements of all applicable laws, BNB regulations and European Authorities’ standards and framework.
The framework for risk identification, assessment, monitoring and control has been fully documented by the Risk Management Division, forming the basis for consistent definition of strategies, policies and procedures across all risk-taking units within the Bank.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***a) Risk management principles and policies of the Bank (continued)***

The Bank risk management framework is reviewed periodically and adjusted in accordance with the Bank's overall risk appetite and profile, as well as with internal and external norms and best banking practices. The Bank Risk Management function is capturing all material risk sources across all portfolios and operations.
The Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally and compliance with internal and external rules.

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks. Risk exposures are reported to the Management Board and the Supervisory Board through, the Integrated Risk Report submitted to the Local Risk Management Committee and the Risk and Compliance Committee.

The Bank's risk governance model includes three lines of defense consisting of:
- The risk taking units (lines of business) at the first level, responsible for assessing and minimizing risks for a given level of return.
- The Bank Risk Management function, at the second level, identifies, monitors, controls, quantifies risk, provides appropriate tools and methodologies, coordination and assistance; reports to appropriate levels and proposes mitigation measures.
- Bank Internal Audit – provides the independent review function.

The Bank Compliance function ensures, through proper procedures, that the requirements and deadlines provided for by the regulatory framework in force are observed. This includes in particular anti-money laundering and terrorist financing regulation.

The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken. The Risk Management Division has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making, as well as the assessment of the risk that may arise in cases of important changes (mergers, acquisitions etc.), with a view to adopt the proper risk management and control mechanisms.

Adequate risk management process-related internal controls are maintained for all types of risks, involving regular independent reviews and evaluations of their effectiveness by the Internal Audit function.
The Bank acknowledges and manages with higher priority the following major types of banking risks arising from its activities – credit risk, liquidity risk, market risk, interest rate risk in the banking book and operational risk.

***b) The Bank exposure to credit, liquidity, market and operational risk***

The UBB's risk exposures and respectively risk metrics and risk management methodologies used are stated below in a sequence according to their significance for the Bank's activity.

*Credit risk*

The credit risk is related to possible unfavorable impact to the profit and capital of the Bank from an obligor's failure to meet the terms of any contract with the institution or l to perform as agreed.
The main source of credit risk for the Bank is the loans to customers, which, as of 31.12.2017 amounted to BGN 3 912 million (BGN 3 913 million on consolidated basis). As of the same date, the total amount of impairment (IFRS provisions) was BGN 627 million.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***b) The Bank exposure to credit, liquidity, market and operational risk (continued)***

*Credit risk (continued)*

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, the Bank possesses and applies numerous detailed procedures, relevant to the lending activity, regulating the acceptance and management of collaterals, credit analysis, credit administration etc.

The Bank rates the corporate obligors by using an internal rating system, which provides probabilities of default according to a 22-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, the Bank targets the maintaining of low level of credit risk concentration at obligor level and by industries. The Bank 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.

The Bank 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 Bank 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. The Bank continues to put emphasis on generating new and healthy lending business, in order to further improve the profitability and credit quality.

In order to manage the country and counterparty credit risk, the Bank has approved a conservative limits' framework. The Bank 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, the Bank 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 the Bank 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. The Bank invests mainly in liquid assets and maintains an average of 46% ratio of liquid assets to total liabilities.Moreover, the Bank 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 the Bank 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.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***b) The Bank exposure to credit, liquidity, market and operational risk (continued)***

*Market risk*

The market risk is related to possible unfavorable impact to the profit and capital of the Bank from adverse movements in bond, equity, currency and derivative prices. It includes equity risk, interest rate risk and foreign exchange risk.
The Bank’s total exposure to market risk is relatively small and the daily total VaR as of 31.12.2017 amounted to BGN 1.938 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 variance/covariance methodology developed by Risk Metrics / J.P. Morgan. This approach is used to calculate the VaR of UBB’s Trading and AFS portfolio positions retained for one-day at a 99% confidence level.

| VaR (daily value) | 30.12.2017 | 2017 | | |
|---|---|---|---|---|
| | | min | max | average |
| Equity Risk VaR | 22 | 20 | 56 | 36 |
| FX Risk VaR | 0 | 0 | 10 | 2 |
| Interest Rate Risk VaR | 1 882 | 1 882 | 5 409 | 3 500 |
| **Total VaR** | 1 938 | 1 938 | 5 409 | 3 493 |

| VaR (daily value) | 30.12.2016 | 2016 | | |
|---|---|---|---|---|
| | | min | max | average |
| Equity Risk VaR | 47 | 18 | 666 | 121 |
| FX Risk VaR | 2 | 0 | 13 | 4 |
| Interest Rate Risk VaR | 4 266 | 3 470 | 7 651 | 4 800 |
| **Total VaR** | 4 276 | 3 490 | 7 631 | 4 790 |

For the effective management of market risk, in line with UBB’s strategic objectives, the Bank has established a framework of VaR limits – total and by risk factors.

The Bank decreased its securities portfolio during Y2017 by BGN 360 mln (nominal value) mainly foreign corporate bonds and commercial papers, which have been not in compliance with KBC Group apetite.

*Currency risk*

This is the risk for the profit and capital of the Bank 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, the currency risk undertaken by the Bank, mainly, evolves from changes in the EUR/USD exchange rate and, to a smaller extent, from the exchange rates of other currencies to the Euro.

The Bank 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.

UBB additionally limits the FX risk by setting daily limits on the maximum potential loss from FX transactions on the financial markets. For defining and monitoring the above limits, the „Value at Risk” method is used and in addition different stress-test scenarios are applied.

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***b) The Bank exposure to credit, liquidity, market and operational risk (continued)***

*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 the Bank from adverse movements in interest rates affecting the Bank's non-trading positions.
UBB recognizes the importance of IRRBB management in effectively managing its balance-sheet, its capital and its earnings stream.

The interest rate risk assessment methods include analysis of interest rate mismatches, duration analysis and the economic value of equity (EVE) sensitivity to a change in the interest rates. The Bank has identified the interest rate sensitive assets and liabilities. They are allocated in a maturity table, as floating rate instruments are allocated according to the remaining maturity till the next re-pricing date, while fixed-rate instruments are treated according to their remaining maturity till the maturity date.
The Bank measures the EVE sensitivity to unfavorable changes in interest rates separately for any of the main currencies in which the Bank operates and the results are used for making management decisions. The used scenarios are +/- 100 bps and +/- 200 bps parallel shift in interest rates.

as of 31.12.2017

| Interest Rate Mismatch | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | -1 413 523 | -295 868 | 30 042 | 42 059 | -1 637 290 |
| EUR | 369 046 | -294 804 | -39 966 | 777 591 | 811 866 |
| USD | -325 643 | -68 170 | -14 326 | 0 | -408 140 |
| Total | -1 370 120 | -658 843 | -24 251 | 819 650 | -1 233 564 |

| Change in the economic value at 200b.p. yield curve shift | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | 3 738 | 3 435 | -4 460 | -5 888 | -3 175 |
| EUR | 430 | 3 581 | 684 | -108 863 | -104 168 |
| USD | 761 | 827 | 430 | 0 | 2 017 |
| Total | 4 929 | 7 842 | -3 346 | -114 751 | -105 326 |

as of 31.12.2016

| Interest Rate Mismatch | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | -1 226 046 | -308 028 | 1 872 | 35 907 | -1 496 296 |
| EUR | -79 675 | -234 772 | -28 426 | 618 238 | 275 365 |
| USD | -219 270 | -88 261 | -24 880 | 0 | -332 411 |
| Total | -1 524 990 | -631 062 | -51 433 | 654 144 | -1 553 341 |

| Change in the economic value at 200b.p. yield curve shift | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | 3 445 | 3 498 | -3 072 | -5 027 | -1 156 |
| EUR | 1 791 | 3 246 | -431 | -86 553 | -81 948 |
| USD | 605 | 1 104 | 826 | 0 | 2 535 |
| Total | 5 840 | 7 847 | -2 677 | -91 580 | -80 570 |

## 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

***b) The Bank exposure to credit, liquidity, market and operational risk (continued)***

*Interest rate risk in the banking book (IRRBB) (continued)*

EVE sensitivity of IRRBB exposure (200 bps parallel shift of the yield curve) is about BGN 105 mln as of December 2017. UBB's exposure to IRRBB increased in 2017 in absolute amount due to the increase of the classified in AFS portfolio investment in Bulgarian sovereign bonds.

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.The Bank applies appropriate measures for the interest rate risk restriction and maintenance within acceptable parameters, by maintaining an adequate structure of its interest-sensitive assets and liabilities and minimizing their mismatch.

*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 the Bank. The start of GKCs assessment for UBB was set in 2017 and the process continues in 2018. 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 the Bank 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, the Bank has implemented and applies the standardized approach for determining the capital requirements for operational risk.

*Business Continuity Plan*

UBB is operating in a fast growing and changing environment, and acknowledges its exposure to different risks (reputational, strategic, financial, operational, legal and technology) which may influence the business continuity.
The Bank has developed a *Business Continuity Plan (BCP)*, in order to minimize the reputational, financial, operational, legal and other material consequences arising from a disruption of the business processes.
UBB BCP also covers UBB Asset Management and UBB Factoring. The BCP maintenance is implemented through planned and ad hoc update activities. The BCP management is realized by the Business Continuity Committee (BCCommittee). The main goal of the BCCommittee is the organization and business continuity management in UBB, including ensuring of effective actions, directed to restoring of the interrupted functions of the business processes and systems.

*Capital and capital adequacy*

Solo basis

The Bank's capital position stands strong.  . The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.04% (based on total Regulatory Capital on solo basis at BGN 911million) and Tier 1 capital adequacy amounts to 24.04%.

Consolidated basis

The Bank's capital position stands strong. The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.16% (based on total Regulatory Capital on consolidated basis at BGN 920 million) and Tier 1 capital adequacy amounts to 24.16%.

## 7. ACTIVITY OF UBB GROUP'S SUBSIDIARY AND ASSOCIATED COMPANIES AND MAIN RISKS FOR THE OPERATIONS

Transactions between UBB and its subsidiaries (UBB Factoring EOOD, UBB Asset Management AD and UBB Insurance Broker AD) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

Transactions between UBB and its associated companies (UBB Life Insurance Company 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.
The Bank participates on separate and consolidated basis in mutual funds managed by its subsidiary UBB Asset Management AD as follows:

| **Shares in mutual funds, managed by subsidiary UBB Asset Management** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| UBB Balanced Fund | 2 830 | 2 441 |
| UBB Premium Shares Fund | 2 676 | 2 687 |
| UBB Platinum Bond Fund | 1 571 | 1 546 |

**Number and par value of the shares or stakes owned by UBB, by a subsidiary or associate company, of its or by an individual, acting on his/her behalf, but at the expense of the company**

**Name**: UBB Asset Management AD
**Location**: Sofia
**Head Office address**: Sofia, 5 *Sveta Sofia* Str., *Vazrazhdane* municipality
**Number and batch of entry in the commercial register**: № 83704, v. 1021, reg. I, p. 44, under company file № 4098 of Sofia City Court according to the inventory of 2004
**Capital**: BGN 700,000, including:
**UBB participation in the company:** 90.86 %, or BGN 636,000 nominal value of participation.

**Name:** UBB Insurance Broker AD
**Location:** Sofia
**Head Office address**: Bulgaria, Sofia 1000, *Vazrazhdane* region, 9 *T. Aleksandrov* Blvd.
**Number and batch of entry in the commercial register**: company file № 5346 of Sofia City Court according to the inventory of 03.05.2007, reg.16-29, page 212.
**Capital:** BGN 500,000
**Participation in the company**: 100% or BGN 500,000 nominal value of participation

**Name:** UBB Factoring EOOD
**Location and head office address**: Bulgaria, area Sofia (capital), municipality Sofia,
Sofia 1040, 5 *Sveta Sofia* str.
**Number and batch of entry in the commercial register**:
№ 20091016151609/16.10.2009
**Capital**: BGN 1,000,000
**Participation in the company**: 100% or BGN 1,000,000 nominal value of participation.

**Name**: UBB Life Insurance Company EAD
**Location**: Sofia
**Head Office address**: Bulgaria, Sofia, *Triaditza* region, postal code 1404, 75 *Bulgaria* blvd.
**Number and batch of entry in the commercial register**: № 108941 v. 1469, reg. I, p.143, under company file № 10677 of Sofia City Court according to the inventory dated 29.09.2006.
**Capital**: BGN 12,400,000
**Participation in the company**: 60% or BGN 7,440,000 nominal value of participation

## 7. ACTIVITY OF UBB GROUP'S SUBSIDIARY AND ASSOCIATED COMPANIES AND MAIN RISKS FOR THE OPERATIONS (CONTINUED)

**Name**: Druzhestvo za Kasovi Uslugi AD
**Location and head office address**: Bulgaria, area Sofia (capital), municipality Sofia,
1632 Sofia, *Ovcha kupel* region, *Ovcha Kupel* 2 residential area, 16 *Ivan Hadjiiski* Str. tel: 02/ 9560419, fax: 02/ 9560419 e-mail office@dku.bg, www.dku.bg
**Number and batch of entry in the commercial register**:
Initial entry into the Commercial Companies Register through Decision No.1 from 10.07.2007 Sofia City Court under №122002, regulation 1680, page 104, company file № 9568/2007 EIC 175327305
**Capital**: BGN 12,500,000
**Participation in the company**: 20% or BGN 2,500,523 nominal value of participation.

**Used financial instruments**

*a) The aims and policy of the company on financial risk management, incl. hedging policy.*
In 2017 the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates - UBB Life Insurance EAD and Druzhestvo za Kasovi Uslugi AD, used no derivatives for hedging purposes.

*b) Exposure of the company with regard to price, credit, liquidity and cash flow risks*
The capital exposures of the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates - UBB Life Insurance Company EAD and Druzhestvo za Kasovi Uslugi AD are reported in compliance with regulations, evolving from the requirements of the capital adequacy.

## 8. IMPORTANT EVENTS, OCCURRED AFTER THE DATE OF THE FINANCIAL STATEMENTS

The bank in process of transformation is a sole proprietorship joint stock company together with the company CIBANK EAD established and operating under the Bulgarian legislation, entered into the Commercial Register under Company ID (EIK) 831686320, having its headquarters and managing address at 89B Vitosha blvd., Triaditsa administrative region, 1463 Sofia. The registered capital of the bank in process of transformation is BGN 227,932,510 divided into 22,793,251 regular, registered, uncertificated shares with right to vote and with par value of BGN 10 each. The sole proprietor of the capital is KBC.

The accepting bank is a joint stock company together with the company United Bulgarian Bank AD, established and operating under the Bulgarian legislation, entered into the Commercial Register under Company ID (EIK) 000694959, having its seat and headquarters at 5 Sveta Sofia str., Vazrazhdane administrative region, 1040 Sofia. The registered capital of the accepting bank is BGN 75,964,082 divided into 75,964,082 regular, registered, uncertificated shares with right to vote and with par value of BGN 1 each. KBC owns 99.91 % of the accepting bank shares.

The incorporation of CIBANK EAD into United Bulgarian Bank AD was entered into the Commercial Register on 05.02.2018. The accepting bank shall keep the name United Bulgarian Bank AD, Company ID (EIK) 000694959 by changing its headquarters and managing address at 89B Vitosha blvd., Triaditsa administrative region, 1463 Sofia.

The replacement ratio of the KBC shares in CIBANK EAD shall be fixed at 1 share in CIBANK EAD equal to 0.78419 shares in United Bulgarian Bank AD.

**Peter Andronov**
**Chief Executive Officer**
**Date: 08.05.2018**

UNITED BULGARIAN BANK AD
UBB
SOFIA

Svetla Georgieva
**Executive Director**

# Corporate Governance Statement of United Bulgarian Bank AD for the period ending on 31.12.2017 (in accordance with the Accountancy Act)

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## 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 indent n, Para. 9 of the *Public Offering of Securities Act and UBB AD Corporate Governance Code*. The provided information takes into account the circumstance that UBB has not issued securities, admitted for trade on a regulated market, or shares, traded in a Multilateral Trading Facility.

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 2016 the Board of Directors approved the *Corporate Governance Code of United Bulgarian Bank AD.* As a result of the acquisition of the majority stake of UBB AD's share capital (99.91 %) by KBC Bank N.V. – part of the Belgian bankassurance group KBC in June 2017, from that moment onwards until the end of 2017 series of structural changes were introduced in the Bank's management system and organizational structure. In line with that *UBB AD's Corporate Governance Code* was updated at the beginning of 2018. This Code is based on the regulatory requirements, pertaining to the Bank 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 the Bank 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 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). Until June 2017 the bank had a one-tier management system (a Board of Directors, to which there was an established Executive Management Committee). After the acquisition of the Bank's majority stake of the capital by KBC Bank N.V. the management system of UBB AD was changed into a two-tier one, upon a decision of the General Meeting of Shareholders dated 14.06.2017.

### Supervisory Board (SB)

The Supervisory Board has been empowered to exert preliminary, ongoing and subsequent control on the compliance of the Bank's activity with the applicable laws, 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 competences of the Supervisory Board are stipulated in the law, the Articles of Association and with a decision of the General Meeting of Shareholders. The particular powers of the Supervisory Board are listed in the Bank's Articles of Association, as well as in the Regulation on the Activity of UBB AD Supervisory Board 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 the preliminary approval of the Bulgarian National Bank.

In 2017 the following personal changes were made in the Supervisory Board of UBB AD: By a decision of the General Meeting of Shareholders dated 14.06.2017 all members of the Board of Directors were released from their positions and from responsibility for their activity from 01.01.2017 until the date of the decision of the General Meeting of Shareholders, concerning their release from office. The Bank's management system was changed from a one-tier into two-tier and three members of the Supervisory Board were elected – Mr. Luc Popelier, Mr. Willem Hueting and Ms.Christine Van Rijsseghem, as well as their mandate was determined. In implementation of the requirement of Art. 233, Para. 2 of the Code on Commerce, the mandate of the members of the first SB of UBB AD has been determined by the General Meeting of Shareholders at 3 /three/ years.

**1. CORPORATE GOVERNANCE REVIEW (CONTINUED)**

**Committees to the Supervisory Board**

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

- The Audit Committee is a specialized body of the Bank 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 the Bank's activity with the applicable laws, the Articles of Association and the decisions of the General Meeting of Shareholders in the interest of the Bank's clients and its shareholders. The Audit Committee members are elected by the General Meeting of Shareholders by proposal of either the Management Board, or by the Supervisory Board 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 and independent of the Bank, pursuant to Art. 107, Para. 4 of the Independent Financial Audit Act.
- The Compliance and Risk 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 other 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 Compliance and Risk Committee comprises 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.
- 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 the Bank, the long-term interests of shareholders, investors and the other interested parties, connected to the Bank. UBB AD Remuneration Committee comprises members of the Supervisory Board, who are being appointed by the latter.
- The Selection Committee is a sub-committee to the Supervisory Board, responsible for the election of candidate-members for the Supervisory 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 Selection 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 the Bank'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 work for the Management Board.

**Management Board**

The Management Board steers the Bank's activity while executing its rights and obligations, as provided for in the law, its Articles of Association, the Regulation on its activity and in the other Internal Rules of the Bank. 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 the Bank's Articles of Association, as well as in the Regulation on the Activity of UBB AD Management Board and UBB AD's Corporate Governance Code .

**1. CORPORATE GOVERNANCE REVIEW (CONTINUED)**

**Management Board (continued)**

The Bank 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 Selection 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.

The Bank’s management system has been changed from one-tier to a two-tier one. At the first meeting of UBB AD’s Supervisory Board dated 14.06.2017, five Management Board members were elected – Mr. Peter Andronov, Mr. Christof De Mil, Ms. Svetla Georgieva, Mr. Frank Jansen and Mr. Teodor Marinov, as well as their mandate of 4 /four/ years has been determined. With Minutes № 5 dated 20.07.2017 a new member of UBB AD’s Management Board was elected – Mr. Ivaylo Mateev.
Ms. Hristina Filipova – Procurator - and Mr. Jan Swinnen – Commercial Representative - who are not Management Board members, are present at the meetings with advisory vote entitlement. Ms. Filipova has been empowered with the rights under Art. 21-25 of the Code on Commerce, in her capacity as Procurator of the Bank, with a MB decision under Minutes № 10 dated 31.07.2017, confirmed by the SB with Minutes № 6 dated 01.08.2017, while Mr. Swinnen has been empowered in his capacity as Commercial Representative, pursuant to Art. 26 – 29 of the Code on Commerce, who is to perform on UBB’s behalf all acts and activities, as described in an explicit power of attorney, with a MB decision as per Minutes № 1 dated 14.06.2017, after obtaining the SB’s preliminary approval with Minutes № 1 dated 14.06.2017.

**Committees to the Management Board**

Pursuant to Art. 43, Para. 3 of UBB AD Statutes, 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 the Bank’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 the Bank, supporting the Management Board during 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 the Bank’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 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 1 000 000.

## 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’s performance and development. The annual General Meeting provides the shareholders with an opportunity to ask questions to the Bank’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 31.12.2017 the share capital was allocated into 75 964 082 ordinary registered shares, with nominal value of BGN 1/one Bulgarian lev/ each. Each share entitles to one vote at the General Meeting of Shareholders, right to dividend and a proportionate share upon liquidation of the Bank’s property. UBB 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 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 Bank’s capital equaling 99.91 %.

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

## 2. SUPERVISORY BOARD (SB)

### 2.1. Supervisory Board Members

| Name | Year of Birth | Education/ Qualifications | First election in | Mandate’s validity |
|---|---|---|---|---|
| **Luc Popelier**<br>**SB Chairperson** | 1964 | Master’s Degree in Business Economics | 2017 | 2020 |
| **Christine Van Rijsseghem**<br>**SB Member** | 1962 | Master’s Degree in Law and Business Administration (MBA) – Financial sciences | 2017 | 2020 |
| **Willem Hueting**<br>**SB Member** | 1962 | Master’s Degree in Organization & Marketing, licensed insurance broker SER A and B | 2017 | 2020 |

### 2.2. Election and mandate

The Bank’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 rules on its activity.
To date the Supervisory Board comprises 3 (three) persons, who 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 Code on Commerce.

### 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.

**2. SUPERVISORY BOARD (SB) (CONTINUED)**

**2.2. Election and mandate (continued)**

**SB Responsibilities pursuant to UBB Articles of Association (continued)**

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 on 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 dismisses members of the Management Board and concludes contracts for settling the relations with them;
- ✓ approves the Regulation on the Management Board's activity;
- ✓ convenes meetings of the General Meeting of Shareholders and proposes the initiation of appropriate measures, when the interests of the Bank 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 the Bank in disputes with either the Management Board or individual members of its;
- ✓ it approves the business plan of the Bank, the annual budget, as well as the Bank's policy on lending and provisioning by proposal of the Management Board;
- ✓ Approves decisions of the Management Board, for which this has been explicitly provisioned in the Articles of Association;
- ✓ 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 Market 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 | Chairman and non-executive member of the Board of Directors |
| K&H Biztosító Zrt., Hungary | Chairman of the Board of Directors |
| Československá Obchodná Banka a.s. (Republic of Slovakia) | Supervisory Board Chairman |
| ČSOB Poist'ovňa a.s. | Supervisory Board Member |
| K&H Bank Zrt., Hungary | Chairman of the Board of Directors |
| KBC Bank Ireland PLC | Chairman and non-executive member of the Board of Directors |
| KBC Bank NV Dublin Branch | Supervisory Board Chairman |
| KBC Start it Fund NV | Member of the Board of Directors |
| DZI - Life Insurance EAD | Supervisory Board Chairman |
| DZI - General Insurance EAD | Supervisory Board Chairman |
| CIBANK EAD | Supervisory Board Chairman |

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 post 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) | Supervisory Board Member |
| Československá Obchodná Banka a.s. Czech Republic | Supervisory Board Member |
| KBC Bank NV Dublin Branch | Supervisory Board Member |
| CIBANK EAD | Supervisory Board Member |

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 post 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

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

| | |
|---|---|
| KBC Group NV, Belgium | Senior General Manager |
| Československá Obchodná Banka a.s. Czech Republic | Supervisory Board Member |
| 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 |
| CIBANK EAD | Supervisory Board Member |

### 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 | Selection Committee |
|---|---|---|---|---|---|
| Luc Popelier | (Chairman) | • | • | (Chairman) | (Chairman) |
| Christine Van Rijsseghem | • | • | (Chairperson) | | |
| Willem Hueting | • | • (Chairman) | • | • | • |

### 2.5. Annual Report of the Supervisory Board

In 2017 the Supervisory Board of United Bulgarian Bank held 16 meetings, of which 2 *in praesentia* and 14 *in absentia* ones, pursuant to Art. 39, Para 4 of the Bank'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 2017, since the change in UBB AD's management system to a two-tier one – comprising a Supervisory Board and a Management Board - regular in praesentia meetings were held every quarter – September 2017 and November 2017. 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 2017 may be summarized, as follows:

1. In the first Supervisory Board Minutes dated 14.06.2017 decisions were made as regards the organization of the Board's activity - the Regulation on the activity of UBB AD's Supervisory Board was adopted, Chairman of the Board was elected, etc. A change was adopted in the name of the Risk Management Committee to the Supervisory Board, with its new name being Risk and Compliance Committee, as well as in the name of the Corporate Governance and Selection Committee, changed to Selection Committee. All members of the Risk and Compliance Committee, the Remuneration Committee and the Selection Committee were dismissed and new members were elected, alongside with repealing the rules on the activities of those three committees and the adoption of new ones. Besides, in the same SB Minutes decisions were also made in line with constituting the Bank's Management.

**2. SUPERVISORY BOARD (SB) (CONTINUED)**

**2.5. Annual Report of the Supervisory Board (continued)**

Board - members of the Management Board were elected and their mandate was determined, preliminary approval was given for the election of a MB Chairman and Chief Executive Officer, Executive Directors of the Bank were empowered and the manner of representation at UBB AD was defined. Preliminary approval was given as per Art. 48, Para. 1, Item 3, indent „i“ of UBB AD’s Articles of Association for empowering commercial representatives of the Bank and the Regulation on the activity of the Management Board was approved, a new distribution of the structural units’ subordination among the Bank’s representatives was introduced, with effect from 14.06.2017

With Minutes № 5 dated 20.07.2017 a new member of the Management Board of UB AD was elected – Mr. Ivaylo Mateev - alongside with determining his mandate. Also, preliminary approval was given as per Art. 48, Para. 1, Item 3, indent „g“ of UBB AD’s Articles of Association for empowering the new MB member as an Executive Director of the Bank. With Minutes № 6 dated 01.08.2017 decisions were made in line with empowering Ms. Hristina Atanasova Filipova with the rights as per Art. 21-25 of the Code on Commerce, in her capacity as the Bank’s Procurator.

2. The second group of issues, reviewed by the SB in 2017, are such by virtue of Art. 37, Para. 2, Item 7 in relation to Art. 48, Para. 1, Item 3, indents „d“ and „h“ of the Bank’s Articles of Association - essential internal organizational changes; establishment and closing of directorates and standalone departments, as well as appointment of heads of such structural units; allocation of the functions among the Bank’s managing officials in terms of the subordination of the main structural units at the Bank – directorates and standalone departments. All these decisions were linked to establishing the new organizational structure and the changes in the Bank’s processes as preparation for the forthcoming merger of CIBANK JSC into UBB AD, following the obtaining of the needed approvals from the respective authorities.

3. In 2017 the SB made decisions in line with the launching and implementing the procedure of merging CIBANK JSC into UBB AD, such as granting of preliminary approval for initiation of a merger procedure, selection of an appraiser and validator for the purposes of determining the exchange ratio, approval of the merger, within the meaning of Art. 262 of the Code on Commerce, of CIBANK JSC into UBB AD, approval of a draft merger agreement, the reports of UBB’s Management Board, of the appraiser and of the general validator, etc.

4. The agenda of the *in praesentia* meetings of the SB during 2017 involved review of the financial performance from the Bank’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 Regulation on the activity of the Supervisory Board and the Bank’s internal rules and regulations.

5. Other SB decisions, adopted in 2017 – approval of the selection of first and second auditing company for verification and certification of UBB’s annual financial statements for 2017 by virtue of Art. 76, Para. 1 and 4 of the Credit Institutions Act; issues, pertaining to the definition and management of the so called „Legacy Portfolio“ of UBB AD; adoption of UBB AD’s Credit Policy on the SME and Corporate Segments and the appendices thereto; approval of the decisions, made by the committees to the SB at the meetings, held by it; approval of the sale of 60% of the shares, held by UBB AD with UBB Life Insurance Company EAD, to DZI - Life Insurance EAD.

The activity of the Supervisory Board over 2017 aimed at ensuring effective control on the compliance of the Bank’s operations with the applicable laws, the Articles of Association and the resolutions of the General Meeting of Shareholders in the interest of the Bank’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 the Bank’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 |
| **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; |
| **Jan Swinnen Commercial Representative** | 1963 | Commercial Representative | Bachelor's Degree in Finance & Banking and post-graduate studies with major in Human Resources Management |

### 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 Bank's activity. The Management Board adopts a Regulation on its activity, which Regulation is approved by the Supervisory Board.

To date the Management Board comprises 6 (six) persons, who have been elected MB members by virtue of decisions of the Supervisory Board dated 14.06.2017 and 20.07.2017 for a period of 4 (four) years, in accordance with the requirement of Art. 41, Para. 1 of the Bank'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 Bank'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:

- ✓ Delineates the general trends of the Bank'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 the Bank's enterprise or essential parts thereof; opening and closing of branches; material change in the Bank'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 the Bank 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 the Bank's equity; empowering at least two of its members - Executive Directors - to represent the Bank 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 the Bank in terms of the subordination of main structural units at the Bank – directorates and standalone departments; empowerment of commercial representatives and procurator/s of the Bank and conclusion of a procurator's contract;disposal of a substantial part of the Bank'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 the Bank's activity and a Regulation on its activity, 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 callability, as well as initiation of enforcement actions with respect to risk exposures exceeding in amount the figures as determined in the internal rules of the Bank, upon a reasoned proposal by the respective specialized body of the Bank;
- ✓ 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 Director General of Banking Supervision Department at the BNB. In 2007 Mr. Andronov joined the team of CIBANK JSC 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:

| | |
|---|---|
| CIBANK EAD | MB Chairman and Chief Executive Officer |
| UBB Life Insurance Company EAD | Supervisory Board Chairman |
| 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 JSC, 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-assurance 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:

| | |
|---|---|
| CIBANK EAD | MB Member and Executive Director |
| UBB Asset Management AD | Member 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.

## 3. MANAGEMENT BOARD (CONTINUED)

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

Ms. Svetla Georgieva
Management Board Member and Executive Director Risk
Year of Birth: 1967

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

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

| | |
|---|---|
| CIBANK JSC | Management Board Member and Executive Director |

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

Mr. Jansen holds a Master’s Degree in Notarial 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 the present moment Mr. Jansen has been Executive Director of CIBANK JSC, 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 |
| CIBANK EAD | Chairman of the Board of Directors |
| Interlease EAD | MB Member and Executive Director |
| 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 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:

| | |
|---|---|
| CIBANK EAD | MB Member and Executive Director |
| Interlease EAD | Member 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 JSC.

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

| | |
|---|---|
| CIBANK EAD | MB Member and Executive Director |
| Cash Services Company 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 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 / CIBANK AD. Since 2007 until the present moment she is part of the team of CIBANK JSC, while holding the following positions: Commercial Representative (2007 – 2011), MB Member and Executive Director (2001 – 2014) and Procurator (from 2014 to date). 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 |
| CIBANK EAD | Procurator |

## 3. MANAGEMENT BOARD (CONTINUED)

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

Mr Jan Swinnen
Commercial Representative
Year of Birth: 1963

Mr. Jan Swinnen graduated his higher education and acquired his Bachelor’s Degree in Finance & Banking from HORAMA, Diest – Belgium, as well as was involved in post-graduate studies and obtained qualification with major in Human Resources Management from EHSAL, Brussels, Belgium. 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 post director of Branch Network and Distribution Channels Directorate at CIBANK JEAD, 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.

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

| | |
|---|---|
| CIBANK EAD | Commercial Representative |
| UBB Asset Management AD | Chairman of the Board of Directors |

### 3.4. Annual report of the Management Board

In 2017 the Management Board of United Bulgarian Bank held 39 meetings, of which 28 *in praesentia* and 11 *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 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 MB in 2017 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 Regulation on the activity 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 forthcoming merger of CIBANK into UBB, after obtaining the needed approvals from the respective authorities.
3. All issues, not explicitly stated as competences of UBB AD’s Management Board in the Articles of Association, the Regulation on the activity 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 2017 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

Mr. Willem Hueting
Audit Committee Chairman
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 post 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.

Ms. Christine Van Rijsseghem
Audit Committee 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 post of Senior General Manager Group Finance at KBC Group. In effect since May 2014 Ms. Christine Van Rijsseghem was elected CRO of KBC Group and Member of the Executive Committee of KBC Group.

Mr. Luc Popelier
Audit Committee Member
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.

## 4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

### 4.1. Audit Committee (continued)

#### 4.1.1 Audit Committee Members and professional experience (continued)

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. 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.

#### 4.1.2. Audit Committee Report

The Audit Committee is a sub-committee to the Supervisory Board and consults the latter on the integrity of financial reporting and the effectiveness of the risk management and internal control processes. The Audit Committee has no other authorities and responsibilities, apart from those, delegated to it by the Supervisory Board. The Audit Committee has unrestricted access to information and entitlement to meet all members of the management, employees, as well as external parties, without the presence of an Executive Director. The Audit Committee may initiate special audits in all areas within its domain of responsibility. UBB AD Audit Committee monitors the financial reporting and the internal control and risk management processes of all UBB AD subsidiaries.

The main topics, discussed during the 2017 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), optimization of the structure of the Internal Audit Directorate and review of documents, addressing material risks to the Bank, including also reports by internal and external auditors and regulatory institutions.

## 4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

### 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 2017 UBB's Risk and Compliance Committee held two meetings, attended by all its members.
In brief, the main topics were: review of the regular integrated risk report and review of the priorities of the Risk Management Directorate for the forthcoming year; 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 and approval of the plan of Compliance Directorate for the forthcoming year; information about legal claims of large importance; information about forthcoming regulatory changes and /or supervisory audit findings on the part of the regulatory authority.

The Committee has reviewed the following documents and offered them for approval to the Supervisory Board: Risk and Compliance Committee Charter, Preliminary Framework of UBB's Risk Appetite over the period 2018-2020, Compliance Activity Charter, Integrity Policy and Compliance Directorate 2018 Plan.

### 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.

## 5. COMMITTEES TO THE MANAGEMENT BOARD

### 5.1. Credit Committees

UBB AD credit committees are standing bodies for effecting the management and monitoring on the Bank'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 the Bank's risk appetite in the field of corporate lending, as determined by the Management Board and the Risk Management Committee and strictly apply the Bank'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 analyse 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 the Bank'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 callability; 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.

### 5.2. Local Risk Management Committee

The Local Risk Management Committee is a collective body of the Bank, 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 the Bank's risk profile.

The Committee comprises the MB members, the procurators and/or the commercial representatives of the Bank, 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.

**5. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)**

**5.2. Local Risk Management Committee (continued)**

The LRMC Chairperson is the Executive Director in charge of Risk. An official of Risk Management Directorate, with the assistance of the directorate's director, performs the functions of a LRMC Secretary, who prepares Minutes with the committee decisions for every meeting, which is subject to subsequent approval by the MB.

The Committee meetings are also mandatory attended by employees, explicitly listed in the Rules on the LRMC Activity, representatives of various units at the Bank, to which the discussed issues at the particular meeting are relevant. The LRMC Chairperson, through the Committee Secretary, may also invite other attendees, which to be present at the meetings, if he/she has judged that their expert opinion is important and necessary for making the particular decision. The head of Internal Audit is present at the LRMC meetings with an observer status.

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. LRMC decisions are being made with full majority (unanimously) by the members who are present at the meeting, with an open vote. Each member is entitled to one vote. The other attendees have advisory vote entitlement.

**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 the Bank 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, tradtional 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 the Bank's branch network.

In its capacity as a committee, approving the products and a channel for communication with the Bank's branch network NAPPC area of responsibility encompasses deposit, payment, credit, investment, bank-assurance, 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. NAPPC may convene the following types of meetings:

- Regular meeting – upon the creation, purchase or sale of a new product; essential change in an existing product, as compared to the most up-to-date version of this product; change in the market or business environment, having significant impact or upon review of a particular product;
- Fast Track NAPP - upon the creation, purchase or sale of a new product or an essential change in an existing product, as compared to the most recent version of this product, in the cases when the decision needs to be made fast, under the influence of market factors and when the issues is about a one-off transaction (not more than one transaction per client), as the proposal should be in the respective area of competence. The risk profile of the proposed product should be assessed carefully by the NAPPC Chairperson and by the Executive Director Risk.
- Minor changes – this process is applied only in the cases when an existing product is being amended, as compared to its most recent version, which change is not essential, i.e. the product's risk profile is not being significantly amended. The Committee Chairperson and the Executive Director Risk should unanimously agree that the change to the product is immaterial. The request is being sent by e-mail by the product owner and the respective official, performing the risk function, and it is to be reported at the next NAPPC meeting.

Minutes are prepared of the NAPPC meetings, containing the made decisions by the Committee and these are subject to subsequent approval by the MB.

The Committee comprises members of the following functions – Chairperson, Product Owner, Sponsor and Coordinator. When regular meetings of the Committee are being held the sponsor /the product owner, the Executive Director Risk and the Chairperson should mandatory be different individuals and the decisions should be made by the Chairperson, the Executive Director Risk, the Sponsor, the Product Owner, a representative of Branch Network Directorate, a representative of Marketing and Business Development for SME and Corporate Segment Directorate, the coordinator, by taking into account the opinion of the participants with advisory functions and the invitees. The sponsors of the respective processes have been explicitly listed in the NAPPC Work Rules, while product owners are being determined in accordance with the nature of the business proposal. When proposals for minor changes are being discussed the decision is to be made by the Chairperson and the Executive Director Risk.

## 5. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

### 5.4. 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.

**5.4.1. The Local Investment Committee comprises the following members:**
- All members of the Credit Committee for Problem Loans;
- the director of the Management of Assets for Sale Directorate.

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 the Bank'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 the Bank's Management Board.
Minutes, containing the decisions of the Local Investment Committee, made at the respective meeting, are prepared by the appointed secretary within 10 business days after the meeting's date.

**5.4.2. 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 1 000 000.

UBB AD's Investment Committee comprises the following members:
- Chairperson: Senior General Manager Group Communities, who may nominate additional members at KBC Head Office level. In case of the Committee Chairperson's absence, his/her functions shall be performed by the Chairperson of the Legacy Steering Committee.
- Local-level members: All members of the Legacy Steering Committee;
- Representative of Group Communities – his/her presence is needed in order to achieve the necessary quorum for holding the Committee meetings.

Minutes, containing the decisions of UBB AD Investment Committee, made at the respective meeting, are prepared by the appointed secretary within 10 business days after the meeting's date.

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 the Bank's Management Board.

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

### 6.1. Remuneration of the members of the supervisory and management boards for 2017
The total amount of annual remuneration of Executive Directors and members of the Management Board is BGN 2 066 888.16.

## 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 delineates the major trends of the Bank'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. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS (CONTINUED)**

**7.1. Competences**

The General Meeting of the Shareholders

a) amends and complements the Bank's Articles of Association;

b) adopts resolutions on capital increase or decrease;

c) Adopts resolutions as regards the Bank'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 are 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 the Bank'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 the Bank;

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 the Bank's commercial enterprise;

n) decides on disposal of assets, which total value during the current year exceeds half of the value of the Bank'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 the Bank'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 the Bank's Articles of Association.

**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 the Bank, 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 on condition that all shareholders of the Bank 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. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS (CONTINUED)**

**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 indents “a”, “b”, “n” and “o” of Item 6.1 above - where a qualified majority of 2/3 of the capital is needed, and under indents “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.

**7.4. General Meeting of the Shareholders in 2017**

The regular General Meeting of UBB’s Shreholders in 2017 was held on 20.04.2017. At the GMS the Board of Director’s report was presented, concerning the Bank’s performance over 2016 and information about the net profit as at the end of 2016. The report of UBB Audit Committee for 2016 was approved, as well as the report of the specialized auditing company Deloitte Audit OOD regarding the audit of UBB’s annual financial statements for 2016, certified in accordance with the applicable financial reporting standards - IFRS. By proposal of UBB AD Audit Committee and by virtue of Art. 107, Para. 7 of the Independent Financial Audit Act the Statutes of UBB AD Audit Committee were approved.

The GMS also approved the proposal for allocation of the 2016 profit. By virtue of Art. 49 of the effective at that moment Articles of Association of UBB AD, the General Meeting of the Shareholders approved the allocation as shareholder dividends of a part of the Bank’s net profit for 2016, pro rata to the number of shares, held by them; as well as the allocation of the remaining amount of the Bank’s net profit for 2016 into Retained Earnings reserve.

The GMS also released from responsibility all members of UBB Board of Directors as regards their activity, related to managing the Bank over the period 01.01.2016 - 31.12.2016, pursuant to Art. 221, Item 10 of the Code on Commerce and Art. 29, Para 1, indent ”k” of the effective at that moment UBB Articles of Association.

In 2017 there were also two extraordinary meetings of the Bank’s shareholders held respectively on 14.06.2017 and 06.12.2017.

The agenda of the extraordinary GMS on 14.06.2017 included issues, relating to acquisition of the majority stake of UBB AD’s capital (99.91%) by KBC Bank N.V. All members of the Bank’s Board of Directors were released from their positions, as well as from responsibility for their activity over the period from 01.01.2017 until 14.06.2017. A change was approved in UBB AD’s management system from one-tier to a two-tier one and members were elected of UBB AD Supervisory Board. The duration of the mandate of the SB members was determined, as well as their remuneration and the amount of their management commitment fee. Besides, as part of the GMS agenda a first auditing company was appointed for verification and certification of UBB AD’s annual financial statements for 2017 by virtue of Art. 221, Item. 6 of the Code on Commerce, Art. 76, Para. 1 and 4 of the Credit Institutions Act and Art. 29, Para 1, indent „f" of UBB AD’s Articles of Association, namely: PriceWaterhouseCoopers Audit OOD. All members of the Audit Committee were released and new members were elected, as well as the effective at that time Work Rules of the Audit Committee were repealed and a new UBB AD Audit Committee Charter was adopted. As a last item on the GMS agenda the effective at that time Articles of Association were repealed and new UBB AD Articles of Association were adopted.

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

### 7.4. General Meeting of the Shareholders in 2017 (continued)

On 06.12.2017 an extraordinary General Meeting of UBB AD Shareholders was held, convened in line with approval of the issues, relating to the merger of CIBANK EAD into UBB AD. The Meeting's agenda comprised 8 (eight) items. The General Meeting of Shareholders approved the merger of CIBANK JSC into UBB AD, conditioned on the obtaining of a written approval by the Bulgarian National Bank within the meaning of Art. 29, Para 1, Item 3 of the Credit Institutions Act. Besides, the GMS approved the merger agreement by explicitly expressing its consent to the value of 100 percent participation in CIBANK and UBB's equity, which represents the net value of the property of CIBANK and UBB separately, as well as the exchange ratio, as stated in the merger agreement. The report of UBB's Management Board was approved within the meaning of Art. 262 indent i of the Code on Commerce. Besides, The General Meeting of the Shareholders decided to increase the capital of UBB through the issuance of new ordinary, registered, dematerialized voting shares with par value of BGN 1 /one Bulgarian lev/ each and agreed that within the merger procedure all newly-issued shares shall be acquired by the sole owner of CIBANK's capital, namely KBC Bank N.V.

The next change, approved by the GMS on 06.12.2017 was in the head office address of UBB: from Sofia city, postal code 1040, 5 Sveta Sofia Str. to Sofia city, postal code 1463, Triaditsa Administrative Region, No 89B Vitosha Blvd.

As a result of the made decisions for increasing the capital of UBB AD and the change in the Bank's head office address, amendments were also adopted in UBB AD Articles of Association, conditioned on obtaining the respective approval from the Bulgarian National Bank.

The last two items on the agenda of the Extraordinary GMS relate to release from responsibility of the head of the specialized internal audit unit and election of a new manager of that particular unit, as well as appointment of Grant Thornton OOD as the second auditing company within the meaning of Art. 76, Para 1 and 4 of the Credit Institutions' Act, which is to perform verification and certification of UBB's annual financial statements for 2017.

**Peter Andronov**
**Chief Executive Officer**

**Svetla Georgieva**
**Executive Director**

**Date: 08.05.2018**

# ANNUAL NON-FINANCIAL DECLARATION OF UNITED BULGARIAN BANK AD (UBB) ON INDIVIDUAL AND CONSOLIDATED BASIS AS OF DECEMBER 31, 2017 (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 forthcoming CIBANK-UBB consolidation the new united UBB bank will rank as the third largest bank in Bulgaria in terms of assets, equaling approximately BGN 5.1 billion euro, with a market share of nearly 11%.

UBB, CIBANK and their subsidiaries, together with DZI grow into the largest banking and insurance group in Bulgaria, one of the main markets for KBC Group. As a result of that KBC Group will also actively penetrate the lease market, as well as the asset management and factoring markets in Bulgaria, by offering its clients the full range of banking services.

UBB is catering mainly for retail, investment and private banking, SME and large business clients. Our core markets are retail, coprorate, money market, asset management, insurance brokerage and factoring.

As part of KBC Group, UBB is a member of an integrated bank-insurance group, operating in Belgium,the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland.

### 1.1. OUR GOAL, AMBITION AND STRATEGY

We want to help our clients realise their dreams and projects, and at the same time to maintain high standards of servicing. Our ambition is to be the reference for bank in all our core markets on Bulgarian market.

***The four principles of our strategy are:***

*We place our clients at the centre of everything we do;*
*We look to offer our clients a unique bank experience;*
*We focus on sustainable and profitable growth;*
*We meet our responsibility to society and local economy;*

We put our strategy into practice within a stringent risk, capital and liquidity management framework. To us, corporate sustainability primarily means the ability to live up to the expectations of all our stakeholders and to meet our obligations, not just today but also in the future.

***Our sustainability strategy has three cornerstones:***

*Enhancing our positive impact on society;*
*Limiting any negative impact we might have;*
*Encouraging responsible behaviour on the part of our employees.*

### 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.

## 1. OUR AREA OF OPERATION (CONTINUED)

### 1.2. HOW DO WE CREATE VALUE (CONTINUED)

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* | *799,811* |
| *Business* | *41,783* |
| *Other* | *826* |
| Staff (The Bank) | 2,157 |
| Staff (The Group) | 2,210 |
| Bank branches and offices | 190 |

***Our long-term credit ratings (22 June 2017)***

| Fitch | Standard & Poor's |
|---|---|
| BBB+ | BB+ |

***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.

***Risk hedging and cost payment***

We set aside provisions 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 sum up our business culture and our values in the acronym 'PEARL', which stands for Performance, Empowerment, Accountability, Responsiveness and Local Embeddedness

***Performance*** *- We strive for excellent results and do what we promise to do*
***Empowerment*** *- We offer every employee the chance to develop their creativity and talent*
***Accountability*** *- We meet our personal responsibility towards our clients, colleagues, shareholders and society*
***Responsiveness*** *- We anticipate and respond readily to the questions, suggestions, contributions and efforts of our clients, colleagues and management.*
***Local Embeddedness*** *- We view the diversity of our teams and of our clients in the different core markets as strength and we stay close to our clients*

## 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 Board of Directors is responsible for defining our group's strategy, general policy and risk appetite. It is supported by several specialised committees, namely the Audit Committee, the Risk & Compliance Committee, the Nomination Committee and the Remuneration Committee. These committees are dealt with in the document 'Corporate governance declaration'. Our Management Board provides the operational management of the UBB/The Group within the confines of the general strategy approved by the board. Besides the CEO, the Management Board also includes the Chief Financial Officer (CFO) and Chief Risk Officer (CRO) of the group, as well as the CEOs.

***Composition of the Board of Directors of UBB/the Group (year end 2017)***

| | **UBB** | **Group** |
|---|---|---|
| **Board of Directors Memebers / Executive directors** | 8 | 11 |
| **Men/Women** | 6/2 | 7/4 |
| **Principal qualifications** | Finance, law, management, finance and electronics, accounting and banking, human resources, management and management systems, commerce and banking, etc. | Finance, law, management, finance and electronics, accounting and banking, human resources, management and management systems, commerce and banking, etc. |
| **Nationality** | Bulgarians (5), Belgians (3) | Bulgarians (8), 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 world economy, the financial markets and demographic developments can strongly influence our results. This relates to matters like growth, the level and volatility of interest rates, inflation, employment, population structure, bankruptcies, household income, financial market liquidity, exchange rate movements, availability of funding, investor and consumer confidence and credit spreads.

## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

### 2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES (CONTINUED)

The risk of persistently low interest rates has become more important in recent years, exerting significant pressure on the income of banks.
We ensure in our long-term planning/scenario that our capital and liquidity positions are capable of withstanding a negative scenario.
We take proactive measures. Examples include adjusting our offering to take account of demographic ageing (investment products linked to financial planning, etc.) and strengthening our own capital position to ensure financial stability.
We calculate the potential impact of changes in key parameters and estimate the impact of material events as effectively as possible.

### 2.2. COMPETTITION AND TECHNOLOGICAL CHANGE

We carry out our activities in a highly competitive environment. Our competitors too are being affected by technological change and shifting client behaviour. Examples include the surge in growth of online services. Besides the traditional players, therefore, there is also intensifying competition from online banks and e-commerce in general. Intensifying competition is affecting client expectations, exerting potential pressure on cross-selling opportunities, increasing the importance of digitisation, and creating a need for an organisation that is responsive and resilient. We are both eager and obliged, therefore, to keep up and constantly to challenge our business model with technological developments and the new needs of a changing society.

The creative input of our employees is highly important when it comes to equipping ourselves to deal with competition and technological change. We do everything we can to attract and motivate talented staff.

As a financial institution, we can draw on an immense volume of data, which enables us to understand more clearly what clients really want. Our integrated model allows us to offer our clients more comprehensive solutions than pure banks can.

We have a specific process in place to ensure that the business side receives approval quickly and efficiently for new product launches. The process also includes a thorough examination of the potential risks. We regularly review all our existing products as well, so that they can be adapted to take account of evolving client needs or changing market conditions.

### 2.3. REGULATION

Increasing regulation requirements is an issue for the financial sector as a whole. It includes rules like the Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation to protect clients from unfair or inappropriate practices.

There is also the new European market abuse regime, which extends the scope of the regime, 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 especially IFRS 9 (introduces a number of measures, including a new classification system for financial instruments and new impairment rules). We are making thorough preparations for the new regulations. Specialised teams (group legal, capital management, group risk and group 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 (such as IFRS 9), internal programmes and working groups have also been set up, in which staff from all the relevant areas can work together.

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 memorandums and provide training courses for the business side

## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

### 2.4. CYBER RISK/INFORMATION SECURITY

Hacking and cyber attacks are a constant threat in an increasingly digital world, with the potential to cause significant financial and reputational harm. Our focus here is on the optimum protection of both our clients and our group itself. We raise our employees' awareness of cyber risks by providing training in areas like phishing and vishing, and fraud in general. We work to achieve highly secure and reliable IT systems and robust data protection procedures, and we constantly monitor our systems and the environment. We analyse cyber risks from an IT and business perspective, so that we can offer maximum resistance and are able to remedy attacks swiftly and efficiently. We regularly evaluate our action plans and adapt them on the basis of new internal and external information.
We have cyber risks and defence mechanisms evaluated on an annual basis by aninternational team of internal information security experts.
A group-wide Competence Centre for Information Risk Management concentrates on the risks associated with information security and cyber
crime, and on operational IT risks.

## 3. OUR EMPLOYEES, CAPITAL, NETWORK AND RELATIONSHIPS

Our employees are our greatest strength. They come into direct contact with our clients and define the way UBB is viewed by them. We are fully aware that it is mainly due to the commitment and efforts of our employees that we are able to achieve strong results and to fulfil our strategy. As a bank and financial group, we draw on many different types of capital, including our employees and our capital base, but also our brand, reputation and capacity to innovate, our relationships with all our stakeholders, our networks – both electronic and bricks-and-mortar – and our IT infrastructure.

We base our human resources policy on PEARL* - our business culture. Our employees give tangible shape to this policy. We closely monitor how this business culture is applied. We create a stimulating working environment where employees are given the opportunity to demonstrate and develop their talents and skills, not only by learning, but also by communicating their ideas and taking responsibility. Although employees are primarily responsible for developing their careers, UBB offers a great deal of support. There is also a 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.

People are UBB, and UBB is all about people. We often talk about UBB as an organisation, but if you set aside the buildings and their contents for a moment, what is left is the people. People who interact with one another, people who are trying to realise their dreams together with UBB.

We do not make any distinction on the grounds of gender, religion, ethnic background or sexual orientation in our HR, recruitment and promotion policies or remuneration systems. As an employer, we want to give a clear signal to society: we treat our employees in a socially responsible manner and that relationship is grounded in mutual trust and respect.

***Number of staff UBB's group 31.12.2017***

| | **UBB** | **UBB Group** |
|---|---|---|
| Full-time | 82% | 82% |
| Part-time | 8% | 8% |
| Average salary above the average for the country * | 154% | 154% |

**Above the average for 2017*

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

***Number of staff UBB's group 31.12.2017 (continued)***

The principle underpinning this policy – and indeed the remuneration of all our staff – is that good performance deserves to be rewarded. It is only fair that every employee who works hard is properly rewarded for their efforts. Except for remuneration of 8-hour working day for 5 days a week, every employee who works hard is properly rewarded for their efforts by means of (limited) variable remuneration. The Bank /the Group ensures to its staff additional healthinsurance, life insurance, additional pension security and additional fringe benefits in case of personal events (marrage, childbirth, etc.).

With a view to constantly improving its own effectiveness, UBB/ the Group evaluates performance and competence of the staff each year, including the composition, the selection and training of its members.

***UBB/ Group for 2017:***

| | |
|---|---|
| The average hours of training, yearly | 10.82 |
| The number of new employees, engaged | 285 |
| Percentage of part-time staff | 4% |

The Syndicate of the bank employees at UBB (SBEW (СБСР) at UBB) is registered at the Court as a not-for-profit organization formed in order to settle the working and social relations between the employees of the Bank and their Employer.

The activity of the Syndicate is stipulated in the Statutes and Rules of the activity. In accordance with the Statues, the Манагемент bodis of the Syndicate are General assembly, Management board and Control board. The Management board of the syndicate and the Employer sign Collective labour contract.

## 4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE

### 4.1. CORNESTONES OF OUR STRATEGY

*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*

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.

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

### 4.1. CORNESTONES OF OUR STRATEGY (CONTINUED)

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. 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.

### 4.2. WE OFFER OUR CLIENTS A UNIQUE BANK

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).

### 4.3. 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.

### 4.4. 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.

### 4.5. 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.

### 4.6. MEASURES

***Complaints management***

The process of receiving and consideration of the complaints and ensuring of legal defence agians violation of human rights. Each received complaint in UBB is first registered and send for verification, analysis and opinion to the respective compentence units. All the signals from clients, related to personal data are registered and directed to the personal data defence office part of Retail banking and digital sales directorate. All the complaints linked to unauthorised transactions are directed to Card center and digital services the opinion send by them is applied with 15-day period. Complaints related to payments, corrections, write-offs a proposal are sent to Head of Retail banking and digital sales and the head of the respective directorate and for complaints linked to unauthorised transactions – to the Commission for dispute resolution, art.22 of Rules for resolution complaints of customer of UBB.

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

### 4.7. MEASURES (CONTINUED)

***Complaints management (continued)***
Rules for resolution of complaints of customer of UBB represent agreed basis for collective participation of all the competent units for more effective resolution of conflicts and their preventions. The total number of complaints received in UBB in 2017 is 3,009. 556 of them have been resolved, 247 - were linked to disputed card transactions and amounts not received from ATMs.

The criteria, used for assessment of the risk linked to corruption are foreseen in Anticorruption policy and it has been created in connection to the national legal framework for prevention of corruption and fraud and conflict of interest, based on the Britain's Law on bribes (with ex-trritorial effect), carried in 2011 and implemented with Regulation 19 (Anticorruption program) of KBC Group.

***Rist 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

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 2017 is 114. None was dismissed or was at suit for corruption in 2017.
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.

### 4.8. IMPORTANT NEW SUSTAINABILITY POLICIES

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

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

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

### 4.7. IMPORTANT NEW SUSTAINABILITY POLICIES (CONTINUED)

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

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

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

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

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

***Framework***
We set the bar high, aiming to be the banker that puts its clients 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.

### 4.9. 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.

### 4.10. SECTOR – SPECIFIC RISKS

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

*Existence of a robust management framework*

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

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

### 4.10. 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).

### 4.11. 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'.

## 5. 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.

## 5. 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.

**Peter Andronov**
**Chief Executive Officer**

**Date: 08.05.2018**

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 2017, and the separate and consolidated income statement, the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated cash flow statement 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 2017, 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.



**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 4,000 thousand |
| ***How we determined it*** | Approximately 5% of the average profit/loss before tax for the last 3 years |
| ***Rationale for the materiality benchmark applied*** | We applied profit/loss 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. We applied the average absolute amounts of the profit/loss before tax for the last 3 years as the profits/loss have been highly volatile. |

## 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* |
|---|---|
| ***Impairment allowance for loans and advances to customers***<br>*Refer to Note 6 "Loans and advances to customers")*<br><br>We focus on this area because management makes subjective judgement over both timing of recognition of impairment and the estimation of the amount that should be recognized.<br><br>The identification of impairment and the determination of loans recoverable amounts are part of the Bank's/Group's estimations including, amongst others, the assessment of objective evidence for impairment, the probability of default, the financial condition of the debtors, the expected future cash-flows and the value of collateral. The use of different assumptions could lead to different estimates of impairment charges on loans and advances to customers.<br><br>xAs this position represents substantial part of Bank's/Groups' total assets and given the related estimation uncertainty, we consider this as a key audit matter. | Our audit approach included an assessment of the overall governance of the Bank's/Group's lending and impairment process.<br><br>We have assessed the methodology for the compliance with IAS 39 "Financial instruments: classification and measurement".<br><br>We have assessed and tested the design and operating effectiveness of the controls within the lending and provision processes and determined that we could rely on these controls for the purposes of the audit. For individually impaired loans we have performed, for a sample of credit exposures, a detailed review of loans files.<br><br>We challenged the assumptions related to impairment identification and quantification of expected of future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries.<br><br>For the loan impairment calculated on a collective basis, we tested the underlying models and the appropriateness of the key inputs such as probability of default and loss given defaults, and where available, compared data and assumptions to historical experience.<br><br>We have not identified material misstatements as a result of our work. |

**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***

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 Separate and Consolidated 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 Separate and Consolidated 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***

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts complies with the requirements of Ordinance 38 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 Bank/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 2017 by the General meeting of shareholders held on 14 June 2017 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 2017 by the general meeting of shareholders held on 6 December 2017 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 2017 represents the first 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:

Jock Nunan

Rositsa Boteva

Registered Auditor responsible for the audit

9-11, Maria Louisa Blvd.
1000 Sofia, Bulgaria

Date: 08-05-2018

For Grant Thornton OOD:

Mariy Apostolov

Gergana Mihaylova

Registered Auditor responsible for the audit

26, Cherni Vrah Blvd
1421 Sofia, Bulgaria

Date: 08.05.2018

UNITED BULGARIAN BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2017
All amounts are in thousand Bulgarian Levs, unless otherwise stated

| | Notes | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with the Central Bank | 4 | 847,722 | 750,483 | 847,723 | 750,483 |
| Due from banks | 5 | 1,554,688 | 327,019 | 1,554,688 | 327,019 |
| Loans and advances to customers | 6 | 3,293,042 | 3,858,688 | 3,294,565 | 3,859,912 |
| Financial assets at fair value through profit or loss | 7 | 600,121 | 1,101,645 | 600,121 | 1,101,645 |
| Derivative financial instruments | 8 | 1,837 | 356 | 1,837 | 356 |
| Financial assets available for sale | 9 | 680,605 | 648,223 | 680,606 | 648,224 |
| Financial assets - held to maturity | 10 | 181,326 | - | 181,326 | - |
| Investments in subsidiaries and equity method investments | 11 | 27,173 | 6,637 | 29,707 | 10,142 |
| Goodwill | 12 | - | - | 1,606 | - |
| Intangible assets | 13 | 5,329 | 6,685 | 5,488 | 6,890 |
| Property and equipment | 13 | 44,256 | 34,020 | 44,394 | 34,155 |
| Investment property | 14 | 5,315 | 2,931 | 5,315 | 2,931 |
| Deferred tax assets, net | 15 | 3,275 | 1,465 | 3,266 | 1,455 |
| Other assets | 16 | 113,452 | 93,484 | 113,881 | 93,928 |
| **TOTAL ASSETS** | | **7,358,141** | **6,831,636** | **7,364,523** | **6,837,140** |
| LIABILITIES | | | | | |
| Due to banks | 17 | 443,453 | 87,064 | 443,453 | 87,064 |
| Due to customers | 18 | 5,893,632 | 5,570,592 | 5,886,962 | 5,566,288 |
| Derivative financial instruments | 8 | 4,845 | 1,179 | 4,845 | 1,179 |
| Other borrowed funds | 19 | 1,874 | 4,818 | 1,874 | 4,818 |
| Subordinated liabilities | 20 | - | 50,882 | - | 50,882 |
| Current income tax liabilities | | 609 | - | 659 | 13 |
| Retirement benefit obligations | 21 | 4,444 | 10,984 | 4,444 | 10,984 |
| Other liabilities | 22 | 33,221 | 23,774 | 33,605 | 24,103 |
| **TOTAL LIABILITIES** | | **6,382,078** | **5,749,293** | **6,375,842** | **5,745,331** |
| SHAREHOLDERS' EQUITY | | | | | |
| Share capital | | 75,964 | 75,964 | 75,964 | 75,964 |
| Retained earnings | 23 | 828,178 | 977,085 | 839,496 | 984,557 |
| Revaluation reserve | 24 | 72,945 | 32,411 | 73,836 | 33,833 |
| Defined benefit obligations | 21 | (1,024) | (3,117) | (1,024) | (3,117) |
| TOTAL EQUITY ATTRIBUTABLE TO UBB Shareholders | | 976,063 | 1,082,343 | 988,272 | 1,091,237 |
| Non-controlling interest | | - | - | 409 | 572 |
| **TOTAL EQUITY** | | **976,063** | **1,082,343** | **988,681** | **1,091,809** |
| **TOTAL SHAREHOLDERS EQUITY AND LIABILITIES** | | **7,358,141** | **6,831,636** | **7,364,523** | **6,837,140** |

These separate and consolidated financial statements have been approved for issue by the Management Board on 08.05.2018 and signed by:

Peter Andronov
Chief Executive Officer

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 08-05-

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 08-05-2018

*The accompanying notes from 7 to 98 form an integral part of these financial statements.*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

| | Notes | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| Interest income | | 237,570 | 283,437 | 238,057 | 284,004 |
| Interest expenses | | (13,936) | (28,485) | (13,913) | (28,430) |
| Net interest income | 27 | 223,634 | 254,952 | 224,144 | 255,574 |
| Fee and commission income | | 94,033 | 95,087 | 99,786 | 99,995 |
| Fee and commission expenses | | (5,417) | (6,055) | (5,891) | (6,500) |
| Net fee and commission income | 28 | 88,616 | 89,032 | 93,895 | 93,495 |
| Dividend income | | 1,851 | 3,761 | 1,659 | 675 |
| Net trading income | 29 | 35,022 | 24,319 | 35,021 | 24,319 |
| Net gains from financial instruments available for sale | | 143 | 30,141 | 143 | 30,141 |
| Other operating income, net | 30 | (8,407) | 2,278 | (8,478) | 1,982 |
| Net allowances for impairment | 31 | (221,816) | (115,074) | (222,068) | (115,201) |
| General administrative expenses | 32 | (175,539) | (165,775) | (178,432) | (168,405) |
| Share of profit of equity method investments | | - | - | 1,883 | 2,342 |
| **(LOSS)/PROFIT BEFORE TAX** | | **(56,496)** | **123,634** | **(52,233)** | **124,922** |
| Income taxes | 33 | 5,467 | (12,373) | 4,989 | (12,830) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(51,029)** | **111,261** | **(47,244)** | **112,092** |
| ATTRIBUTABLE TO: | | | | | |
| UBB equity shareholders | | (51,029) | 111,261 | (47,367) | 111,832 |
| Non-controlling interest | | - | - | 123 | 260 |

These separate and consolidated financial statements have been approved for issue by the Management Board on 08.05.2018 and signed by:

| | |
|---|---|
| Peter Andronov<br>Chief Executive Director | Svetla Georgieva<br>Executive Director |
| Gergana Mihaylova<br>Registered Auditor responsible for the audit | Mariy Apostolov<br>Grant Thornton OOD |
| Rositsa Boteva<br>Registered Auditor responsible for the audit<br>Date: 08-05-2018 | Jock Nunan<br>PricewaterhouseCoopers Audit OOD<br>Date: 08-05-2018 |

UNITED BULGARIAN BANK AD SOFIA UBB

София Рег. № 032

София Рег. № 085

*The accompanying notes from 7 to 98 form an integral part of these financial statements.*
*This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

| | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|
| (LOSS)/PROFIT FOR THE YEAR | (51,029) | 111,261 | (47,244) | 112,092 |
| *Other comprehensive income, net of tax* | | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | | |
| Revaluation of available for sale financial assets | 45,038 | 11,731 | 44,454 | 12,492 |
| Tax effect | (4,504) | (1,173) | (4,451) | (1,401) |
| *Items that will not be reclassified to profit or loss:* | | | | |
| Gains/ (losses) on defined benefit plans (net of tax) | 2,093 | (1,222) | 2,093 | (1,222) |
| Total other comprehensive income, net of tax | 42,627 | 9,336 | 42,096 | 9,869 |
| TOTAL COMPREHENSIVE (loss) / INCOME, net of tax | (8,402) | 120,597 | (5,148) | 121,961 |
| ATTRIBUTABLE TO: | | | | |
| UBB equity shareholders | (8,402) | 120,597 | (5,271) | 121,701 |
| Non-controlling interest | - | - | 123 | 260 |

These separate and consolidated financial statements have been approved for issue by the Management Board on 08.05.2018 and signed by:

UNITED BULGARIAN BANK AD SOFIA UBB

Peter Andronov
Chief Executive Officer

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 08-05-2018

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 08-05-2018

All amounts are in thousand Bulgarian Levs, unless otherwise stated

| Separate | Share capital | Retained earnings | Defined benefit obligations | Revaluation reserve | Total |
|---|---|---|---|---|---|
| **BALANCE AS OF JANUARY 1, 2016** | 75,964 | 1,125,622 | (1,895) | 21,853 | 1,221,544 |
| Profit for the year | - | 111,261 | - | - | 111,261 |
| Other comprehensive income for the year, net of tax | - | - | (1,222) | 10,558 | 9,336 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME, net of tax | - | 111,261 | (1,222) | 10,558 | 120,597 |
| Paid dividends | - | (259,798) | - | - | (259,798) |
| Total transactions with owners | - | (259,798) | - | - | (259,798) |
| **BALANCE AS OF DECEMBER 31, 2016** | 75,964 | 977,085 | (3,117) | 32,411 | 1,082,343 |
| Loss for the year | - | (51,029) | - | - | (51,029) |
| Other comprehensive income for the year, net of tax | - | - | 2,093 | 40,534 | 42,627 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME, net of tax | - | (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 |

| Consolidated | Share capital | Retained earnings | Defined benefit obligations | Revaluation reserve | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **BALANCE AS OF JANUARY 1, 2016** | 75,964 | 1,132,523 | (1,895) | 22,742 | 1,229,334 | 507 | 1,229,841 |
| Profit for the period | - | 111,832 | - | - | 111,832 | 260 | 112,092 |
| Other comprehensive income for the period | - | - | (1,222) | 11,091 | 9,869 | - | 9,869 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME, net of tax | - | 111,832 | (1,222) | 11,091 | 121,701 | 260 | 121,961 |
| Paid dividends | - | (259,798) | - | - | (259,798) | (195) | (259,993) |
| Total transactions with owners | - | (259,798) | - | - | (259,798) | (195) | (259,993) |
| **BALANCE AS OF DECEMBER 31, 2016** | 75,964 | 984,557 | (3,117) | 33,833 | 1,091,237 | 572 | 1,091,809 |
| Loss for the period | - | (47,367) | - | - | (47,367) | 123 | (47,244) |
| Other comprehensive income for the period | - | - | 2,093 | 40,003 | 42,096 | - | 42,096 |
| TOTAL COMPREHENSIVE (LOSS) / INCOME, net of tax | - | (47,367) | 2,093 | 40,003 | (5,271) | 123 | (5,148) |
| Changes due to acquisitions/sales of subsidiary/associates | - | 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 |

These separate and consolidated financial statements have been approved for issue by the Management Board он 08.05.2018 and signed by:

Peter Andronov
Chief Executive Officer

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 08-05-2018

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 08-05-2018

*The accompanying notes from 7 to 98 form an integral part of these financial statements.*

*This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

| | Notes | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| (Loss) / profit after tax | | (51,029) | 111,261 | (47,367) | 111,832 |
| Adjustments to reconcile profit after tax to net cash provided by operating activities: | | | | | |
| Allowances for impairment for the period | | 209,164 | 114,729 | 209,169 | 114,856 |
| Depreciation of property and equipment and Investment property | | 8,580 | 9,684 | 8,617 | 9,709 |
| Amortization of intangible assets | | 2,570 | 1,875 | 2,630 | 1,918 |
| Accruals for staff obligations | | (4,447) | 517 | (4,447) | 517 |
| Net gains on financial assets available for sale | | (6,085) | (34,262) | (5,723) | (35,254) |
| Net gains on disposal of fixed assets | | (722) | (241) | (727) | (267) |
| Interest expense on financing activities | | 122 | 1,229 | 122 | 1,229 |
| Accrued income tax expense | | (5,472) | 10,707 | (4,343) | 11,116 |
| Change in non-controlling interest | | - | - | (163) | 65 |
| Interest received and dividends from financial assets available for sale | | 1,659 | 675 | 1,659 | 675 |
| Impairment of goodwill | | - | - | 247 | - |
| Income from dividends from subsidiaries and equity method investments | | (192) | (3,086) | (1,695) | (2,108) |
| | | **154,148** | **213,088** | **157,979** | **214,288** |
| (Increase) / Decrease in operating assets: | | | | | |
| Due from other banks | | 88,739 | (88,445) | 88,739 | (88,446) |
| Loans and advances to customers | | 351,935 | 212,697 | 340,128 | 212,475 |
| Financial assets at fair value through P/L | | 501,524 | (472,995) | 501,522 | (472,995) |
| Derivative financial instruments assets | | (1,481) | (344) | (1,481) | (344) |
| Other assets | | 1,650 | 15,406 | 10,300 | 15,245 |
| Increase / (Decrease) in operating liabilities: | | | | | |
| Due to banks | | 356,389 | 24,272 | 356,389 | 24,272 |
| Derivative financial instruments liabilities | | 3,666 | 791 | 3,666 | 791 |
| Due to customers | | 323,040 | 481,239 | 320,674 | 480,523 |
| Other liabilities | | 9,447 | 4,391 | 9,503 | 4,467 |
| Income tax paid | | (10,335) | (13,776) | (10,944) | (13,799) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | **1,778,722** | **376,324** | **1,776,475** | **376,477** |

(continued on p.6)

These separate and consolidated financial statements have been approved for issue by the Management Board on 08.05.2018 and signed by:

Peter Andronov
Chief Executive Officer

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 08-05-2018

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 08-05-2018

*The accompanying notes from 7 to 98 form an integral part of these financial statements.*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

(continued from p.5)

| | Notes | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of property and equipment | | (19,127) | (5,095) | (19,135) | (5,147) |
| Purchases of intangible assets | | (1,883) | (3,632) | (1,891) | (3,662) |
| Purchase of financial assets available for sale | | (14,933) | (121,322) | (14,933) | (121,323) |
| Purchase of financial assets held to maturity | | (181,326) | - | (181,326) | - |
| Proceeds from sale fixed assets | | 1,814 | 505 | 1,781 | 451 |
| Acquisition of subsidiaries and associates, net of cash acquired | | (20,536) | - | (20,536) | - |
| Proceeds from disposal of associate, net of disposed cash | | - | - | 189 | - |
| Proceeds from sale and redemption of financial assets available for sale | | 22,550 | 40,091 | 22,550 | 40,852 |
| Dividends received from subsidiaries and income from equity method investments | | 192 | 3,086 | 2,305 | 2,305 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | **(213,249)** | **(86,367)** | **(210,996)** | **(86,524)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Paid dividends | | (97,878) | (259,798) | (97,883) | (259,798) |
| Proceeds from other borrowed funds | | - | - | - | - |
| Repayments of other borrowed funds | | (3,003) | (35,770) | (3,003) | (35,770) |
| Repayments of subordinated liabilities | | (50,945) | (51,282) | (50,945) | (51,282) |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | **(151,826)** | **(346,850)** | **(151,831)** | **(346,850)** |
| Effect of the change in exchange rate of cash flows and cash equivalents | | **(1,619)** | **(744)** | **(1,619)** | **(744)** |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 1,413,647 | (56,893) | 1,413,648 | (56,897) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | **988,763** | **1,045,656** | **988,763** | **1,045,660** |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 26 | **2,402,410** | **988,763** | **2,402,411** | **988,763** |
| **Operating cash flows related to interest** | | | | | |
| Interest paid | | **(10,285)** | **(33,091)** | **(10,262)** | **(33,035)** |
| Interest received | | **232,932** | **284,876** | **233,419** | **285,443** |

These separate and consolidated financial statements have been approved for issue by the Management Board on 08.05.2018 and signed by:

Peter Andronov
Chief Executive Officer

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Rositsa Boteva
Registered Auditor responsible for the audit
Date: 08-05-2018

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 08-05-2018

*The accompanying notes from 7 to 98 form an integral part of these financial statements.*

## 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 merger of 22 commercial banks. In June 2017 KBC Bank H.B.. ("KBC") acquired 99.91 % of the Bank's capital. The consolidated financial statements present the financial position of UBB and its subsidiaries as one reporting unit ("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 (the Board of Directors, which created an Executive Steering Committee). Following the acquisition of the majority share of the Bank's capital by KBC Bank NV, the management system of UBB AD 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 2017 are in the following configurations:
1) Luc Popeliers, Chairman of the Supervisory Board
2) Christine Van Reisensee, Member of the Supervisory Board
3) Viliam Hutting, Member of the Supervisory Board
4) Petar Andronov, Chairman of the Managing Board and Chief Executive Officer
5) Christoph De Mill, Member of the Managing Board and Executive Director Finance
6) Svetla Georgieva, Member of the Managing Board and Executive Director "Risk"
7) Frank Jansen, Member of the Managing Board and Executive Director "SME and Corporate Segment"
8) Teodor Marinov, Member of the Management Board and Executive Director "Legas"
9) Ivaylo Mateev, Member of the Management Board and Executive Director "Operations"
10) Hristina Filipova, Procurator
11) Jan Swainen, Commercial Attorney

***General information about the merger of United Bulgarian Bank AD and CIBank EAD***
The Transforming bank is a solely owned joint-stock company with company name CIBANK EAD, (fully owned by KBC Bank H.B.) 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 is BGN 227,932,510 divided into 22,793,251 ordinary, registered dematerialized, voting shares, with a nominal value of BGN 10 each. The sole owner of the company is KBC.

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 is BGN 75,964,082 divided into 75,964,082 ordinary, registered, dematerialized voting shares, with a nominal value of BGN 1 each. KBC keeps 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, ofia 1463.

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 Group, being the shareholder of CIBANK.

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.

In 2017 the Bank's operations were conducted through a Head Office located in Sofia and 173 branches and 17 offices throughout Bulgaria.

## 1. GENERAL INFORMATION (CONTINUED)

The number of full-time employees of UBB as of December 31, 2017 was 2,157 (2016: 2,468).

The number of full-time employees of the Group as of December 31, 2017 was 2,210 (2016: 2,529).

These separate and consolidated financial statements have been approved for issue by the Board of Directors on May 8, 2018.

## 2. BASIS OF PREPARATION

### (i) Compliance with IFRS as adopted by EU

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).

The going concern principle is not applicable in the present case due to merger of UBB AD and CIBANK EAD, in which CIBANK ceases to exist, the activity and the assets are assumed by UBB, which does not require adjustments in the carrying amount of the assets, liabilities and shared capital.

The preparation of the financial statements in accordance with IFRS requires the application of certain accounting estimates. The management is required to exercise judgment when applying the Group’s accounting policies. The financial statement items, which require a higher level of judgment or subjectivity, and other items for which estimates have significant impact on the financial Statements as a whole are disclosed separately in Note 3.

### (ii) 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.

### (iii) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2017:

- *Amendments to IAS 12* Recognition of Deferred Tax Assets for Unrealised Losses, and
- *Amendments to IAS 7* Disclosure initiative.

### (iv) New standards and interpretations applicable for the periods starting on 1 January 2018 not early adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Bank/Group. The Bank’s/Group’s assessment of the impact of these new standards and interpretations is set out below.

**IFRS 9 *Financial Instruments***

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

***Impact***

*Introduction*

In July 2014, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 has been running for some time at the Bank/Group. In 2017, it moved from the design phase to the implementation phase, which will continue in 2017.

## 2. BASIS OF PREPARATION (CONTINUED)

### (iv) New standards and interpretations applicable for the periods starting on 1 January 2018 not early adopted by the Bank (continued)

**IFRS 9 *Financial Instruments (continued)***

***Impact (continued)***

*Classification & measurement*
Classification and measurement of financial assets under IFRS 9 will depend on the specific business model in place and the assets' contractual cashflow characteristics. The project is at the stage where all the business models have been identified, analysed and documented, as to a large extent have the characteristics of the contractual cashflows. Based on current market conditions, regulations, interpretation, assumptions and policies, the impact of first-time application is currently expected to be limited (subject to an audit review).

Overall, the first time application of IFRS 9 will have an estimated negative impact of 21-24 basis points on common equity tier-1 ratio, mainly triggered by reclassification of debt securities, as well as changes in the impairment model from historical to expected credit loss.

For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. The Bank/Group doesn't have financial instruments designated at fair value through profit or loss, thus it will not be affected by the change.

1.1. Impairment of financial assets
Financial assets that are subject to impairment will be classified into three stages:
Stage 1: Performing
Stage 2: Underperforming (where lifetime expected credit losses are required to be measured)
Stage 3: Non-performing or impaired
IFRS 9 Financial Instruments and adopted by them amedmends in other standards.

The Bank/The Group 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 will be used for the investment portfolio, except that the Bank intends to use the low-credit-risk exemption, meaning that all bonds in scope with a PD of 1 to 3 are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise
For 'Stage 1' and 'Stage 2' – under IAS 39 – the Bank records 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'. As a consequence, impairment levels are generally expected to increase. We do not expect any major impact on 'Stage 3'.

Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and the Bank is currently considering three scenarios to evaluate a range of possible outcomes.

The Bank/Group expects to be able to perform reliable assessments of the impact of the new provisioning model in the second half of 2017. The impact of first time application depends on the regulatory framework and economic conditions at that time, as well as the composition of the portfolios.
Impairment levels under IFRS 9 will differ from current prudential requirements because of:
(i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9;
(ii) application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3');
(iii) and inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes.

1.2. Hedge accounting
The Bank/ Group intends to use the option to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

## 2. BASIS OF PREPARATION (CONTINUED)

### (iv) New standards and interpretations applicable for the periods starting on 1 January 2018 not early adopted by the Bank (continued)

**IFRS 9** ***Financial Instruments (continued)***

***Impact (continued)***

The Bank/Group will not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital. Consequently, own funds, capital and the leverage ratio will reflect the full impact of IFRS 9.

Date of adoption by the Bank/Group
It have to apply for financial years beginning on or after 1 January 2018. The Group will apply the new rules retroactively from 1 January 2018 with the practical allowances allowed.

**IFRS 15 Revenue** ***from Contracts with Customers***

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

***Impact***

Management has assessed the effects of applying the new standard on the Company's financial statements and the effect is not expected to be material.

***Date of adoption by the Bank***

Mandatory for financial years commencing on or after 1 January 2018. The Bank intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

### (v) New standards and interpretations applicable for the periods starting on 1 January 2019 not early adopted by the Bank

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)** is effective as of 1 January 2018 and endorsed by EU.

The management considers that there will be no effect by applying the amendments to the Bank's/Group's financial statements.

**IFRS 16 Leases**

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases. The accounting for lessors will not significantly change.

***Impact***
The standard will affect primarily the accounting for the Bank's operating leases.

However, the Bank has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Bank's profit or loss and classification of cash flows going forward.

It is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Bank does not intend to adopt the standard before its effective date. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

## 2. BASIS OF PREPARATION (CONTINUED)

*There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.*

### (iv) New standards, interpretations and amendments not yet adopted by the EU

**IFRS 17 Insurance contracts (issued on 18 May 2017)** – IASB Effective date 1 January 2021

**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)** is effective as of 1 January 2018 and it is expected to be endorsed in the first quarter of 2018.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)** is effective as of 1 January 2019 and it is expected to be endorsed in 2018.

**Amendments to IFRS 2 Classification and measurement of share based payment transactions (issued on 20 June 2016)** is effective as of 1 January 2018 and it is expected to be adopted in the first half of 2018.

**Annual Improvements to IFRS - Cycle 2014-2016 (issued 8 December 2016)** is effective as of 1 January 2017 and 2018 and it is expected to be endorsed in 2018.

**Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)** is effective as of 1 January 2018 and it is expected to be endorsed in the first quarter of 2018.

**Amendments to IFRS 9 Prepayment Features with Negative Compensation (issued on 12 October 2017)** is effective as of 1 January 2019 and it is expected to be endorsed in 2018.

**Amendments to IAS 28 Investments in Associates and Joint Ventures (issued on 12 October 2017)** is effective as of 1 January 2019 and it is expected to be endorsed in 2018.

**Annual Improvements to IFRS - Cycle 2015-2017 (issued 12 December 2017)** is effective as of 1 January 2019 and it is expected to be endorsed in 2018.

### Basis of consolidation

The consolidated financial statements of the Bank incorporate the financial statements of UBB AD (the Parent Bank) and its subsidiaries (including structured entities), which are entities controlled by the Bank. Control is achieved, if and only if, the Bank has a) power over the subsidiaries b) exposure, or rights to variable returns from its involvement with the subsidiaries and c) the ability to use its power over the subsidiaries to affect the amount of the Bank's returns.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and in the consolidated statement of comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit/ (loss) for the period and total comprehensive income/ (expense) of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

## 2. BASIS OF PREPARATION (CONTINUED)

### (vi) New standards, interpretations and amendments not yet adopted by the EU (continued)

**Basis of consolidation (continued)**

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

*Parent Bank* is an entity which directly or indirectly has a power to exercise control over one or more entities (subsidiaries).

*Subsidiaries* are entities that are controlled by another entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date that control ceases.

All acquisitions are accounted for using the purchase method of accounting as set out in IFRS 3 from the date on which the Bank effectively obtains control of the acquire. The Bank has incorporated into its consolidated income statement the results of operations of the acquire and has also recognized in the consolidated statement of financial position the assets and the liabilities assumed and contingent liabilities of the acquire as well as any goodwill arising on the acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

In preparing the consolidated financial statements, the Parent and its subsidiaries' financial statements are combined line by line by adding together like items of assets, liabilities, equity, income and expenses.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income/ (expense) are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Equity Method Investments* are entities over which the Bank has between 20% and 50% of the voting rights, and over which the Bank exercises significant influence, but which it does not control. Investments in associates are accounted for by applying the equity method of accounting. Impairment charges are recognized in the income statement, except when they represent temporary declines in the fair value.

Under the equity method of accounting, the investment is initially recorded at cost. Goodwill arising on the acquisition of an equity method investment is included in the carrying amount of the investment (net of any accumulated impairment loss). The carrying amount of the investment is increased or decreased by the proportionate share of the entity's post-acquisition profits or losses (recognized in the Group profit or loss) and movements in reserves (recognized in reserves). Dividends received from the equity method investment during the year reduce the carrying value of the investment. Equity method investments for which significant influence is intended to be temporary because such investments are acquired and held exclusively with a view to their subsequent disposal within twelve months from their acquisition are recorded as assets held for sale. Unrealized gains on transactions between the Group and its equity method investment are eliminated to the extent of the Group's interest in the entity. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Where necessary, equity method investment's consolidated financial statements used in applying the equity method are adjusted to ensure consistency with the accounting policies adopted by the Group

## 2. BASIS OF PREPARATION (CONTINUED)

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

As of 31.12.2017:

| 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 |
| Druzhestvo za Kasovi Uslugi AD | 20% | Equity method of consolidation |
| UBB Life Insurance Company EAD | 60% | Equity method of consolidation |

**Investments in subsidiaries and equity method investments in separate financial statements**

In the Bank's financial statements subsidiaries and equity method investments are measured at cost less impairment.

**Impairment assessment of investments in subsidiaries and equity method investments in separate financial statements**

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

The consolidated financial statements of UBB, including all the notes, were authorised for issue on 8 May 2018 by the Board of Directors. They have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in thousands of BGN and rounded to the thousand (unless otherwise stated).

Despite that the Bank has a 60% share in UBB Life Insurance, all decisions of the shareholders are made with a majority of more than 60% and UBB does not have power over the investee so it is not consolidated.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.1. Interest income and expense

Interest income and expense is recognized in the separate and consolidated income statement for all interest bearing financial instruments on a time proportionate basis, using effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

For loans originated by the Bank/Group and liabilities to depositors, where the interest is calculated on a daily basis by applying contracted interest rate to the outstanding balance, the effective interest rate is considered to be approximately equal to the contracted interest rate because of the nature of the contracts' terms. Loan origination fees are deferred as part of the effective interest.

Interest earned whilst holding trading securities and available for sale securities is reported as interest income. Interest income includes the amount of amortization of any discount, premium or other difference between the initial carrying amount of debt securities and their amount at maturity.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 3.2. Fee and commission income and expenses

Fees and commissions consist mainly of fees received, respectively paid, for cash and non-monetary transactions, loans, guarantees and letters of credit and intermediary commissions. Fees and commission's income and expenses are generally recognized on an accrual basis over the period the service is provided. Fees and commissions receivables and liabilities are accrued when earned or become due. Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as acquisition of loans, equity shares or other securities or the purchase or sale of businesses, are recognized upon completion of the underlying transaction. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan.

### 3.3. Foreign currency translation

Transactions denominated in foreign currencies are translated into BGN at the exchange rates set by the Bulgarian National Bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date using the closing rates of exchange of the Bulgarian National Bank.

Foreign exchange rate gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the separate and consolidated income statement in the period they incurred. Translation differences on debt securities and other monetary financial assets are re-measured at fair value and included in foreign exchange rate gains and losses. Translation differences on non-monetary financial assets are a component of the change in their fair value.
Significant exchange rates are as follows:

| **Foreign Currency** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| EUR | 1.95583 | 1.95583 |
| USD | 1.63081 | 1.85545 |

Effectively from January 1, 1999 the Bulgarian Lev was tied to the Euro, the European Union currency, at the rate of Euro 1 to BGN 1.95583. All other foreign currency exchange rate movements against the Bulgarian Lev reflect their movements against the Euro on the international markets.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments

***(a) Financial assets***

The Bank/Group classifies its financial assets in the following categories: 'financial assets at fair value through profit or loss', 'loans and receivables', 'financial assets available for sale' and "financial assets held to matutity". The classification depends on nature and purpose of the financial assets at the time of their acquisition.

The Management determines the classification of the financial assets of the Bank/Group upon their initial recognition in the statement of financial position.

***(b) Financial liabilities and equity instruments***

The Bank/Group classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Bank/Group classifies its financial liabilities in the following categories: 'financial liabilities at fair value through profit or loss' or 'other financial liabilities' carried at amortized cost. The classification depends on the nature of the financial liabilities and purpose set by the Bank/Group at the time of their origination.

The Management determines the classification of the financial liabilities of the Bank/Group upon their initial recognition on the separate and consolidated statement of financial position.

***(c) Derivative financial instruments***

Derivative financial instruments include foreign exchange contracts, forward agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased) and other. Derivative financial instruments are initially recognized in the separate and consolidated statement of financial position at fair value and subsequently are re-measured also at their fair value. Derivatives are presented in financial assets when favorable to the Bank/Group and in financial liabilities when unfavorable to the Bank/Group. Fair values are obtained depending on the type of instrument from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models, as appropriate. Where the Bank/Group enters into derivative instruments used for trading purposes, realized and unrealized gains and losses are recognized in the separate and consolidated income statement as 'net trading income'.

A derivative instrument may be embedded in another financial instrument, known as "host contract". In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract.

Certain derivative instruments transacted as effective economic hedges under the Bank/Group's open risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes, i.e. fair value gains and losses are recognized in net trading income.

When the Bank/Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions, applies either fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment.

The Bank/Group's criteria for a derivative instrument to be accounted for as a hedge include:

- at inception of the hedge, there is formal designation and documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship;
- The hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging period. A hedge is considered to be highly effective when
  The Bank/Group achieves offsetting changes in fair value between 80 percent and 125 percent for the risk being hedged; and
- The hedge is highly effective on an ongoing basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruents (continued)

#### *(d) Recognition of financial instruments*

The Bank/Group recognizes financial instruments in the separate and consolidated statement of financial position when and only when, it becomes a party to the contractual provision of the instrument.

#### *(e) Regular way purchases and sales of financial assets*

"Regular way" purchase and sale of financial assets or liabilities based on contract are those that require delivery within the time frame established by regulation or market convention. Financial instruments that arise by such contracts are recognized on the settlement date apart from trading and available for sale securities and derivative financial instruments, which are recognized on the trade date. All other purchases and sales of securities held for trading are treated as derivatives until settlement occurs.

#### *(f) Derecognition of financial instruments*

The Bank/Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank/Group derecognizes a financial liability from the separate and consolidated statement of financial position, i.e. only when it's contractual obligations are discharged or cancelled or expires.

#### *(g) Sale and repurchase agreements*

Securities sold subject to a commitment to repurchase them at a predetermined price ('Repos') are retained on the separate and consolidated statement of financial position and the counterparty liability is included in amounts due to banks, due to customers or other deposits, as appropriate. Securities purchased under agreement to resell ('Reversed Repos') are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of Repos (or Reverse Repos) agreement using the effective interest rate method.

#### *(h) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the separate and consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### *(i) Fair value of financial instruments*

The Bank/Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

**Level 1**: Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active market An active market, is a market in which transactions for assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis and are characterized with low bid/ask spreads.

**Level 2:** Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain over-the-counter ("OTC") derivative contracts.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments (continued)

**Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant Management judgment or estimation.

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price times the number of units of the instrument held. Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data.

Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions in an instrument are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of a given input is measured in accordance with its effect on the fair value of the respective instrument taking into consideration the specific factors for a given asset or liability. If observable inputs requiring significant adjustments based on unobservable inputs are used when measuring the fair value, they are categorized in level 3.

#### *(j) Financial assets and liabilities at fair value through profit or loss*

This category has the following two sub-categories:
- Trading and
- Financial assets and liabilities designated as at fair value through profit or loss.

***Trading securities***

Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists.
Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Trading securities held are reclassified out of the respective category, only in rare circumstances (see Note 9). Respectively, securities available for sale are not reclassified into the trading securities category while they are held.
Trading securities may also include securities sold under sale and repurchase agreements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments (continued)

#### *(j) Financial assets and liabilities at fair value through profit or loss (continued)*

***Financial assets and liabilities designated at fair value through profit or loss at initial recognition***

Bank/The Group designates at initial recognition financial assets or liabilities as at fair value through profit or loss, with the exception of investments in equity instruments, which have no market price on an active market and the fair value of which cannot be reliably measured, when:

- Doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise at asset and liability measurement or profit and loss recognition on different basis; or;
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information of the group is provided internally on that basis to key management personnel, for example the board of directors and chief executive officer.
- The financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments and would have to be separated if not in this category.

The fair value designation, once made, is irrevocable.

***Measurement***

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in the fair value are included in net trading income.

Dividend income is recognized when the right to receive the payment is established. This is the ex-dividend date for equity securities and is separately reported and included in "Other net income / (expense)".

Interest income on interest bearing financial assets and interest expense on interest bearing financial liabilities at fair value through profit or loss (both trading and designated) is reported as interest income and interest expense respectively.

The amount of change during the period, and cumulatively, in the fair values of designated financial liabilities and loans and advances that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

#### *(k) Loans and receivables*

Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted on an active market. This group of financial assets includes: loans and advances to banks, loans and advances to customers and other receivables.

Loans and receivables that are individually originated in the Bank are recognized when cash is actually advanced to the borrowers or another financial or non-financial asset is provided to the borrower.
Acquired loans and advances are recognized when a significant part of benefits and risks incidental to ownership are received by the Bank/Group.

***Measurement***

Loans and receivables are initially recorded at fair value which in most cases represents the net amounts paid for the transferred asset, including any direct transaction costs.

They are subsequently measured at amortized cost using the effective interest method less any allowances for impairment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments (continued)

***(k) Loans and receivables (continued)***

Loans and receivables granted by the Bank/Group are presented in the separate and consolidated statement of financial position at amortized cost less impairment and allowances for impairment.

Interest on loans and advances granted by the Group is included in interest income and is recognized on an accrual basis. Fees and direct cost related to loan origination, financing or restructuring and to loan commitments are treated as part of the cost of the transaction and are deferred and amortized as interest income over the life of the loan by using the effective interest rate method.

***(l) Financial assets available for sale***

Financial assets available for sale are those non-derivative assets that are not designated as financial assets at fair value through profit or loss, loans and advances or investments held to maturity. The Bank/Group classifies as available-for-sale financial assets debt securities intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or stock prices.

***Measurement***

Financial assets available for sale are initially recognized at fair value including transaction costs and subsequently re-measured at fair value based on quoted bid prices on active markets, dealer price quotations or discounted expected cash flows. Fair values for unquoted equity investments are determined by applying recognized valuation techniques such as price/earnings or price/cash flow ratios, refined to reflect the specific circumstances of the issuer.

Unrealized gains and losses arising from changes in the fair value of available for sale securities are reported in the equity through the other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

When an available for sale financial instrument is disposed of or impaired, the accumulated unrealized gain or loss included in shareholders' equity is transferred to the income statement for the period and reported as net trading income/expense. Gains and losses on disposal are determined using the moving average acquisition cost method. During the period of holding debt instruments, classified as 'available for sale' the Bank/Group recognizes interest income by applying the effective interest method.

Dividends on equity shares, classified as 'available for sale' financial assets, are recognized and carried to the income statement as 'Dividend income' when the Bank/Group's entitlement to these dividends is established.

***(m) Allowances for impairment and write-offs***

All financial assets classified as 'loans and advances', 'held-to-maturity' and 'available for sale' are subject to review for impairment.

The Bank/Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

***Loans and advances***

A credit risk allowance for loan impairment is established if there is objective evidence that the Bank/Group will be unable to collect all amounts due on a claim according to the original contractual terms. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to extend credit.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments (continued)

***(m) Allowances for impairment and write-offs (continued)***

***Loans and advances (continued)***

Objective evidence that a claim is impaired includes observable data that comes to the attention of the Bank/Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the Bank/Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider;
(d) it is probable that the borrower will enter bankruptcy;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- Adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
- National or local economic conditions that correlate with defaults on the assets in the group.

An allowance for loan impairment is reported as a decrease of the carrying amount of a claim in the separate and consolidated statement of financial position, whereas for an off-balance sheet item such as a commitment, an allowance for impairment loss is reported in other liabilities. Increase of allowances for loans impairment are made through impairment losses on loans and advances in the separate and consolidated income statement.

The Bank/Group assesses whether objective evidence of impairment exists for loans that are considered individually significant and collectively for loans that are not considered individually significant. If there is objective evidence that an impairment loss on loans and advances carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Corporate loans are grouped based on days in arrears, product type, economic sector, size of business, collateral type and other relevant credit risk characteristics. Mortgages and retail loans are also grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not exist currently.

All impaired loans are reviewed and analyzed at the date of the financial statements and any subsequent changes to the amounts and timing of the expected future cash flows compared with the prior estimates result in a change in the provision for loans impairment and are charged or credited to impairment losses on loans and advances. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank/Group to reduce any differences between loss estimates and actual loss experience. A loan, which is deemed to be uncollectible or forgiven, is written off against the related provision for loans impairment. Subsequent recoveries are credited to impairment losses on loans and advances in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement as net allowances for impairment for loans and advances.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial instruments (continued)

***(m) Allowances for impairment and write-offs (continued)***

***Loans and advances (continued)***

**Write-offs**

The Bank/Group's write-off policy prescribes which loans and receivables fall into its scope and the criteria that must be met for each type of asset in order for each write-off to be approved by the relevant competent body.Loan amounts to be written off for accounting purposes are individually identified and fully provided for. For all loan amounts written-off for accounting purposes, documentation is retained and is available to evidence and support the reasoning for the write-off and that the appropriate actions have been taken.

The following factors are taken into consideration when qualifying a loan for write-off:

i. The past due status of the loan.
ii. The existence of collateral held by the Bank/Group to secure the loan and the ability to liquidate that collateral.
iii. The status of legal actions undertaken by the Bank/Group as well as the results of recent research regarding the borrower's real property. However, completion of such legal actions is not a necessary condition to write-off a loan if the claim against the borrower would remain valid after the loan is written-off.
iv. The existence of other assets held by the borrower identified through available databases.
v. An assessment of the costs expected to be incurred for pursuing recovery compared to the expected recovery.

In particular:

i. Mortgages are written-off for accounting purposes after a maximum period in past-due of at least 10 years and when there is no realistic prospect of recovering those amounts. The competent business units ensure that all appropriate actions have been taken in order to collect and no further recovery action is possible or practicable.
ii. Unsecured consumer, credit card and Small Business Lending ("SBL") exposures may not be written-off for accounting purposes even after a period of at least 60 months after the agreement is terminated.
iii. Corporate and secured SBL exposures are considered for write-off for accounting purposes on a case by case analysis, based on the general requirements (i)-(v) above.

In specific cases corroborated with legal evidence, such as for example fraud or bankruptcy of the borrower, exposures can be written-off for accounting purposes regardless of whether the criteria above are satisfied. Written-off loans, either retail or corporate, are monitored until completion and exhaustion of legal actions having taken into consideration the efforts and cost required. Write-offs are approved by each competent committee in accordance with its authority limits prescribed in its charter.

***Financial assets available for sale***

Available for sale financial assets are impaired if there is objective evidence that show a significant and prolonged decline in the fair value of the respective assets or group of assets or with regard to financial assets (equity instruments) measured at acquisition cost – when there is evidence that the carrying amount is higher than the expected recoverable amount. In case such evidence is identified, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed in the income statement. Impairment losses recognized in income statement for an investment in an equity instrument classified as available for sale are not recovered in income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.5. Financial assets, held to maturity

Investments, held to maturity are non-derivative assets with fixed or determinable payments and fixed maturities that the Group has the intent and ability to hold to maturity and which are not classified at initial recognition as assets at fair value through profit or loss or available for sale and do not qualify the definition of loans and advances.
The sale and reclassification of more than "insignificant portion" of held-to-maturity investments would result in the reclassification of the entire investment class to maturity in the available-for-sale category, as well as a ban in the current and two subsequent financial periods, such as held-to-maturity investments.

This restrictive condition does not apply to sales or reclassifications when:
•the sale or reclassification is so close to the maturity of the financial instrument that the change in market interest rates would not have a material effect on its fair value;
•the sale or reclassification is performed after the Group has received all substantial payments on the principal of the instrument;
•the sale or reclassification is dictated by an isolated, irreversible event beyond the control of the Group that could not reasonably be originally anticipated (eg a significant deterioration in the financial position of the issuers).
Investments, held to maturnity are carried at amortized cost calculated using the effective interest method.

### 3.6. Investments in subsidiaries and equity method investments

Subsidiaries are entities that the Bank controls directly or indirectly. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist if and only if, the Parent has a) power over an entity b) exposure, or rights to variable returns from its involvement with an entity and c) the ability to use its power over an entity to affect the amount of the Bank's returns.

Equity method investments are entities, in which the Bank/Group owns directly or indirectly from 20% to 50% of the voting shares or over which the Bank/Group has significant influence but does not have control.

Shares in subsidiaries and equity method investments are initially recognised in the separate financial statements at cost. Subsequently the Bank carries our periodic reviews for impairment. Impairment is recognised in the income statement as impairment losses of investments in subsidiaries and equity method investments.

In the consolidated financial statements of the Group shares and interest in equity method investments are initially recognized at cost. Subsequently the investments are measured applying the equity method. The Group performs a periodic review for indications of impairment. Impairment is recognized in the consolidated income statement.

Dividends from subsidiaries and equity method investments are recognised in the separate income statement if they refer to distribution of profit from reporting periods after the investment acquisition, or in decrease of the carrying amount of the investment if they refer to distribution of profit from reporting periods before their acquisition.

### 3.7. Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank/Group for providing of services or for administrative purposes. Property and equipment are presented in the separate and consolidated financial statements at historical acquisition cost less accumulated depreciation and impairment losses. Property and equipment are initially recorded at cost, which includes all expenses that are required to bring an asset into working condition.

Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalized, only when it is probable that they will result in future economic benefits beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Repairs and maintenance are charged to the income statement when the expenditure is incurred.

Depreciation of an item of property and equipment is calculated on a straight-line basis over their estimated useful lives. Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.7. Property and equipment (continued)

The useful life adopted by the Bank/Group for main group of assets is as follows:

| *Group of assets* | *Years* |
|---|---|
| Land | unlimited |
| Buildings | Not exceeding 25 |
| Security facilities | Not exceeding 5 |
| POS Terminals | Not exceeding 5 |
| Equipment | Not exceeding 5 |
| Servers and personal computers | Not exceeding 4 |
| Furniture and related equipment | Not exceeding 7 |
| Cars | Not exceeding 5 |
| Leasehold improvements | Residual lease term, but not more than 10 years |
| ATM | Not exceeding 7 |

The Bank/Group periodically reviews its property and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in the separate and consolidated income statement as other operating income/expenses.

Foreclosed assets, which represent properties and equipment acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at cost, which includes transaction costs, and are reported under other assets in the separate and consolidated statement of financial position. After initial recognition foreclosed assets are re-measured at the lower of their carrying amount and fair value less estimated costs to sell. Any gains or losses on liquidation of foreclosed assets are included in other operating income/expenses.

### 3.8. Intangible assets

***Goodwill***

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of Group's share in the net identifiable assets of the acquired Bank at the date of acquisition (the business combination). Goodwill is initially measured in the consolidated financial statements at acquisition cost (cost) and subsequently – at cost less accumulated impairment losses. Goodwill is not amortised.
Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'goodwill' while goodwill arising on the acquisition of a joint venture or an associate (entity) is incorporated in the total amount of the investment and is stated in the group of 'investments in joint ventures' or respectively 'investments in associates'.
The goodwill on the acquisition of joint ventures and associates (entities) is tested as part of the total balance (amount) of the investment. The individually recognised goodwill on the acquisition of subsidiaries is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary of the Group include the carrying amount of the goodwill relating to the entity sold (disposed of).
On the realisation of a particular business combination, each recognised goodwill is allocated to a particular cash generating unit and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.
Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'impairment of goodwill'.

***Other intangible assets***

Other intangible assets include computer software and other intangible assets that comprise separately identifiable intangible items. Intangible assets are presented in the separate and consolidated financial statements at cost of acquisition less accumulated amortization and accumulated impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.8. Intangible assets (continued)

Computer software includes costs that are directly associated with identifiable and unique software products that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of software beyond their original specifications is recognized as a capital improvement and is added to the original cost of the software.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:
- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

***Other intangible assets (continued)***

Expenditures on starting up an operation or branch, training personnel, advertising and promotion and relocating or reorganizing part or the entire Bank/Group is recognized as an expense when it is incurred.

The Group calculates amortization for the intangible assets on a straight-line basis over their estimated useful lives. The useful life adopted by the Bank/Group for intangible assets is as follows: Software – not exceeding a period of 5 years; rights for use of property - residual term of use; other - not exceeding a period of 7 years. *Please refer to Separate and Consolidated Income Statement – line General administrative expenses.*

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are included in the income statement.

### 3.9. Investment property

Investment property includes buildings, acquired through foreclosure proceedings and with intention of earning rentals or for capital appreciation, or both.
Investment property is initially recorded at cost, which includes transaction costs.
Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.
Investment property is depreciated on a straight-line basis over its estimated useful life, but not exceeding 50 years. Investment property is reviewed at least annually for impairment based mainly on external appraisals.

### 3.10. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.10. Leases (continued)

***Operating lease***

Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor are classified as operating leases. The payments made under operating leases are charged to the separate and consolidated income statement on a straight-line basis over the period of the lease and are presented as rent expenses. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. Assets leased out by the Bank/Group under operating leases are included in the separate and consolidated statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income under lease contracts is recognized on a straight-line basis over the lease term and are presented as ‘other operating income/expenses’ in the separate and consolidated income statement.

***Finance lease***

Leases where the lessee has substantially all the risks and rewards of ownership of the asset are classified as finance leases. When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance lease receivables underfunded participation in finance lease contracts are included in loans and advances to customers.

### 3.11. Cash and cash equivalents

Cash and cash equivalents for the purposes of the separate and consolidated statement of cash flows include cash and nostro accounts and loans and advances to other banks with a maturity of less than 90 days, including balances with the Bulgarian National Bank which are measured at amortised cost.

### 3.12. Provisions

Provisions are recognized as an expense in the separate and consolidated income statement and liability in the separate and consolidated statement of financial position when the Bank/Group has a present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the resulting losses can be made.

### 3.13. Fiduciary and trust activities

The Bank/Group provides fiduciary and trust services to individuals and companies, whereby it holds and manages assets or invests funds received in various financial instruments in customer’s favor. The Bank/Group receives fees and commissions for providing these services. Trust assets are not assets of the Bank/Group and are not recognized in the separate and consolidated financial statements. The Bank/Group is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

### 3.14. Employee benefits

The employment and social security relations to the employees of the Bank/Group are based on the provisions of the Labor Code (LC) and the effective social security legislation in Bulgaria.

***Short-term employee benefits***

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms) are recognized as an expense in the separate and consolidated income statement in the period when the service thereon has been rendered or requirements for their receipt have been met and as current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Bank/Group’s payables for social security and health insurance are recognized as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accruals.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.14. Employee benefits (continued)

At each reporting date the Bank/Group measures the expected costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the undiscounted estimate of the expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

***Long- term employee benefits***

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan that defines an amount of benefit to be provided, determined using a number of financial and demographic assumptions. The most significant assumptions include age, years of service, life expectancy, the discount rate, expected salary increases and pension rates. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation and the related costs are calculated by independent actuaries on an annual basis at the end of each annual reporting period, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and, which have terms to maturity approximating the terms of the related liability. Service cost (current service cost, past service cost (including the effect of curtailments) and gains or losses on settlements) and interest on the defined benefit liability are charged to the income statement and are included in staff costs. The defined benefit obligation is recorded on the statement of financial position, with changes resulting from remeasurements (comprising actuarial gains and losses recognized immediately in OCI, with no subsequent recycling to profit or loss), in order to fully reflect the full value of the plan deficit or surplus.

*Defined contribution plans*

A defined contribution plan is a pension plan under which the Bank/Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits related to employee service in the current and prior periods. Contributions to defined contribution plans are charged to the separate and consolidated income statement in the year to which they relate and are included in staff costs.

### 3.15. Income taxes

Taxes currently due are calculated in accordance with the Bulgarian legislation. Income tax is computed on the basis of taxable profit, calculated by adjusting the financial result for certain income and expenditure items as required under Bulgarian law.

Deferred income taxes are provided using the liability method of accounting, under which deferred tax consequences are recognized as a difference between the tax base of assets and liabilities and their carrying value for financial reporting purposes. Any tax effects related to transactions and other events recognized in the separate and consolidated income statement are also recognized in the separate and consolidated income statement. Tax effects related to transactions and events recognized directly in equity are also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available, against which the deductible temporary difference can be utilized.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period except to the extent that the tax arises from a transaction or event that is recognized in the same or different period, directly in equity. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the laws that have been enacted at the reporting date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary difference will occur in the same period, from which they can be deducted.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.16 Assets and liabilities held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification except as permitted by IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets held for sale are measured at their lower of carrying amount and fair value less costs to sell. Assets and liabilities of disposal groups classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the statement of financial position.

Impairment losses on initial classification as held for sale are included in the income statement, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

If the Bank/Group has classified an asset (or disposal group) as held for sale, but the criteria for classification as such are no longer met, the Bank/Group ceases to classify the asset (or disposal group) as held for sale. The Bank/Group measures a non-current asset (or disposal group) that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation or amortization that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
b) its recoverable amount at the date of the subsequent decision not to sell.

### 3.17. Related party transactions

Related parties include enterprises which may exercise significant influence on financial and operating decisions and which the Bank/Group may influence in the same way. Related parties also include key management personnel and their relatives/partners, controlled enterprises or enterprises in which they can exercise significant influence. All related party transactions should be disclosed by type, effect in the consolidated income statement and the consolidated statement of financial position and if they have been concluded under market terms.

### 3.18. Earnings per share

Basic earnings per share (EPS) ratio is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are adjusted for the effect of all potentially dilutive ordinary shares. Basic earnings per share and diluted earnings per share for the Bank/Group are the same because there are no potentially dilutive ordinary shares.

### 3.19. Shareholder’s equity

The Shareholder’s equity of the Bank/Group includes share capital, retained earnings from previous years, other reserves formed from first time adoption of IFRS, revaluation reserve from financial assets available for sale and the profit for the current year.

The Bank/Group manages its shareholders’ equity according to the risk strategy and necessity of sufficient financial resources for providing optimum risk profile and in accordance with the legal frame (Note 39).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.20. Assets acquired against debt

***Repossessed collateral*.**

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

### 3.21. Loan commitments and financial and performance guarantees

***Credit related commitments.***

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

***Performance guarantees.***

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

### 3.22. Critical judgments and estimates

The preparation of separate and consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the separate and consolidated financial statements of the Bank/Group. Management believes that the judgments, estimates and assumptions used in the preparation of the separate and consolidated financial statements are appropriate given the factual circumstances as of December 31, 2017.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank’s/Group’s accounting policies, are the following:

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.22. Critical judgments and estimates (continued)

***Fair value of financial instruments (note 38)***

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and are periodically reviewed by Risk Management Department thereafter. Wherever possible, the Bank/Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realized, in order to further validate and calibrate its models. A variety of factors are incorporated into the Bank/Group's models, including actual or estimated market prices and rates, such as time value and volatility, and market depth and liquidity. The Bank/Group applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risks associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, Management believes the fair values recorded in the separate and consolidated statement of financial position and the changes in fair values recorded in the separate and consolidated income statement are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

***Allowance for impairment losses on loans and advances***

After the acquisition of UBB and Interlease by KBC Group, concluded on June 14th, 2017, a special and in depth review of all loan books was done by a joint team of Cibank and GCRD colleagues in order to estimate the need for additional impairments.

For the calculation of the needed additional impairments, we applied the normal conservatism.
Due to the different approach in managing the non-performing exposures at UBB (the very long average age of the non-performing exposures at UBB) and the different methodology applied by KBC/CIB for the estimation of the cash flows (biggest differences are: applying more conservative approach to fair value of collateral; usage of bigger haircuts on this value depending on the status and 'age' of the collateral/asset; consideration of time value for realization of the cash flow), the final outcome for additional impairments is substantial.

The review of the loan books consisted of:

For Corporates and Large SME's: an individual review of the top 100 problem loans was made resulting in assessment of individual impairments on significant files.

For the remaining SME portfolio a portfolio based analysis was done, aiming mostly on the oldest defaulted files.

In the microbusiness portfolio and consumer loan portfolio a loan tape assessments was made whereby we applied the impairment methodology as previously used accepted in the KBC Group.

Also for the Mortgage loans a loan tape assessment was done. For the impairment calculation of the NP exposures the applied valuation of the collateral was based on an average of real recoveries during the last 3 years and on the marketability of the assets.

The Corporate Bonds were assessed individually according to the KBC practice and additional individual impairments were calculated.

The amount of the allowance set aside for loan impairment losses is based on Management's ongoing assessments of the probable estimated losses inherent in the loan portfolio. Assessments are conducted by members of Management responsible for various types of loans applying a methodology and guidelines, which are continually monitored and improved.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.22. Critical judgments and estimates (continued)

Applying this methodology requires Management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, Management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favor of the Bank/Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for collective allowances for impairment losses on loans and advances, Management considers factors such as type of loan, credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the calculations and allowances depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, Management believes that the allowances for impairment losses on loans and advances are reasonable and supportable.

***Useful lives of depreciable assets***

The Bank/Group's Management determines the estimated useful lives and related depreciation charges for its property and other equipment. The Bank/Group's estimate is based on the projected operating life cycle of its buildings and the other depreciable assets such as furniture, motor vehicles, hardware and other equipment. Such estimates are not expected to change significantly, however, Management modifies depreciation charge rates wherever useful lives turn out to be different than previously estimated and it decreases the net book value or writes off technically obsolete assets.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 4. CASH AND BALANCES WITH THE CENTRAL BANK

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Cash in hand | 148,379 | 167,411 | 148,380 | 167,411 |
| Mandatory reserve with the Central Bank | 283,595 | 406,813 | 283,595 | 406,813 |
| Current account with the Central Bank | 415,748 | 176,259 | 415,748 | 176,259 |
| **TOTAL** | 847,722 | 750,483 | 847,723 | 750,483 |

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 are not interest bearing and their 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

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Nostro accounts | 708,914 | 29,712 | 708,914 | 29,712 |
| Interbank placements | 255,634 | 166,762 | 255,634 | 166,762 |
| Securities purchased under agreements to resell | 585,705 | 122,585 | 585,705 | 122,585 |
| Other loans and advances to banks | 4,435 | 7,960 | 4,435 | 7,960 |
| **TOTAL** | 1,554,688 | 327,019 | 1,554,688 | 327,019 |
| **Included in cash equivalents (note 26)** | 1,554,688 | 238,280 | 1,554,688 | 238,280 |

## 6. LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysis by type of customer

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Individuals: | | | | |
| Overdrafts | 12,294 | 16,870 | 12,294 | 16,870 |
| Credit cards | 112,925 | 128,518 | 112,925 | 128,518 |
| Mortgages | 868,485 | 920,771 | 868,485 | 920,771 |
| Consumer loans | 689,689 | 771,679 | 689,689 | 771,679 |
| | 1,683,393 | 1,837,838 | 1,683,393 | 1,837,838 |
| Corporate entities: | | | | |
| Non-bank financial institutions | 80,000 | 184,717 | 80,000 | 184,717 |
| Corporate customers | 2,128,003 | 2,499,422 | 2,129,937 | 2,501,101 |
| Government and agencies | 20,156 | 20,510 | 20,156 | 20,510 |
| | 2,228,159 | 2,704,649 | 2,230,093 | 2,706,328 |
| TOTAL LOANS AND ADVANCES, GROSS | 3,911,552 | 4,542,487 | 3,913,486 | 4,544,166 |
| Less: allowance for impairment | (618,510) | (683,799) | (618,921) | (684,254) |
| LOANS AND ADVANCES TO CUSTOMERS, NET | 3,293,042 | 3,858,688 | 3,294,565 | 3,859,912 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

### (b) Analysis of receivables under finance leases included in corporate customers

Finance lease receivables are as follows:

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Not later than 1 year | 15,884 | 23,461 | 15,884 | 23,461 |
| Later than 1 year but not later than 5 years | 7,076 | 22,745 | 7,076 | 22,745 |
| Later than 5 years | - | 32 | - | 32 |
| Gross investment in finance leases, receivable | 22,960 | 46,238 | 22,960 | 46,238 |
| Less: Unearned future finance income on finance leases | (825) | (1,162) | (825) | (1,162) |
| Net investment in finance leases | 22 135 | 45,076 | 22 135 | 45,076 |

The net investment in finance leases may be analyzed as follows:

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Not later than 1 year | 15,884 | 23,461 | 15,884 | 23,461 |
| Later than 1 year but not later than 5 years | 6,251 | 21,583 | 6,251 | 21,583 |
| Later than 5 years | 0 | 32 | 0 | 32 |
| Finance lease receivables | 22,135 | 45,076 | 22,135 | 45,076 |
| Allowance for uncollectible minimum lease payments receivable included in the provision for loan losses amounts to: | (545) | (1,177) | (545) | (1,177) |

In the period 2013 to 2017 the Bank/Group has entered into several agreements for acquisition of receivables under leasing contracts to third parties, originated by Interlease AD based on Funded participation agreement. No acquired financial lease receivables in 2017 (2016: BGN 5,971thousand) .

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

| Separate | Total | Corporate | Mortgage | Consumer |
|---|---|---|---|---|
| BALANCE AS OF JANUARY 1, 2016 | (750,679) | (522,519) | (89,213) | (138,947) |
| Allowances for impairment (Note 31) | (110,969) | (86,465) | (8,455) | (16 049) |
| Effect from expected cash flows from interests on non-performing loans | 1,345 | 1,384 | - | (39) |
| Loans and advances written off as irrecoverable | 177,324 | 112,141 | 16,760 | 48,423 |
| Recoveries | (4,569) | (659) | | (3,910) |
| Legal fees | 3,276 | 713 | 63 | 2,500 |
| Other | 473 | 473 | | |
| BALANCE AS OF DECEMBER 31, 2016 | (683,799) | (494,932) | (80,845) | (108,022) |
| Allowances for impairment (Note 31) | (204,203) | (160,836) | (9,281) | (34,085) |
| Loans and advances written off as irrecoverable | 272,583 | 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 |
|---|---|---|---|---|
| BALANCE AS OF JANUARY 1, 2016 | (750,977) | (522,817) | (89,213) | (138,947) |
| Allowances for impairment (Note 31) | (111 096) | (86 592) | (8,455) | (16,049) |
| Effect from expected cash flows from interests on non-performing loans | 1,345 | 1,384 | - | (39) |
| Loans and advances written off as unrecoverable | 177,324 | 112,141 | 16,760 | 48,423 |
| Recoveries | (4,599) | (689) | - | (3,910) |
| Legal fees | 3,276 | 713 | 63 | 2,500 |
| Other | 473 | 473 | - | - |
| BALANCE AS OF DECEMBER 31, 2016 | (684,254) | (495,387) | (80,845) | (108,022) |
| Allowances for impairment (Note 31) | (204,209) | (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) |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Bulgarian government securities | 507,795 | 514,879 | 507,795 | 514,879 |
| listed on official stock markets | 371,501 | 163,392 | | |
| Foreign government securities | 92,322 | 68,968 | 92,322 | 68,968 |
| listed on official stock markets | 68,275 | 44,971 | 68,275 | 44,971 |
| Debt securities of foreign issuers | | 517,795 | | 517,795 |
| *Including listed on official stock markets* | | *49,383* | | *49,383* |
| Shares | 4 | 3 | 4 | 3 |
| listed on official stock markets | 4 | 3 | 4 | 3 |
| TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | 600,121 | 1,101,645 | 600,121 | 1,101,645 |

Part of the owned Bulgarian government securities are pledged for budget (note 37).

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 31.12.2017
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 |
| GBP | - | - | - | |
| TOTAL | 590,409 | 9,708 | 4 | 600,121 |

As of 31.12.2016

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 346,027 | 10 | 3 | 346,040 |
| EUR | 240,003 | 17,048 | - | 257,051 |
| GBP | 443,030 | 9,864 | - | 452,894 |
| USD | 45,660 | - | - | 45,660 |
| TOTAL | 1,074,720 | 26,922 | 3 | 1,101,645 |

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 |
| GBP | | - | - | |
| TOTAL | 590,409 | 9,708 | 4 | 600,121 |

As of 31.12.2016

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 346,027 | 10 | 3 | 346,040 |
| EUR | 240,003 | 17,048 | - | 257,051 |
| GBP | 443,030 | 9,864 | - | 452,894 |
| USD | 45,660 | - | - | 45,660 |
| TOTAL | 1,074,720 | 26,922 | 3 | 1,101,645 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

| Separate | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Contract/ notional amount | Assets | Fair value Liabilities | Contract/ notional amount | Assets | Fair value Liabilities |
| Foreign exchange OTC derivatives, incl.: | | | | | | |
| *Currency forward agreements* | 112,849 | 328 | 254 | 28,475 | 345 | 360 |
| *Currency swaps* | 407,366 | 156 | 3,801 | 41,260 | 11 | 234 |
| *Interest rate derivatives - OTC* | 146,687 | 1,353 | 790 | 100,921 | - | 585 |
| TOTAL | 666,902 | 1,837 | 4,845 | 170,656 | 356 | 1,179 |

| Consolidated | 31.12.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Contract/ notional amount | Assets | Fair value Liabilities | Contract/ notional amount | Assets | Fair values Liabilities |
| Foreign exchange OTC derivatives, incl: | | | | | | |
| *Currency forward agreements* | 112,849 | 328 | 254 | 28,475 | 345 | 360 |
| *Currency swaps* | 407,366 | 156 | 3,801 | 41,260 | 11 | 234 |
| *Interest rate derivatives - OTC* | 146,687 | 1,353 | 790 | 100,921 | - | 585 |
| TOTAL | 666,902 | 1,837 | 4,845 | 170,656 | 356 | 1,179 |

The concluded contracts for derivative financial instruments include short-term currency forwards, currency and interest rate swaps. During 2017 and 2016 the Bank/Group has not designated derivatives for hedge accounting purposes.

## 9. FINANCIAL ASSETS AVAILABLE-FOR-SALE

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Debt securities available for sale - at fair value | | | | |
| Bulgarian government securities | | | | |
| Listed on official stock markets | 626,597 | 584,334 | 626,597 | 584,334 |
| Unlisted | 11,258 | 10,568 | 11,258 | 10,568 |
| | 637,855 | 594,902 | 637,855 | 594,902 |
| Municipal bonds | | | | |
| Listed on official stock markets | - | - | | - |
| Unlisted | - | 5,507 | | 5,507 |
| | - | 5,507 | | 5,507 |
| Corporate bonds | | | | |
| Listed on official stock markets | 19,260 | 22,194 | 19,260 | 22,194 |
| Unlisted | 1,621 | 4,639 | 1,621 | 4,639 |
| | 20,881 | 26,833 | 20,881 | 26,833 |
| Debt securities in mutual funds | | | | |
| Unlisted | 7,078 | 6,674 | 7,078 | 6,674 |
| | 7,078 | 6,674 | 7,078 | 6,674 |
| Listed on official stock markets | 214 | 114 | 214 | 114 |
| Unlisted | 5,447 | 5,447 | 5,447 | 5,448 |
| Equity securities in local entities | 5,661 | 5,561 | 5,661 | 5,562 |
| Equity securities in foreign entities | | | | |
| Listed on official stock markets | 2 | 2 | 2 | 2 |
| Unlisted | 9,128 | 8,744 | 9,129 | 8,744 |
| | 9,130 | 8,746 | 9,131 | 8,746 |
| TOTAL FINANCIAL ASSETS AVAILABLE-FOR-SALE | 680,605 | 648,223 | 680,606 | 648,224 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 9. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

Total financial assets available for sale by type of currency and interest rate are as follows:

As of 31.12.2017
Separate

| 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 31.12.2016

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 26,247 | - | 12,236 | 38,483 |
| USD | - | - | 4,883 | 4,883 |
| EUR | 594,967 | 6,027 | 3,863 | 604,857 |
| TOTAL | 621,214 | 6,027 | 20,982 | 648,223 |

As of 31.12.2017
Consolidated

| 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 |

As of 31.12.2016

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 26,248 | - | 12,236 | 38,484 |
| USD | - | - | 4,883 | 4,883 |
| EUR | 594,967 | 6,027 | 3,863 | 604,857 |
| TOTAL | 621,215 | 6,027 | 20,982 | 648,224 |

**Movements in financial assets available-for-sale**

| | Financial assets available for sale Separate | Financial assets available for sale Consolidated |
|---|---|---|
| BALANCE AS OF JANUARY 1, 2016 | 526,607 | 526,608 |
| Exchange differences on monetary assets | | |
| Additions | 121,323 | 121,323 |
| Sold/matured during the period | (40,091) | (40,852) |
| Net change in accrued interest | 2,273 | 2,273 |
| Increase changes in fair value | 38,111 | 38,872 |
| BALANCE AS OF DECEMBER 31, 2016 | 648,223 | 648,224 |
| Exchange differences on monetary assets | | |
| Sold/matured during the period | (7,424) | (7,424) |
| Net change in accrued interest | (271) | (271) |
| Increase changes in fair value | 40,077 | 40,077 |
| BALANCE AS OF DECEMBER 31, 2017 | 680,605 | 680,606 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 10. FINANCIAL ASSETS HELD-TO-MATURITY

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Debt securities held to maturity - at amortised cost | | | | |
| Bulgarian government securities | | | | |
| Listed | 181,326 | - | 181,326 | - |
| Unlisted | | - | | - |
| | 181,326 | - | 181,326 | - |
| TOTAL FINANCIAL ASSETS HELD TO MATURITY | 181,326 | - | 181,326 | - |

As of 31.12.2017
Separate

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 24,723 | - | - | 24,723 |
| EUR | 156,603 | - | - | 156,603 |
| TOTAL | 181,326 | - | - | 181,326 |

As of 31.12.2017
Consolidated

| Currency | Fixed interest | Floating interest | Non-Interest bearing | Total |
|---|---|---|---|---|
| BGN | 24,723 | - | - | 24,723 |
| EUR | 156,603 | - | - | 156,603 |
| TOTAL | 181,326 | - | - | 181,326 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 11. INVESTMENTS IN SUBSIDIARIES AND EQUITY METHOD INVESTMENTS

As at December 31, 2017
Separate

| Bank 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 and equity method investments | | | | | 27,173 |

In May 2017 the Bank/Group acquired additional investment of 20% reaching 100% of UBB Insurance Broker for the amount of BGN 2,210 thousands. This resulted to a Goodwill of 1,853 thousand (note 12).

Consolidated

| Bank 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 |

As at December 31, 2016
Separate

| Bank 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 | 80% | 400,000 | BGN | 400 |
| UBB METLIFE Life Insurance Bank AD | Bulgaria | 30% | 3,720 | BGN | 2,100 |
| Druzhestvo za Kasovi Uslugi AD | Bulgaria | 20% | 2,500 | BGN | 2,501 |
| Total investments in subsidiaries and equity method investments | | | | | 6,637 |

Consolidated

| Bank name | Type of investment | % of ownership | Number of shares | Currency of transaction | Acquisition cost | Carrying value |
|---|---|---|---|---|---|---|
| UBB Life Insurance EAD | Associate | 30% | 3,720 | BGN | 2,100 | 7,511 |
| Druzhestvo za Kasovi Uslugi AD | Associate | 20% | 2,500 | BGN | 2,501 | 2,631 |
| Total investments in associates | | | | | 4,601 | 10,142 |

| Movement in investment in associates | Investments in associates |
|---|---|
| BALANCE AS OF JANUARY 1, 2016 | 9,575 |
| Payment of dividends | (2,305) |
| Income from equity method investments | 2,108 |
| Other | 764 |
| BALANCE AS OF DECEMBER 31, 2016 | 10,142 |
| Addition | 18,591 |
| Payment of dividends | (191) |
| Income from equity method investments | 1,695 |
| Other | (530) |
| BALANCE AS OF DECEMBER 31, 2017 | 29,707 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 11. INVESTMENTS IN SUBSIDIARIES AND EQUITY METHOD INVESTMENTS (CONTINUED)

Summarised financial information for the associates of the Bank/the Group:

| | 31.12.2017 | 31.12.2017 | 31.12.2016 | 31.12.2016 |
|---|---|---|---|---|
| | Druzhestvo za Kasovi Uslugi | UBB Life Insurance | Druzhestvo za Kasovi Uslugi | UBB Life Insurance |
| Carrying amount | 2,722 | 26,985 | 2,631 | 7,511 |
| Revenue | 6,817 | 43,609 | 7,386 | 95,555 |
| Depreciationa and amortisation | 1,122 | 94 | 1,127 | 87 |
| Interest income | 24 | 1,311 | 42 | 1,146 |
| Gross profit from continuing operation | 801 | 4,545 | 1,193 | 7,013 |
| Net profit for the year | 721 | 4,086 | 1,193 | 6,304 |
| Post-tax profit or loss from continuing operations | 721 | 4,086 | 1,193 | 6,304 |
| Other comprehensive income | - | 1,798 | - | - |
| Total comprehensive income | - | 5,884 | 1,193 | 6,304 |
| Group's share of profits of associates | 144 | 2,452 | 239 | 1,891 |
| Group's share of profits of OCI of associates | - | 829 | - | 1,422 |
| Dividends distributed | 191 | - | 178 | - |
| %Holding | 20% | 60% | 20% | 30% |
| | | | | |
| Balance Sheet Data | 14,435 | 103,067 | 14,687 | 87,073 |
| Current assets | 7,646 | 6,081 | 7,767 | 3,027 |
| incl. cash and cash equivalents | 6,555 | 5,450 | 6,442 | - |
| Non-current assets | 6,618 | 96,986 | 6,920 | 84,046 |
| Current liabilities | 683 | 2,755 | 669 | 1,976 |
| Current liabilities (excl. trade and other payables and provisions) | 547 | 175 | 503 | - |
| Non-current liabilities | 13,752 | 83,109 | - | 61,247 |
| Non-current liabilities (excl. trade and other payables and provisions) | 13,665 | - | - | 42,453 |

In 2017 the Bank/Group acquired an additional investment of 30% in of UBB Life Insurance EAD reaching 60% in total. The representation in the board of director of the Bank/Group remained the same and the investment continued to be accounted for using equity method of accounting.

All subsidiaries and equity method investments are registered in Bulgaria

## 12. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

| | |
|---|---|
| Gross book value at 1 January 2017 | - |
| Acquisition of subsidiary | 1,853 |
| Accumulated impairment losses at 31 December 2017 | (247) |
| | |
| BALANCE AS OF DECEMBER 31, 2017 | 1,606 |

*Goodwill impairment*

The management of the Group performed the necessary procedures for the mandatory test for impairment of the goodwill, recognised in the consolidated statement of financial position, on the full acquisition of a subsidiary.
The calculations were made by the management of the Group with the assistance of a certified appraiser based on the valuation (Dividend Discount Model) of the company done in 2017. The budgets for the years 2017-2020 were used in the valuation.

As a result of the performed analysis, the Group management as at 31 December 2017 approved impairment at the amount of BGN 247 thousand of the recognised goodwill.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 13. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

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 |
| Including assets with low cost | - | 1,920 | 1,920 | - | 1,920 |

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

Intangible assets, property and equipment as of December 31, 2016 are as follows:

Separate

| COST | Land and buildings | Equipment and other assets | Total property and equipment | Intangible assets | Total |
|---|---|---|---|---|---|
| As of January 1, 2016 | 54,204 | 142,289 | 196,493 | 42,042 | 238,535 |
| Additions | - | 5,095 | 5,095 | 3,632 | 8,727 |
| Disposals | (83) | (5,321) | (5,404) | (7,786) | (13,190) |
| Transfers | 247 | (247) | - | - | - |
| As of December 31, 2016 | 54,368 | 141,816 | 196,184 | 37,888 | 234,072 |
| Including assets with low cost | - | 2,203 | 2,203 | - | 2,203 |
| DEPRECIATION/ AMORTIZATION | | | | | |
| As of January 1, 2016 | 38,960 | 118,815 | 157,775 | 37,039 | 194,814 |
| Charge for 2016 | 2,281 | 7,323 | 9,604 | 1,875 | 11,479 |
| Depreciation/Amortization charged on disposals | (51) | (5,164) | (5,215) | (7,711) | (12,926) |
| As of December 31, 2016 | 41,190 | 120,974 | 162,164 | 31,203 | 193,367 |
| NET BOOK VALUE | 13,178 | 20,842 | 34,020 | 6,685 | 40,705 |
| Including assets with low cost | - | 2,203 | 2,203 | - | 2,203 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 13. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT (CONTINUED)

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

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 | - | 19,134 | 19,134 | 1,891 | 21,025 |
| Disposals | - | (31,057) | (31,057) | (411) | (31,468) |
| Transfers | (30) | 30 | - | - | - |
| As of December 31, 2017 | 54,338 | 130,256 | 184,594 | 39,867 | 224,461 |
| Including assets with low cost | - | 1,920 | 1,920 | - | 1,920 |
| DEPRECIATION | | | | | |
| As of January 1, 2017 | 41,190 | 121,172 | 162,362 | 31,497 | 193,859 |
| Charge for 2017 | 2,237 | 6,233 | 8,470 | 2,722 | 11,192 |
| Depreciation/Amortization charged on disposals | (26) | (30,606) | (30,632) | (373) | (31,005) |
| Impairment for the period | - | - | - | 533 | 533 |
| As of December 31, 2017 | 43,401 | 96,799 | 140,20) | 34,379 | 174,579 |
| NET BOOK VALUE | 10,937 | 33,457 | 44,394 | 5,488 | 49,882 |
| Including assets with low cost | - | 1,920 | 1,920 | - | 1,920 |

Intangible assets, property and equipment as of December 31, 2016 are as follows:

Consolidated

| COST | Land and buildings | Equipment and other assets | Total property and equipment | Intangible assets | Total |
|---|---|---|---|---|---|
| As of January 1, 2016 | 54,204 | 142,570 | 196,774 | 42,511 | 239,285 |
| Additions | - | 5,147 | 5,147 | 3,662 | 8,809 |
| Disposals | (83) | (5,321) | (5,404) | (7,786) | (13,190) |
| Transfers | 247 | (247) | - | - | - |
| As of December 31, 2016 | 54,368 | 142,149 | 196,517 | 38,387 | 234,904 |
| Including assets with low cost | - | 2,203 | 2,203 | - | 2,203 |
| DEPRECIATION | | | | | |
| As of January 1, 2016 | 38,960 | 119,067 | 158,027 | 37,291 | 195,318 |
| Charge for 2016 | 2,281 | 7,348 | 9,629 | 1,918 | 11,547 |
| Depreciation/Amortization charged on disposals | (51) | (5,243) | (5,294) | (7,712) | (13,006) |
| As of December 31, 2016 | 41,190 | 121,172 | 162,362 | 31,497 | 193,859 |
| NET BOOK VALUE | 13,178 | 20,977 | 34,155 | 6,890 | 41,045 |
| Including assets with low cost | - | 2,203 | 2,203 | - | 2,203 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 14. INVESTMENT PROPERTY

Movement in investment property

| | Separate Investment properties | Consolidated Investment properties |
|---|---|---|
| As of January 1, 2017 | 3,011 | 3,011 |
| Transfers | 3,666 | 3,666 |
| Disposals | (223) | (223) |
| As of December 31, 2017 | 6,454 | 6,454 |

| | Separate Investment properties | Consolidated Investment properties |
|---|---|---|
| DEPRECIATION | | |
| As of January 1, 2017 | (80) | (80) |
| Charge for 2017 | (113) | (113) |
| Depreciation/Amortization charged on disposals | 114 | 114 |
| Impairment for the period | (1,060) | (1,060) |
| As of December 31, 2017 | (1,139) | (1,139) |
| NET BOOK VALUE | 5,315 | 5,315 |

| | Separate Investment properties | Consolidated Investment properties |
|---|---|---|
| As of January 1, 2016 | 3,011 | 3,011 |
| As of December 31, 2016 | 3,011 | 3,011 |

| | Separate Investment properties | Consolidated Investment properties |
|---|---|---|
| DEPRECIATION | | |
| As of January 1, 2016 | - | - |
| Charge for 2016 | (80) | (80) |
| As of December 31, 2016 | (80) | (80) |
| NET BOOK VALUE | 2,931 | 2,931 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 14. INVESTMENT PROPERTY (CONTINUED)

The fair value of the investment property held by the Bank/Group as at December 31, 2017 and as at December 31, 2016 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 52 thousand.

Fair value of the investment property has been categorized as fair value based on the input data used in the valuation techniques.

## 15. 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 31.12.2017 | As of 31.12.2016 | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Deferred tax assets: | | | | |
| Retirement benefit obligations | 342 | 787 | 342 | 787 |
| Impairment of properties (amortisible and non-amortisible) | 1,731 | - | 1,731 | - |
| Other temporary differences (provisions for legal cases, bonus provisions under labour contracts and provisions for holiday leaves) | 1,038 | 1,074 | 1,038 | 1,064 |
| Restructuring provision | 705 | - | 705 | - |
| Provisions for contingent liabilities | 13 | 60 | 13 | 60 |
| *Total Deferred tax assets* | 3,829 | 1,921 | 3,829 | 1911 |
| Deferred tax liabilities: | | | | |
| Securities – available for sale | (454) | (454) | (454) | (454) |
| Fixed assets depreciation | (100) | (2) | (100) | (2) |
| Other temporary differences | - | - | (9) | - |
| *Total Deferred tax liabilities* | (554) | (456) | (563) | (456) |
| DEFERRED TAX ASSETS, NET | 3,275 | 1,465 | 3,266 | 1,455 |

## 16. OTHER ASSETS

| Separate<br>**Financial other assets** | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Suspense account assets deliveries | 14,069 | - |
| Receivables from clients | 3,489 | 1,570 |
| Suspense accounts with cards | 10,142 | 748 |
| Suspense accounts with merchants | 2,829 | 754 |
| **Total financial other assets** | 30,529 | 3,072 |

| Separate<br>**Non-financial other assets** | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Assets acquired through foreclosure proceedings | 64,069 | 79,967 |
| Income tax advances and income taxes withheld | 10,944 | 1,570 |
| Reimbursement tax | 2,577 | - |
| Prepaid expenses | 1,632 | 2,144 |
| Other | 3,701 | 6,731 |
| **Total non-financial other assets** | 82,923 | 90,412 |
| **Total other assets** | 113,452 | 93,484 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 16. OTHER ASSETS (CONTINUED)

Consolidated

| **Financial other assets** | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Suspense account assets deliveries | 14,069 | - |
| Suspense accounts with cards | 10,142 | 748 |
| Receivables from clients | 3,867 | 1,015 |
| Suspense accounts with merchants | 2,829 | 1,309 |
| **Total financial other assets** | 30,907 | 3,072 |

Consolidated

| **Non-financial other assets** | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Assets acquired through foreclosure proceedings | 64,069 | 79,967 |
| Income tax advance paid | 10,944 | 1,571 |
| Reimbursement tax | 2,577 | - |
| Prepaid expenses | 1,662 | 2,359 |
| Other | 3,724 | 6,959 |
| **Total non-financial other assets** | 82,974 | 90,856 |
| **Total other assets** | 113,881 | 93,928 |

| Assets acquired through foreclosure proceedings | As of 31.12.2017 | As of 31.12.2016 | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Buildings | 44,569 | 55,379 | 44,569 | 55,379 |
| Land | 12,709 | 12,479 | 12,709 | 12,479 |
| Machinery and equipment | 6,634 | 11,939 | 6,634 | 11,939 |
| Other | 157 | 170 | 157 | 170 |
| | 64,069 | 79,967 | 64,069 | 79,967 |

## 17. DUE TO BANKS

| | As of 31.12.2017 | As of 31.12.2016 | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Sight deposits | 6,724 | 5,812 | 6,724 | 5,812 |
| Term deposits | 433,534 | 80,407 | 433,534 | 80,407 |
| Other due to banks | 3,195 | 845 | 3,195 | 845 |
| TOTAL | 443,453 | 87,064 | 443,453 | 87,064 |
| Incl. term deposits of the Parent Bank (KBC Bank N.V.in 2017/NBG Group in 2016) | 58,673 | 11,442 | 58,673 | 11,442 |
| | - | | - | |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 18. DUE TO CUSTOMERS

**Analysis by customers**

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Individuals | | | | |
| Current/demand accounts | 1,191,908 | 958,789 | 1,191,908 | 958,789 |
| Saving accounts | 1,391,993 | 1,417,524 | 1,391,993 | 1,417,524 |
| Term deposits | 1,406,565 | 1,459,299 | 1,406,565 | 1,459,299 |
| | 3,990,466 | 3,835,612 | 3,990,466 | 3,835,612 |
| Non-bank financial institutions | | | | |
| Current/demand accounts | 255,889 | 371,507 | 255,889 | 371,507 |
| Term deposits | 9,013 | 33,523 | 9,013 | 33,523 |
| | 264,902 | 405,030 | 264,902 | 405,030 |
| Corporate entities | | | | |
| Current/demand accounts | 1,401,985 | 1,072,471 | 1,396,415 | 1,071,578 |
| Term deposits | 176,567 | 210,993 | 175,467 | 207,582 |
| REPO deals | - | 1,102 | - | 1,102 |
| | 1,578,552 | 1,284,566 | 1,571,882 | 1,280,262 |
| Government entities | | | | |
| Current/demand accounts | 58,755 | 44,387 | 58,755 | 44,387 |
| Term deposits | 957 | 997 | 957 | 997 |
| | 59,712 | 45,384 | 59,712 | 45,384 |
| TOTAL | 5,893,632 | 5,570,592 | 5,886,962 | 5,566,288 |

## 19. 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, 2017 the Bank/Group used BGN 2 million or EUR 1 million in original currency (2016: not utilised). The obligation is secured with a pledge of government securities (note 37).
During the year ended 31 December 2017, changes in the Bank's/Group's liabilities arising from financing activities, i.e., other borrowed funds and subordinated debt (Note 19), are attributable to debt repaid amounting to BGN 3,003 thousand and BGN 50,945 thousand, respectively. Non cash changes during the year included mainly accrued interest related to other borrowed funds and subordinated liabilities in the amounts of BGN 59 thousand and BGN 63 thousand, respectively

| | Currency | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| Credit lines from banks | EUR | 1,874 | 4,818 | 1,874 | 4,818 |
| TOTAL | | 1,874 | 4,818 | 1,874 | 4,818 |

**Analysis by utilization**

| Facilities | Currency | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|---|
| Energy efficiency | | | | | |
| Retail | EUR | 1,874 | 4,818 | 1,874 | 4,818 |
| TOTAL | | 1,874 | 4,818 | 1,874 | 4,818 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 20. SUBORDINATED LIABILITIES

Separate

| | Carrying amount 2017 | Carrying amount 2016 | Fair value 2017 | Fair value 2016 |
|---|---|---|---|---|
| Subordinated loans | - | 50,882 | - | 50,942 |
| TOTAL | - | 50,882 | - | 50,942 |

Consolidated

| | Carrying amount 2017 | Carrying amount 2016 | Fair value 2017 | Fair value 2016 |
|---|---|---|---|---|
| Subordinated loans | - | 50,882 | - | 50,942 |
| TOTAL | - | 50,882 | - | 50,942 |

In October and November 2007 UBB signed two Subordinated Loan Agreements with its then parent ,National Bank of Greece S.A., amounting to a total of EUR 130 million. The subordinated debt was used as supplementary capital reserves to meet the requirements of the Bulgarian National Bank regulations on capital adequacy. The repayment of the subordinated loans was not guaranteed by the Bank/Group in any form. The original maturity of the subordinated loans was 10 years and the contractual repayment schedule contained five equal annual payments amounting to BGN 50,852 thousand for the period 2013-2017. As of 31, December 2017 the subordinated loan is fully repaid.

## 21. RETIREMENT BENEFIT OBLIGATIONS

| Amount recognized in statement of financial position | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Present value of unfunded obligations | 4,444 | 10,984 | 4,444 | 10,984 |
| Net liability in BS | 4,444 | 10,984 | 4,444 | 10,984 |

| Amount recognized in Profit and Loss | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Service cost | - | 446 | - | 446 |
| Net interest on the net defined benefit liability | 108 | 268 | - | 268 |
| Net actuarial gain/(loss recognized in period | (4,270) | - | (4,270) | - |
| Regular P&L Charge | - | 714 | - | 714 |
| Settlement/ Curtailment/ Termination (gain) | - | 9 | - | 9 |
| Total P&L Charge | (4,162) | 723 | (4,162) | 723 |

| Reconciliation of benefit obligation | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| DBO at start of period | 10,984 | 9,245 | 10,984 | 9,245 |
| Service cost | - | 446 | - | 446 |
| Net interest on the net defined benefit liability | 108 | 268 | 108 | 268 |
| Net actuarial gain/(loss) recognized in period | (4,270) | - | (4,270) | - |
| Benefits paid directly by the Bank | (285) | (206) | (285) | (206) |
| Settlement/ Curtailment/ Termination gain | - | 9 | - | 9 |
| Actuarial gain/(loss) | (2,093) | 1,518 | (2,093) | 1,518 |
| Actuarial gain - experience | - | 235 | - | 235 |
| Other adjustments recognized in OCI | - | (531) | - | (531) |
| DBO at the end of period | 4,444 | 10,984 | 4,444 | 10,984 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**21. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Cumulative amount recognized in the OCI | (1,024) | (3,117) | (1,024) | (3,117) |

| Re-measurements | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Liability gain/ (loss) due to changes in assumptions | (2,093) | 1,518 | (2,093) | 1,518 |
| Liability experience gain arising during the year | - | 235 | - | 235 |
| Total actuarial gain/ (loss) recognized in OCI | (2,093) | 1,753 | (2,093) | 1,753 |
| Other adjustments recognized in OCI | - | (531) | - | (531) |
| Total amount recognized in OCI over the period | (2,093) | 1,222 | (2,093) | 1,222 |

| Movements in Liability in statement of financial position | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Net Liability in statement of financial position at the beginning of the period | 10,984 | 9,245 | 10,984 | 9,245 |
| Benefits paid directly | (285) | (206) | (285) | (206) |
| Total expense recognized in the income statement | (4,162) | 723 | (4,162) | 723 |
| Total amount recognized in the OCI | (2,093) | 1,222 | (2,093) | 1,222 |
| Net Liability in statement of financial position | 4,444 | 10,984 | 4,444 | 10,984 |

| Cash flows | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Expected benefits paid by the plan for the next financial year | 579 | 261 | 579 | 261 |

| Assumptions | As of 31.12.2017 separate | As of 31.12.2016 separate | As of 31.12.2017 consolidated | As of 31.12.2016 consolidated |
|---|---|---|---|---|
| Discount rate | 1.39% | 1.90% | 1.39% | 1.90% |
| Rate of compensation increase | 4.50% | 4.00% | 4.50% | 4.00% |
| Average period of service | 9.10 | 13.70 | 9.10 | 13.70 |

The defined benefit obligations above are linked only to obligation of the Bank/Group 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 21. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**Sensitivity test of actuarial assumptions**

| | **Effect of the change in wage increases** | |
|---|---|---|
| | +0.25% (+25 bp) | -0.25% (-0.25 bp) |
| Effect of the change in the provision allocated as of 31.12.2017 for the retirement benefit obligation | +2,7% | -2,7% |
| expressed in absolute terms in | 120 | (120) |

| | **Effect of change in interest rate** | |
|---|---|---|
| | +0.25% (+25 bp) | -0.25% (-0.25 bp) |
| Effect of change in the provision, allocated as of 31.12.2017 for the retirement benefit obligation | -2,8% | +2,8% |
| expressed in absolute terms | (124) | 124 |

| | **Effect of change in the stages of the dropouts** | |
|---|---|---|
| | 1% | -1% |
| Effect of change in the provision, allocated as of 31.12.2017 for the retirement benefit obligation | -12% | 12% |
| expressed in absolute terms | (533) | 533 |

| | **Effect of change in the mortality rates** | |
|---|---|---|
| | 25% | -25% |
| Effect of change in the provision, allocated as of 31.12.2017 for the retirement benefit obligation | -2.20% | 2.20% |
| expressed in absolute terms | (89) | 89 |

## 22. OTHER LIABILITIES

| **Financial other Liabilities** | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Dividend payable | 226 | 226 | 226 | 226 |
| TOTAL FINANCIAL OTHER LIABILITIES | 226 | 226 | 226 | 226 |

| **Non-financial other Liabilities** | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Payroll related accruals | 15,877 | 5,701 | 15,989 | 5,728 |
| Creditors and suppliers | 10,151 | 6,432 | 10,318 | 6,685 |
| Other provisions | 3,804 | - | 3,829 | - |
| Amounts due to government agencies | 142 | 428 | 142 | 4,28 |
| Provision for forfeiture of letters of guarantee (LG's) | 128 | 600 | 128 | 600 |
| Accrued expenses and deferred income | 32 | 45 | 94 | 55 |
| Amounts due to third parties under collection agreements | - | 10,150 | 18 | 192 |
| Taxes payable - other than income taxes | - | 153 | - | 10,150 |
| Other | 2,861 | 39 | 2,861 | 39 |
| TOTAL NON-FINANCIAL OTHER LIABILITIES | 32,995 | 23,548 | 33,379 | 23,877 |
| **TOTAL OTHER LIABILITIES** | **33,221** | **23,774** | **33,605** | **24,103** |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 23. RETAINED EARNINGS

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Accumulated prior years' earnings at beginning of period | 977,085 | 1,125,622 | 984,557 | 1,132,523 |
| Net profit/(loss) for the period | (51,024) | 111,261 | (47,367) | 111,832 |
| Paid dividends | (97,883) | (259,798) | (97,883) | (259,798) |
| Other | - | - | 189 | - |
| TOTAL | 828,178 | 977,085 | 839,496 | 984,557 |

Components of retained earnings are:

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Statutory reserves | 783,667 | 783,666 | 791,327 | 789,676 |
| Undistributed profit from previous years | 91,389 | 78,011 | 91,389 | 78,902 |
| Net profit/(loss) for the period | (51,025) | 111,261 | (47,367) | 111,832 |
| Other | 4,147 | 4,147 | 4,147 | 4,147 |
| TOTAL | 828,178 | 977,085 | 839,496 | 984,557 |

## 24. REVALUATION RESERVE

| | As of 31.12.2017 | As of 31.12.2016 | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|---|
| Revaluation reserve - AFS investments | Separate | Separate | Consolidated | Consolidated |
| At the beginning of the period | 32,411 | 21,853 | 33,833 | 22,742 |
| Net gains from disposal transferred to income statement | 143 | (30,141) | 142 | (30,141) |
| Changes in fair value of AFS investmets | 39,934 | 38,111 | 39,404 | 38,872 |
| Deferred tax | (4,504) | (1,173) | (4,504) | (1,401) |
| Reversal of impairment on AFS investments | 4,961- | 3,761 | 4,961- | 3,761 |
| TOTAL | 72,945 | 32,411 | 73,836 | 33,833 |

## 25. CONTINGENT LIABILITIES AND COMMITMENTS

**Credit related commitments.**
The following table represents the contractual amounts of the Bank’s/Group’s off-balance financial instruments that commit it to extend credit to customers:

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Undrawn credit commitments | 592,666 | 625,249 | 615,045 | 641,846 |
| Of which coroporate | 509,297 | 531,042 | 531,928 | 547,639 |
| Of which retail | 73,778 | 78,618 | 73,778 | 78,618 |
| Of which other financial intitutions | 9,591 | 15,589 | 9,591 | 15,589 |
| Guarantees, documentary and commercial letters of credit | 222,581 | 183,500 | 222,581 | 183,500 |
| Of which coroporate | 228,528 | 183,435 | 183,447 | 183,435 |
| Of which retail | 3 | - | 3 | - |
| Of which other financial intitutions | 50 | 65 | 50 | 65 |
| TOTAL | 815,247 | 808,749 | 837,626 | 825,346 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 25. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

**Agreements related to trade finance operations**

The Bank has entered in agreements to support its lending activity. As of December 31, 2017 the Bank has the following active contracts:

| Counter party | Description | Currency and amount of the facility | Date of the agreement | Utilization as of 31.12.2017 | Utilization as of 31.12.2016 |
|---|---|---|---|---|---|
| EBRD | *<u>Agreement between UBB and EBRD under</u>* <u>Residential Energy Efficiency Credit Line Framework</u> (the "REECL") established by EBRD for the purpose of promoting eligible residential energy efficiency and small renewable energy projects in the Country of Operation. Under the Agreement REECL is implemented by EBRD making loans to financial institutions which will on-lend funds to individuals, households, Association of Apartment Owners (defined below) and certain legal entities in respect of residential energy efficiency and small renewable energy investments which reduce energy consumption and meet certain eligibility criteria | EUR 5 millions | 13.06.2016 | BGN 1,956 thousand | Not utilized |
| IFC | *<u>Non-committed Trade Finance Guarantee Facility Agreement between UBB and IFC under the Global Trade Finance Programme ("GTFP").</u>* 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 our payment risk. | USD 10 millions | 04.08.2014 | None | BGN 3,488 thousand |
| EBRD | *<u>Non-committed Trade Finance Guarantee Facility Agreement between UBB and EBRD under the Trade Facilitation Programme ("TFP").</u>* 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 our payment risk.<br><br>*<u>Non-committed Loan Facility on a Revolving basis between UBB and EBRD under the TFP.</u>* Under the facilities 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. | EUR 15 million | 29.07.2013 | None | BGN 1,154 thousand<br><br>None |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 26. CASH AND CASH EQUIVALENTS

| | As of 31.12.2017 | As of 31.12.2016 | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Cash in hand | 148,379 | 167,411 | 148,380 | 167,411 |
| Current account with the Central Bank | 415,748 | 176,259 | 415,748 | 176,259 |
| Mandatory reserve with the Central Bank | 283,595 | 406,813 | 283,595 | 406,813 |
| Loans and advances to banks | 1,554,688 | 238,280 | 1,554,688 | 238,280 |
| TOTAL | 2,402,410 | 988,763 | 2,402,411 | 988,763 |

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

## 27. NET INTEREST INCOME

| | Year ended 31.12.2017 | Year ended 31.12.2016 | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| A. Interest and similar income | | | | |
| Loans and advances to banks | (46) | 272 | (46) | 272 |
| Loans and advances to customers | | | | |
| *Loans and advances to individuals* | 132,874 | *152,846* | 132,874 | *152,846* |
| *Loans and advances to enterprises* | 70,841 | *95,826* | 71,328 | *96,393* |
| *Loans and advances to financial institutions* | 3,721 | *5,800* | 3,721 | *5,800* |
| Financial assets at fair value through profit or loss | 14,062 | 12,680 | 14,062 | 12,680 |
| Investment securities | 16,118 | 16,013 | 16,118 | 16,013 |
| TOTAL INTEREST INCOME | 237,570 | 283,437 | 238,057 | 284,004 |
| B. Interest expenses and similar charges | | | | |
| Due to banks | (2,605) | (866) | (2,605) | (866) |
| Deposits of customers | | | | |
| *Deposits of individuals* | (8,607) | *(21,095)* | (8,607) | *(21,095)* |
| *Deposits of enterprises* | (1,003) | *(3,222)* | (980) | *(3,167)* |
| *Deposits of financial institutions* | (544) | *(1,531)* | (544) | *(1,531)* |
| Bank borrowings | (59) | (879) | (59) | (879) |
| Subordinated liabilities | (63) | (350) | (63) | (350) |
| Derivatives | (1,055) | (542) | (1,055) | (542) |
| TOTAL INTEREST EXPENSES | (13,936) | (28,485) | (13,913) | (28,430) |
| NET INTEREST INCOME | 223,634 | 254,952 | 224,144 | 255,574 |

The interest income on impaired assets for 2017 is 54,873 thousand (2016**:** 58,474 thousand)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 28. NET FEE AND COMMISSION INCOME

| | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|
| A. Fee and commission income | | | | |
| Transfer of funds and cash transactions | 18,009 | 17,851 | 18,009 | 17,851 |
| Deposits accounts fees and commissions | 30,221 | 31,598 | 30,221 | 31,598 |
| Credit and debit cards related fees and commissions | 22,694 | 22,554 | 22,694 | 22,554 |
| Loans and advances to customers | 9,212 | 9,205 | 9,212 | 9,205 |
| Fiduciary/custodian activities | 711 | 596 | 711 | 596 |
| Guarantees and letters of credit | 1,781 | 1,711 | 1,781 | 1,711 |
| Other fees and commissions | 11,405 | 11,572 | 17,158 | 16,480 |
| | 94,033 | 95,087 | 99,786 | 99,995 |
| B. Fee and commission expenses | | | | |
| Credit and debit cards related fees and commissions | (3,839) | (4,213) | (3,839) | (4,213) |
| Transfer of funds | (624) | (589) | (624) | (589) |
| Other fees and commissions | (954) | (1,253) | (1,428) | (1,698) |
| | (5,417) | (6,055) | (5,891) | (6,500) |
| NET FEE AND COMMISSION INCOME | 88,616 | 89,032 | 93,895 | 93,495 |

## 29. NET TRADING INCOME

| | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|
| *Gains/(loss) on Foreign exchange* | | | | |
| Foreign exchange transactions | 13,408 | 7,621 | 13,407 | 7,621 |
| FX translation loss | (741) | (1,554) | (741) | (1,554) |
| | 12,667 | 6,067 | 12,666 | 6,067 |
| *Gains/ (loss) on Interest rate instruments* | | | | |
| Government securities | 20,285 | 17,383 | 20,285 | 17,383 |
| Corporate debt securities | 650 | 892 | 650 | 892 |
| Interest rate swaps | 1,420 | (23) | 1,420 | (23) |
| | 22,355 | 18,252 | 22,355 | 18,252 |
| NET TRADING INCOME | 35,022 | 24,319 | 35,021 | 24,319 |

## 30. OTHER OPERATING INCOME, NET

| | Year ended 31.12.2017 Separate | Year ended 31.12.2016 Separate | Year ended 31.12.2017 Consolidated | Year ended 31.12.2016 Consolidated |
|---|---|---|---|---|
| Rental income | 1,260 | 662 | 1,208 | 598 |
| Gain on disposal of fixed assets, net | 722 | 241 | 727 | 267 |
| IT Service fees net income | - | 49 | - | 49 |
| Compensation cost | (9,760) | | (9,760) | |
| Other income, net | (629) | 1,326 | (653) | 1,068 |
| TOTAL | (8,407) | 2,278 | (8,478) | 1,982 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 31. NET ALLOWANCES FOR IMPAIRMENT

The net charge of allowances for impairment for the year ended December 31, 2017 and 2016 is as follows:

| | Year ended 31.12.2017 | Year ended 31.12.2016 | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Loans and advances to customers | (200,151) | (107,692) | (200,157) | (107,819) |
| Collection expenses | (4,052) | (3,276) | (4,052) | (3,276) |
| Impairment of investment securities available for sale | (4,961) | (3,761) | (4,960) | (3,761) |
| Impairment of foreclosed assets | (12,591) | (218) | (12,591) | (218) |
| Impairment of other intangible assets | (533) | - | (533) | - |
| Impairment of goodwill | - | - | (247) | - |
| Provision charges for forfeiture of letters of guarantee (net) | 472 | (127) | 472 | (127) |
| TOTAL | (221,816) | (115,074) | (222,068) | (115,201) |

In 2017 the impairment of investment securities available for sale is related to corporate bonds BGN 4,961 thousand (2016: BGN 3,761 thousand).

Due to the different approach in managing the non-performing exposures at UBB (the very long average age of the non-performing exposures at UBB) and the different methodology applied by KBC/CIB for the estimation of the cash flows (biggest differences are: applying more conservative approach to fair value of collateral; usage of bigger haircuts on this value depending the status and 'age' of the collateral/asset; consideration of time value for realization of the cash flow), the final outcome for additional impairments is substantial.
The review of the loan books consisted of:
For Corporates and Large SME's: an individual review of the top 100 problem loans was made resulting in assessment of individual impairments on significant files.
For the remaining SME portfolio a portfolio based analysis was done, aiming mostly on the oldest defaulted files.
In the microbusiness portfolio and consumer loan portfolio a loan type assessments was made whereby we applied the impairment methodology as previously used accepted in the KBC Group.
Also for the Mortgage loans a loan tape assessment was done. For the impairment calculation of the non-performing exposures the applied valuation of the collateral was based on an average of real recoveries during the last 3 years and on the marketability of the assets.
The Corporate Bonds were assessed individually according to the KBC practice and additional individual impairments were calculated."

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 32. GENERAL ADMINISTRATIVE EXPENSES

| | **Year ended 31.12.2017** Separate | **Year ended 31.12.2016** Separate | **Year ended 31.12.2017** Consolidated | **Year ended 31.12.2016** Consolidated |
|---|---|---|---|---|
| Personnel costs | 68,098 | 72,553 | 70,346 | 74,602 |
| Occupancy expenses | 22,260 | 19,621 | 22,370 | 19,723 |
| Deposit Insurance Premium | 18,153 | 17,631 | 18,153 | 17,631 |
| Depreciation / Amortization expenses | 11,150 | 11,559 | 11,252 | 11,627 |
| Rentals | 11,123 | 10,899 | 11,195 | 10,963 |
| Duties and Taxes | 10,121 | 9,581 | 10,181 | 9,641 |
| Provision charges for staff leaving indemnities (net) | 7,050 | | 7,050 | |
| Service fees | 6,886 | 7,621 | 6,988 | 7,754 |
| Promotion and advertisement | 4,166 | 4,109 | 4,205 | 4,153 |
| Provision for legal cases | 3,804 | | 3,829 | |
| Services related to T24 and SAP | 3,738 | 2,687 | 3,738 | 2,359 |
| Stationary - other consumables | 2,309 | 2,359 | 2,316 | 2,704 |
| Insurance costs | 1,821 | 1,928 | 1,832 | 1,939 |
| Telecommunications | 1,707 | 1,834 | 1,714 | 1,842 |
| Traveling expenses | 1,033 | 1,161 | 1,079 | 1,190 |
| Loss on disposal of property, plant and equipment | 180 | | 180 | |
| Subscriptions - Contributions | 155 | 118 | 173 | 137 |
| Other | 1,785 | 2,114 | 1,831 | 2,140 |
| TOTAL | 175,539 | 165,775 | 178,432 | 168,405 |

In the period 1 January 2017 - 31 December 2017, PricewaterhouseCoopers Audit OOD has provided to the Bank, in addition to the audit, seminars for the amount of BGN 438, interim reviews in accordance with the International Standard on Review Engagements for the amount of BGN 98 thousand and agreed upon procedures in accordance with the International Standard on Related Services 4400 for the amount of BGN 12 thousand. The amounts are net of VAT.

| Personnel costs consists of: | **Year ended 31.12.2017** Separate | **Year ended 31.12.2016** Separate | **Year ended 31.12.2017** Consolidated | **Year ended 31.12.2016** Consolidated |
|---|---|---|---|---|
| Wages and Salaries | 52,898 | 54,561 | 54,616 | 56,144 |
| Social security costs | 9,281 | 9,733 | 9,529 | 9,953 |
| Bonuses and other compensation expenses | 6,119 | 5,106 | 6,364 | 5,316 |
| Other staff costs | 2,535 | 1,077 | 2,572 | 1,113 |
| Pension costs - defined contribution plans | 1,427 | 1,353 | 1,427 | 1,353 |
| Pension costs - defined benefit plans, incl.: | (4,162) | 723 | (4,162) | 723 |
| *Current service cost* | 456 | 446 | 456 | 446 |
| *Interest cost* | 172 | 268 | 172 | 268 |
| *Transitional amount recognized in period* | (4,790) | - | (4,790) | - |
| *Loss on curtailment* | - | 9 | - | 9 |
| TOTAL | 68,098 | 72,553 | 70,346 | 74,602 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 33. INCOME TAXES

| | Year ended 31.12.2017 | Year ended 31.12.2016 | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Current tax expense | 615 | 13,967 | 615 | 13,967 |
| Deferred tax expense/ (income) related to origination and reversal of temporary differences | (1,810) | (1,782) | (1,810) | (1,782) |
| Current tax income related to capital elements | (4,504) | - | (4,504) | - |
| Current tax paid abroad | 232 | 141 | 232 | 141 |
| **Total Tax expense/ (credit) /** | **(5,467)** | **12,326** | **(5,467)** | **12,326** |
| Tax effects from previous periods | - | 47 | - | 47 |
| Share of tax in subsidiaries and equity method investments | - | - | 478 | 457 |
| TOTAL | (5,467) | 12,373 | (4,989) | 12,830 |

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

| | Year ended 31.12.2017 | Year ended 31.12.2016 | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|---|---|
| | Separate | Separate | Consolidated | Consolidated |
| Profit/ (Loss) before taxation | 56,496 | 123,634 | 52,233 | 124,922 |
| Prima facie tax calculated at an applicable tax rate (10% for 2017 and 2016) | 5,650 | 12,363 | 5,223 | 12,492 |
| Tax effect of income/(expenses) that are not deductible in determining the taxable profit | 22 | (178) | 22 | (178) |
| Taxes related to previous years-permanent differences | - | 47 | - | 47 |
| Current tax paid abroad | (233) | 141 | (233) | 141 |
| Tax expense | 5,439 | 12,373 | 5,012 | 12,502 |
| Tax effects from previous periods | 28 | - | 28 | |
| Share of tax in associates subsidiaries and equity method investments | - | - | (142) | 328 |
| TOTAL | 5,467 | 12,373 | 4,898 | 12,830 |
| Effective income tax rate | 9.68% | 10,01% | 9.68% | 10,27% |

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, 2017 and as of December 31, 2016 are calculated using the tax rate of 10%, enacted as of that date to be effective for 2017 and 2016.

## 34. FINANCIAL RISK MANAGEMENT

*a) Risk management principles and policies of the Bank*

UBB actively manages the risks, inherent to its activity, aiming to achieve optimal profitability from operations, while keeping all risks under control. The Bank applies t Risk Management Framework and Risk Appetite, developed in accordance with the KBC Group one's, the requirements of all applicable laws, BNB regulations and European Authorities' standards and framework.

The framework for risk identification, assessment, monitoring and control has been fully documented by the Risk Management Division, forming the basis for consistent definition of strategies, policies and procedures across all risk-taking units within the Bank. The Bank risk management framework is reviewed periodically and adjusted in accordance with the Bank's overall risk appetite and profile, as well as with internal and external norms and best banking practices. The Bank Risk Management function is capturing all material risk sources across all portfolios and operations.

The Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally and compliance with internal and external rules
The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks. Risk exposures are reported to the Management Board and the Supervisory Board through, the Integrated Risk Report submitted to the Local Risk Management Committee and the Risk and Compliance Committee.

The Bank's risk governance model includes three lines of defense consisting of:

- The risk taking units (lines of business) at the first level, responsible for assessing and minimizing risks for a given level of return.
- The Bank Risk Management function, at the second level, identifies, monitors, controls, quantifies risk, provides appropriate tools and methodologies, coordination and assistance; reports to appropriate levels and proposes mitigation measures.
- Bank Internal Audit – provides the independent review function.

The Bank Compliance function ensures, through proper procedures, that the requirements and deadlines provided for by the regulatory framework in force are observed. This includes in particular anti-money laundering and terrorist financing regulation.

The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken. The Risk Management Division has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making, as well as the assessment of the risk that may arise in cases of important changes (mergers, acquisitions etc.), with a view to adopt the proper risk management and control mechanisms.

Adequate risk management process-related internal controls are maintained for all types of risks, involving regular independent reviews and evaluations of their effectiveness by the Internal Audit function.

The Bank acknowledges and manages with higher priority the following major types of banking risks arising from its activities – credit risk, liquidity risk, market risk, interest rate risk in the banking book and operational risk.

*b) The Bank exposure to credit, liquidity, market and operational risk*

The UBB's risk exposures and respectively risk metrics and risk management methodologies used are stated below in a sequence according to their significance for the Bank's activity.

## 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Credit risk*

The credit risk is related to possible unfavorable impact to the profit and capital of the Bank from an obligor's failure to meet the terms of any contract with the institution or l to perform as agreed.

The main source of credit risk for the Bank is the loans to customers, which, as of 31.12.2017 amounted to BGN 3 912 million (BGN 3 913 million on consolidated basis). As of the same date, the total amount of impairment (IFRS provisions) was BGN 627 million.

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, the Bank possesses and applies numerous detailed procedures, relevant to the lending activity, regulating the acceptance and management of collaterals, credit analysis, credit administration etc.

The Bank rates the corporate obligors by using an internal rating system, which provides probabilities of default according to a 22-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, the Bank targets the maintaining of low level of credit risk concentration at obligor level and by industries. The Bank 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.

The Bank 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 Bank 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. The Bank continues to put emphasis on generating new and healthy lending business, in order to further improve the profitability and credit quality.

In order to manage the country and counterparty credit risk, the Bank has approved a conservative limits' framework. The Bank 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, the Bank 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.
After the acquisition of UBB by KBC Group, concluded on June 14th, 2017, a special and in depth review of all loan books was done by a joint team of CIBank and GCRD colleagues in order to estimate the need for additional impairments.
For the calculation of the needed additional impairments, we applied the normal conservatism.
Due to the different approach in managing the non-performing exposures at UBB (the very long average age of the non-performing exposures at UBB) and the different methodology applied by KBC/CIB for the estimation of the cash flows (biggest differences are: applying more conservative approach to fair value of collateral; usage of bigger haircuts on this value depending the status and 'age' of the collateral/asset; consideration of time value for realization of the cash flow), the final outcome for additional impairments is substantial.
The review of the loan books consisted of:
For Corporates and Large SME's: an individual review of the top 100 problem loans was made resulting in assessment of individual impairments on significant files.
For the remaining SME portfolio a portfolio based analysis was done, aiming mostly on the oldest defaulted files.
In the microbusiness portfolio and consumer loan portfolio a loan tape assessments was made whereby we applied the impairment methodology as previously used accepted in the KBC Group.
Also for the Mortgage loans a loan tape assessment was done. For the impairment calculation of the non-performing exposures the applied valuation of the collateral was based on an average of real recoveries during the last 3 years and on the marketability of the assets.
The Corporate Bonds were assessed individually according to the KBC practice and additional individual impairments were calculated.

## 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Liquidity risk*

The liquidity risk is related to possible unfavorable impact to the profit and capital of the Bank 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. The Bank invests mainly in liquid assets and maintains an average of 46% ratio of liquid assets to total liabilities.Moreover, the Bank 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 the Bank 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 the Bank from adverse movements in bond, equity, currency and derivative prices. It includes equity risk, interest rate risk and foreign exchange risk.

The Bank's total exposure to market risk is relatively small and the daily total VaR as of 31.12.2017 amounted to BGN 1.938 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 variance/covariance methodology developed by Risk Metrics / J.P. Morgan. This approach is used to calculate the VaR of UBB's Trading and AFS portfolio positions retained for one-day at a 99% confidence level.

The Bank decreased its securities portfolio during Y2017 by BGN 360 mln (nominal value) mainly foreign corporate bonds and commercial papers.

*Currency risk*
This is the risk for the profit and capital of the Bank 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 the Bank, 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.

The Bank 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.

UBB additionally limits the FX risk by setting daily limits on the maximum potential loss from FX transactions on the financial markets. For defining and monitoring the above limits, the „Value at Risk" method is used and in addition different stress-test scenarios are applied.

*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 the Bank from adverse movements in interest rates affecting the Bank's non-trading positions.

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The interest rate risk assessment methods include analysis of interest rate mismatches, duration analysis and the economic value of equity (EVE) sensitivity to a change in the interest rates. The Bank has identified the interest rate sensitive assets and liabilities. They are allocated in a maturity table, as floating rate instruments are allocated according to the remaining maturity till the next re-pricing date, while fixed-rate instruments are treated according to their remaining maturity till the maturity date.

The Bank measures the EVE sensitivity to unfavorable changes in interest rates separately for any of the main currencies in which the Bank operates and the results are used for making management decisions. The used scenarios are +/- 100 bps and +/- 200 bps parallel shift in interest rates.

as of 31.12.2017

| Interest Rate Mismatch | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | -1 413 523 | -295 868 | 30 042 | 42 059 | -1 637 290 |
| EUR | 369 046 | -294 804 | -39 966 | 777 591 | 811 866 |
| USD | -325 643 | -68 170 | -14 326 | 0 | -408 140 |
| Total | -1 370 120 | -658 843 | -24 251 | 819 650 | -1 233 564 |

| Change in the economic value at 200b.p. yield curve shift | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | 3 738 | 3 435 | -4 460 | -5 888 | -3 175 |
| EUR | 430 | 3 581 | 684 | -108 863 | -104 168 |
| USD | 761 | 827 | 430 | 0 | 2 017 |
| Total | 4 929 | 7 842 | -3 346 | -114 751 | -105 326 |

as of 31.12.2016

| Interest Rate Mismatch | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | -1 226 046 | -308 028 | 1 872 | 35 907 | -1 496 296 |
| EUR | -79 675 | -234 772 | -28 426 | 618 238 | 275 365 |
| USD | -219 270 | -88 261 | -24 880 | 0 | -332 411 |
| Total | -1 524 990 | -631 062 | -51 433 | 654 144 | -1 553 341 |

| Change in the economic value at 200b.p. yield curve shift | up to 3M | 3M-1Y | 1Y-5Y | above 5Y | Total |
|---|---|---|---|---|---|
| BGN | 3 445 | 3 498 | -3 072 | -5 027 | -1 156 |
| EUR | 1 791 | 3 246 | -431 | -86 553 | -81 948 |
| USD | 605 | 1 104 | 826 | 0 | 2 535 |
| Total | 5 840 | 7 847 | -2 677 | -91 580 | -80 570 |

EVE sensitivity of IRRBB exposure (200 bps parallel shift of the yield curve) is about BGN 105 mln as of December 2017. UBB’s exposure to IRRBB increased in 2017 in absolute amount due to the increase of the classified in AFS portfolio investment in Bulgarian sovereign bonds.

**34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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.

The Bank applies appropriate measures for the interest rate risk restriction and maintenance within acceptable parameters, by maintaining an adequate structure of its interest-sensitive assets and liabilities and minimizing their mismatch.

*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 the Bank. The start of GKCs assessment for UBB was set in 2017 and the process continues in 2018. 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 the Bank 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, the Bank has implemented and applies the standardized approach for determining the capital requirements for operational risk.

*Business Continuity Plan*

UBB is operating in a fast growing and changing environment, and acknowledges its exposure to different risks (reputational, strategic, financial, operational, legal and technology) which may influence the business continuity.

The Bank has developed a *Business Continuity Plan (BCP),* in order to minimize the reputational, financial, operational, legal and other material consequences arising from a disruption of the business processes.
UBB BCP also covers UBB Asset Management and UBB Factoring.

The BCP maintenance is implemented through planned and ad hoc update activities. The BCP management is realized by the Business Continuity Committee (BCCommittee). The main goal of the BCCommittee is the organization and business continuity management in UBB, including ensuring of effective actions, directed to restoring of the interrupted functions of the business processes and systems.

*Capital and capital adequacy*

Solo basis

The Bank's capital position stands strong.  . The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.04% (based on total Regulatory Capital on solo basis at BGN 911million) and Tier 1 capital adequacy amounts to 24.04%.

Consolidated basis

The Bank's capital position stands strong. . The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.16% (based on total Regulatory Capital on consolidated basis at BGN 920 million) and Tier 1 capital adequacy amounts to 24.16%.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK

Credit risk is summarized as follows:

***Maximum exposure to credit risk before collateral and other credit enhancements***

| | As at 31.12.2017 | As at 31.12.2016 | As at 31.12.2017 | As at 31.12.2016 |
|---|---|---|---|---|
| ASSETS | Separate | Separate | Consolidated | Consolidated |
| Balances with Central Bank | 847,722 | 750,483 | 847,723 | 750,483 |
| Loans and advances to banks | 1,554,688 | 327,019 | 1,554,688 | 327,019 |
| Financial assets at fair value through P/L | 600,117 | 1,101,642 | 600,117 | 1,101,642 |
| Derivative financial instruments | 1,837 | 356 | 1,837 | 356 |
| Loans and advances to customers, net | 3,294,217 | 3,858,688 | 3,295,740 | 3,859,912 |
| Investment in securities available for sale | 658,736 | 627,242 | 658,736 | 627,242 |
| Financial assets - held to maturity | 181,326 | - | 181,326 | - |
| Other assets | 30,529 | 5,589 | 30,907 | 5,824 |
| Financial guarantees | 204,884 | 171,271 | 204,884 | 171,271 |
| Standby letters of credit | 17,697 | 12,229 | 17,697 | 12,229 |
| Commitments to extend credit (revolving corporate and unutilized overdrafts | 592,666 | 625,249 | 615,045 | 641,846 |
| MAXIMUM EXPOSURES TO CREDIT RISK | 7,984,419 | 7,479,768 | 8,008,700 | 7,497,824 |

***Quality of loans and advances and collaterals***

| Separate | | | | **Value of collateral received** |
|---|---|---|---|---|
| Year ended 31.12.2017 | **Real estate collateral** | **Financial collateral** | **Other collateral** | **TOTAL** |
| Retail lending | 697,383 | - | 18,880 | 716,263 |
| • Of which neither past due nor impaired | 612,146 | - | 16,087 | 628,233 |
| • Of Which past due not impaired | 65,517 | - | 2,759 | 68,276 |
| • Of which collectively impaired | 3,990 | - | 34 | 4,024 |
| • Of which individually impaired | 15,730 | - | - | 15,730 |
| Corporate lending | 829,949 | - | 475,448 | 1,305,397 |
| • Of which neither past due nor impaired | 597,698 | - | 277,642 | 875,340 |
| • Of Which past due not impaired | 80,706 | - | 118,483 | 199,189 |
| • Of which collectively impaired | 27,821 | - | 31,204 | 59,025 |
| • Of which individually impaired | 73,778 | - | 48,119 | 121,897 |
| Public sector | - | - | 545 | 545 |
| • Of which neither past due nor impaired | - | - | 545 | 545 |
| Total | 1,527,332 | - | 494,873 | 2,022,205 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**35. CREDIT RISK (CONTINUED)**

Consolidated

| | Value of collateral received | | | |
|---|---|---|---|---|
| Year ended 31.12.2017 | **Real estate collateral** | **Financial collateral** | **Other collateral** | **TOTAL** |
| Retail lending | 697,383 | - | 25,639 | 723,022 |
| • Of which neither past due nor impaired | 612,146 | | 16,087 | 628,233 |
| • Of Which past due not impaired | 65,517 | | 2,759 | 68,276 |
| • Of which collectively impaired | 3,990 | | 34 | 4,024 |
| • Of which individually impaired | 15,730 | | | 15,730 |
| Corporate lending | 829,949 | - | 468,689 | 1,298,638 |
| • Of which neither past due nor impaired | 597,698 | | 277,642 | 875,340 |
| • Of Which past due not impaired | 80,706 | | 118,483 | 199,189 |
| • Of which collectively impaired | 27,821 | | 31,204 | 59,025 |
| • Of which individually impaired | 73,778 | | 48,119 | 121,897 |
| Public sector | - | - | 545 | 545 |
| • Of which neither past due nor impaired | - | - | 545 | 545 |
| Total | 1,527,332 | - | 494,873 | 2,022,205 |

***Quality of loans and advances and collaterals (continued)***

Separate

| | Value of collateral received | | | |
|---|---|---|---|---|
| Year ended 31.12.2016 | **Real estate collateral** | **Financial collateral** | **Other collateral** | **TOTAL** |
| Retail lending | 761,759 | - | 27,542 | 789,301 |
| • Of which neither past due nor impaired | 650,751 | | 21,872 | 672,623 |
| • Of Which past due not impaired | 59,058 | | 3,306 | 61,364 |
| • Of which collectively impaired | 15,104 | | 2,364 | 17,468 |
| • Of which individually impaired | 36,846 | | - | 36,846 |
| Corporate lending | 1,034,959 | 14,914 | 566,126 | 1,615,999 |
| • Of which neither past due nor impaired | 790,366 | 14,914 | 334,607 | 1,139,887 |
| • Of Which past due not impaired | 90,290 | | 87,850 | 178,140 |
| • Of which collectively impaired | 71,278 | | 52,092 | 123,370 |
| • Of which individually impaired | 83,025 | | 91,577 | 174,602 |
| Public sector | - | - | 895 | 895 |
| • Of which neither past due nor impaired | | | 895 | 895 |
| Total | 1,796,719 | 14,914 | 594,563 | 2,406,196 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

Consolidated

| | Value of collateral received | | | |
|---|---|---|---|---|
| Year ended 31.12.2016 | **Real estate collateral** | **Financial collateral** | **Other collateral** | **TOTAL** |
| Retail lending | 761,759 | - | 27,542 | 792,389 |
| • Of which neither past due nor impaired | 650,751 | | 21,872 | 672,623 |
| • Of Which past due not impaired | 59,058 | | 3,306 | 61,364 |
| • Of which collectively impaired | 15,104 | | 2,364 | 17,468 |
| • Of which individually impaired | 36,846 | | - | 36,846 |
| Corporate lending | 1,034,959 | 14,914 | 566,126 | 1,612,912 |
| • Of which neither past due nor impaired | 790,366 | 14,914 | 334,607 | 1,139,887 |
| • Of Which past due not impaired | 90,290 | | 87,850 | 178,140 |
| • Of which collectively impaired | 71,278 | | 52,092 | 123,370 |
| • Of which individually impaired | 83,025 | | 91,577 | 174,602 |
| Public sector | - | - | 895 | 895 |
| • Of which neither past due nor impaired | - | | 895 | 895 |
| Total | 1,796,719 | 14,914 | 594,563 | 2,406,196 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

### Loans past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless there is objective evidence for individual impairment. Loans and advances to customers according to the allowed past due status and impairment estimating method as of December 31, 2017 and 2016 are as follows:

| Year ended 31.12.2017 | Non impaired | | Impaired | | | Allowance for impairment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Separate | Neither past due nor impaired | Past due but not impaired | Individual | Collective | Total before allowance | Individual | IBNR | Collective | Total Allowance for impairment | Total |
| Retail Landing | 1,363,728 | 197,102 | 94,722 | 48,459 | 1,704,011 | (50,311) | (4,685) | (39,770) | (94,766) | 1,609,245 |
| *Cards* | *100,150* | *7,171* | - | *5,604* | *112,925* | - | *(292)* | (5,387) | *(5,679)* | *107,246* |
| *Consumer* | *590,350* | *82,511* | - | *29,123* | *701,984* | - | *(2,689)* | (28,504) | *(31,193)* | *670,791* |
| *Mortgage* | *657,441* | *104,067* | *94,722* | *12,253* | *868,483* | *(50,311)* | *(1,006)* | (4,963) | *(56,280)* | *812,203* |
| *Small Business loans* | *15,787* | *3,353* | - | *1,479* | *20,619* | - | *(698)* | (916) | *(1,614)* | *19,005* |
| Corporate lending | 1,272,396 | 134,573 | 678,712 | 101,704 | 2,187,385 | (473,920) | (7,205) | (42,599) | (523,724) | 1,663,661 |
| *SMEs* | *844,561* | *120,966* | *673,962* | *101,021* | *1,740,510* | *(469,929)* | *(7,062)* | (42,588) | *(519,579)* | *1,220,931* |
| *Large* | *427,835* | *13,607* | *4,750* | *683* | *446,875* | *(3,991)* | *(143)* | (11) | *(4,145)* | *442,730* |
| Public lending | 20,140 | 16 | - | - | 20,156 | - | (20) | - | (20) | 20,136 |
| Total | 2,656,264 | 331,691 | 773,434 | 150,163 | 3,911,552 | (524,231) | (11,910) | (82,369) | (618,510) | 3,293,042 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

| Year ended 31.12.2016 | Non impaired | | Impaired | | | Allowance for impairment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Separate | Neither past due nor impaired | Past due but not impaired | Individual | Collective | Total before allowance | Individual | IBNR | Collective | Total Allowance for impairment | Total |
| Retail Landing | 1,413,448 | 117,351 | 133,608 | 206,512 | 1,870,919 | (76,853) | (3,679) | (119,702) | (200,234) | 1,670,685 |
| *Cards* | *113,556* | *3,278* | - | *11,684* | *128,518* | - | *(124)* | *(9,836)* | *(9,960)* | *118,558* |
| *Consumer* | *610,495* | *39,626* | - | *138,428* | *788,549* | - | *(2,441)* | *(95,621)* | *(98,062)* | *690,487* |
| *Mortgage* | *674,264* | *73,924* | *133,608* | *38,976* | *920,772* | *(76,853)* | *(1,066)* | *(2,926)* | *(80,845)* | *839,927* |
| *Small Business loans* | 15,133 | 523 | - | 17,424 | 33,080 | - | *(48)* | *(11,319)* | (11,367) | 21,713 |
| Corporate lending | 1,645,935 | 86,738 | 685,555 | 232,830 | 2,651,058 | (415,259) | (1,098) | (67,188) | (483,545) | 2,167,513 |
| *SMEs* | *843,253* | *77,853* | *543,205* | *226,613* | *1,690,924* | *(326,294)* | *(1,083)* | *(67,080)* | *(394,457)* | *1,296,467* |
| *Large* | *802,682* | *8,885* | *142,350* | *6,217* | *960,134* | *(88,965)* | *(15)* | *(108)* | *(89,088)* | *871,046* |
| Public lending | 20,508 | 2 | - | - | 20,510 | - | (20) | - | (20) | 20,490 |
| Total | 3,079,891 | 204,091 | 819,163 | 439,342 | 4,542,487 | (492,112) | (4,797) | (186,890) | (683,799) | 3,858,688 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

| Consolidated Year ended 31.12.2017 | Non impaired | | Impaired | | | Allowance for impairment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated | Neither past due nor impaired | Past due but not impaired | Individual | Collective | Total before allowance | Individual | IBNR | Collective | Total Allowance for impairment | Total |
| Retail Landing | 1,363,728 | 19,7102 | 94,722 | 48,459 | 1,704,011 | (50,311) | (4,685) | (39,770) | (94,766) | 1,609,245 |
| *Cards* | *100,150* | *7,171* | - | *5,604* | *112,925* | - | *(292)* | (5,387) | *(5,679)* | *107,246* |
| *Consumer* | *590,350* | *82,511* | - | *29,123* | *701,984* | - | *(2,689)* | (28,504) | *(31,193)* | *670,791* |
| *Mortgage* | *657,441* | *104,067* | *94,722* | *12,253* | *868,483* | *(50,311)* | *(1,006)* | (4,963) | *(56,280)* | *812,203* |
| *Small Business loans* | *15,787* | *3,353* | - | *1,479* | *20,619* | - | *(698)* | *(916)* | *(1,614)* | *19,005* |
| Corporate lending | 1,273,919 | 134,573 | 678,712 | 102,115 | 2,189,319 | (473,920) | (7,205) | (43,010) | (524,135) | 1,665,184 |
| *SMEs* | *844,561* | *120,966* | *673,962* | *101,021* | *1,740,510* | *(468,754)* | *(7,062)* | *(42,588)* | *(518,404)* | *1,222,106* |
| *Large* | *429,358* | *13,607* | *4,750* | *1,094* | *448,809* | *(5,166)* | *(143)* | *(422)* | *(5,731)* | *443,078* |
| Public lending | 20,140 | 16 | - | - | 20,156 | - | (20) | - | (20) | 20,136 |
| Total | 2,657,787 | 331,691 | 773,434 | 150,574 | 3,913,486 | (524,231) | (11,910) | (82,780) | (618,921) | 3,294,565 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

| Year ended 31.12.2016 | Non impaired | | Impaired | | | Allowance for impairment | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated | Neither past due nor impaired | Past due but not impaired | Individual | Collective | Total before allowance | Individual | IBNR | Collective | Total Allowance for impairment | Total |
| Retail Landing | 1,413,448 | 117,351 | 133,608 | 206,512 | 1,870,919 | (76,853) | (3,679) | (119,702) | (200,234) | 1,670,685 |
| *Cards* | *113,556* | *3,278* | - | *11,684* | *128,518* | - | *(124)* | *(9,836)* | *(9,960)* | *118,558* |
| *Consumer* | *610,495* | *39,626* | - | *138,428* | *788,549* | - | *(2,441)* | *(95,621)* | *(98,062)* | *690,487* |
| *Mortgage* | *674,264* | *73,924* | *133,608* | *38,976* | *920,772* | *(76,853)* | *(1,066)* | *(2,926)* | *(80,845)* | *839,927* |
| *Small Business loans* | *15,133* | *523* | - | *17,424* | *33,080* | - | *(48)* | *(11,319)* | *(11,367)* | *21,713* |
| Corporate lending | 1,647,109 | 86,738 | 685,555 | 233,335 | 2,652,737 | (415,259) | (1,098) | (67,643) | (484,000) | 2,168,737 |
| *SMEs* | *844,427* | *77,853* | *543,205* | *227,118* | *1,692,603* | *(326,294)* | *(1,083)* | *(67,535)* | *(394,912)* | *1,297,691* |
| *Large* | *802,682* | *8,885* | *142,350* | *6,217* | *960,134* | *(88,965)* | *(15)* | *(108)* | *(89,088)* | *871,046* |
| Public lending | 20,508 | 2 | - | - | 20,510 | - | (20) | - | (20) | 20,490 |
| Total | 3,081,065 | 204,091 | 819,163 | 439,847 | 4,544,166 | (492,112) | (4,797) | (187,345) | (684,254) | 3,859,912 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

### Loans past due but not impaired (continued)

Loans that are past due but not individually impaired are not considered impaired as they are fully covered by collateral The tables below presnts the quality of credit risk of loans that are Neither past due nor impaired for 2017 and 2016:

| Year ended 31.12.2017 | Neither past due nor impaired | | Year ended 31.12.2016 | Neither past due nor impaired |
|---|---|---|---|---|
| **Separate** | Low Risk | High Risk | Low Risk | Low Risk |
| **Retail Landing** | 1,281 606 | 82,122 | 1,331,326 | 1,331,326 |
| Cards | 100,150 | - | 113,556 | 113,556 |
| Consumer | 554,586 | 35,764 | 551,667 | 551,667 |
| Mortgage | 611,547 | 45,894 | 637,476 | 637,476 |
| Small Business loans | 15,323 | 464 | 15,133 | 15,133 |
| **Corporate lending** | 1,196,585 | 75,810 | 1,589,711 | 1,589,711 |
| SMEs | 774,223 | 70,337 | 823,817 | 823,817 |
| Large | 422,362 | 5,473 | 765,894 | 765,894 |
| **Public lending** | 20,140 | - | 20,508 | 20,508 |
| Total | 2,498,332 | 157,931 | 2,928,052 | 2,928,052 |

| Year ended 31.12.2017 | Neither past due nor impaired | | Year ended 31.12.2016 | Neither past due nor impaired |
|---|---|---|---|---|
| **Consolidated** | Low Risk | High Risk | Low Risk | Low Risk |
| **Retail Landing** | 1,331,326 | 82,122 | 1,331,326 | 82,122 |
| Cards | 113,556 | - | 113,556 | - |
| Consumer | 574731 | 35,764 | 551,667 | 58,828 |
| Mortgage | 628,370 | 45,894 | 637,476 | 36,788 |
| Small Business loans | 14,669 | 464 | 15,133 | |
| **Corporate lending** | 1,576,772 | 75,810 | 1,590,885 | 56,224 |
| SMEs | 774,090 | 70,337 | 824,991 | 19,436 |
| Large | 802,682 | 5,473 | 765,894 | 36,788 |
| **Public lending** | 20,508 | , | 20,508 | - |
| Total | 2,928,607 | 157,931 | 2,929,226 | 151,839 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

Ageing analysis of loans past due but not impaired as of December 31, 2017 and 2016:

Separate

| | Loans and advances to customers | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2017** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | 6,032 | 59,324 | 69,658 | 2,517 | 5,359 | 109,674 | 16 | 252,580 |
| Past due 31-60 days | 655 | 11,015 | 22,257 | 392 | 201 | 8,966 | - | 43,486 |
| Past due 61-90 days | 484 | 12,172 | 12,152 | 444 | 8,047 | 2,326 | - | 35,625 |
| Past due 91-180 days | - | - | - | - | - | - | - | - |
| Past due 180 days- 365 days | - | - | - | - | - | - | - | - |
| Past due 1-2 years | - | - | - | - | - | - | - | - |
| Past due over 2 years | - | - | - | - | - | - | - | - |
| **Total** | 7,171 | 82,511 | 104,067 | 33,53 | 13,607 | 120,966 | 16 | 331691 |

| | Loans and advances to customers | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2016** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | 2,651 | 32,301 | 52,482 | 325 | 14,854 | 97,420 | 2 | 200,035 |
| Past due 31-60 days | 376 | 7,443 | 18,558 | 149 | - | 9,462 | - | 35,988 |
| Past due 61-90 days | 251 | 10,665 | 12,103 | 71 | 155 | 12,681 | - | 35,926 |
| Past due 91-180 days | - | - | - | - | - | - | - | - |
| Past due 180 days- 365 days | - | - | - | - | - | - | - | - |
| Past due 1-2 years | - | - | - | - | - | - | - | - |
| Past due over 2 years | - | - | - | - | - | - | - | - |
| **Total** | 3,278 | 50,409 | 83,143 | 545 | 150,09 | 119,563 | 2 | 271,949 |

Consolidated

| | Loans and advances to customers | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2017** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | 6,032 | 59,324 | 69,658 | 2,517 | 5,359 | 109,674 | 16 | 252,580 |
| Past due 31-60 days | 655 | 11,015 | 22,257 | 392 | 201 | 8,966 | - | 43,486 |
| Past due 61-90 days | 484 | 12,172 | 12,152 | 444 | 8,047 | 2,326 | - | 35,625 |
| Past due 91-180 days | - | - | - | - | - | - | | - |
| Past due 180 days- 365 days | - | - | - | - | | - | | - |
| Past due 1-2 years | - | - | - | - | | - | | - |
| Past due over 2 years | - | - | - | - | - | - | | - |
| **Total** | 7,171 | 82,511 | 104,067 | 33,53 | 13,607 | 12,0966 | 16 | 331,691 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

| **Year ended 31.12.2016** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | 2,651 | 32,301 | 52,482 | 325 | 14,854 | 97,420 | 2 | 200,035 |
| Past due 31-60 days | 376 | 7,443 | 18,558 | 149 | - | 9,462 | - | 35,988 |
| Past due 61-90 days | 251 | 10,665 | 12,103 | 71 | 155 | 12,681 | - | 35,926 |
| Past due 91-180 days | - | - | - | - | - | - | | - |
| Past due 180 days- 365 days | - | - | - | - | | - | | - |
| Past due 1-2 years | - | - | - | - | | - | | - |
| Past due over 2 years | - | - | - | - | | - | | - |
| **Total** | 3,278 | 50,409 | 83,143 | 545 | 150,09 | 119,563 | 2 | 271,949 |

Ageing analysis of loans past due but collectively impaired as of December 31, 2017 and 2016:

Separate

| **Year ended 31.12.2017** | **Loans and advances to customers** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | - | - | - | - | - | - | - | - |
| Past due 31-60 days | - | - | - | - | - | - | - | - |
| Past due 61-90 days | - | - | - | - | - | - | - | - |
| Past due 91-180 days | 461 | 5,890 | 4,861 | 320 | 683 | 2,487 | - | 14,702 |
| Past due 180 days- 365 days | 324 | 4,322 | 2,289 | 389 | - | 6,520 | - | 13,844 |
| Past due 1-2 years | 189 | 766 | 852 | 154 | - | 12,784 | - | 14,745 |
| Past due over 2 years | 4,630 | 18,145 | 4,251 | 616 | - | 79,230 | - | 106,872 |
| **Total** | 5,604 | 29,123 | 12,253 | 1,479 | 683 | 101,021 | - | 150,163 |

| **Year ended 31.12.2016** | **Loans and advances to customers** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | - | - | - | - | - | - | - | - |
| Past due 31-60 days | - | - | - | - | - | - | - | - |
| Past due 61-90 days | - | - | - | - | - | - | - | - |
| Past due 91-180 days | 532 | 6,432 | 5,913 | 151 | 93 | 17,097 | - | 30,218 |
| Past due 180 days- 365 days | 464 | 6,210 | 6,077 | 152 | - | 8,627 | - | 21,530 |
| Past due 1-2 years | 2,287 | 5,873 | 3,618 | 5,060 | - | 16,345 | - | 33,183 |
| Past due over 2 years | 8,401 | 109,130 | 14,149 | 12,039 | - | 142,834 | - | 286,553 |
| **Total** | 11,684 | 127,645 | 29,757 | 17,402 | 93 | 184,903 | - | 371,484 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Loans past due but not impaired (continued)**

Consolidated

| | Loans and advances to customers | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2017** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | - | - | - | - | - | - | - | - |
| Past due 31-60 days | - | - | - | - | - | - | - | - |
| Past due 61-90 days | - | - | - | - | - | - | - | - |
| Past due 91-180 days | 461 | 5,890 | 4,861 | 320 | 683 | 2,487 | - | 14,702 |
| Past due 180 days- 365 days | 324 | 4,322 | 2,289 | 389 | - | 6,520 | - | 13,844 |
| Past due 1-2 years | 189 | 766 | 852 | 154 | - | 12,784 | - | 14,745 |
| Past due over 2 years | 4,630 | 18,145 | 4,251 | 616 | 411 | 79,230 | - | 107,283 |
| **Total** | 5,604 | 29,123 | 12,253 | 1,479 | 1,094 | 101,021 | - | 150,574 |

| **Year ended 31.12.2016** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | - | - | - | - | - | - | - | - |
| Past due 31-60 days | - | - | - | - | - | - | - | - |
| Past due 61-90 days | - | - | - | - | - | - | - | - |
| Past due 91-180 days | 532 | 6,432 | 5,913 | 151 | 93 | 17,097 | - | 30,218 |
| Past due 180 days- 365 days | 464 | 6,210 | 6,077 | 152 | - | 8,627 | - | 21,530 |
| Past due 1-2 years | 2,287 | 5,873 | 3,618 | 5,060 | - | 16,850 | - | 33,688 |
| Past due over 2 years | 8,401 | 109,130 | 14,149 | 12,039 | - | 142,834 | - | 286,553 |
| **Total** | 11,684 | 127,645 | 29,757 | 17,402 | 93 | 185,408 | - | 371,989 |

Ageing analysis of loans past due but individually impaired as of December 31, 2017 and 2016:

Separate

| **Year ended 31.12.2017** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | - | - | - | - | - | 51,602 | - | 51,602 |
| Past due 31-60 days | - | - | - | - | - | 4,886 | - | 4,886 |
| Past due 61-90 days | - | - | 887 | - | - | 93 | - | 980 |
| Past due 91-180 days | - | - | 3,217 | - | - | 16,938 | - | 20,155 |
| Past due 180 days- 365 days | - | - | 5,980 | - | - | 4,196 | - | 10,176 |
| Past due 1-2 years | - | - | 4,398 | - | 4,750 | 189,777 | - | 198,925 |
| Past due over 2 years | - | - | 80,240 | - | - | 406,470 | - | 486,710 |
| **Total** | - | - | 94,722 | - | 4,750 | 673,962 | - | 773,434 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**35. CREDIT RISK (CONTINUED)**

| **Year ended 31.12.2016** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | - | - | - | - | 7 | 5,975 | - | 5,982 |
| Past due 31-60 days | - | - | - | - | - | 14,231 | - | 14,231 |
| Past due 61-90 days | - | - | 531 | - | - | 1,197 | - | 1,728 |
| Past due 91-180 days | - | - | 6,710 | - | - | 407 | - | 7,117 |
| Past due 180 days- 365 days | - | - | 7,906 | - | - | 5,208 | - | 13,114 |
| Past due 1-2 years | - | - | 6,895 | - | 5,944 | 82,326 | - | 95,165 |
| Past due over 2 years | - | - | 111,566 | - | 136,399 | 433,861 | - | 681,826 |
| **Total** | - | - | 133,608 | - | 142,350 | 543,205 | - | 819,163 |

Consolidated

| | **Loans and advances to customers** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2017** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | - | - | - | - | - | 51,602 | - | 51,602 |
| Past due 31-60 days | - | - | - | - | - | 4,886 | - | 4,886 |
| Past due 61-90 days | - | - | 887 | - | - | 93 | - | 980 |
| Past due 91-180 days | - | - | 3,217 | - | - | 16,938 | - | 20,155 |
| Past due 180 days- 365 days | - | - | 5,980 | - | - | 4,196 | - | 10,176 |
| Past due 1-2 years | - | - | 4,398 | - | 4,750 | 189,777 | - | 198,925 |
| Past due over 2 years | - | - | 80,240 | - | - | 406,470 | - | 486,710 |
| **Total** | - | - | 94,722 | - | 4,750 | 673,962 | - | 773,434 |

| | **Loans and advances to customers** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31.12.2016** | **Cards** | **Consumer** | **Mortgage** | **Small Business loans** | **Large** | **SMEs** | **Public** | **Total Loans** |
| Past due up to 30 days | - | - | - | - | 7 | 5,975 | - | 5,982 |
| Past due 31-60 days | - | - | - | - | - | 14,231 | - | 14,231 |
| Past due 61-90 days | - | - | 531 | - | - | 1,197 | - | 1,728 |
| Past due 91-180 days | - | - | 6,710 | - | - | 407 | - | 7,117 |
| Past due 180 days- 365 days | - | - | 7,906 | - | - | 5,208 | - | 13,114 |
| Past due 1-2 years | - | - | 6,895 | - | 5,944 | 82,326 | - | 95,165 |
| Past due over 2 years | - | - | 111,566 | - | 136,399 | 433,861 | - | 681,826 |
| **Total** | - | - | 133,608 | - | 142,350 | 543,205 | - | 819,163 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. 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, the Bank/Group 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 the Bank/Group.
A forborne loan that is impaired is considered cured when delays are less than 30 days for 36 consecutive months after forbearance has occurred.

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:

| | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Consumer | 39,473 | 60,464 | 68,439 | 60,464 |
| Mortgage | 125,845 | 82,896 | 217,384 | 82,896 |
| Small Business loans | 735 | 913 | 1,171 | 913 |
| Large corporate loans | 4,750 | 46,297 | 5,509 | 46,297 |
| SME'S Loans | 231,446 | 116,800 | 355,973 | 116,800 |
| **Total** | 402,249 | 307,370 | 648,476 | 307,370 |

Reconciliation of forborne loans net of provision:

Separate/Consolidated
As of 31.12.2017

| Movements of forborne loans | **Consumer** | **Mortgage** | **Small business loans** | **Large corporate loans** | **SME's** | **Total** |
|---|---|---|---|---|---|---|
| **Opening balances** | 60,464 | 82,896 | 913 | 46,297 | 116,800 | 307,370 |
| New forborne loans | 48,753 | 42,542 | 1,732 | 176,055 | 24,415 | 293,496 |
| Interest income | 4,671 | 7,350 | 216 | 227 | 6,102 | 18,567 |
| Repayments (partially or totally) | (48,673) | (438) | | (169,308) | | (218,419) |
| Exposures that exited forbearance status | | (311) | (31) | | | (342) |
| Write - offs | | (16,470) | (2,400) | | (2,334) | (21,204) |
| Impairment loss | (25,742) | 10,276 | 305 | (48,521) | 86,463 | 22,780 |
| Other | | | | | | |
| **Closing balance** | 39,473 | 125,845 | 735 | 4,750 | 231,446 | 402,249 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

Separate/Consolidated

As of 31.12.2016

| Movements of forborne loans | **Consumer** | **Mortgage** | **Small business loans** | **Large corporate loans** | **SME's** | **Total** |
|---|---|---|---|---|---|---|
| **Opening balances** | 77,091 | 95,528 | 1,446 | 27,386 | 232,779 | 434,230 |
| New forborne assets | 73 ,209 | 95,798 | 31,215 | 23,535 | 93,445 | 317,202 |
| Interest income | 6,108 | 6,874 | 258 | 2,208 | 9,806 | 25,254 |
| Repayments (partially or totally) | (36,066) | (121,063) | (30,279) | (10,248) | (118,364) | (316,020) |
| Exposures that exited forbearance status | (8,124) | (4,759) | - | - | (3,939) | (16,822) |
| Write - offs | (17,045) | (2,688) | - | - | (220) | (19,953) |
| Impairment loss | (13,334) | 26,017 | 229 | 26,017 | 20,680 | 59,609 |
| **Closing balance** | (21,375) | (12,811) | (1,956) | (22,601) | (117,387) | (176,130) |

**Repossessed collateral**

| Separate/Consolidated<br>**Repossessed collateral**<br>As of 31.12.2017 | **Gross amount** | **of which added this years** | **Accumulated impairment** | **of which added this years** | **Net amount** | **Net sale price** |
|---|---|---|---|---|---|---|
| Real estate | 66,367 | 12,472 | (9,088) | (7,328) | 57,279 | 57,279 |
| - Residential | 2,051 | 29 | | | 2,051 | 2,051 |
| - Commercial | 64 316 | 12,443 | (9,088) | (7,328) | 55,228 | 55,228 |
| Other collateral - financial | - | - | | | - | - |
| Other collateral – non-financial | 12,457 | - | (5,667) | (5,263) | 6,790 | 6,790 |
| | 78,824 | 12,472 | (14,755) | (12,591) | 64,069 | 64,069 |

| Separate/Consolidated<br>**Repossessed collateral**<br>As of 31.12.2016 | **Gross amount** | **of which added this years** | **Accumulated impairment** | **of which added this years** | **Net amount** | **Net sale price** |
|---|---|---|---|---|---|---|
| Real estate | 67,359 | 12,774 | (4,464) | (373) | 62,895 | 62,895 |
| - Residential | 3,131 | 331 | - | - | 3,131 | 3,131 |
| - Commercial | 64 228 | 12 443 | (4 464) | (373) | 59 764 | 59<br>764 |
| Financial asset | - | - | | | - | - |
| Other collateral | 12,259 | - | (404) | - | 11,855 | 11,855 |
| | 79,618 | 12,774 | (4,868) | (373) | 74,750 | 74,750 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

### Industry Concentration risk

Industry Concentration risk - Loans and advances to customers

| **Separate** | As of 31.12.2017 | | As of 31.12.2016 | |
|---|---|---|---|---|
| To individuals | 1,683,393 | 43% | 1,837,838 | 40% |
| Manufacturing | 536,335 | 14% | 808,588 | 18% |
| Wholesale trade | 368,948 | 9% | 344,360 | 8% |
| Real estate activities | 247,086 | 6% | 342,183 | 8% |
| Construction | 192,417 | 5% | 205,565 | 5% |
| Agriculture, Forestry and Fishing | 174,618 | 4% | 200,021 | 4% |
| Financial and insurance activities | 78,003 | 2% | 158,976 | 3% |
| Retail trade | 129,279 | 3% | 138,176 | 3% |
| Electricity, gas, steam and air conditioning supply | 116,158 | 3% | 120,044 | 3% |
| Accommodation and food service activities | 102,986 | 3% | 91,803 | 2% |
| Trade and repair of motor vehicles and motorcycles | 69,659 | 2% | 63,412 | 1% |
| Other service activities | 212,671 | 5% | 231,522 | 5% |
| Total loans and advances, Gross | 3,911,552 | 100% | 4,542,487 | 100% |
| Less:allowance for impairment | (618,510) | | (683,799) | |
| Loans and advances to customers, net | 3,293,042 | | 3,858,688 | |

| **Consolidated** | As of 31.12.2017 | | As of 31.12.2016 | |
|---|---|---|---|---|
| To individuals | 1,683,393 | 43% | 1,837,838 | 40% |
| Manufacturing | 536,335 | 14% | 812,583 | 18% |
| Wholesale trade | 368,948 | 9% | 353,030 | 8% |
| Real estate activities | 247,086 | 6% | 342,183 | 8% |
| Construction | 192,417 | 5% | 205,565 | 5% |
| Agriculture, Forestry and Fishing | 174,618 | 4% | 200,077 | 4% |
| Financial and insurance activities | 78,003 | 2% | 138,411 | 3% |
| Retail trade | 129,279 | 3% | 146,005 | 3% |
| Electricity, gas, steam and air conditioning supply | 116,158 | 3% | 120,044 | 3% |
| Accommodation and food service activities | 102,986 | 3% | 91,803 | 2% |
| Trade and repair of motor vehicles and motorcycles | 69,659 | 2% | 65,107 | 1% |
| Other service activities | 214,605 | 5% | 231,521 | 5% |
| Total loans and advances, Gross | 3,913,486 | 100% | 4,544,167 | 100% |
| Less:allowance for impairment | (618,921) | | (684,255) | |
| Loans and advances to customers, net | 3,294,565 | | 3,859,912 | |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 35. CREDIT RISK (CONTINUED)

**Counterparty concentration risk**

The next table presents the information of the large exposure of the Bank/Group as for 31 December 2017 and 2016:

| | As for December 31, 2017 | | As for December 31, 2016 | |
|---|---|---|---|---|
| Separate | Amount | % of Equity | Amount | % of Equity |
| The largest total exposure | 62,577 | 6.41% | 144,487 | 13.35% |
| Total amount of five largest exposures | 229,820 | 23.55% | 468,797 | 43.31% |

| | As for December 31, 2017 | | As for December 31, 2016 | |
|---|---|---|---|---|
| Consolidated | Amount | % of Equity | Amount | % of Equity |
| The largest total exposure | 62,577 | 6.41% | 144,487 | 13.24% |
| Total amount of five largest exposures | 229,820 | 23.55% | 468,797 | 42.96% |

**Available-for-sale and held-to-maturity bonds, nostro accounts and derivative instruments are neither past due nor impaired by 31 December 2017 and 31 December 2016.**
**The table below provides information about the Bank'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.**
**Information on the respective asset ratings as at 31 December 2017 and 31 December 2016 is presented in the table below:**

| Separate and Consolidated | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| December 31, 2017 | **AAA to A-** | **BBB+ to B-** | **CCC** | **Not rated** | **Total** |
| Bonds | 30,030 | 1,405,460 | | 4,688 | 1,440,178 |
| Cash equivalents and placements with Banks | 1,275,343 | 683,561 | | 1 | 1,958,905 |
| Total | **1,305,373** | **2,089,021** | **-** | **4,689** | **3,399,083** |
| | | | | | |
| | | | | | |
| December 31, 2016 | **AAA to A-** | **BBB+ to B-** | **CCC** | **Not rated** | **Total** |
| Bonds | 282,289 | 1,430,425 | | 16,173 | 1,728,887 |
| Cash equivalents and placements with Banks | 171,214 | 25,709 | 123,24 | 853 | 321,300 |
| Total | **453,503** | **1,456,134** | **123,524** | **17,026** | **1,728,887** |

The Bank'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.

## 36. MARKET RISK

### Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31, 2017 and 2016. Included in the table are the Bank/Group's assets and liabilities at carrying amounts in thousands BGN, categorized by currency.

| As of December 31, 2017 Separate | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with the Central Bank | 371,885 | 4,931 | 462,945 | 7,960 | 847,721 |
| Due from 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 | 336,010 | - | 600,121 |
| Derivative financial instruments | 1,353 | - | 484 | - | 1,837 |
| Investment assets available for sale | 634,731 | 6,265 | 39,611 | | 680,607 |
| Investment assets held to maturity | 156,603 | - | 24,723 | - | 181,326 |
| Investments in associates | - | - | 27,173 | - | 27,173 |
| Goodwill | - | - | - | - | - |
| Intangible assets | - | - | 5,329 | - | 5,329 |
| Fixed assets | - | - | 44,256 | - | 44,256 |
| Ivestment property | - | - | 5,315 | - | 5,315 |
| Current income tax refundable | - | -- | - | - | - |
| Deferred income tax assets | - | - | 3,275 | - | 3,275 |
| Other assets | 9,944 | 770 | 102,737 | 1 | 113,452 |
| TOTAL ASSETS | 4,364,468 | 133,760 | 2,827,953 | 31,961 | 7,358,142 |

| As of December 31, 2017 Separate | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Due to banks | 434,650 | 8,292 | 375 | 137 | 443,454 |
| Due to customers | 1,715,147 | 466,238 | 3,621,798 | 90,449 | 589,3632 |
| Derivative financial instruments | 790 | - | 4055 | - | 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 | 2,094,354 | 474,674 | 3,722,464 | 90,587 | 638,2079 |
| TOTAL EQUITY | - | - | 976,063 | - | 976,063 |
| NET BALANCE SHEET POSITION | 2,270,114 | (340,914) | (894,511) | (58,626) | 976,063 |
| NET OFF-BALANCE SHEET POSITION | (351,656) | 344,720 | (54,887) | 59,127 | (2,695) |
| CONTINGENT LIABILITIES AND COMMITMENTS | 187,980 | 1,591 | 693,109 | | 882,680 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 36. MARKET RISK (CONTINUED)

| As of December 31, 2016 Separate | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with the Central Bank | 471,960 | 8,857 | 258,169 | 11,497 | 750,483 |
| Due from banks | 296,978 | 2,844 | 7,100 | 20,097 | 327,019 |
| Loans and advances to customers, net | 1,933,768 | 149,759 | 1,775,106 | 55 | 3,858,688 |
| Financial assets at fair value through profit or loss | 452,898 | 257,049 | 346,038 | 45,660 | 1,101,645 |
| Derivative financial instruments | - | - | 356 | - | 356 |
| Financial assets available for sale | 603 237 | 4,882 | 40,104 | - | 648,223 |
| Investments in subsidiaries and equity method investments | - | - | 6,637 | - | 6,637 |
| Intangible assets | - | - | 6,685 | - | 6,685 |
| Property and equipment | - | - | 34,020 | - | 34,020 |
| Investment property | - | - | 2,931 | - | 2,931 |
| Deferred tax assets | - | - | 1,465 | - | 1,465 |
| Other assets | 8,193 | 862 | 84,398 | 31 | 93,484 |
| TOTAL ASSETS | 3,767,034 | 424,253 | 2,563,009 | 77,340 | 6,831,636 |

| As of December 31, 2016 Separate | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Due to banks | 1,698 | 84,186 | 946 | 234 | 87,064 |
| Due to customers | 1,678,657 | 387,711 | 3,428,458 | 75,766 | 5,570,592 |
| Derivative financial instruments | 585 | - | 594 | - | 1,179 |
| Other borrowed funds | 4,818 - | - | - | - | 4,818 |
| Subordinated liabilities | 50,882 | - | - | - | 50,882 |
| Retirement benefit obligations | - | - | 10,984 | - | 10,984 |
| Other liabilities | 11,873 | 131 | 11,737 | 33 | 23,774 |
| TOTAL LIABILITIES | 1,748,513 | 472,028 | 3,452,719 | 76,033 | 5,749,293 |
| TOTAL EQUITY | - | - | 1,082,343 | - | 1,082,343 |
| NET BALANCE SHEET POSITION | 2,018,521 | (47,775) | (889,710) | 1,307 | 1,082,343 |
| CONTINGENT LIABILITIES AND COMMITMENTS | (46,586) | 47,422 | (1,522) | 444 | (242) |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**36. MARKET RISK (CONTINUED)**

| As of December 31, 2017 Consolidated | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with the Central Bank | 371,885 | 4,931 | 462,946 | 7,960 | 847,722 |
| Due from 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 | 336,006 | 4 | 600,121 |
| Derivative financial instruments | 1,353 | - | 484 | - | 1,837 |
| Investment assets available for sale | 634,732 | 6,265 | 39,611 | | 680,608 |
| 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 | - | - | 44,395 | - | 44,395 |
| Ivestment property | - | - | 5,315 | | 5,315 |
| Deferred income tax assets | - | - | 3,265 | - | 3,265 |
| Other assets | 9,944 | 770 | 103,168 | 1 | 113,883 |
| TOTAL ASSETS | 4,364,469 | 133,760 | 2,834,332 | 31,965 | 7,364,526 |

| As of December 31, 2017 Consolidated | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Due to banks | 434,650 | 8,292 | 375 | 13 | 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 | 2,094,354 | 474,674 | 3,716,227 | 90,587 | 6,375,842 |
| TOTAL EQUITY | - | - | 988,681 | - | 988,681 |
| NET BALANCE SHEET POSITION | 2,270,115 | (340,914) | (881,895) | (58,622) | 988,684 |
| NET OFF-BALANCE SHEET POSITION | (351,656) | 3,44l,720 | (54,887) | 59,127 | (2,695) |
| CONTINGENT LIABILITIES AND COMMITMENTS | 187,980 | 1,591 | 693,109 | - | 882,680 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 36. MARKET RISK (CONTINUED)

| As of December 31, 2016 Consolidated | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and balances with the Central Bank | 471,960 | 8,857 | 258,169 | 11,497 | 750,483 |
| Due from banks | 296,978 | 2,844 | 7,100 | 20,097 | 327,019 |
| Loans and advances to customers, net | 1,933,768 | 149,759 | 1,776,330 | 55 | 3,859,912 |
| Financial assets at fair value through profit or loss | 452,898 | 257,049 | 346,035 | 45,663 | 1,101,645 |
| Derivative financial instruments | - | - | 356 | - | 356 |
| Financial assets available for sale | 603,237 | 4,882 | 40,105 | - | 648,224 |
| Equity method investments | - | - | 10,142 | - | 10,142 |
| Intangible assets | - | - | 6,890 | - | 6,890 |
| Property and equipment | - | - | 34,155 | - | 34,155 |
| Investment property | - | - | 2,931 | - | 2,931 |
| Deferred tax assets | - | - | 1,455 | - | 1,455 |
| Other assets | 8,193 | 862 | 84,842 | 31 | 93,928 |
| TOTAL ASSETS | 3,767,034 | 424,253 | 2,568,510 | 77,343 | 6,837,140 |

| As of December 31, 2016 Consolidated | EUR | USD | BGN | Other | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Due to banks | 1,698 | 84,186 | 946 | 234 | 87,064 |
| Due to customers | 1,678,657 | 387,711 | 3,424,154 | 75,766 | 5,566,288 |
| Derivative financial instruments | 585 | - | 594 | - | 1,179 |
| Other borrowed funds | 4,818 | - | - | - | 4,818 |
| Subordinated liabilities | 50,882 | - | - | - | 50,882 |
| Current income tax liabilities | - | - | 13 | - | 13 |
| Retirement benefit obligations | - | - | 10,984 | - | 10,984 |
| Other liabilities | 11,873 | 131 | 12,066 | 33 | 24,103 |
| TOTAL LIABILITIES | 1,748,513 | 472,028 | 3,448,757 | 76,033 | 5,745,331 |
| TOTAL EQUITY | - | - | 1,091,809 | - | 1,091,809 |
| NET BALANCE SHEET POSITION | 2,018,521 | (47,775) | (880,247) | 1,310 | 1,091,809 |
| CONTINGENT LIABILITIES AND COMMITMENTS | (46,586) | 47,422 | (1,522) | 444 | (242) |

The Bank measures the economic value of equity (EVE) vulnerability to unfavorable changes in interest rates separately for any of the main currencies in which the Bank/Group operates and the results are used for making management decisions. The table below represent the interest rate mismatches and change in EVE at 200bps yield curve shift:

As of December 31, 2017
Separate/Consolidated

| Interest rate mismatch | up to 3m | 3m - 1y | 1y - 5y | up to 5y | Total |
|---|---|---|---|---|---|
| BGN | (1,413,523) | (295,8680 | 30,042 | 42,059 | (1,637,290) |
| EUR | 369,046 | (294,804) | (39,966) | 777,591 | 811,866 |
| USD | (325,643) | (68,170) | (14,3260) | - | (408,140) |
| Total | (1,370,120) | (9,658,843) | (24,251) | 819,650 | (1,233,564) |

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.

| Interest rate mismatch | up to 3m | 3m - 1y | 1y - 5y | up to 5y | Total |
|---|---|---|---|---|---|
| BGN | 3,738 | 3,435 | (4,460) | (5,888) | (3,175) |
| EUR | 430 | 3,581 | 684 | (108,863) | (104,168) |
| USD | 761 | 827 | 430 | 0 | 2,017 |
| Total | 4,929 | 7,842 | (3,346) | (114,751) | (105,326) |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 36. MARKET RISK (CONTINUED)

As of December 31, 2016
Separate/Consolidated

| Interest rate mismatch | up to 3m | 3m - 1y | 1y - 5y | up to 5y | Total |
|---|---|---|---|---|---|
| BGN | (1,226,046) | (308,028) | 1,872 | 35,907 | (1,496,295) |
| EUR | (79,675) | (234,772) | (28,426) | 618,238 | 275,365 |
| USD | (219,270) | (88,261) | (24,880) | - | (332,411) |
| Total | (1,524,991) | (631,061) | (51,434) | 654,145 | (1,553,341) |

| Interest rate mismatch | up to 3m | 3m - 1y | 1y - 5y | up to 5y | Total |
|---|---|---|---|---|---|
| BGN | 3,445 | 3,498 | (3,072) | (5,027) | (1,156) |
| EUR | 1,791 | 3,246 | (431) | (86,553) | (81,947) |
| USD | 605 | 1,104 | 826 | - | 2,535 |
| Total | 5,841 | 7,848 | (2,677) | (91,580) | (80,568) |

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

**Interest rate risk**

The Group/Bank interest rate risk relating to financial instruments based on next re-pricing date is summarized as follows:

| As of December 31, 2017 Separate | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 847,722 | 847,722 |
| Due from banks | 713,348 | 352,601 | 488,739 | - | - | - | 1,554,688 |
| Loans and advances to customers, net | 1,766,019 | 236,378 | 100,244 | 139,800 | 16,339 | 1,034,262 | 3,293,042 |
| Derivative financial instruments | 484 | - | - | - | 1,353 | - | 1,837 |
| Financial assets at fair value through profit or loss | 41,865 | 5 | 21,643 | 238,827 | 297,777 | 4 | 600,121 |
| Investment securities available for sale | - | - | 16,193 | 15,613 | 622,241 | 26,558 | 680,605 |
| Investment securities held to maturity | - | - | - | - | 181,326 | - | 181,326 |
| Investments in associates | - | - | - | - | - | 27,173 | 27,173 |
| Other assets | | | | | | 30,529 | 30,529 |
| TOTAL FINANCIAL ASSETS | 2,521,716 | 588,984 | 626,819 | 394,240 | 1,119,036 | 1,966,248 | 7,217,043 |
| LIABILITIES | | | | | | | |
| Due to banks | 9,920 | 433,534 | - | - | - | - | 443,454 |
| Due to customers | 4,298,489 | 473,259 | 297,210 | 824,674 | - | - | 5,893,632 |
| Derivative financial instruments | 4,055 | - | - | 790 | - | - | 4,845 |
| Other borrowed funds | - | - | 1,874 | - | - | - | 1,874 |
| TOTAL FINANCIAL LIABILITIES | 4,312,464 | 906,793 | 299,084 | 825,464 | - | - | 6,343,805 |
| NET INTEREST RATE GAP | (1,790,748) | (317,809) | 327,735 | (431,224) | 1,119,036 | 1,966,248 | 873,238 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**36. MARKET RISK (CONTINUED)**

| As of December 31, 2016 Separate | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 750,483 | 750,483 |
| Due from banks | 44,540 | 123,063 | 156,466 | 2,950 | - | - | 327,019 |
| Loans and advances to customers, net | 2,074,524 | 815,173 | 185,193 | 183,356 | 62,374 | 538,068 | 3,858,688 |
| Derivative financial instruments | 356 | - | - | - | - | - | 356 |
| Financial assets at fair value through profit or loss | 269,644 | 247,018 | 18,989 | 253,885 | 312,109 | - | 1,101,645 |
| Investment securities available for sale | - | 3,650 | - | 21,676 | 617,918 | 4,979 | 648,223 |
| Investments in subsidiaries and equity method investments | - | - | - | - | - | 6,637 | 6,637 |
| TOTAL FINANCIAL ASSETS | 2,389,064 | 1,188,904 | 360,648 | 461,867 | 992,401 | 1,300,167 | 6,693,051 |
| LIABILITIES | | | | | | | |
| Due to banks | 6,657 | 80,403 | 4 | - | - | - | 87,064 |
| Due to customers | 2,954,435 | 357,246 | 345,289 | 1,913,622 | - | - | 5,570,592 |
| Derivative financial instruments | 594 | - | - | 585 | - | - | 1,179 |
| Other borrowed funds | 4 | 4,814 | - | - | - | - | 4,818 |
| Subordinated liabilities | 30 | - | 50,852 | - | - | - | 50,882 |
| TOTAL FINANCIAL LIABILITIES | 2,961,720 | 442,463 | 396,145 | 1,914,207 | - | - | 5,714,535 |
| NET INTEREST RATE GAP | (572,656) | 746,441 | (35,497) | (1,452,340) | 992,401 | 1,300,167 | 978,516 |

| As of December 31, 2017 Consolidated | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 847,723 | 847,723 |
| Due from banks | 713,348 | 352,601 | 488,739 | - | - | - | 1,554,688 |
| Loans and advances to customers, net | 1,766,019 | 236,378 | 101,767 | 139,800 | 15,928 | 1,034,673 | 3,294,565 |
| Derivative financial instruments | 484 | - | - | - | 1,353 | - | 1,837 |
| Financial assets at fair value through profit or loss | 41,865 | 5 | 21,643 | 238,827 | 297,777 | 4 | 600,121 |
| Investment securities available for sale | - | - | 16,193 | 15,613 | 622,241 | 26,559 | 680,606 |
| Investment securities held to maturity | - | - | - | - | 181,326 | - | 181,326 |
| Investments in associates | - | - | - | - | - | 29,707 | 29,707 |
| Other assets | - | - | - | - | - | 30,907 | 30,907 |
| TOTAL FINANCIAL ASSETS | 2,521,716 | 588,984 | 628,342 | 394,240 | 1,118,625 | 1,969,573 | 7,221,480 |
| LIABILITIES | | | | | | | |
| Due to banks | 9,920 | 433,533 | - | - | - | - | 443,453 |
| Due to customers | 4,292,919 | 473,259 | 296,110 | 824,674 | - | - | 5,886,962 |
| Derivative financial instruments | 4,055 | - | - | 790 | - | - | 4 845 |
| Other borrowed funds | - | - | 1,874 | - | - | - | 1,874 |
| TOTAL FINANCIAL LIABILITIES | 4,306,894 | 906,792 | 297,984 | 825,464 | - | - | 6,337,134 |
| NET INTEREST RATE GAP | (1,785,178) | (317,808) | 330,358 | (431,224) | 1,118,625 | 1,969,573 | 884,346 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**36. MARKET RISK (CONTINUED)**

| As of December 31, 2016<br>Consolidated | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 750,483 | 750,483 |
| Due from banks | 44,540 | 123,063 | 156,466 | 2,950 | - | - | 327,019 |
| Loans and advances to customers, net | 2,074,524 | 815,173 | 185,193 | 183,356 | 62,374 | 539,292 | 3,859,912 |
| Derivative financial instruments | 356 | | - | - | - | - | 356 |
| Financial assets at fair value through profit or loss | 269,644 | 247,018 | 18,989 | 253,885 | 312,109 | - | 1,101,645 |
| Investment securities available for sale | - | 3,650 | - | 21,676 | 617,918 | 4,980 | 648,224 |
| Equity method investments | - | - | - | - | - | 10,142 | 10,142 |
| TOTAL FINANCIAL ASSETS | 2,389,064 | 1,188,904 | 360,648 | 461,867 | 992,401 | 1,304,897 | 6,697,781 |
| LIABILITIES | | | | | | | |
| Due to banks | 6,657 | 80,403 | 4 | - | - | - | 87,064 |
| Due to customers | 2,951,031 | 357,246 | 344,389 | 1,913,622 | - | - | 5,566,288 |
| Derivative financial instruments | 594 | - | - | 585 | - | - | 1,179 |
| Other borrowed funds | 4 | 4,814 | - | - | - | - | 4,818 |
| Subordinated liabilities | 30 | - | 50,852 | - | - | - | 50,882 |
| TOTAL FINANCIAL LIABILITIES | 2,958,316 | 442,463 | 395,245 | 1,914,207 | - | - | 5,710,231 |
| NET INTEREST RATE GAP | (569,252) | 746,441 | (34,597) | (1,452,340) | 992,401 | 1,304,897 | 987,550 |

**37. LIQUIDITY RISK – UPDATE FOR KBC**

The liquidity risk is related to possible unfavorable impact to the profit and capital of the Bank 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. The Bank invests mainly in liquid assets and maintains an average of 46% ratio of liquid assets to total liabilities.Moreover, the Bank 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 the Bank 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 37. LIQUIDITY RISK – UPDATE FOR KBC (CONTINUED)

| As of 31 December 2017 Separate | Subject to notice and up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years and non-stated maturity | Total |
|---|---|---|---|---|---|---|
| TOTAL ASSETS | 4,219,038 | 588,983 | 73,754 | 374,667 | 1,841,150 | 7,097,592 |
| Due to banks | 443,053 | - | - | - | - | 443,053 |
| Due to customers | 4,774,836 | 297,648 | 742,813 | 83,414 | - | 5,898,711 |
| Derrivatives | 4,845 | | | | | 4,845 |
| Other borrowed funds | - | - | 1 | 1,929 | - | 1,930 |
| Other liabilities | 10,377 | - | - | - | - | 10,377 |
| TOTAL LIABILITIES | 5,233,110 | 297,648 | 742,814 | 85,343 | - | 6,358,915 |
| Contingent liabilities | 815,247 | - | - | - | - | 815,247 |

| As of 31 December 2016 Separate | Subject to notice and up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years and non-stated maturity | Total |
|---|---|---|---|---|---|---|
| TOTAL ASSETS | 1,655,235 | 588,496 | 650,462 | 916,650 | 3,622,947 | 7,433,790 |
| Due to banks | 89,790 | 4 | - | - | - | 89,794 |
| Due to customers | 3,315,612 | 347,139 | 1,605,210 | 315,128 | - | 5,583,089 |
| Other borrowed funds | 1,179 | | | | | 1,179 |
| Subordinated liabilities | 3 | 4,938 | - | - | - | 4,941 |
| Other liabilities | 30 | - | 50,963 | - | - | 50,993 |
| TOTAL LIABILITIES (contractual maturity dates) | 23,174 | - | - | - | - | 23,174 |
| Contingent liabilities | 3,4229,788 | 352,081 | 1,656,173 | 315,128 | - | 5,753,170 |

| | 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 |
|---|---|---|---|---|---|---|
| TOTAL ASSETS | 1,680,061 | 588,496 | 650,462 | 916,650 | 3,659,005 | 7,494,674 |
| Due to banks | 443,052 | - | - | - | - | 443,052 |
| Due to customers | 4,774,836 | 297,648 | 742,813 | 83,414 | - | 5,898,711 |
| Derrivatives | 4,845 | | | | | 4,845 |
| Other borrowed funds | - | - | 1 | 1,929 | - | 1,930 |
| Other liabilities | 10,544 | - | - | - | - | 10,544 |
| TOTAL LIABILITIES (contractual maturity dates) | 5,233,277 | 297,648 | 742,814 | 85,343 | - | 6,355,416 |
| Contingent liabilities | 815,247 | - | - | - | - | 815,247 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 37. LIQUIDITY RISK – UPDATE FOR KBC (CONTINUED)

| As of 31 December 2016 Consolidated | Subject to notice and up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years and non-stated maturity | Total |
|---|---|---|---|---|---|---|
| TOTAL ASSETS | 1,655,463 | 588,496 | 650,462 | 916,650 | 3,626,427 | 7,437,498 |
| Due to banks | 89,790 | 4 | - | - | - | 89,794 |
| Due to customers | 3,312,208 | 346,239 | 1,605,210 | 315,128 | - | 5,578,785 |
| Derrivatives | 1,179 | | | | | 1,179 |
| Other borrowed funds | 3 | 4,938 | - | - | - | 4,941 |
| Subordinated liabilities | 30 | - | 50,963 | - | - | 50,993 |
| Other liabilities | 23,503 | - | - | - | - | 23,503 |
| TOTAL LIABILITIES (contractual maturity dates) | 3,426,713 | 351,181 | 1,656,173 | 315,128 | - | 5,749,195 |
| Contingent liabilities | 825,346 | - | - | - | - | 825,346 |

**Assets pledged and re-pledged**

Separate

| Category of the assets pledged | Portfolio | Type of the transaction | Book value of underlying collateral December 31, 2017 | Carrying amount of related liability, December 31, 2017 | Book value of underlying collateral, December 31, 2016 | Carrying amount of related liability, December 31, 2016 |
|---|---|---|---|---|---|---|
| Government bonds | HFT | Repo deals | | | 1,074 | 1,103 |
| Government bonds | AFS | Government deposits | 85,646 | 58,823 | 56 819 | 44,544 |
| Government bonds | AFS | EBRD line | 4,408 | 1,874 | 7 496 | 4,819 |
| Loans | | BDB line | - | - | - | - |
| | | | 90,054 | 60,697 | 65,389 | 50,466 |

Consolidated

| Category of the assets pledged | Portfolio | Type of the transaction | Book value of underlying collateral December 31, 2017 | Carrying amount of related liability, December 31, 2017 | Book value of underlying collateral, December 31, 2016 | Carrying amount of related liability, December 31, 2016 |
|---|---|---|---|---|---|---|
| Government bonds | HFT | Repo deals | - | - | 1,074 | 1,103 |
| Government bonds | AFS | Government deposits | 85,646 | 58,823 | 56 819 | 44,544 |
| Government bonds | AFS | EBRD line | 4,408 | 1,874 | 7 496 | 4,819 |
| Loans | | BDB line | - | - | - | - |
| | | | 90,054 | 60,697 | 65,389 | 50,466 |

**Available-for-sale investments pledged as collateral**
The Bank services accounts of the State Budget of the Republic of Bulgaria. This requires the existence of blocked government securities up to the amount of the serviced State Budget funds. At 31 December 2017 the Bank had blocked government securities amounting to BGN 88,630 thousand (2016: BGN 67,414 thousand). In relation to repo agreements, the Bank pledges government bonds to secure the liability for the entire term of the contract and ar 31 December 2017 the Bank had no blocked securities for such agreements compare to 2016 – BGN 1,074 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 38. 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 the Bank/Group's statement of financial position at fair value.

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Separate | Carrying amount | Fair value | Carrying amount | Fair value |
| ASSETS | | | | |
| Cash and balances with the Central Bank | 847,722 | 847,722 | 750,483 | 750,483 |
| Due from other banks | 1,554,688 | 1,554,688 | 327,019 | 327,019 |
| Loans and advances to customers, net | 3,293,042 | 3,322,212 | 3,858,688 | 3,979,183 |
| Non-current assets held for sale | - | - | - | - |
| TOTAL ASSETS | 5,695,452 | 5,724,622 | 4,936,190 | 5,056,685 |
| LIABILITIES | | | | |
| Due to customers | 5,893,632 | 5,894,883 | 5,570,592 | 5,574,868 |
| Other borrowed funds | 1,874 | 1,870 | 4,818 | 4,814 |
| Subordinated liabilities | - | - | 50,882 | 50,943 |
| TOTAL LIABILITIES | 5,895,506 | 5,896,753 | 5,626,292 | 5,630,625 |

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Consolidated | Carrying amount | Fair value | Carrying amount | Fair value |
| ASSETS | | | | |
| Cash and balances with the Central Bank | 847,723 | 847,723 | 750 ,483 | 750 483 |
| Due form other banks | 1,554,688 | 1,554,688 | 327,019 | 327,019 |
| Loans and advances to customers, net | 3,294,565 | 3,322,212 | 3,859,912 | 3,980,407 |
| Non-current assets held for sale | - | - | - | ,- |
| TOTAL ASSETS | 5,696,976 | 5,724,623 | 4,937,414 | 5,057,909 |
| LIABILITIES | | | | |
| Due to customers | 5,886,962 | 5,888,213 | 5,566,288 | 5,570,564 |
| Other borrowed funds | 1,874 | 1,870 | 4,818 | 4,814 |
| Subordinated liabilities | - | - | 50,882 | 50 943 |
| TOTAL LIABILITIES | 5,888,836 | 5,890,083 | 5,621,988 | 5,626,321 |

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2017 and 2016:

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

**Financial instruments measured at fair value**

The tables below present the fair values of those financial assets and liabilities recorded on the Bank's/Group's statement of financial position measured at fair value as of 31 December 2017 and 2016.

| As of December 31, 2017 | | Fair value measurement using | | |
|---|---|---|---|---|
| Separate | Level 1 | Level 2 | Level 3 | Total assets/ liabilities at fair value |
| Assets | | | | |
| Financial assets at fair value through profit and loss | - | 600,121 | - | 600,121 |
| Derivative financial instruments | - | 1,837 | - | 1,837 |
| Available-for-sale investment securities | 7,295 | 661,410 | 6,348 | 675,053 |
| Held to maturity | - | 180,418 | - | 180,418 |
| Total Assets | 7,295 | 1443,786 | 6,348 | 1,457,429 |
| Liabilities | | | | |
| Derivative financial instruments | - | 4,845 | - | 4,845 |
| Total liabilities | - | 4,845 | - | 4,845 |

| As of December 31, 2016 | | Fair value measurement using | | |
|---|---|---|---|---|
| Separate | Level 1 | Level 2 | Level 3 | Total assets/ liabilities at fair value |
| Assets | | | | |
| Financial assets at fair value through profit and loss | - | 1,101,645 | - | 1,101,645 |
| Derivative financial instruments | - | 356 | - | 356 |
| Available-for-sale investment securities | 6,790 | 623,285 | 12,596 | 642,671 |
| Total Assets | 6,790 | 1,725,286 | 12,596 | 1,744,672 |
| Liabilities | | | | |
| Derivative financial instruments | - | 1,179 | - | 1,179 |
| Total liabilities | - | 1,179 | - | 1,179 |

| As of December 31, 2017 | | Fair value measurement using | | |
|---|---|---|---|---|
| Consolidated | Level 1 | Level 2 | Level 3 | Total assets/ liabilities at fair value |
| Assets | | | | |
| Financial assets at fair value through profit and loss | - | 600,121 | - | 600,121 |
| Derivative financial instruments | - | 1,837 | - | 1,837 |
| Available-for-sale investment securities | 7,295 | 661,410 | 6,348 | 675,053 |
| Held to maturity | | 180,418 | | 180,418 |
| Total Assets | 7,295 | 1,443786 | 6,348 | 1,457,429 |
| Liabilities | | | | |
| Derivative financial instruments | - | 4,845 | - | 4,845 |
| Total liabilities | - | 4,845 | - | 4,845 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

**Financial instruments measured at fair value (continued)**

| As of December 31, 2016 | | | | Fair value measurement using |
|---|---|---|---|---|
| Consolidated | Level 1 | Level 2 | Level 3 | Total assets/ liabilities at fair value |
| Assets | | | | |
| Financial assets at fair value through profit and loss | - | 1,101,645 | - | 1,101,645 |
| Derivative financial instruments | - | 356 | - | 356 |
| Available-for-sale investment securities | 6,790 | 623,285 | 12,596 | 642,671 |
| Total Assets | 6,790 | 1,725,286 | 12,596 | 1,744,672 |
| Liabilities | | | | |
| Derivative financial instruments | - | 1,179 | - | 1,179 |
| Total liabilities | - | 1,179 | - | 1,179 |

No transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2016.

Level 3 financial instruments at December 31, 2017 include:

(a) available-for-sale securities, which are price-based and the price is subject to liquidity adjustments or credit value adjustments and

(b) available-for-sale non-marketable equity securities, 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.

The Bank/Group conducts a review of the fair value hierarchy classifications on a quarterly basis.
The table below presents a reconciliation of all Level 3 fair value measurements for the period ended December 31, 2017, including realized and unrealized gains/(losses) included in the "income statement" and "statement of other comprehensive income".

No transfers into or out of Level 3 occurred for the year ended December 31, 2017.

**Reconciliation of fair value measurements in Level 3**

| Separate | Available-for-sale investment securities as of 2017 | Available-for-sale investment securities as of 2016 |
|---|---|---|
| Balance at 1 January | 12,596 | 31,133 |
| Gains / (losses) included in income statement | - | 16,337 |
| Gains / (losses) included in the statement of other comprehensive income | (4,425) | (16,320) |
| Sales | (1,823) | - |
| Transfer into/ (out of) level 3 | - | (18,554) |
| Balance at 31 December | 6,348 | 12,596 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

**Reconciliation of fair value measurements in Level 3 (continued)**

| Consolidated | Available-for-sale investment securities as of 2017 | Available-for-sale investment securities as of 2016 |
|---|---|---|
| Balance at 1 January | 12,596 | 31,133 |
| Gains / (losses) included in income statement | - | 16,337 |
| Gains / (losses) included in the statement of other comprehensive income | (4,425) | (16,320) |
| Sales | (1,823) | - |
| Transfer into/ (out of) level 3 | - | (18,554) |
| Balance at 31 December | 6,348 | 12,596 |

**Valuation Process and Control Framework**

The Bank/Group 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, the Bank/Group 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 the Bank/Group considers it appropriate.

The Bank/Group 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 Division 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 Division 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.

| Financial Instrument | Fair Value thousand BGN | Valuation Technique | Significant Unobservable Input | Range of Inputs | |
|---|---|---|---|---|---|
| | | | | Low | High |
| Investment Securities - Available-for-Sale - BONDS | 3,587 | Valuation based on the collateral | - Collateral valuation | 3 587 | 5 759 |
| | | | - Collateral value | 8 860 | 8 860 |
| | | | - Adjustment factor | 40% | 65% |
| Investment Securities - Available-for-Sale SHARES | 2,761 | Auction price from the forced sale of the shares of InterV Investment SARL | - | - | |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 38. FAIR VALUE OF ASSETS AND LIABILITIES DISCLOSURE (CONTINUED)

**Sensitivity of Fair Value Measurements to Changes in Unobservable inputs**

Due to the Bank/Group'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 the Bank/Group.

## 39. CAPITAL AND CAPITAL BASE

The Bank/Group determines its risk-bearing capacity on the basis of the capital resources, available for covering losses, generated by the Bank's/Group's risk profile. During the management of its capital-at-risk, the Bank/Group observes the regulatory instructions, as well as its own objectives.

The minimum requirements, applicable to Bulgaria following the implementation of the requirements of Directive 2013/36/EU and Regulation (EU) No 575/2013 in 2016, include maintaining of total capital adequacy of not less than 13.5% and tier-one capital adequacy of not less than 11.5% . These levels include respectively 8% total capital adequacy and 6% tier-one capital adequacy, as well as 2.5% Capital Conservation Buffer and 3% Systemic Risk Buffer.

The Bank/Group has complied with the regulatory requirements of minimum capital adequacy for 2017 and for 2016.

In accordance with the regulatory framework the Bank/Group 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 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Paid up Capital Instruments | 75,964 | 75,964 | 75,964 | 75,964 |
| Reserves, incl. retained earnings | 828,178 | 865,824 | 839,495 | 872,725 |
| Other comprehensive income | 71,921 | 29,294 | 72,812 | 30,716 |
| Common Equity Tier I deductions | (59,288) | (21,882) | (62,333) | (22,656) |
| Common Equity Tier I Capital (CET1) | 916,775 | 949,200 | 925,938 | 956,749 |
| Total Tier I Capital | 916,775 | 949,200 | 925,938 | 956,749 |
| Subordinated debt | - | 41,003 | - | 41,003 |
| Tier II deductions (see below) | | - | - | - |
| Tier II Capital | - | 41,003 | - | 41,003 |
| Additional deductions from Tier I and Tier II Equity | | | | |
| Total Regulatory Capital (own funds) | 916,775 | 990,203 | 925,938 | 997,752 |
| Common Equity Tier 1 Capital ratio | 24.14% | 23.24% | 24.26% | 23.32% |
| Tier 1 Capital ratio | 24.14% | 23.24% | 24.26% | 23.32% |
| Total capital ratio | 24.14% | 24.25% | 24.26% | 24.32% |
| Surplus(+)/Deficit(-) of total capital | 612,989 | 663,485 | 620,586 | 669,477 |

Tier II capital in 2016 consist of subordinate term debt that includes provided long-term loans by National Bank ofGreece S.A. with initial value of EUR 130 million (in local currency BGN 254 million). The regulatory eligible subordinated debt amount after repayment according to schedule and regulatory required amortizations as of December 2016 is EUR 26 million (in local currency BGN 52 million).

***Risk Weighted Assets***

The changes in the RWA structure and amounts are related to the respective changes in Bank/Group's assets structure.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 39. CAPITAL AND CAPITAL BASE (CONTINUED)

***Capital requirements***

As of December 31, 2017 and December 31, 2016 the capital requirements for credit, market and operational risks are, as follows:

| ***Risk Weighted Assets*** | As of 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| Credit Risk, including exposures to: | 3,070,587 | 3,364,421 | 3,085,598 | 3,380,006 |
| Central governments or central banks | - | - | - | - |
| Regional governments or local authorities | 117 | 5,694 | 117 | 5,694 |
| Institutions | 198,550 | 72,128 | 198,550 | 72,128 |
| Corporates | 889,532 | 1,072,179 | 890,933 | 1,072,590 |
| Retail | 849,846 | 836,139 | 856,718 | 842,130 |
| Secured by mortgages on immovable property | 393,611 | 469,058 | 393,611 | 469,058 |
| Exposures in default | 481,668 | 741,303 | 481,856 | 741,363 |
| Collective investments undertakings (CIU) | 7,078 | - | 7,078 | - |
| Equity | 78,974 | 33,822 | 84,979 | 42,391 |
| Other items | 171,211 | 134,098 | 171,756 | 134,652 |
| Operational Risk | 572,019 | 507,375 | 576,567 | 511,256 |
| Market Risk | 152,425 | 209,563 | 152,425 | 209,563 |
| Credit Valuation Adjustment (CVA) | 2,300 | 2,613 | 2,300 | 2,613 |
| TOTAL RISK EXPOSURE AMOUNT | 3,797,331 | 4,083,972 | 3,816,890 | 4,103,437 |

Solo basis

The Bank's capital position stands strong. . The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.04% (based on total Regulatory Capital on solo basis at BGN 911million) and Tier 1 capital adequacy amounts to 24.04%.

Consolidated basis

The Bank's capital position stands strong. . The total capital adequacy as of December 31st 2017, as per CRD IV regulatory framework amounts to 24.16% (based on total Regulatory Capital on consolidated basis at BGN 920 million) and Tier 1 capital adequacy amounts to 24.16%.

## 40. RELATED PARTY TRANSACTIONS

The ultimate parent bank is KBC Group NV, Belgium. The Bank/Group 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.

## 40. 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, 2017 the Bank/Group has performed transactions with the following related parties:

| Related parties | Type of relation |
|---|---|
| KBC Group | Parent Bank |
| KBC Bank N.V. | Entity under control of Parent Bank |
| Interlease EAD | Entity under control of Parent Bank |
| CIBANK EAD | Entity under control of Parent Bank |
| DZI - Life Insurance EAD | Entity under control of Parent Bank |
| DZI - General Insurance EAD | Entity under control of Parent Bank |
| UBB Asset Management AD | Subsidiary |
| UBB Insurance Broker AD | Subsidiary |
| UBB Factoring EOOD | Subsidiary |
| UBB Life Insurance EAD | Associate Entity |
| Druzhestvo za Kasovi Uslugi AD | Associate Bank |
| UBB Balanced Fund | Mutual funds managed by Subsidiary |
| UBB Premium Shares Fund | Mutual funds managed by Subsidiary |
| UBB Platinum Bonds Fund | Mutual funds managed by Subsidiary |

As of December 31, 2016 the Bank/Group has performed transactions with the following related parties:

| Related parties | Type of relation |
|---|---|
| National Bank of Greece S.A. | Parent Bank |
| Interlease EAD | Entity under control of Parent Bank |
| Stopanska Banka AD | Entity under control of Parent Bank |
| Ethnodata S.A. | Entity under control of Parent Bank |
| NBG Management Services LTD | Entity under control of Parent Bank |
| ARC Management Two EAD | Entity under control of Parent Bank |
| NBG Securities S.A. | Entity under control of Parent Bank |
| NBG Cyprus Ltd | Entity under control of Parent Bank |
| Banca Romaneasca S.A. | Entity under control of Parent Bank |
| Vojvodjanska Banka a.d. Novi Sad | Entity under control of Parent Bank |
| NBG Bank Malta Ltd | Entity under control of Parent Bank |
| Banka NBG Albania Sh.a. | Entity under control of Parent Bank |
| Bankteco EOOD | Entity under control of Parent Bank |
| UBB Asset Management AD | Subsidiary |
| UBB Insurance Broker AD | Subsidiary |
| UBB Factoring EOOD | Subsidiary |
| UBB Life Insurance EAD | Associate Entity |
| Druzhestvo za Kasovi Uslugi AD | Associate Bank |
| UBB Balanced Fund | Mutual funds managed by Subsidiary |
| UBB Premium Shares Fund | Mutual funds managed by Subsidiary |
| UBB Platinum Bonds Fund | Mutual funds managed by Subsidiary |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2017 and 2016 the Bank's outstanding balances are as follows:

| Separate | | As of | As of |
|---|---|---|---|
| Related parties | Type of transaction | 31.12.2017 | 31.12.2016 |
| Parent Bank | ASSETS | | |
| Parent Bank | Reverse Repo deals (deal. interest %: -0.4 до 0.15; weighted average int. %: -0.40) | 528,067 | 122,585 |
| Parent Bank | Loans and advances to banks (deal. interest %: -0.32 до 0.01; weighted average int. %: -0.32 ) | 1 | 939 |
| Parent Bank | Derivatives | 576 | - |
| Parent Bank | Nostro accounts | 673,181 | 145 |
| Parent Bank | TOTAL ASSETS | 1,201,825 | 123,669 |
| Parent Bank | LIABILITIES | | |
| Parent Bank | Subordinated term debt | 220 | 50,882 |
| Parent Bank | Deposits received(deal. interest. %: 0 до 8.05; weighted average int. %: 1.30 ) | 58,675 | 11,442 |
| Parent Bank | Derivatives | 4,182 | 161 |
| Parent Bank | Other liabilities | 1 | 926 |
| Parent Bank | TOTAL LIABILITIES | 63,078 | 63,411 |
| Parent Bank | OFF-BALANCE | | |
| Parent Bank | Financial guarantees(dealed fees 0,1% - 0,3%) | - | 2,739 |
| Parent Bank | TOTAL OFF-BALANCE | - | 2,739 |
| | | | |
| Entities under control of Parent Bank | ASSETS | | |
| Entities under control of Parent Bank | Deposits to banks(deal. interest %: -0.32 до 0.01; weighted average int. %: -0.32 ) | 186,459 | - |
| Entities under control of Parent Bank | Loans granted(deal. interest %: 0; 5) | 60,161 | 133,025 |
| Entities under control of Parent Bank | Other receivables | 1,771 | 2927 |
| Entities under control of Parent Bank | Loans and advances to banks(deal. interest %: -0.32 до 0.01; weighted average int. %: -0.32 ) | 57,869 | 848 |
| Entities under control of Parent Bank | TOTAL ASSETS | 306,260 | 136,800 |
| Entities under control of Parent Bank | LIABILITIES | | |
| Entities under control of Parent Bank | Current acounts (deal. interest. %: 0 до 8.05; weighted average int. %: 1.30 ) | 13,779 | - |
| Entities under control of Parent Bank | Other liabilities | 31 | 10,718 |
| Entities under control of Parent Bank | Deposits received(deal. interest. %: 0 до 8.05; weighted average int. %: 1.30 ) | 371,608 | 9,017 |
| Entities under control of Parent Bank | TOTAL LIABILITIES | 385,417 | 19,735 |
| Entities under control of Parent Bank | OFF-BALANCE | | |
| Entities under control of Parent Bank | Financial guarantees(dealed fees 0,1% - 0,3%) | - | 755 |
| Entities under control of Parent Bank | Unutilized loans | - | 9,148 |
| Entities under control of Parent Bank | TOTAL OFF-BALANCE | - | 9,903 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

| Separate<br>Related parties | Type of transaction | As of<br>31.12.2017 | As of<br>31.12.2016 |
|---|---|---|---|
| Subsidiaries | ASSETS | | |
| Subsidiaries | Loans granted(deal. interest %: 0; 5) | 14,953 | 12,971 |
| Subsidiaries | Other receivables | 33 | 20 |
| Subsidiaries | TOTAL ASSETS | 14,986 | 12,991 |
| Subsidiaries | LIABILITIES | | |
| Subsidiaries | Deposits received(deal. interest. %: 0 до 8.05; weighted average int. %: 1.30 ) | 6,678 | 4,311 |
| Subsidiaries | Other liabilities | 9 | 8 |
| Subsidiaries | TOTAL LIABILITIES | 6,687 | 4,319 |
| Subsidiaries | OFF-BALANCE | | |
| Subsidiaries | Unutilized loans | 5,584 | 7,565 |
| Subsidiaries | TOTAL OFF-BALANCE | 5,584 | 7,565 |
| Associate companies | ASSETS | | |
| Associate companies | Other assets | 199 | 588 |
| Associate companies | TOTAL ASSETS | 199 | 588 |
| Associate companies | LIABILITIES | | |
| Associate companies | Deposits received(deal. interest. %: 0 до 8.05; weighted average int. %: 1.30 ) | 3,047 | 7,967 |
| Associate companies | TOTAL LIABILITIES | 3,047 | 7,967 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2017 and 2016 the Group's outstanding balances are as follows:

| Consolidated<br>Related parties | Type of transaction | As of<br>31.12.2017 | As of<br>31.12.2016 |
|---|---|---|---|
| | ASSETS | | |
| Parent Bank | Amounts receivable on sale of assets | 528,067 | 122,585 |
| Parent Bank | Loans and advances to banks | 1 | 939 |
| Parent Bank | Derivatives | 576 | |
| Parent Bank | Other assets | 673,181 | 145 |
| Parent Bank | TOTAL ASSETS | 1,201 825 | 123,669 |
| Parent Bank | LIABILITIES | | |
| Parent Bank | Subordinated term debt | 220 | 50,882 |
| Parent Bank | Deposits received | 58,675 | 11,442 |
| Parent Bank | Derivatives | 4,182 | 161 |
| Parent Bank | Other liabilities | 1 | 926 |
| Parent Bank | TOTAL LIABILITIES | 63,078 | 63,411 |
| Parent Bank | OFF-BALANCE | | |
| Parent Bank | Financial guarantees | - | 2,739 |
| Parent Bank | TOTAL OFF-BALANCE | - | 2,739 |
| Entities under control of Parent Bank | ASSETS | | |
| Entities under control of Parent Bank | Deposits to banks | 186,459 | |
| Entities under control of Parent Bank | Loans granted | 60,161 | 133,025 |
| Entities under control of Parent Bank | Other receivables | 1,771 | 2927 |
| Entities under control of Parent Bank | Loans and advances to banks | 57,869 | 848 |
| Entities under control of Parent Bank | TOTAL ASSETS | 306,260 | 136,800 |
| Entities under control of Parent Bank | LIABILITIES | | |
| Entities under control of Parent Bank | Current acounts | 13,779 | - |
| Entities under control of Parent Bank | Other liabilities | 31 | 10,718 |
| Entities under control of Parent Bank | Deposits received | 371,608 | 9,017 |
| Entities under control of Parent Bank | TOTAL LIABILITIES | 385,417 | 19,735 |
| Entities under control of Parent Bank | OFF-BALANCE | | |
| Entities under control of Parent Bank | Financial guarantees | - | 755 |
| Entities under control of Parent Bank | Unutilized loans | - | 9,148 |
| Entities under control of Parent Bank | TOTAL OFF-BALANCE | - | 9,903 |
| Associate companies | ASSETS | | |
| Associate companies | Other assets | 199 | 613 |
| Associate companies | TOTAL ASSETS | 199 | 613 |
| Associate companies | LIABILITIES | | |
| Associate companies | Deposits received | 3,047 | 7,967 |
| Associate companies | TOTAL LIABILITIES | 3,047 | 7,967 |

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Bank during 2017 and 2016 from deals with related parties are as follows:

| Separate<br>Related parties | Type of transaction | As of<br>31.12.2017 | As of<br>31.12.2016 |
|---|---|---|---|
| Parent Bank | INCOME | | |
| Parent Bank | Other income | 12 | 624 |
| Parent Bank | Income from fees and commissions | - | 8 |
| Parent Bank | Due from reverse REPOS | (231,547) | (13) |
| Parent Bank | TOTAL INCOME | (231,535) | 619 |
| Parent Bank | EXPENSE | | |
| Parent Bank | General administrative expenses | - | 3,653 |
| Parent Bank | Interest expense | 1,711 | 439 |
| Parent Bank | TOTAL EXPENSE | 1,711 | 4,092 |
| | | | |
| Entities under control of Parent Bank | INCOME | | |
| Entities under control of Parent Bank | Interest income | 1 329 | 4,329 |
| Entities under control of Parent Bank | Other income | 6 | 1,318 |
| Entities under control of Parent Bank | Income from fees and commissions | 405 | 349 |
| Entities under control of Parent Bank | TOTAL INCOME | 1 740 | 5,996 |
| Entities under control of Parent Bank | EXPENSE | | |
| Entities under control of Parent Bank | Other operating expenses | 6 | 941 |
| Entities under control of Parent Bank | Interest expense | 11 | 30 |
| Entities under control of Parent Bank | TOTAL EXPENSE | 17 | 971 |
| | | | |
| Subsidiaries | INCOME | | |
| Subsidiaries | Interest income | 290 | 312 |
| Subsidiaries | Other operating income | 78 | 169 |
| Subsidiaries | Income from fees and commissions | 102 | 1 |
| Subsidiaries | TOTAL INCOME | 470 | 313 |
| Subsidiaries | EXPENSE | | |
| Subsidiaries | Expense from fees and commissions | 88 | 68 |
| Subsidiaries | Interest expense | 23 | 55 |
| Subsidiaries | TOTAL EXPENSE | 111 | 292 |
| | | | |
| Associate companies | INCOME | | |
| Associate companies | Commission income | 1,195 | 8,422 |
| Associate companies | TOTAL INCOME | 1,195 | 8,422 |
| Associate companies | EXPENSE | | |
| Associate companies | Cash Service costs | 241 | 1,964 |
| Associate companies | Other operating expenses | - | 280 |
| Associate companies | Interest expense | 5 | 11 |
| Associate companies | TOTAL EXPENSE | 246 | 2,255 |

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

Income and expenses, realized by the Group during 2017 and 2016 from transactions with related parties are as follows:

Consolidated

| Related parties | Type of transaction | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|
| Parent Bank | INCOME | | |
| Parent Bank | Other income | 12 | 624 |
| Parent Bank | Income from fees and commissions | - | 8 |
| Parent Bank | Due from reverse REPOS | (231,547) | (13) |
| Parent Bank | TOTAL INCOME | (231,535) | 619 |
| Parent Bank | EXPENSE | | |
| Parent Bank | General administrative expenses | - | 3,653 |
| Parent Bank | Interest expense | 1,711 | 439 |
| Parent Bank | TOTAL EXPENSE | 1,711 | 4,092 |
| Entities under control of Parent Bank | INCOME | | |
| Entities under control of Parent Bank | Interest income | 1 329 | 4,329 |
| Entities under control of Parent Bank | Other income | 6 | 1,318 |
| Entities under control of Parent Bank | Income from fees and commissions | 405 | 349 |
| Entities under control of Parent Bank | TOTAL INCOME | 1 740 | 5,996 |
| Entities under control of Parent Bank | EXPENSE | | |
| Entities under control of Parent Bank | Other operating expenses | 6 | 941 |
| Entities under control of Parent Bank | Interest expense | 11 | 30 |
| Entities under control of Parent Bank | TOTAL EXPENSE | 17 | 971 |
| Associate companies | INCOME | | |
| Associate companies | Commission income | 1,195 | 8,719 |
| Associate companies | TOTAL INCOME | 1,195 | 8,719 |
| Associate companies | EXPENSE | | |
| Associate companies | Cash Service costs | 241 | 1,964 |
| Associate companies | Other operating expenses | - | 280 |
| Associate companies | Interest expense | 5 | 11 |
| Associate companies | TOTAL EXPENSE | 246 | 2,255 |

**The remuneration to Members of Board of Directors** during the year consists of short-term employee benefits such as salaries and social insurance and health insurance contributions, annual paid leave and paid sick leave and bonuses.

The total amount of remuneration for 2017 is 2,067 BGN thousand (2016: BGN 668 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 40. RELATED PARTY TRANSACTIONS (CONTINUED)

**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.

The Bank/Group 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 31.12.2017 Separate | As of 31.12.2016 Separate | As of 31.12.2017 Consolidated | As of 31.12.2016 Consolidated |
|---|---|---|---|---|
| UBB Balanced Fund | 2,830 | 2,687 | 2,830 | 2,687 |
| UBB Premium Shares Fund | 2,676 | 2,441 | 2,676 | 2,441 |
| UBB Platinum Bonds Fund | 1,572 | 1,546 | 1,572 | 1,546 |
| Total | 7,078 | 6,674 | 7,078 | 6,674 |

## 41. INFORMATION BASED ON REQUIREMENT OF ART. 70 § 6 FROM LAW FOR CREDIT INSTITUTIONS

The Bank holds a bank license granted by the Bulgarian National Bank to take deposits in local and foreign currency, trade with foreign currencies, trade with and invest in treasury bonds and other securities and perform other banking operations. The Bank does not have subsidiaries and branches located outside Bulgaria. The subsidiaries are operating in insurance brokerage, assets management and factoring line of business. The Bank/Group has not received any government grants as of December 31, 2017. The separate and consolidated performance is presented below:

| 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% |

| As at December 31, 2016 | 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 | 404,483 | 2,559 | 123,634 | (12,373) | 1.63% |
| Group | Bulgaria | 408,528 | 2,620 | 124,922 | (12,830) | 1.64% |

## 42. EVENTS AFTER THE REPORTING PERIOD

**Merger of UBB and Cibank**

On 5th February 2018, a merger between United Bulgarian Bank AD (UBB) and CIBANK EAD was registered in the Commercial Registry. 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.

The consideration in accordance with the merger agreement was the exchange of shares, without additional payments. The exchange ratio for the KBC shares in CIBANK EAD was 1 share in CIBANK EAD for 0.78419 shares in United Bulgarian Bank AD.

UBB issued new shares in relation to the merger. The share capital of the Bank/Group was 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 the new shares were subscribed by KBC, being the shareholder of CIBANK.

After the merger KBC still maintains 99.91% of the shares of the UBB.

As of 5 February 2018 (the date of merger) CIBANK has the follow major positions:

| | in thousand BGN |
|---|---|
| Cash and balances with the Central Bank | 396,600 |
| Financial assets at fair value through other comprehensive income | 528,901 |
| Financial assets at amortised cost | 1,820,783 |
| Financial liabilities at amortised cost | 2,469,149 |
| Share capital | 227,933 |
| Undistributed profit from previous years | 93,218 |

**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.