ANNUAL DISCLOSURE
YEAR 2017
ON CONSOLIDATED BASIS

Pursuant to Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (Part Eight - Disclosure by Institutions)

CONTENT

UNITED BULGARIAN BANK AD ("UBB" or the "Bank") is registered in the Republic of Bulgaria, with head office – the city of Sofia, 89B "Vitosha" Blvd., "Millennium Center".

Main shareholder of UBB is KBC Bank NV ("KBC"), holder of 99.9% of the registered capital. The Bank holds a full license for performing banking and financial operations in this country and abroad.

1. Scope and Consolidation Methods

This disclosure report has been prepared on a consolidated basis with data as of December 31, 2017, as per Article 70 para.3 of the Law on Credit Institutions.

The subsidiaries and affiliated companies in the corporate structure of UBB as of December 2017 are the following:

Company	Share of the company's capital	Consolidation
UBB Factoring EOOD	100%	Fully consolidated
UBB Asset Management AD	91%	Fully consolidated
UBB Insurance Broker AD	100%	Fully consolidated
UBB Metlife Life Insurance Company AD*	60%	Equity Method Investment
Cash Services Company AD	20%	Equity Method Investment

The last two companies are not deducted from the own funds in compliance with Art. 48 and 89 of the Regulation 575/2013 and are included in the RWA at 100% or 250%.

2. Risk Management Policies and Rules

The Bank aims at adopting best practices regarding risk governance, taking into account all relevant guidelines and regulatory requirements. The Bank's risk governance framework is organized at three levels:

Strategic – Risk management is first and foremost the responsibility of the Management Board (MB). Management Board make all decisions regarding the risk management framework of the Bank, the risk limits and appetite and the risk management policies, assisted by the MB Local Risk Management Committee (LRMC). Supervisory Board (SB) approves and controls the proposed by Management Board risk management framework and risk appetite, assisted by the Risk and Compliance Committee (RCC).

Tactical – UBB Senior Management has the responsibility to implement the Risk Management Framework and Risk Appetite, defined by the Management Board and approved by the Supervisory Board, across the organisation.

UBB Chief Risk Officer (CRO) translates the Vision, Mission and Strategy of the Group Risk to the UBB level and presents it to the Management Board for decision.

The role of the CRO is to ensure that business entities operate within their defined playing field, as well as to help and enable business entities to fully and effectively incorporate a risk perspective in their decisions and to effect cultural change. The CRO’s scope of the responsibilities covers all risk types and all businesses entities.

Risk Management Directorate, headed by a Director, supports the CRO and is responsible for the development, maintenance, reporting and general oversight of risk management, as well as the verification that the risks undertaken by the Bank in the course of its business activities remain within the limits approved by the MB/LRMC.

The CRO leads the LRMC and reports to the Bank’s CEO and whenever he considers necessary, has direct access to the Group Risk Management of KBC, as well as to Risk and Compliance committee (RCC) of the Supervisory Board and Audit Committee. The Risk Management Directorate and its Director are actively involved in senior management risk-related committees.

Operational – it encompasses the different lines of Business and business units and refers to the management of risks at the point of their inception. The risk framework for this type of risks provides for the creation and maintenance of appropriate control systems, detailed in specific procedures and instructions.

The risk management model in UBB consists of three lines of defense:

1) The first line includes the business units that are responsible for the risk management framework’s application within the playing field defined by the bank’s risk appetite.

2) The second line of defense is Risk Management Directorate, which proposes and arranges for the implementation of the Bank risk management framework and risk appetite, identifies controls, assesses risks, provides appropriate tools and methodologies for that purpose. Another key component of the second line of defense is the Compliance Directorate, which ensures that the Bank operates with integrity and in compliance with applicable laws, regulations, supervisory requirements and Bank’s internal acts.

3) The third line of defense is the UBB Internal Audit, which provides independent review of the risk management systems.

Risk Management Directorate manages and coordinates the overall process on the implementation of the Basel Accord standards at UBB, in full coordination with the respective program at KBC Group level. All strategies, policies and procedures for management and analysis of the main risk types, including that of capital adequacy, have been reconciled with KBC Group. The Bank has taken appropriate actions for the implementation of Basel III (CRD IV framework) regulatory requirements and IFRS9 framework.

Risk Management policies handle the identification and analysis of risks which the Bank undertakes, and determine appropriate limits and control procedures. The policies and the procedures are regularly reviewed in order to incorporate the latest changes in the regulatory frameworks, market conditions and the products and services offered by the bank.

Risk measurement and assessment is performed through utilization of methods based on the best banking practices; the accepted methodologies and procedures are regularly reviewed and updated from the involved units/bodies.

There is ongoing and effective monitoring of the risks undertaken by the Bank. Risk Management Directorate informs the Executive Management for these risks through regular and ad hoc reports to the Local Risk Management Committee (LRMC) and other relevant committees.

The Internal Audit Directorate performs regular audits of the adequacy and quality of the adopted mechanisms of internal controls.

UBB has developed and implemented key policies and rules for risk management including:

- UBB Risk Governance Charter;
- UBB Risk Appetite Statement;
- UBB Non-Trading Market Risk (ALM) Management Framework;
- UBB Liquidity Risk Management Framework;
- UBB Strategic Risk Management Framework;
- UBB Business Risk Management Framework;
- UBB Operational Risk Management Framework;
- UBB Credit Risk Management Framework;
- UBB Trading Market Risk Management Framework;
- UBB Reputational Risk Management Framework;
- UBB Business Continuity Management (BCM) Framework
- Instruction for crisis management by Crisis Committee (CC);
- Internal Capital Adequacy Assessment Process (ICAAP) Policy (applicable on Group level);
- UBB Stress testing Standards for Financial Risk;
- UBB Loss Data Collection Procedure;
- UBB Local Risk Management Committee Charter;
- UBB Risk and Compliance Committee Charter;
- UBB New and Active Products Process (NAPP) Committee Charter;

Key ratios and risk limits are included in the Risk Appetite defining Bank's risk tolerance (appetite) to the different risk types.

In order to minimize the consequences from possible extreme situations, calamities and failures and in order to ensure business continuity, the Bank is covered by Group and locally developed plans as follows:

- Liquidity Contingency Plan;
- Business Continuity Plan;
- Recovery Plan – Group level

These plans are developed in accordance with the principles and requirements incorporated in the regulatory framework and are consistent with the organizational structure and business strategy of KBC Group.

3. Regulatory Capital and Capital Adequacy

3.1. Structure and Elements of Own Funds

The regulatory capital (own funds) includes Tier-I and Tier-II capital, according to Regulation (EU) 575/2013. The table below provides detailed information on the capital position of United Bulgarian Bank.

BGN Thousands	31 December 2017
Paid up capital instruments	**75 964**
Retained earnings	**839 494**
Accumulated other comprehensive income	**72 812**
Capital Base Deductions	
Adjustments to CET1 due to prudential filters	**(1 305)**
Intangible assets	**(7 094)**
Excess of deduction from AT1 items over AT1 Capital	**(1 624)**
Other transitional adjustments to CET1 Capital	**(13 143)**
CET1 capital elements or deductions - other	**(39 167)**
TIER I CAPITAL	**925 937**
Subordinated debt	**0**
TIER II CAPITAL*	**0**
OWN FUNDS (CAPITAL BASE)	**925 937**

3.2. Disclosure of information about main features of capital instruments

Below information about main characteristics of main features of capital instruments of United Bulgarian Bank AD is presented in accordance with template in Annex II of Commission Implementing Regulation (EU) No 1423/2013:

Template for disclosing information about the main features of capital instruments(¹)		
1	Issuer	United Bulgarian Bank AD
2	Unique identification code (e.g., CUSIP, ISIN or Bloomberg in the case of private investing)	BG1100085056 (Central Depository)
3	Governing law(s) of the instrument	Bulgarian legislation
	Regulatory treatment	Common Equity Tier 1
4	Transitional CRR rules	Tier 1 Capital
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated

Template for disclosing information about the main features of capital instruments([1]) (Continued)		
7	Instrument type (types to be specified by each jurisdiction)	Ordinary, registered, dematerialised, freely transferable shares with voting rights
8	Amount recognised in regulatory capital	75,964,082 BGN
9	Nominal amount of instrument	75,964,082 BGN
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	Share capital
11	Original date of issuance	1992 – 2005
12	Perpetual or dated	Perpetual
13	Original maturity date	Not applicable
14	Issuer call subject to prior supervisory approval	yes
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons/dividends	
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or compulsory (in terms of timing)	Not applicable
20b	Fully discretionary, partially discretionary or compulsory (in terms of amount)	Not applicable
21	Existence of step up or other incentive to redeem	no
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument immediately senior to instrument)	Subordinate to more senior lenders
36	Non-compliant features	No
37	If yes, specify non-compliant	Not applicable
([1]) Mark “Not applicable”, if question does not apply		

3.3. Information about own funds

The Bank presents details of own funds in line with Regulation (EU) 575/2013 as per guideline in template of Annex IV of Commission Implementing Regulation (EU) No 1423/2013:

Structure of own funds during transitionary period

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
1	Capital instruments and the related share premium accounts	75 964	Article 26, Para. 1, Articles 27-29, EBA list, Article 26, Para. 3	
	of which: instrument type No 1	75 964	EBA list, Article 26, Para. 3	
2	Retained earnings	886 863	Article 26, Para. 1(c)	
3	Accumulated other comprehensive income (and other reserves)	72 812	Article 26, Para. 1	
3a	Funds for general banking risks		Article 26, Para. 1(f)	
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts to phase out from CET1		Article 484, Para. 2	
5	Minority interests (amount allowed in consolidated CET1)		Article 84, 479 and 480	
5a	Independently reviewed interim profit net of any foreseeable charge or dividends		Article 26, Para. 2	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1 035 639		
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value (negative amount)	-1 305	Articles 34 and 105	
8	Intangible assets (net of related tax liability) (negative amount)	-7 094	Article 36(1)(b), Article 37 and Article 472, Para. 4	
9	empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability, where the conditions of Article 38(3) are met) (negative amount)		Article 36(1)(c), Article 38 and Article 472, Para. 5	
11	Fair value reserves related to gains or losses on cash flow hedges	-1 624	Article 33(a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-39 167	Article 36(1)(d), Article 40, Article 159 and Article 472, Para. 6	
13	Any increase in equity that results from securitised assets (negative amount)		Article 32, Para. 1	
14	Gains or losses on liabilities of the institution that are valued at fair value that result from changes in the own credit standing of the institution		Article 33(b)	
15	Defined benefit pension fund assets (negative amount)		Article 36(1)(e), Article 41 and Article 472, Para. 7	
16	Direct and indirect holdings by the institution of own Common Equity Tier 1 instruments (negative amount)		Article 36(1)(f), Article 42 and Article 472, Para. 8	

Structure of own funds during transitionary period (Continued)

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
17	Direct, indirect holdings of the CET1 instruments of financial sector entities, where those entities has reciprocal cross holdings the institution designed to inflate artificially the own funds of the institution (negative amount)		Article 36(1)(g), Article 44 and Article 472, Para. 9	
18	Direct and indirect capital investments by an institution into instruments included in the Common Equity Tier 1 items of entities in the financial sector in which the institution does not have a significant investment (of over 10% of the threshold value after deduction of the eligible short positions) (negative value)		Article 36(1)(h), Articles 43, 45, 46, Article 49 Paras. 2 and 3, Article 79 and Article 472, Para. 10	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		Article 36(1), (i), Articles 43, 45 and 47, Article 48, Para. 1(b), Article 49, Paras. 1-3, Articles 79 and 470, as well as Article 472, Para. 11	
20	empty set in the EU			
20a	Exposure amount of the following items which quality for a RW of 1250% where the institution opts for the deduction alternative		Article 36(1)(k)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		Article 36(1)(c), Article 38, Article 48, Para. 1(a), Article 470 and Article 472, Para. 5	
22	Amount exceeding 15% of the threshold value (negative amount)		Article 48, Para. 1	
23	of which: direct and indirect holdings by the institutions of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		Article 36(1), (i), Article 48, Para. 1(b), Article 470 and Article 472, Para. 11	
24	empty set in the EU			
25	of which: deferred tax assets arising from temporary differences		Article 36(1)(c), Article 38, Article 48, Para. 1(a), Article 470 и Article 472, Para. 5	
25a	Losses for the current accounting year (negative amount)	-47 369	Article 36(1)(a), Article 472, Para. 3	
25b	Foreseeable tax charges relating to CET1 instruments (negative amount)		Article 36(1)(l)	
26	Normative adjustments used for CET 1 instruments taking into account the volumes to which the treatment valid before the Regulation on Capital Requirements applies	-13 143		
26a	Normative adjustments relating to unrealised gains and losses according to Articles 467 and 468	-14 562		
	Of which: ... filter for unrealised losses 1	-14 767	Article 467	
	Of which: ... filter for unrealised gains 1	205	Article 468	
26b	The value that should be deducted from CET1 instruments or added to CET 1 instruments taking into account the additional filters and deductions required before the Regulation on Capital Requirements	1 419	Article 481	
	Of which: unrealised gains from the fair value measurement of land and buildings	1 419	Article 481	

Structure of own funds during transitionary period (Continued)

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
27	Qualifying AT 1capital of the institution (negative amount)		Article 36(1), (j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-109 702**		
29	**Common Equity Tier 1 (CET1) capital**	**925 937**		
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts		Articles 51-52	
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying referred to in Article 484(4) and the related share premium accounts subject to phase out from AT 1		Article 486, Para. 3	
	Capital injections from the public sector retained until 1 January 2018		Article 483, Para. 3	
34	Qualifying Tier 1 capital included in consolidated AT 1 capital (including minority interests not included on row 5) issued by subsidiaries and held by third parties		Articles 85, 86 и 480	
35	of which: instruments issued by subsidiaries subject to phase out		Article 486, Para. 3	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		Article 52, Para. 1(b), Article 56(a), Articles 57 and 475, Para. 2	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		Article 56(b), Articles 58 and 475, Para. 3	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		Article 56(c), Articles 59, 60, 79 and Article 475, Para. 4	
40	Direct and indirect capital investments by an institution into instruments included in the AT 1 capital items of entities in the financial sector in which the institution has a significant investment (of over 10% of the threshold value after deduction of the eligible short positions) (negative amount)		Article 56(d), Articles 59 and 79, as well as Article 475, Para. 4	
41	Normative adjustments used for Additional Tier 1 capital taking into account the volumes to which treatment valid before the Regulation on Capital Requirements and temporary treatment applies, and which are subject to gradual removal, as described in Regulation (EU) 575/2013 (i.e., residual values stipulated in the Regulation on Capital Requirements)			
41a	Residual values deducted from Additional Tier 1 capital taking into account the deductions from CET 1 during the transitional period according to Article 472 of Regulation (EU) 575/2013	1 624	Article 472 and Article 472, Paras. 3(a), 4, 6, 8(a), 9, 10(a) and 11(a)	
	of which: intangible assets	-1 419		
41b	Residual values deducted from AT 1 capital taking into account the deductions from Tier 2 capital during the transitional period according to Article 475 of Regulation (EU) 575/2013		Article 477 and Article 477, Paras. 3 and 4(a)	
41c	The value deducted from AT 1 items or added to AT 1 items taking into account the additional filters and deductions required before the Regulation on Capital Requirements	-205	Articles 467, 468 and 481	
	Of which: filter for unrealised losses	-205	Article 467	

Structure of own funds during transitionary period (Continued)

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		Article 56(e)	
43	**Aggregate normative adjustments to Additional Tier 1 capital**	0		
44	**Additional Tier 1 capital**	0		
45	**Tier 1 capital = Common Equity Tier 1 + Additional Tier 1 capital**	925 937		
Tier 2 capital (T2): instruments and provisions				
46	Capital instruments and share premium		Articles 62-63	
47	The volume of qualified items indicated in Article 484(5) and the related share premium subject to gradual removal from Tier 2 capital items		Article 486, Para. 4	
	Capital injections from the public sector retained until 1 January 2018		Article 483, Para. 4	
48	The qualified capital instruments included in consolidated Tier 2 capital (including minority interests and instruments included in Additional Tier 1 capital not included in row 5 or row 34) issued by subsidiaries and held by third parties		Articles 87, 88 and 480	
49	of which: instruments issued by subsidiaries subject to gradual removal		Article 486, Para. 4	
50	Credit risk adjustments		Article 62(c) and (d)	
51	**Tier 2 capital items before normative adjustments**			
Own funds Tier 2: instruments and items				
52	Direct and indirect holdings by an institution of own T 2 instruments and subordinated loans (negative amount)		Article 63(b)(i), Article 66(a), Article 67 and Article 477, Para. 2	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		Article 66(b), Article 68 and Article 477, Para. 3	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative value)		Article 66(c), Articles 69, 70, 79 and Article 477, Para. 4	
54a	Of which new capital investments to which transitional provisions do not apply			
54б	Of which capital investments existing before 1 January 2013 to which transitional provisions apply			
55	Direct and indirect capital investments by an institution into instruments included in the T2 capital items and subordinated loans of entities in the financial sector in which the institution has a significant investment (after deduction of the eligible short positions) (negative value)		Article 66(d), Articles 69 и 79, as well as Article 477, Para. 4	
56	Normative adjustments used for T2 capital taking into account the volumes to which treatment valid before the Regulation on Capital Requirements and temporary treatment applies, and which are subject to gradual removal, as described in Regulation (EU) 575/2013 (i.e., residual values stipulated in the Regulation on Capital Requirements)			
56a	Residual values deducted from Tier 2 capital taking into account the deductions from CET 1 during the transitional period according to Article 472 of Regulation (EU) 575/2013		Article 472 и Article 472, Paras. 3(a), 4, 6, 8(a), 9, 10(a) and 11(a)	

Structure of own funds during transitional period (Continued)

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
56b	Residual values deducted from T2 capital taking into account the deductions from Additional Tier 1 capital during the transitional period according to Article 475 of Regulation (EU) 575/2013		Article 475 и Article 475, Para. 2(a), Para. 3 and Para. 4(a)	
56c	The value deducted from T2 capital items or added to T2 capital items taking into account the additional filters and deductions required before the Regulation on Capital Requirements		Articles 467, 468and 481	
	Of which: unrealised gains from the fair value measurement of land and buildings		Article 481	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**		
58	**Tier 2 (T2) capital**	**0**		
59	**Total capital = (TC = T1 + T2)**	**925 937**		
59a	Risk weighted assets taking into account the volumes to which treatment valid before the Regulation on Capital Requirements and temporary treatment applies, and which are subject to gradual removal, as described in Regulation (EU) 575/2013 (i.e., residual values stipulated in the Regulation on Capital Requirements)	3 816 890		
60	**Total risk weighted assets**	**3 816 890**		
Capital ratios and reserves				
61	Common Equity Tier 1 (as a percentage of the risk exposure amount)	24.26%	Article 92, Para. 2(a), Article 465	
62	Tier 1 (as a percentage of total risk exposure amount)	24.26%	Article 92, Para. 2(b), Article 465	
63	Total capital (as a percentage of total risk exposure amount)	24.26%	Article 92, Para. 2(c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systematic risk, plus systematically important institution buffer expressed as a percentage of risk exposure amount	5.50%	CRD, Article 128-130	
65	of which: capital conservation buffer requirement	2.50%		
66	of which: countercyclical buffer requirement			
67	of which: systematic risk buffer requirement	3.00%		
67a	of which: Global Systemically Important institution (G-SII) or other Systemically Important institution (O-SII)		CRD, Article 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of the risk exposure amount)	22.67%	CRD, Article 128	
69	[not relevant in the EU Regulation]			
70	[not relevant in the EU Regulation]			
71	[not relevant in the EU Regulation]			
Capital ratios and reserves				
72	Direct and indirect holdings of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) in accordance with Articles 36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 70 and 69 of Regulation (EU) No 575/2013.		Article 36(1)(h), Articles 45-46 и Article 472, Para. 10, Article 56 (c), Articles 59-60 and Art. 475, Para. 4, Article 66(c), Articles 69-70 and Article 477, Para. 4	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) in accordance with Articles 36 (1) (i), 45 and 48 of Regulation (EU) No 575/2013.		Article 36 Para. 1, (i), Articles 45, 48, 470 and Article 472, Para. 11	
74	[An Empty Set under Regulation (EU) No 575/2013]			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) in accordance with Articles 36 (1) (c), 38 and 48 of Regulation (EU) No 575/2013.		Article 36(1)(c), Articles 38, 48, 470 and Article 472, Para. 5	

Structure of own funds during transitionary period (Continued)

Common Equity Tier 1: instruments and reserves		Amount at 31/12/2017 (BGN '000)	Regulation (EU) 575/2013 Article Reference	Amounts subject to pre-Regulation (EU) 575/2013 treatment or prescribed residual amount of Regulation (EU) NO. 575/2013
Usable limits for including items into own funds tier 2				
76	Credit Risk Adjustments included in T2 in respect of exposures subject to standardized approach in accordance with Article 62 of Regulation (EU) No 575/2013.		Article 62	
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach in accordance with Article 62 of Regulation (EU) No 575/2013.		Article 62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach in accordance with Article 62 of Regulation (EU) No 575/2013.		Article 62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach in accordance with Article 62 of Regulation (EU) No 575/2013.		Article 62	
Capital instruments to which apply provisions on gradual removal (usable only in the period from 1 January 2014 to 1 January 2022)				
80	Current cup on CET1 instruments subject to phase out arrangements		Article 484, Para. 3, Article 486, Paras. 2 and 5	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484 (3), 486 (2) and (5) of Regulation (EU) No 575/2013.		Article 484, Para. 3, Article 486, Paras. 2 and 5	
82	Current cap on AT1 instruments subject to phase out arrangements in accordance with Articles 484 (4), 486 (3) and (5) of Regulation (EU) No 575/2013.		Article 484, Para. 4, Article 486, Paras. 3 and 5	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484 (4), 486 (3) and (5) of Regulation (EU) No 575/2013.		Article 484, Para. 4, Article 486, Paras. 3 and 5	
84	Current cap on T2 instruments subject to phase out arrangements in accordance with Articles 484 (5), 486 (4) and (5) of Regulation (EU) No 575/2013.		Article 484, Para. 5, Article 486, Paras. 4 and 5	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484 (5), 486 (4) and (5) of Regulation (EU) No 575/2013.		Article 484, Para. 5, Article 486, Paras. 4 and 5	

3.4. Capital Requirements

The Bank fully complies with the Regulation (EU) 575/2013, Directive 2013/36/EU and supervisory requirements of BNB, according to which Tier-I capital and of the Total capital adequacy ratios should be no less than 11.75 % and 13.75 % respectively.

The structure of the required capital by types of risk is the following:

Credit risk	80.90%
Market risk	3.99%
Operational risk	15.11%

UBB applies Standardized approach for its capital adequacy report for credit, market and operational risk. The capital requirements (fixed by the regulator at 8%) by exposure classes are as follows:

BGN Thousands	31 December 2017
FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES AND CVA	**247 032**
Central governments and central banks	0
Regional governments or local authorities	9
Institutions	15 884
Corporates	71 275
Retail exposures	68 537
Exposures secured by real estate property	31 489
Past due items	38 548
Collective investment undertakings (CIU)	566
Equity	6 798
Other items	13 740
Risk for credit valuation adjustment	184
FOR POSITIONAL, FX AND COMMODITY RISKS	**12 194**
Debt instruments	12 194
Capital instruments	0
FX position	0
FOR OPERATIONAL RISK	**46 125**
OTHER CAPITAL REQUIREMENTS (capital conservation buffer 2.5% and systemic risk buffer 3%)	**209 929**
GENERAL CAPITAL REQUIREMENTS	**515 280**
Surplus (+) / Deficit (-) of own funds	**620 586**
Total Capital Adequacy Ratio (%)	**24.26%**
Tier-one Capital Adequacy Ratio (%)	**24.26%**

4. Exposure to Counterparty Credit Risk

The counterparty credit risk originates from deals with derivatives, repo deals, deals of lending/ borrowing of securities or commodities, transactions with extended settlement and represents the risk that the counterparty under a particular deal may default prior to the final settlement of the cash flows under the deal.

The Bank has adopted rules and procedures for assessment, management and control of the counterparty risk by countries and banks. All counterparties receive a risk rating category according to their official ratings. Based on this, in conjunction with the accepted methodology, risk limits are set by counterparty, both for total exposure and by products. Risk Management Directorate monitors limit utilization on a daily basis.

The receivables from local and foreign banks, the receivables or liabilities for repurchase of securities and the FX deals are assigned a risk weight in accordance with Regulation (EU) 575/2013.

The Bank allocates capital for counterparty credit risk purposes originating under derivatives and repo deals by application of the mark-to-market method, pursuant to Art. 274 of Regulation (EU) 575/2013.

Capital requirements for counterparty risk

BGN Thousand December 31, 2017

Exposure Class	Repos Deals	Derivatives	TOTAL:
Exposures to institutions	78	194	272
Exposures to companies	0	52	52
Retail exposures	0	0	0
Total:	**78**	**246**	**324**

5. Capital Buffers

In accordance wirh Ordinance No.8 on Banks' Capital Buffers, UBB allocates capital for Capital Conseravation and Systemic Risk Buffers. The countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria was set by BNB at 0% for the last quarter of 2017.

BGN Thousands 31 December 2017

Capital Buffers according to Directive 2013/36/EU and Ordinance No. 8/BNB	209 929
incl. Capital Conservation Buffer 2.5%	95 422
Systemic Risk Buffer 3%	114 507

UBB is obliged to allocate capital buffer for other systemically important institutions (O-SIIs) at the level of 0.25% of the amount of the overall risk exposure from the 1st of January 2018.
The Bank calculates on monthly basis the capital buffer formed on the residual part of the former regulatory provisions. This buffer is not used for assuming additional credit risk. The amount of the buffer as of December 31, 2017, is BGN 94.6 mln. compared to BGN 213.6 mln as of December 31, 2016.

6. Exposure to Credit Risk and Dilution Risk

The Bank is exposed to credit risk, which represents the risk that a particular counterparty may not be able to pay in full its obligations when they become due.

All financial assets classified as “loans and advances”, “held to maturity”, and “available for sale” are subject to review for impairment. The Bank performs the assessment on each balance sheet reporting date whether there is objective evidence justifying the impairment of a financial asset or a group of financial assets.

In accordance with the International Financial Reporting Standards (“IFRS”), a financial asset (or a group of financial assets) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (“loss event”) and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets), which impact can be reliably estimated. It is not mandatory to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, do not result in impairment of financial assets. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events (reference: International accounting standard 39, Paragraph 59):
(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, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
(d) It is becoming probable that the borrower will be declared insolvent or resort to other financial reorganization;
(e) The disappearance of an active market for that financial asset because of financial difficulties;
(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:
(i) Adverse changes in the payment status of borrowers in the group, or
(ii) National or local economic conditions that correlate with defaults on the assets in the group.

The Bank estimates credit risk to corporate and retail obligors by using internal ratings and scoring models. These models take into account specific qualitative and quantitative criteria and internal information, as well as commercial information available in the Central Credit Register. The models facilitate the decision-making when considering granting new loans.

Within the lending process, specific and detailed procedures are applied for monitoring the economic solvency of each project and client or the type and value of any collateral. Depending on the counterparty type and the amount of their total credit exposure with the Bank, the loans are approved by the relevant Approval Bodies or Committees, in accordance with established credit authority levels.

The Bank supervises the concentration of credit risk on aggregate basis (i.e. with regards to all balance sheet and off-balance sheet exposures). More specifically, the Bank monitors the concentrations of credit risk by industries and by groups of connected borrowers. Regarding the connected parties, the Bank monitors the ratio of the groups' credit exposures to the Bank's regulatory capital, in accordance with the Credit Institutions Act, Regulation 575/2013 and Ordinance №7 of BNB.

The Bank classifies its receivables in accordance with the requirements of Chapter Three of BNB's Ordinance 22 – "Submitting and correcting information in the Central Credit Register" and the Corporate Credit Policy of the Bank. These classifications are reviewed and updated on a monthly basis.

The eligible collaterals and corporate or/and personal guarantees to secure credit risk exposures are well defined. The exposures' management includes regular analyses of the borrowers' creditworthiness and ability to repay the obligations, through which, the borrowers' exposure limits could be changed.
The loan loss allowance is reported as a decrease in the allowance of a specific claim, while for the off-balance sheet items, as for example commitments and bank guarantees, the allowance for imapirment loss is reported under other liabilities. The increase in the allowance for imapirment loss is made through the recognition of the impairment losses in the Bank's income statement.

The Bank identifies whether there is objective evidence for individual impairment of loans considered as individually significant and collective impairment of loans not considered as individually significant. If there is objective evidence for the impairment of loans, the amount of the loss is measured as the difference between the carrying amount of the loans and the present value of projected future cashflows (excluding future credit losses that have not been incurred) discounted with: a) the original effective interest rate on the loan, if the loan has a fixed interest rate; or b) the current effective interest rate determined under the contract, if the loan has a variable interest rate. Cashflows that may originate from the liquidation of collaterals are also taken into account.

For the purposes of determining the impairment losses on a portfolio basis (collective impairment), loans and advances are being grouped based on similar credit risk characteristics. Corporate loans are being grouped based on days of delay (past due), credit product type, economic sector, size of business, type of collateral, or other similar characteristics. Mortgage and consumer loans are grouped by days of delay (past due) or by credit product type. These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due and together with the loss-related historical experience of loans with risk characteristics, simillar to these of the group, form the base for calcualtion of the loan loss allowance.

The historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions that did not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. All impaired loans are reviewed and analyzed as of the date of each financial statements and the changes in the assumptions for the projected cash flows against preceding periods are reflected as an increase/decrease in the impairment losses through the income statement. The methodology for measuring the impairment loss of loans and advances is reviewed by the Bank on a regular basis in order to minimise any differences between the assessed and the actual loss.

A loan considered to be non-collectable, given that all conditions of the Bank's Impairment Provision policy are satisfied, is written-off against the accumulated impairment loss. Subsequently recovered amounts for previously written-off loans are recognised as a reduction of the current expense for impairment loss of loans and advances in the income statement.

6.1. Total exposures after accounting adjustments and without taking into account the effects of credit risk mitigation.

BGN Thousands — 31 December2017

Exposure classes	Average* value of the balance sheet exposures	Balance sheet exposure net of impairment before CRM	Average* value of the off-balance sheet exposures	Off-balance sheet exposure after impairment before credit risk mitigation
Central Governments and Central Banks	256 353.2	1 538 119.0	-	-
Regional Governments or Local Authorities	272.6	545.2	80.0	80.0
Institutions	33 413.2	968 982.0	580.8	2 323.2
Corporates**	1 429.9	812 197.6	910.7	373 399.9
Retail**	5.8	1 055 890.9	3.3	377 765.7
Exposures Secured by Real Estate Property**	64.8	976 600.0	178.9	80 867.2
Exposures in Default	23.4	439 682.2	199.4	3 189.9
Exposures in the form of units and shares in CIUs	2 359.3	7 077.9	-	-
Equity exposures	2 617.7	44 501.1	-	-
Other exposures	315 237***	315 237.0	-	-
Total	**-**	**6 158 833.0**	**-**	**837 626.0**

*** Average on borrower level**

**** Borrowers could exist in multiple asset classes (i.e. Corporate and SREP)**

***** As per Balance Sheet position, average exposure on borrower/exposure level is not applicable**

6.2. Loan portfolio distribution by regions

BGN Thousands 31 December 2017

Exposure pre conversion factors per country	Central governments or central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Exposures in the form of units or shares in CIUs	Equity exposures	Other exposures	Total exposures	Total Provisions
BG	1 536 088	641	259 638	1 187 332	1 440 880	1 054 110	1 047 700	7 078	35 370	315 237	**6 884 075**	617 116
BE	0	0	673 118	0	0	0	0	0	105	0	**673 223**	0
DE	0	0	12 487	0	42	0	19	0	0	0	**12 549**	19
UK	0	0	462	0	362	2 167	1 899	0	6 262	0	**11 151**	1 068
CH	0	0	7 880	0	0	0	0	0		0	**7 880**	0
US	0	0	5 962	0	159	32	0	0	2	0	**6 156**	0
LU	0	0	2 392	0	0	0	0	0	2 761	0	**5 153**	0
CA	0	0	3 024	0	0	112	0	0		0	**3 135**	0
RO	2 031	0	0	0	0	63	0	0	0	0	**2 094**	0
NO	0	0	1 721	0	20	0	0	0	0	0	**1 741**	0
IE	0	0	0	0	190	215	1 265	0	0	0	**1 670**	578
TR	0	0	1 208	0	39	29	0	0	0	0	**1 276**	0

Due to representative purposes 12 largest total exposures out of 33 regions are presented in the table above. The country codes in the first column are as per ISO_3166-1 nomenclature.

6.3. Loan portfolio distribution by industry (Distribution as per NACE 2008 codification)

BGN Thousands | 31 December 2017

Exposures	Description	Wholesale trade, except of motor vehicles and motorcycles	Real estate activities	Crop and animal production, hunting and related service activities	Manufacture of food products	Manufacture of coke and refined petroleum products	Retail trade, exc. of motor vehicles and motorcycles	Electricity, gas, steam and air conditioning supply	Financial service activities, except insurance and pension funding	Construction of buildings	Other	Retail
Corporates	Drawn	9 261	31 650	133 691	33 509	146 898	52 155	45 697	5 464	63 726	290 854	1 026
	Undrawn	2 934	9 697	2 806	10 271	63 696	11 449	8 766	427	3 964	257 205	2 185
o/w: SME with supp factor	Drawn	9 261	31 650	133 691	0	146 898	52 155	45 697	5 464	63 726	265 753	0
	Undrawn	2 934	9 697	2 806	0	63 696	11 449	8 766		3 964	237 848	0
Retail	Drawn	602	57 542	1 365	858	33 253	199	7 410	2 157	0	94 977	866 220
	Undrawn	11	10 885	846	1 936	22 030	595	2 660	495	0	64 466	273 842
o/w: SME with supp factor	Drawn	602	57 542	1 365	858	33 253	199	7 410	2 157		94 977	0
	Undrawn	11	10 885	846	1 936	22 030	595	2 660	495		64 466	0
Secured by Real Estate	Drawn	35 212	21 863	421	6 721	64 753	26 819	15 351	14 555	59	202 636	588 209
	Undrawn	0	4 503	0	2 426	5 731	4 373	4 071	340	53	59 220	150
o/w: SME with supp factor	Drawn	35 212	21 863	421	6 721	64 753	26 819	15 351	14 555	59	198 887	0
	Undrawn	0	4 503	0	2 426	5 731	4 373	4 071	340	53	59 219	0
In default	Drawn	200 236	41 221	6 320	47 772	139 307	48	4 192	46 024		334 680	228 360
	Undrawn	34	0	0	1 968	24	0	250	0	0	900	13
Total	Drawn	245 311	152 276	141 798	88 860	384 211	79 221	72 649	68 200	63 786	923 147	1 683 816
	Undrawn	2 979	25 084	3 652	16 601	91 482	16 416	15 747	1 262	4 018	381 791	276 190
	Provision	124 578	22 299	698	36 180	103 456	38	1 478	13 402	2	223 260	93 513

6.4. Exposure distribution by residual maturity

BGN Thousands 31 December 2017

Exposure classes	Remaining maturity			TOTAL
	up to 1 year	from 1 to 5 years	over 5 years and without fixed maturity	
Central Governments and Central Banks	699 343	35 207	803 568	1 538 119
Regional Governments or Local Authorities	200	345	95.49197	641
Institutions	971 168	137.165256		971 305
Corporates*	734 930	251 714	200 688	1 187 332
Retail*	391 780	634 540	416 030	1 442 350
Exposures Secured by Real Estate Property*	246 213	118 686	692 568	1 057 467
Exposures in Default	849 755	44 465	157 129	1 051 350
Exposures in the form of units and shares in CIUs	-	-	7 078	7 078
Equity exposures	-	-	44 501	44 501
Other exposures	148 379	-	166 858	315 237
Total	**4 041 769**	**1 085 095**	**2 488 516**	**7 615 380**

* Exposures could exist in multiple asset classes (i.e. Corporate and SREP)

7. Disclosure of Encumbered and Unencumbered assets

The encumbered and unencumbered assets of UBB to 31.12.2017 are as follows:

A. Assets

BGN Thousands 31 December 2017

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	90 054		7 274 473	
030	Equity instruments	-	-	14 798	14 798
040	Debt securities	90 054	90 054	1 357 203	1 357 203
120	Other assets	-		5 902 472	

B. Not eligible for encumbrance:

Derivatives	1 837
Intangible assets	7 094
Tax assets	14 210
Other assets	102 937
TOTAL	**126 078**

UBB's encumbered assets include blocked government securities in connection with borrowed funds of budget organizations and concluded credit line with EBRD.

C. Collaterals received:

BGN Thousand December 31, 2017

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution		594 057
Equity instruments		
Debt securities		594 057
Other collateral received		
Own debt securities issued other than own covered bonds or ABSs		

Collaterals include government securities received under reverse repos agreements.

D. Encumbered assets/collateral received and associated liabilities:

BGN Thousand December 31, 2017

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own-debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**60 697**	**90 054**

Blocking of assets for securing funds of budget organizations is carried out on the basis of Art. 152 of the Public Finance Act and art. 96 of the Law on State Budget 2017.

Blocking of assets in connection with borrowed funds from EBRD is carried out on the basis of contract between the UBB and EBRD.

8. Information about recognized External Credit Assessment Institutions ("ECAIs") and Export Insurance Agencies ("EIA") related to the application of the standardized approach to credit risk

In accordance with Art. 135 & 138 of Regulation (EU) 575/2013of BNB, UBB utilizes ratings assigned by the rating agencies Standard & Poor's, Moody's, and Fitch Ratings.

The credit ratings by recognized ECAIs are equalized to the EU levels of credit quality approved by BNB and the supervisory bodies of the EU member states and are used for risk weights determination in the process of capital adequacy calculation. Where two or more than two credit assessments are available from ECAIs and they correspond to different risk weights, the Bank applies the rules described in Art. 138 of the Regulation (EU) 575/2013.

Ratings of nominated ECAIs are used mainly for exposures to central governments & central banks and exposures to institutions. The largest share as of December 31, 2017 is for the class "Exposures to institutions". The table below indicates the allocation of exposures to institutions according to the risk weight and the respective credit quality step.

BGN Thousands 31 December 2017

Exposure Class	Credit quality step	Remaining maturity	Risk weight	Exposure before impairment and credit risk mitigation	Exposure after impairment and credit risk mitigation
Institutions	1	up to 3 months	20%	0	0
	2	up to 3 months	20%	747 506	747 506
	3	up to 3 months	20%	31 168	31 168
	4	up to 3 months	50%	0	0
	5	up to 3 months	50%	0	0
	6	up to 3 months	150%	0	0
	non-rated	up to 3 months	20%	190 309	190 309
Total				**968 983**	**968 983**

9. Capital requirements for position risk from instruments in the trading book, and capital requirements for FX, commodity and settlement risk for the overall activity

Position risk refers to the risk of change in the prices of debt and equity instruments in the trading book. It contains two components: specific risk and general position risk. The specific risk represents a risk of a change in the price of a financial instrument as a result of factors related to its issuer or the issuer of the underlying instrument. General position risk is the risk of a change in the price of a financial instrument as a result of factors that are not contingent on the specific characteristics of the instruments, e.g. equity markets or interest rates movements.

With regards to the net positions in debt instruments, capital requirements for specific risk are calculated by currency and in accordance with the position's category based on the issuer's credit rating and the residual maturity in compliance with Art. 336 of Regulation (EU) 575/2013.

The Bank applies a maturity-based approach to calculating the general position risk in accordance with Art. 339 of Regulation (EU) 575/2013, by distributing the debt instruments with fixed interest rate according to their residual maturity, and those with floating interest rate, to the next repricing date.

As of December 31, 2017 the Bank has allocated BGN 11 768 thousand in capital for general position risk and BGN 426 thousand in capital for specific risk. The distribution by risk weight and currency is as follows:

A. Capital requirements for position risks according to risk weights

BGN Thousand December 31, 2017

	BGN		EUR		USD		GBP		Risk weights	Capital requirements
	Long	Short	Long	Short	Long	Short	Дълга	Къса		
General position risk. Maturity based approach										
0 ≤ 1 month	44 318	331	52 665	135 092	99 583	2 701	32 519	1 528	0.00%	0
> 1 ≤ 3 months	2 127	0	104 779	214 087	182 035	6 637	28 657	0	0.20%	303
> 3 ≤ 6 months	334	284	13 147	67 559	83 834	11 504	0	0	0.40%	169
> 6 ≤ 12 months	0	0	3 641	0	0	0	0	0	0.70%	25
> 1 ≤ 2 (1,9 with coupon below 3%) years	36 985	0	14 353	0	15 841	0	0	0	1.25%	840
> 2 ≤ 3 (> 1,9 ≤ 2,8 wih coupon below 3%) years	69 692	0	5 187	0	0	0	0	0	1.75%	1 310
> 3 ≤ 4 (> 2,8 ≤ 3,6 with coupon below 3%) years	20 822	0	28 061	0	0	0	0	0	2.25%	1 100
> 4 ≤ 5 (> 3,6 ≤ 4,3 with coupon below 3%) years	9 428	0	32 711	0	5 747	0	0	0	2.75%	1 317
> 5 ≤ 7 (> 4,3 ≤ 5,7 with coupon below 3%) years	78 728	0	45 189	0	4 740	0	0	0	3.25%	4 181
> 7 ≤ 10 (> 5,7 ≤ 7,3 with coupon below 3%) years	78 480	0	47 898	146 687	0	0	0	0	3.75%	529
> 10 ≤ 15 (> 7,3 ≤ 9,3 with coupon below 3%) years	0	0	33 541	0	0	0	0	0	4.50%	1 509
> 15 ≤ 20 (> 9,3 ≤ 10,6 with coupon below 3%) years	0	0	9 200	0	0	0	0	0	5.25%	483
Total	**340 914**	**615**	**390 372**	**563 425**	**391 780**	**20 842**	**61 176**	**1 528**		**11 768**
Specific position risk										
Debt instr. I category (0% cap. requirements)	***336 006***		***221 634***		***0***				***0.00%***	***0***
Debt instr. II category	***0***		***0***		***42 477***				***0.00%***	***426***
with remaining maturity ≤ 6 months	0		0		8 299				0.25%	21
with remaining maturity > 6 months and ≤ 24 months	0		0		23 691				1.00%	237
with remaining maturity > 24 months	0		0		10 487				1.60%	168
Debt instr. III category (8% cap. requirements)	***0***		***0***		***0***				***8.00%***	***0***
Debt instr. IV catgegory (12% cap. requirements)	***0***		***0***		***0***				***12.00%***	***0***
Total	**336 006**		**221 634**		**42 477**	**0**	**0**	**0**		**426**

B. Capital requirements for position risk by currency

BGN Thousand December 31, 2017

	General position risk	Specific risk	TOTAL:
BGN	7 917	0	7 917
EUR	2 638	0	2 638
USD	1 156	426	1 582
GBP	57	0	57
TOTAL:	**11 768**	**426**	**12 194**

The specific risk for capital instruments is calculated by multiplying the total gross position by 8% in accordance with Art.342 of Regulation (EU) 575/2013, whereas the general risk by multiplying the total net position by 8% pursuant to Art.343 of Regulation (EU) 575/2013. The Bank does not allocate capital for specific and general risk from capital instruments due to the insignificant volume of such instruments in the Bank's trading book.

10. Capital requirements for Foreign Exchange Risk

The Bank calculates capital requirements for FX risk resulting from both, the banking and the trading book, according to the standardized approach, described in Chapter 3 (Art. 351-354) of Regulation (EU) 575/2013, but it has not allocated capital for FX risk, since the amount of the total net open FX position does not exceed 2% of the Bank's own funds.

Capital requirements for foreign exchange risk

BGN Thousand December 31, 2017

	All positions		Net positions		Capital requirements*
	Long	Short	Long	Short	
Total positions in currencies, other than BGN and EUR	**594 240**	**590 682**	**3 595**	**37**	-
Currency positions					
EUR**	4 030 372	2 529 398	1 500 974	0	
AUD	1 021	1 020	1	0	
CAD	3 513	3 510	3	0	
DKK	454	451	3	0	
GBP	76 080	76 080	0	0	
JPY	124	121	3	0	
SEK	556	552	4	0	
CHF	9 430	9 430	0	0	
TRY	733	770	0	37	
USD	500 535	496 970	3 565	0	
NOK	1 793	1 778	15	0	
NZD	1	0	1	0	
CNY	0	0	0	0	

* when Net positions exceed 2% of Total Own Funds
** EUR positions are not included in Net Positions

The Bank has no commodity and settlement risk exposures.

11. Internal Models for Market Risk

As of December 31, 2017, UBB does not apply internal models approach for the calculation of capital requirements for market risk.

UBB uses a Value at Risk ("VaR") model for market risk assessment, on the basis of which it has established a framework of limits to manage FX risk, interest rate risk and equity risk. For the daily calculation of the VaR, the Bank has adopted the internationally recognized variance/covariance methodology, developed by RiskMetrix/J.P.Morgan with a 99% confidence interval and a 1-day holding period.

The following VaR values were estimated at December 31, 2017 and during the year:

BGN Thousand December 31, 2017

Diversified VaR	31.12.2017	2017		
		min	max	average
Equity	22	20	56	36
FX	0	0	10	2
Interest Rate	1 882	1 882	5 409	3 500
Total	1 938	1 938	5 409	3 493

In November the Group Market Committee approved parametric VaR 99% 10-day limit of EUR 0.5 million and BPV limits per currency for BGN, EUR, USD and GBP of respectively EUR 100 thousand, EUR 20 thousand, EUR 1.5 thousand and EUR 1.5 thousand for the trading portfolio. These limits are monitored and reported at daily basis.

12. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank has adopted a framework for operational risk management and applies the standardized approach for calculating the capital requirements for operational risk, which amounted to BGN 46 125 thousand in as of December 31, 2017.

The framework for operational risk management is compatible with best banking practices and conforms to the regulatory requirements. It is an integral part of the overall framework for risk management. All activities and processes that are exposed to operational risk are determined and documented according to the Bank's standards and structure. This allows both for the allocation of risks by processes, and for the distribution of the Bank's activities by regulatory-defined business lines.

KBC Group loss data collection process was implemented in UBB. The Bank requires accurate knowledge of the losses associated with operational risk and creates appropriate management of operational events and the process of loss data collection.
Operational risk events and any losses stemming from them are being identified, recorded and classified in a specialized database.

The operational events' register of the Bank is active since 2007. 'Non-financial risks' department within UBB Risk Management Directorate sets up the organization of the loss data collection process and provides training/methodological guidance to employees with regards to the process.
The Bank takes special care to minimize the operational risk in its activities, including by:

- Reviewing and enhancing on a regular basis related frameworks and procedures;
- Delivering to its employees training on operational risk management, responsible behavior, information security, etc.;
- Implementing business continuity management to minimize losses in case of business disruption and to cover against extreme events.
- Utilizing insurance policies against operational risks where appropriate.

13. Capital Instruments in the Banking Book

The capital instruments in the banking book are recognized at fair value (including transaction costs), and subsequently re-measured at fair value. Unrealized gains and losses due to changes in the fair value of these financial assets are reported as changes to equity. Investments in shares of subsidiaries and equity method investments are reported at acquisition cost.

The Bank's equity participations were as follows as of December 31, 2017:

BGN Thousand December 31, 2017

Capital instruments in the banking book	Balance sheet value	Unrealized P&L
Units in mutual funds	7 078	2 509
Shares	14 792	1 774
Shares in subsidiaries and associated companies	27 173	0
Total:	**49 043**	**4 283**

The total amount of investment in shares is reported in the "Equities" exposure class.

As of December 31, 2017, investments in financial sector subsidiaries and equity method investments amounted to BGN 26 985 thousand are reported with 250% risk weight in accordance with the Art. 48 and Art. 133, para 2 of Regulation (EU) 575/2013. All other investments in equities are reported with 100% risk weight.

14. Interest Rate Risk in the Banking Book

Managing interest rate risk, the Bank applies KBC Group methodology for calculation of sensitivity to interest rate risk in the bank portfolio. To measure that sensitivity, economic value and Basis Point Value (BPV) parallel shift of the yield curves are calculated on a monthly basis for three scenarios: +/- 10 b.p., +/- 100 b.p. and +/-200 b.p. A limit for interest rate sensitivity (in terms of BPV) is set in the Bank's Risk Appetite and is monitored monthly.

The sensitivity of capital towards changes in the yield curves of different currencies is calculated by discounting all interest rate sensitive assets and liabilities and taking the most negative change of the assets' net value.

The shocks (both upward and downward) applied to interest rates for the calculation of BPV, depend on currency and maturity.

On a quarterly basis, the Bank calculates sensitivity of net interest income by the interest rate GAP method. Interest sensitive assets and liabilities are grouped according to the period of change of their interest rate regime, after which the change in interest income and expenses is calculated (depending on the scenarios: +/- 100 b.p., +/- 200 b.p. and +/- 300 b.p. applied to the yield curve).

15. Securitisation

There has been no securitization of the Bank's assets in 2017.

16. Internal Ratings Based Approach

The Bank developed internal PD, LGD and EAD models for corporate and retail customers for loan origination and IFRS9 purposes.

As of December 2017, the Bank has not applied for permission to use the corporate rating model for calculation of the capital requirements as per Regulation (EU) No 575/2013. In accordance with Basel III, the banks are allowed to use their internal models for capital requirements calculation after approval by the regulatory authorities.

17. Techniques for Credit Risk Mitigation

The Bank expects repayment of its loan claims primarily from the operational cash flows of the obligors. The collateral is considered as a secondary source for repayment of credit exposures, in case the Bank initiates legal actions against the Obligors.

As a matter of principle, the Bank accepts only 1st rank mortgages or pledges. Inferior rank liens can be accepted on an exceptional basis. The first exception is when all superior ones have been registered in favor of the Bank. The second exception is when any superior lien in favor of a third party has been verified as not corresponding to any outstanding claim or such claim, even if existing, will be cancelled or become void soon (max two months) after the registration of the one in favor of the Bank.

The collaterals must fulfill the following conditions in order to be accepted by the Bank:

1. Legal substance – existence of the proper legal and other documentation, proving the ownership right and the fulfilment of the special requirements of the law;
2. Clear identification – the collateral, as supported by its documentation, to be clearly identifiable;
3. Exclusivity of collateral rights – the Bank to be the undisputable holder/bearer of the specific collateral rights;
4. Sufficiency – Sufficient in terms of amounts, ideally exceeding the respective credit exposure in order to cover possible reduction in their realization price, the expenses and time needed for their realization;
5. Liquidity – the collaterals must be possible to be liquidated within a reasonable time in the current market conditions.

The Bank accepts all collaterals that can be used as an alternative source for the repayment of the Bank's lending claims. However, the Bank has a higher appetite for and accepts that only some of them have the qualitative characteristics (secondary market, short liquidation horizon, easily assessed market price, legal processes allowing the creditor to possess and liquidate them, slow amortization, etc.) permitting to the Bank to assume and calculate a securing value for them. These are:

1. Pledge of deposits ("born receivables under deposit" as per the legal term) with UBB and other banks;
2. Transfer agreement of born receivables (special deposits kept in the Bank's name provided as collateral by the collateral provider) under the Law on Financial Collateral Arrangements;
3. Pledge of receivables under direct, unconditional, irrevocable and full guarantee, issued by first-class local or foreign financial institutions, government and municipalities;
4. Pledge of Multinational bank bonds - investment grade only;
5. Pledge of local government bonds and other local governmental debt titles;
6. Pledge of municipalities bonds;
7. Mortgage on real estate properties and real estate related rights with a recognized market value;
8. Pledge of movable tangible assets – machines, vehicles, equipment, aircrafts, etc.;
9. Pledge of living stock that is fully insured against all risks, the insurance policy is assigned in favor of the Bank and the Bank is referred as loss payee;
10. Marine mortgage;
11. Pledge of non-sensitive goods based on public licensed warehouses titles;

12. Pledge of shares of companies /investment grade only/ and traded in SE /stock exchanges/;
13. Pledge of corporate bonds /investment grade only/ and traded in stock exchanges;
14. Pledge of shipping documents /only sea and railway transport/;
15. Pledge of trade receivables under a contract, from counterparties/payers;
16. Pledge of subsidies and grants by governmental or EU entities, provided that the Bank is in a position to check and has verified in advance that all preconditions set by the same entities for the disbursement of the subsidy or grant have been fully met.

The Bank, as a matter of principle, encourages the undertaking of fully collateralized credit risks. A credit risk is considered as fully collateralized when the securing value of the collaterals is at least equal to the corresponding risk. Securing value is defined as the outcome of the multiplication of the market value of a collateral with the corresponding to every collateral co-efficient. The securing value calculated in this way cannot however exceed the liquidation value and the legal right of the Bank over the asset.

Total credit exposures, net of provisions and risk mitigates (eligible as per Regulation 575/2013), and adjusting off-balance sheet positions by risk conversion factors, was as follows at December 31, 2017:

BGN Thousands 31 December 2017

Exposure Class	Balance sheet Items	Off-balance sheet Items
Central governments and central banks	1 538 119	2 933
Regional governments or local authorities	545	40
Public Sector Entities	206	0
Multilateral development banks	53 835	0
Institutions	968 982	2 168
Corporates	785 583	153 731
Retail exposures	1 033 027	187 926
Exposures Secured by Real Estate Property	976 600	33 991
Exposures in Default	435 120	1 593
Exposures in the form of units and shares in CIUs	7 078	0
Equity exposures	44 501	0
Other exposures	315 237	0
TOTAL:	**6 158 834**	**382 383**

18. Leverage

The Bank calculates its leverage ratio in accordance with Art. 429 of Regulation (EU) 575/2013 (CRR) together with the derogation listed under Art. 499 (1). For those purposes, the capital is calculated and reported both as Tier 1 capital (fully phased-in definition as per Art. 25 of the CRR) as well as Tier 1 capital, subject to applicable derogations (transitional definition as defined in Chapter I, II of Part Ten of the CRR). The Bank does not apply the derogations under Art. 499 (2) and (3).
During the year 2017, the Bank has sustained an average leverage ratio of 12.71% (fully phased-in definition) against a preliminary EBA target level of 3.0% and average of 15.44% for 2016. The ratio decreased moderately compared to the first quarter of the year due to increase in Reverse repos due from other banks and a capital base decrease. UBB’s Capital base was affected by the loan portfolio cleaning policy that led to a negative financial result in 2017. 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 52.2 million on a consolidated basis.

BGN Thousands 31 December 2017

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Fully phased-in	Transitional
1	Total assets as per published financial statements	7 364 527	7 364 527
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0	0
4	Adjustments for derivative financial instruments	7 137	7 137
5	Adjustments for securities financing transactions "SFTs"	4 872	4 872
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	382 789	382 789
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments*	-61 492	-75 660
8	**Total leverage ratio exposure**	**7 697 834**	**7 683 666**

*Tier I Corrections; Adjustment for derivative financial instruments; Intangible Assets

LR Com: Leverage ratio common disclosure

BGN Thousands			31 December 2017
	On-balance sheet exposures (excluding derivatives and SFTs)	**Fully phased-in**	**Transitional**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6 758 954	6 758 954
2	(Asset amounts deducted in determining Tier 1 capital)	(48 165)	(62 333)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	6 710 789	6 696 621
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1 040	1 040
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	6 575	6 575
EU-5a	Exposure determined under Original Exposure Method	0	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
8	(Exempted CCP leg of client-cleared trade exposures)	0	0
9	Adjusted effective notional amount of written credit derivatives	0	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
11	**Total derivative exposures (sum of lines 4 to 10)**	7 615	7 615
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	596 641	596 641
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
14	Counterparty credit risk exposure for SFT assets	0	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0	0
15	Agent transaction exposures	0	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	596 641	596 641
	Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	837 625	837 625
18	(Adjustments for conversion to credit equivalent amounts)	(454 836)	(454 836)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	382 789	382 789
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0	0
	Capital and Total Exposures		
20	**Tier 1 capital**	**940 105**	**925 937**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**7 697 834**	**7 683 666**

Leverage Ratio			
22	**Leverage ratio**	**12.21%**	**12.05%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0	0

BGN Thousands 31 December 2017

LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)		**CRR leverage ratio exposures**
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	7 355 595
EU-2	Trading book exposures	1 196 762
EU-3	Banking book exposures, of which:	6 158 833
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	1 538 119
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	545
EU-7	Institutions	968 982
EU-8	Secured by mortgages of immovable properties	976 600
EU-9	Retail exposures	1 055 891
EU-10	Corporate	811 276
EU-11	Exposures in default	440 604
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	366 816

19. Staff Remuneration Policy and Practices

The Remuneration Policy of UBB is based on KBC Group Remuneration Policy and is in compliance with BNB Ordinance No 4 on the requirements for remuneration in banks. The Remuneration Policy of UBB is fully compatible with the Bank stakeholders' interests, KBC Corporate Sustainability strategy and KBC Compliance Rules.
The Remuneration Policy covers all forms of remuneration, including salaries and other financial and material benefits for all the staff members and defines some specific remuneration guidelines for Key Identified Staff (KIS).

The governance of the UBB Remuneration Policy involves the implementation and the continuing review of the remuneration practices. The main bodies involved in these roles are UBB Supervisory Board and UBB Remuneration Committee. The Supervisory Board, on the basis of a recommendation from UBB Remuneration Committee, discusses and finally approves all decisions, prepared and proposed by the Remuneration Committee.

A component in the remuneration schemes for all UBB employees is individual performance-based compensation, based on a yearly performance appraisal instrument and taking non-financial criteria into account, such as personal development, compliance with the institution's systems and controls, sound risk behaviour, commitment to the business strategies and its major policies and contribution to the performance of the team. Remuneration schemes used within UBB are based on competences, job weightings, skills, contribution and performance, and are aligned with long-term shareholder interests and profitability, taking into account overall risk and the cost of capital.

Remuneration schemes can consist of different components, which are categorized as either fixed or variable. The fixed remuneration depends on the relevant professional experience and organizational responsibilities as set out in an employee’s job description or management and employment contract. The variable remuneration depends on sustainable, effective and risk adjusted performance, as well as performance beyond the job description.
The fixed and variable remuneration elements of the expats fully comply with the KBC Group Expat Policy (Internal Mobility Policy).

The different remuneration components used within UBB, cover all forms of remuneration, including salaries, other financial and material benefits, discretionary pension benefits and components, part of the Bank’s social policy.
The ratio between fixed and variable remuneration may be no more than 1 to 0.5. A minimum proportion of 10% of the total variable remuneration is based on the individual performance appraisal of non-financial criteria.

Variable remuneration is a set of monetary bonuses, premiums and performance incentives (monetary part of the variable remuneration) and other equivalent non-cash instruments (non-monetary part of the variable remuneration).
Variable remuneration should not induce risk-taking in excess of the risk profile of the Bank and should be based on risk- and liquidity-adjusted profit, not on gross revenues.
The following capital and liquidity parameters are set as a risk gateway for paying out variable remuneration for all categories of the staff including the Key Identified staff specified in this policy

Based on annual results of assessed year as reported to BNB	Risk gateway
Tier1 + Tier 2	>13,75%
LCR (Liquidity coverage ratio)	>100%

If one of the above mentioned parameters is not met - no variable remuneration will be paid for the performance year and "non-vested" deferred amounts will not vest in the respective year and will be lost.

If the risk gateway is passed, the level of the variable remuneration paid still could depend on other variable remuneration guidelines and processes in force.
Quantitative risk adjustment measures such as the Risk Adjusted Profit (RAP) are additionally introduced for positions considered as KBC Senior Managers.

KIS are staff members that could have a material impact on the risk profile of the Bank.
The following staff members are considered to be KIS, differentiated in three groups:

First group KIS - Members of the Management Board of UBB and managers specifically defined by KBC Group.
Within this group the following KIS are defined to be Material KIS in line with the KBC Remuneration policy:

- The members of the Management Board of UBB, including Procurator and Commercial Representative.
- The other KBC Group KIS whose variable remuneration equals or exceeds 75.000 EUR

Second group KIS - Employees whose activities have a high impact on the banks risk profile

Third group KIS - Employees performing controlling functions.
The KIS of the first group, who are considered to be material KIS are subject to specific requirements regarding non-cash instruments and deferrals, related to their variable remuneration. 50% of the variable remuneration allocated to KBC Group material KIS consists of share-linked instruments, i.e. phantom stock based upon the KBC Group share or an alternative equity-linked instrument imposed by a local regulator. This principle is applied to both the variable remuneration component paid upfront and the deferred variable remuneration component. As a general rule 60% of the variable compensation is deferred over a period from 3 years to 5 years.
The variable remuneration for the first group KIS is based upon different components with the following weights:

Position level	KBC Group Result (1)	Evaluation of short term objectives	
		Individual What and How Objectives	Sustainability Objective
Senior General Manager	20%	70%	10%
General Manager	10%	80%	10%

(1) The "KBC Group Result" is based on the evolution of the KBC Group Reported Risk Adjusted Profit against previous year.

For all employees in Second and Third group who are not included in the first one, the variable monetary remuneration shall be based on the results of the core business of the Bank, the structural unit and their individual performance. 50% of the variable monetary remuneration of the employees identified as KIS in Second and Third group, for which the amount of the variable remuneration exceeds EUR 30 000 (exchange rate of 1.9558 to be used) shall be deferred for a period of 3 (three) years – in the first year 15% of the bonus is paid, in the second year – 15% of the bonus; in the third year the last 20% of the bonus is paid.

The purpose of the deferred payment of bonuses is to promote the achievement of sustainable and long-term results, and discourage risk-taking beyond the acceptable level for the given position.
Summary information on the remunerations in the Bank in 2017, detailed per activity type.

Type of activity	Remunerations - %
Investment banking	2.4
Credit activity	20.0
Asset management	0.0
Corporate functions	8.9
Independent control functions	6.0
Other	62.2
Total	100.0

Summary information on the remunerations to the persons under Art.2 of Ordinance №4
Amount of the annual remunerations per staff categories and type (fixed and variable):
In percentage

Staff category	Number of persons	Remunerations-% of the total paid remunerations in the Bank	Of these fixed- % of the total amount of the remunerations in the Bank	Of these variable - % of the total amount of the remunerations in the Bank
1. Persons under Art.2, Item 1 of Ordinance 4 of the BNB	8	3.58	3.48	0.10
2. Persons under Art.2, Item 2 of Ordinance 4 of the BNB*/	9	1.63	1.39	0.24

Upon request, the Bank may provide the disclosed information on hard copy or other data storage device for further review.